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GERMAN STATE ELECTIONS: SERIOUS SETBACK FOR MERKEL

Berenberg Macro Flash

A serious setback for Merkel as many voters reject her migration policies. At the "Super Sunday" elections in three of Germany's 16 federal states, Merkel's CDU fared even worse and the anti-foreigner AfD garnered even significantly more votes than most opinion polls had projected. The result will add to the unease within Merkel's centre-right party about her migration policies. But even this protest vote is unlikely to put her job as chancellor at risk. Whereas the debate about migration in Germany could get more noisy near-term, by far the most likely scenario remains that Merkel stays in office until the next federal election in September 2017 – and probably beyond. The result makes it even more important for Berlin to tackle the migrant crisis energetically and fast. If so, that could – in the end – help to get this most divisive issue in Europe somewhat under control and out of the headlines in coming months.

STATE ELECTIONS: WHAT THE VOTERS SAID

State elections often serve as an opportunity to cast a protest vote. Germans in big Baden-Wuerttemberg, medium-sized Rhineland-Palatinate and small Saxony-Anhalt used that opportunity today more than ever before. While the results projected for the three states differ from state to state, they show some clear common threads:

- **Chancellor Merkel's CDU** suffered noticeable losses, doing far worse than projected some three months ago and falling short even of most recent opinion polls.
- The **anti-foreigner protest party AfD** won significantly more votes than projected.
- In each of the three state, the **current state prime ministers** did comparatively well, securing a more respectable result for their party in their state than the party achieved elsewhere; that holds for the Greens in Baden-Wuerttemberg, the SPD in Rhineland-Palatinate and the CDU in Saxony-Anhalt.
- The **small liberal FDP** rebounded somewhat, clearing the 5% threshold to gain seats in at least the two bigger states (Baden-Wuerttemberg and Rhineland-Palatinate).
- **State parliaments are now more fractured and "colourful" than before.** In all three states, it could be tricky to form a new state government. As all other parties refuse to strike a deal with AfD, it may take coalitions of three rather than just two parties for a majority in some state parliaments.

RADICAL RIGHT RIDING HIGH – BUT DO THEY HAVE STAYING POWER?

A major success for the radical-right AfD. Never before has a protest party done so well at regional elections in Germany in recent decades. With around 24% of the vote in small Saxony-Anhalt, close to 15% in Baden-Wuerttemberg and 12% in Rhineland-Palatinate according to projections at 20:30h GMT, the AfD far exceeded the previous record results for radical ultra-right parties (12.9% for the DVU in Saxony-Anhalt in 1998; 9.1% for "Republikaner" in Baden-Wuerttemberg in 1996). Like the diffusely liberal-left "Piraten", which had made a splash in regional elections some 5 years ago, these pre-AfD right-wing parties had virtually disappeared shortly after their peaks.

Whether or not the AfD is here to stay remains an open question. The AfD is now more established and will probably have more staying power than its 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 rather well in regional protest votes, the AfD would remain light years away from any position of influence. Also, the AfD remains a single-issue protest party without a serious programme and a convincing leadership. If the refugee issues recedes from the headlines and if the sheer incompetence of many AfD parliamentarians becomes ever more apparent, support for the



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AfD may fade fast again in a while. 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.

The Super Sunday election results raise four major questions.

1) WHAT DOES IT MEAN FOR MERKEL?

For chancellor Merkel, the situation is probably almost as difficult as it was when she had fallen far short of expectations and almost failed to win her first national election in 2005. She will now be under significant pressure from within her own party to adjust her migration policies. There could be some talk about her being at risk. But she has no obvious rival or successor. A hypothetical revolt against her would probably hurt the CDU badly. Also, half-hearted attempts by the regional CDU candidates in Baden-Wuerttemberg and Saxony-Anhalt to distance themselves from Merkel's migration policies backfired against them in the state election results. Merkel can use that as an argument for closing ranks. Although German politics could be noisy for a while, we consider it most likely that Merkel will stay in office to fight - and probably win - the next national election in September 2017.

2) WHAT DOES IT MEAN FOR GERMAN POLICIES?

Berlin has already adjusted its stance on refugees and migration over the last 10 weeks. The outcome of the state elections will put additional pressure on Merkel to edge towards an Austrian-style partial closure of German borders for migrants and refugees. We do not expect Merkel to go that far. But Germany will probably do more to attract fewer refugees and migrants and to send home more migrants who have no genuine claim for asylum.

The result makes it even more important for Merkel to strike a deal with Turkey at the EU summit 17-18 March. At the margin, the drubbing for Merkel's CDU at these state elections could be seen as strengthening the bargaining position of Turkey as well as of those EU members critical of Merkel's position. But many other European policy makers have had their occasional regional upsets as well. We do not expect the state election results to have a major impact on the potential outcome of the EU summit. Our most likely scenario for the summit is that the EU and Turkey will strike a tenuous deal in which Turkey promises to severely restrict the flow of refugees and migrants into Greece and to take back many of those who make it to Greece nonetheless. In return, Turkey will get €6bn to support Syrian refugees in Turkey, an orderly resettlement of some Syrian refugees from Turkey to Germany and some other EU countries and the chance to get visa-free travel for Turks to the Schengen area by mid-2017 if Turkey meets the formal requirements for that. In addition, we expect the Macedonian border to Greece and many other borders on the migrant route from Turkey to Germany to remain de facto closed for migrants.

3) WHAT DOES IT MEAN FOR THE GERMAN FEDERAL ELECTION IN SEPTEMBER 2017?

Probably not much. Regional protest votes are no guide to serious national elections thereafter. Remember that the two UKIP bye-election victories in the UK in late 2014 were followed by a major victory for the Conservative incumbent Cameron at the actual national election in May 2015. One way or the other, the inflow of migrants and refugees into Germany will likely have slowed down significantly by then. A national election is usually not a protest vote. While Merkel's migration policies have now cost her dearly at the state elections, these policies have also made it much easier for the Greens to potentially join her in government after the 2017 elections. Also, chances that the liberal FDP may make it back into the Bundestag in 2017 have risen. As a result, Merkel may even have more coalition options in 2017 than she had in 2013. While she suffered a serious setback today, it would be very very premature to count her out.



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4) 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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