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GERMAN POLITICS: SUPER SUNDAY PREVIEW

Berenberg Macro Flash

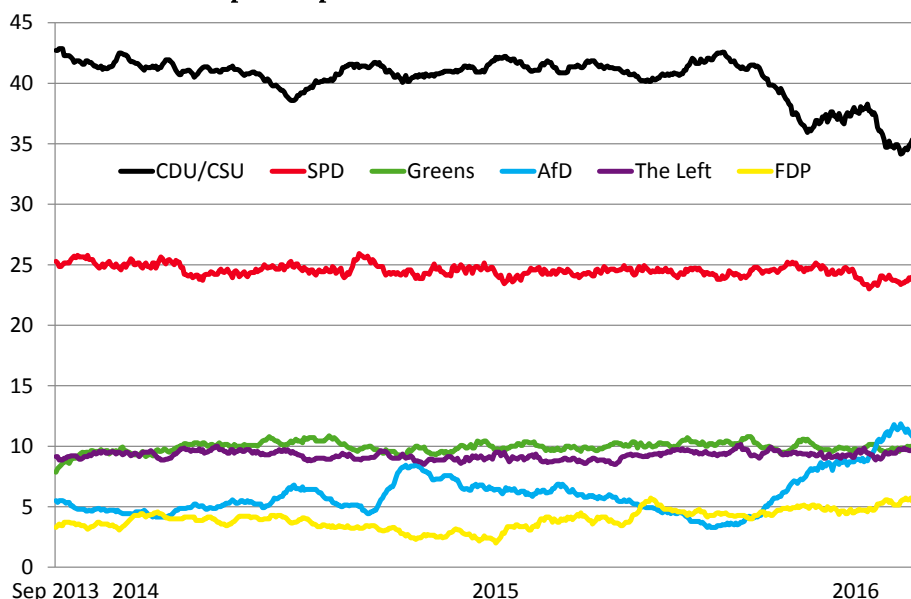
If opinion polls are any guide, chancellor Merkel's CDU could suffer a major setback at elections in three of Germany's 16 federal states this Sunday. If so, this will trigger some unsettling headlines and possibly even speculation that her position may be at risk. As she has once been dubbed "the indispensable European" even by the comparatively well informed and usually sober "Economist" magazine, that could cause concerns well beyond Germany. First projections of the results will be published at 17h GMT on Sunday. Let us put the possible results into context.

NATIONAL OPINION POLLS

The migrant crisis has had a significant impact on German public opinion. In national polls, support for the ultra-right AfD has risen from 6% in spring 2015 to 11% now. This has come at the expense of Merkel's centre right which is down from 41% to 35% now (see chart below). At the margin, the centre-left SPD, which is governing the country jointly with Merkel in a "grand coalition" in Berlin, has also suffered a slight erosion of support whereas the liberal FDP (currently not represented in the Bundestag) has risen back to just above the 5% threshold. Nonetheless, Merkel's CDU/CSU remains as popular on the national level as the next two parties combined.

The loss in support for the CDU/CSU has come in two waves, right after migrant crisis started in August 2015 and after the sexual attacks on many women in Cologne and some other German cities on New Year's Eve. With the recent slowdown in the inflow of new refugees and rising hopes that Merkel can strike a deal with Turkey, opinion polls seem to have stabilised again in the last two weeks. Personal popularity ratings for Merkel have also edged up again recently.

German national opinion polls



Support for major parties in %; centre-right CDU/CSU, centre-left SPD, centre-left Greens, ultra-left Left party, radical-right AfD. Average of last six opinion polls. Source: Emnid, FGW, Forsa, Infratest, INSA, GMS



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REGIONAL PROTEST VOTES

Three of Germany's 16 federal states elect new state parliaments on 13 March:

- West German **Baden-Wuerttemberg** accounts for 10.7mn out of Germany's 81.5 mn inhabitants. Traditionally a stronghold of the CDU, it has been governed by a Green-SPD coalition since the Greens scored an upset victory in March 2010 in the wake of the Fukushima nuclear disaster.
- West German **Rhineland-Palatinate**, the home state of former chancellor Kohl with some 4.0 mn inhabitants, is currently ruled by a SPD-Green coalition. The regional CDU leader, Julia Kloeckner, is a rising star within the CDU. If she wins, she would be seen as a potential successor to Merkel some four years down the road.
- East German **Saxony-Anhalt** with just 2.2 mn people currently has a CDU-SPD grand coalition, mirroring the arrangement at the national level in Berlin

Just three months ago, opinion polls projected that Merkel's CDU would win all three states. More precisely, the CDU would hold on to the top job in Saxony-Anhalt and do well enough to be the senior partner in coalitions in Baden-Wuerttemberg and Rhineland-Palatinate. According to current opinion polls, however, the CDU has now fallen behind the Greens in usually conservative Baden-Wuerttemberg, may not win in Rhineland-Palatinate and may just hold on to the top position in Saxony-Anhalt. Opinion polls put support for the anti-foreigner AfD at a record 19% in Saxony-Anhalt, 11% in Baden-Wuerttemberg and 9% in Rhineland-Palatinate.

Regional elections are occasions to cast a protest vote without getting the wrong parties into any significant position of power. Low voter turnout also tends to benefit those determined to register a protest. That implies a risk that the AfD may do even better than the somewhat unreliable opinion polls indicate. If so, how much would we have to worry?

- Regional protest votes in March 2016 would be no guide to Germany's next national election in September 2017. Remember how Britain's anti-immigrant UKIP won two by-elections in late 2014 only to do much less well at the national election in 2015.
- Right-wing parties have occasionally made a splash in some German states before. For example, a right-wing group "DVU" scored 12.9% in Saxony-Anhalt in 1998 and a separate right-wing group "Republikaner" got 9.1% in Baden-Wuerttemberg in 1996. Hardly anything was ever heard of these protest parties thereafter.

Amid the migrant crisis, the AfD look set to surpass these previous record results for right-wing protest parties by a significant margin. Also, the AfD is now more established and will probably have more staying power than their predecessors. Decade by decade, the German taboo of not voting for the extreme right ever again loses a bit of its force. That gives the AfD today an advantage over previous right-wing parties. But even after scoring well in regional protest votes, the AfD would remain light years away from any position of influence. And relative to, say, Marine Le Pen in France and Donald Trump in the US, support for anti-immigration populists in Germany would still remain fairly muted even in these potential protest votes.

A RISK TO MERKEL?

As discussed in our report on [political risks in Europe](#), Merkel faces the most serious challenge of her chancellorship in the migrant crisis. Major losses on Sunday would add to the unease within her own party. If



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Merkel's approach to reduce the inflow of migrants, namely to strike a deal with Turkey, were to falter at the EU summit on 17-18 March, she could be under serious pressure from within her own party.

But even then, she would most likely stay in office. She has no obvious rival or successor. As a long list of (mostly) male challengers who disappeared into the political wilderness after crossing her way can attest, Merkel is a good political operator.

A RISK FOR EUROPE? NOT REALLY

For the sake of argument, assume that Merkel had to step down shortly, unlikely as that seems to be in our view. What if? It would trigger a short-term surge in uncertainty and possibly a significant knee-jerk reaction in financial markets. On immigration, Germany might shift to a position closer to that of Austria - although it remains unclear how those in the CDU/CSU who might hypothetically want to do that would find a coalition partner and a majority in Germany's upper house of parliament (Bundesrat) for that. But beyond that, not much would happen.

Calling Merkel the "indispensable European" misses the key point of German politics: the fundamental orientation of German politics, pro-EU, pro-euro, pro-NATO, reflects a genuine national interest and is shared by all parties of the political mainstream, from the centre-right CDU/CSU to the two centre-left parties SPD and Greens and the small liberal FDP. We may shake these parties as much as we may want, the result would be the same: whoever might hypothetically succeed Merkel at the head of whatever coalition of mainstream parties in Berlin would pursue almost the same policies for Europe, the euro and NATO. Even if the AfD does well in regional protest votes now and the pro-Putin radical left scores its usual share (about 10% at the national level), the mainstream parties will likely maintain close to 80% on the national level.

We worry about Brexit, we may have to watch Le Pen in France and pay close attention as to whether the US election could give rise to a tide of protectionism. Yes, German politics may also get more noisy for a while. But German political risks are not very high on our list of things that we need to worry about in the foreseeable future. Most likely with Merkel, but hypothetically even without her, Germany will not make a serious U-turn on its major policy approach to Europe.

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