



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

GERMAN POLITICS: EARTHQUAKE IN BAVARIA - AS EXPECTED

Berenberg Macro Flash

Voters in Bavaria have delivered a stinging rebuke to the centre-right and centre-left parties backing Angela Merkel's government in Berlin. According to two separate exit polls, the CSU lost more than 12 points in today's state election in Bavaria, falling to a mere 35.4% while the SPD plunged by 11 points to just below 10%. The losses for both parties go beyond the usual mid-term drubbing at the state level for parties that are in power in Berlin. Both parties pay the price for the unusually loud and disruptive disputes which they had stoked in Merkel's coalition in the last four months.

The result will inevitably raise questions about the stability of Merkel's CDU/CSU-SPD coalition in Berlin and about her future at the helm of government. These questions are no longer new, though. If the exit polls are correct, the Bavarian result will be roughly in line with – or for the CSU even slightly less bad than – recent opinion polls had projected. A high voter turnout could have limited the CSU losses a little in the end. The inevitable blame game within the Bavarian CSU could well cost old CSU stalwart Horst Seehofer his job as CSU chairman and – possibly – as federal minister of the interior in Merkel's government. Within the CDU, a more serious discussion about Merkel may begin after the separate state election in Hesse on 28 October where her own CDU rather than the Bavarian CSU is on the ballot. But if the outcome in Hesse turns out to be similar to the apparent result in Bavaria today, that is heavy losses for the centre-right but not on a scale beyond those predicted by prior opinion polls, Merkel's position within her CDU will likely remain secure for the time being.

Merkel's power to shape the domestic policy agenda is waning. But unless she were to throw in the towel herself, her own CDU will likely not topple her. Potential successors (such as Jens Spahn, Armin Laschet, Daniel Günther, Ralph Brinkhaus) need more time to build support within the party; Merkel's apparent choice to succeed her in 2021, Annegret Kramp-Karrenbauer, seems unlikely to challenge her mentor now. All of these potential candidates are young enough to still bide their time for a while. At this stage, we do not expect any of them to run against Merkel as CDU leader at the CDU party convention in Hamburg on 7-8 December.

HOW WILL THE SPD REACT?

The real issue to watch will be the reaction of the badly battered SPD to their dismal result in Bavaria. Voices within the SPD arguing that the party needs to rebuild its fortunes in opposition and can only lose by staying part of Merkel's government in Berlin will grow louder. However, the SPD would run a grave risk if it were to give in to such voices. One result of deserting Merkel may be a new coalition of CDU/CSU, Greens and FDP in Berlin, led either by Merkel or somebody else from the CDU. For many in the SPD, that may be an attractive potential outcome. However, breaking the current coalition in Berlin now would also carry a risk of new elections. As the SPD may do very badly at new elections, most senior SPD members would likely want to avoid that risk and thus prefer to stay in government instead. On balance, we thus expect the SPD to stay in



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Merkel's coalition for the time being. Still, the debate within the SPD could be interesting, with some risk that it may turn against staying in government.

As expected, the real winners of the state vote in Bavaria are the centre-left Greens with a gain of 10 points to c18.5%, well ahead of the right-wing AfD with c 11%. The Greens have managed to turn themselves into the alternative of choice for mainstream voters who are dismayed by the recent noise in Berlin but are unwilling to back the radicals. Unlike the small liberal FDP, the Greens also exude the confidence that they actually want to govern and accept the compromises needed for that.

The c11% for the right-wing AfD may make headlines. However, their influence on actual policies will remain negligible. For the time being, all other parties will lock them out of power. While still rising on trend, support for the AfD remains well below that for similar right-wing parties in many other European countries. The Bavarian result will not impact Germany's European policy stance in any significant way.

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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