



Holger Schmieding, Chief Economist | Holger.schmieding@berenberg.com | +44 20 3207 7889

GERMAN POLITICS: THE WANING OF MERKEL'S POWER

Berenberg Macro Flash

After 13 years at the helm, the power of German chancellor Merkel to shape the domestic policy agenda is waning. Instead, she is largely stuck in survival mode, forced to contain one crisis after another. Having won the national election a year ago with an unconvincing result, it had taken her six months to hobble together a fractitious coalition of three somewhat unhappy parties. In early July, the Bavarian CSU nearly blew up the coalition over a minor detail of migration policy (see [German politics: the impact of the political crisis](#)). In mid-September, the centre-left SPD rebelled over the coalition's mishandling of a second-order personnel issue. Yesterday, Merkel's own CDU defied her explicit wish to re-elect one of her most trusted lieutenants, Volker Kauder, as head of the joint CDU/CSU parliamentary faction. Is Merkel's time running out - and would it make a major difference to the policy outlook? The answer to both questions is „probably not“.

None of the three parties that form Merkel's CDU/CSU-SPD coalition would have anything to gain from bringing down Merkel and potentially triggering early elections. The recent turmoil in Berlin has hurt all three of them in opinion polls, with the centre-left Greens and the far-right AfD gaining ground instead. Regional elections in Bavaria (14 October) and Hesse (28 October) will likely drive that home. Amid serious challenges (Trump, Putin, Brexit, EU reforms, to name the most obvious ones), Merkel is unlikely to throw in the towel soon. The base case remains that she will serve out the last three years of her final term and that her coalition will stick together. However, the weakened coalition of parties joined together in a loveless marriage is unlikely to drive any dramatic change of policies on the national, European or international level. EU reforms will remain piecemeal and modest. But that is not really new anyway.

The new head of the CDU/CSU parliamentary party, Ralph Brinkhaus (50), represents a desire for fresh faces not directly associated with Merkel's controversial decisions in the refugee crisis of 2015. Standing for prudent and sound policies with a slight conservative tilt, he may strengthen the profile of the CDU, which is often seen as a mere „Kanzlerwahlverein“, an association with the prime purpose of electing and backing a chancellor come what may. But as he has credibly emphasised, he does not stand for a major shift in policies. He will loyally support Merkel while helping to prepare the CDU for life after Merkel. His generation can anyway bide their time until Merkel's scheduled departure from office in 2021.

MERKELDAEMMERUNG 2019?

Still, the frequent turmoil in Merkel's coalition raises two issues for 2019 rather than 2018:

First, as Merkel's domestic authority is waning, may she change her mind next year and go for the job of EU Commission president after the European parliamentary elections next May? Still unlikely but not impossible.



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Second, will the badly battered SPD stay in government in late 2019 when, according to the coalition agreement, CDU/CSU and SPD want to re-evaluate their hapless partnership? Probably yes, but as the SPD's pro-coalition leaders have suffered an even worse loss of authority than Merkel, this has become a pretty close call.

WOULD IT MATTER? NOT MUCH

More than in almost all other major countries, German policies are shaped by a widespread consensus between all mainstream parties. Germany's federal structure and its two-chamber parliament see to that. As the second chamber representing the governments of the 16 federal states needs to approve most laws, the ruling parties in Berlin are forced to co-operate with the mainstream opposition which is usually strong on the state level. For example, Germany's big economic reforms of 2003 and its policies during the post-Lehman and euro crisis as well as major aspects of social, tax and spending policies have been backed by such a consensus. Together, the mainstream parties including the Greens and the liberal FDP still represent 70-75% of German voters.

As a result, a change at the top, a new coalition (CDU/CSU-Greens-FDP?) or new elections leading to a new coalition would cause some irritation followed by some modest tweaking of policies. German politics may remain noisy and may even spring surprises, but for better or worse, do not expect market-relevant dramatic policy shifts under any realistic scenario. On issues such as NATO, EU, Euro, Brexit, the mainstream consensus is quite solid. Remember that the recent change of finance minister from Wolfgang Schaeuble (CDU) to Olaf Scholz (SPD) has not shown up in any major policy shift (see [German fiscal bliss: debt ratio can hit 60% this year](#)).

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Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7878
www.berenberg.com
holger.schmieding@berenberg.com