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MACRO UPDATE: GERMAN COALITION DEAL, SPANISH GRIDLOCK

Berenberg Macro Flash

Germany: relief for Merkel

A deal at last: After a long dispute that had rocked the Berlin government for months, leaders of the CDU/CSU-SPD coalition yesterday finally agreed on a way to top up low pensions. From 2021 onwards, up to 1.5 million pensioners who have paid into the system for at least 35 years, but still get a pension barely above the minimum welfare level will, be paid more. The total annual cost could be around €1-1.5bn.

While the deal could be contentious within the CDU/CSU, where many had insisted on a much stricter means-testing of the new benefit, it will probably be passed by parliament. That leaders of the fractious coalition finally managed to resolve their differences over this issue bodes well for Chancellor Angela Merkel. For two reasons, it helps to contain the risk that the SPD may walk out of the government shortly and bring down Merkel in the process:

- 1) It strengthens slightly the chance that the moderate SPD finance minister Olaf Scholz could, jointly with Klara Geywitz, win the 19-29 November ballot among SPD members to lead the party in the future. Scholz/Geywitz want to stay in government whereas the other more left-wing duo of Saskia Esken/Norbert Walter Borjans are more inclined to leave. Esken/Walter-Borjans currently seem to be ahead.
- 2) Even if the left-wingers win and are enthroned as new party leaders at the SPD convention on 6-8 December, the deal removes one key issue which the hardliners may have taken as an excuse to end the co-operation with the CDU/CSU. Even Esken/Walter-Borjans may keep the SPD in a government that continues to deliver on many issues dear to the centre-left.

On balance, we continue to see a 30% risk that the government may fall apart and that Merkel may no longer be chancellor next spring. See also [political update: German coalition](#).

Yesterday's coalition deal includes a minor additional fiscal stimulus namely a cut in the payroll tax to fund the unemployment insurance from 2.6% to 2.4% and the establishment of a new investment fund of 10bn euros. That is part and parcel of Germany's [slow-motion fiscal stimulus](#).

Spain: the gridlock worsens

In Spain, the fourth election in four years did nothing to resolve the country's deadlock. Instead, it will be even more difficult to form a stable government than before. On the left, the two major parties lost 10 seats between them. With 120 seats, down from 123, for the centre-left Socialists of Prime Minister Pedro Sanchez and 35 seats, from 42, for left-wing Podemos, the two parties now need even more support from regional or separatist parties for a majority of at least 176 seats in parliament. On the right, the conservative People's Party rebounded from 66 to 88 seats while the far-right Vox party advanced strongly from 24 to 52 seats. However, their gains came largely at the expense of the liberal Ciudadanos (from 57 to a mere 10 seats), leaving the three potential



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partners with a total of 158 seats – well short of a majority. The conflict in Catalonia and concerns about migration contributed to the surge in support for Vox.

The only real chance for a stable government now seems to come from a coalition of the Socialists and the People's Party. However, both sides have once again ruled this out. Sanchez looks likely to stay on as prime minister of a minority government until either the parties from different sides of the political divide overcome their inhibitions to work with each other – or new elections next spring.

So, far, the political stalemate has only taken a very limited toll on the Spanish economy, which had been suitably reformed in the wake of the euro crisis. However, the damage may gradually become more visible over time. See also [elections in Spain, again: limited risks](#).

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