5 December 2019

German political scenarios

Merkel at risk

- **Will they or won't they?** Ahead of the SPD party convention, which starts on Friday, we think there is a 55% probability that the SPD will stay in government throughout 2020, allowing Angela Merkel to remain chancellor. Although the new left-wing SPD leaders, Saskia Esken and Norbert Walter-Borjans, won the ballot among party members by strongly criticising the alliance with the CDU/CSU, they have softened their tone recently. They may be realising that, if the SPD were to get the blame for bringing down the government, the party may fall even below its current 14% support in potential snap elections, after an already dismal result of 20.5% in 2017. We thus estimate a better-than-even chance that the new SPD leaders will goad their party towards some small but face-saving compromises with the CDU/CSU (eg a long-term investment plan, a higher carbon tax and a review of the minimum wage).

- **What if?** If the SPD leaves the government because it cannot moderate its demands for more left-wing policies to such an extent that a very reluctant CDU/CSU could accept them, Germany may still be able to avoid snap elections next year in one of two ways: either Merkel stays on as chancellor of a minority government throughout 2020 or the liberal FDP and the Greens join the CDU/CSU as new coalition partners. In the latter case, Annegret Kramp-Karrenbauer (AKK) would probably replace Merkel as chancellor. We attach a low probability of 5% to each of these scenarios. After 14 years in power, Merkel may not want to end her political career with a long stint as a lame-duck head of a minority government that could not get much done. And, riding high in the opinion polls, the Greens would probably insist on new elections before joining a government.

- **New elections:** Snap elections in 2020 (35% probability) would probably result in a coalition of the CDU/CSU with the Greens as the new junior partner (25%). If new elections had to be held early in the year, say in March 2020, AKK would probably succeed Merkel. If such elections came later in the year, AKK’s rivals in the CDU would have more time to relegate her to the sidelines and install either Friedrich Merz, Armin Laschet or Jens Spahn as chancellor instead. Policies, especially Germany’s fiscal stance and approach towards Europe, would not change much.

- **A leftist alliance – the 10% tall risk:** Opinion polls show 27% support for the CDU/CSU, 22% for the Greens, 14% each for the SPD and the far-right AfD, 9% for the Left Party and 8% for the liberal FDP. A potential alliance of the Greens with the SPD and Left Party would be only 3ppt short of the c47% needed for a majority of seats in parliament. Still, we put the probability that Germany will end up with such a coalition at 10%, versus 25% for a CDU/CSU coalition with the Greens. Some urban centrist voters, who share the views of the Greens about climate change, would not want their vote for the Greens to lead to a sharp shift in social and economic policies to the left. A green-left-left alliance may re-regulate parts of the German economy, such as the labour and housing market. That would impair trend growth. If such an outcome were viewed as a serious risk, some of these voters may switch back to the CDU/CSU instead. Still, a leftist alliance is the tall risk to watch as the Merkel era gradually draws to a close.
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