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GERMAN POLITICS: ONE STEP CLOSER TO THE END OF MERKEL?

Berenberg Macro Flash

The deepening leadership crisis in Germany's centre-left SPD accentuates the risk that the party may walk out of the coalition with the centre-right CDU/CSU later this year. That would spell the premature end of Angela Merkel's reign as chancellor. We see a 40% probability of that. If so, the CDU/CSU could probably form a new coalition with the centre-left Greens, led by a CDU chancellor such as current CDU leader Annegret Kramp-Karrenbauer (AKK). If the Greens insisted on holding snap elections beforehand, the CDU/CSU and Greens would probably win enough seats between them for a majority in parliament. In the somewhat less likely case that snap elections could be avoided, a centre-right coalition with the Greens would also have to include the liberal FDP for a black-green-yellow "Jamaica" set of political colours.

THE SPD DILEMMA

In the wake of heavy losses for the SPD in the European election on 26 May, SPD chairwoman Andrea Nahles threw in the towel yesterday. Many party activists would like to leave the coalition with Merkel. The SPD may hold a special party congress soon to discuss the issue and elect a new leader.

For the SPD, it could make sense to sharpen its profile in opposition until the next regular election in September 2021 while the Greens would be forced into making the messy compromises that come with holding office. However, leaving the government now would come with a grave risk for the SPD: they would put their fate into the hands of their key political rival, the Greens. If the Greens were to insist on snap elections before tying the knot with the CDU/CSU, a disoriented SPD torn by bitter internal conflicts and with an unproven new leader at its helm might suffer an even more devastating defeat at the polls. We thus see a 60% probability that the SPD will stay in government despite serious noise, allowing Merkel to remain chancellor beyond the end of 2019.

THE GREEN CALCULUS

Having surged to 20.5% of the vote in the European elections eight days ago from 8.9% in the last national vote in September 2017, the Greens should have a strong interest in new elections. That they may no longer need the Liberals as a third partner in a government with the CDU/CSU after new elections strengthens the argument. However, insisting on new elections in case the current government falls would also carry serious risks for the Greens.

Contrary to all other opposition parties (FDP, Left Party, AfD), the Greens are thriving in opposition partly because they are seen as willing and ready to govern. Unlike the FDP, the Greens had backed a Jamaica alliance in 2017 already. In case the current coalition falls, Germany's president Steinmeier (originally from the SPD) would probably put heavy pressure on the Greens to enter the government. If the Greens were to refuse, they would tarnish their image of responsibility. Germans dislike political instability. If the Greens got the blame for causing unpopular snap elections, they may do worse than current polls project. As a result, a premature end of Merkel's reign



would not automatically trigger new elections.

CDU: SUCCESSION PLANS IN TATTERS?

Having ceded the role as CDU chairwoman to AKK last December, Merkel apparently wants to serve out her full term as chancellor until autumn 2021. If the SPD leaves the coalition soon, she may stay on briefly as head of a CDU/CSU minority government until the political outlook has become clearer. However, it seems unlikely that she would lead a new coalition government or fight a new election. While she has ruled out that she could take on a new political role afterwards, a premature end to her tenure as chancellor could re-open the question whether she may follow Donald Tusk as head of the European Council in late 2019.

Merkel's anointed successor AKK has not managed to stop the gradual erosion of support for the CDU. Instead, AKK has made headlines with a few communications gaffes recently. As a result, a low-level discussion has started within the party whether somebody else should succeed Merkel as chancellor. Friedrich Merz, her conservative rival for the CDU leadership last December, and Armin Laschet, the centrist state prime minister of North Rhine-Westphalia, are touted as potential candidates.

If the CDU were to suffer serious losses at regional elections in three east German states in September and October, the pressure on AKK could rise. However, if snap elections had to be called on the national level for September, AKK's position would probably not be challenged in earnest. Being a haven of stability relative to a chaotic SPD could be a key selling point for the CDU in potential snap elections.

POTENTIAL OUTCOMES

A lot could happen in German politics in the next few months. On balance, the most likely scenarios are:

- Merkel remains chancellor as the SPD stays in government after electing a new leader - 60% probability
- CDU/CSU and Greens form a new government after snap elections - 20% probability
- CDU/CSU, Greens and FDP form a "Jamaica" coalition, probably led by AKK - 15% probability
- All other scenarios - 5%.

If the centre-left Greens were to replace the centre-left SPD as junior partner of the CDU/CSU, [European and fiscal policies would not change much.](#)



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