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### **EUROPEAN POLITICAL UPDATE: GERMAN REBUKE FOR MERKEL; SPANISH STALEMATE**

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##### **GERMANY: WILL THE REGIONAL REBUKE FOR MERKEL MAKE A DIFFERENCE?**

Another embarrassing regional election result for chancellor Angela Merkel: in her home state of Mecklenburg-West Pomerania, her CDU fell into third place with just 19.1% of the vote, trailing behind the anti-immigrant AfD (21.4%) and the centre-left SPD (30.4% according to an Infratest Dimap estimate at 21:42h local time). This second serious setback for the CDU comes after the party had to settle for the role of junior partner in a coalition with the Greens in the erstwhile CDU stronghold of Baden-Wuerttemberg in March. As in March, today's vote is highly unlikely to put Merkel's position at risk. She has no obvious rival or successor. By far the most likely scenario remains that Merkel will run again at the next federal election in September 2017 – and will remain chancellor thereafter, either in a coalition with the SPD or the Greens. With or without some public soul-searching in the next few weeks, the CDU is likely to close ranks behind her shortly. As Germany has already hardened its refugee and migration policy significantly over the last eight months in a series of small steps, the regional election result will probably have no major impact on government policy either.

Of course, today's result is another success for the right-wing AfD. For the first-time in postwar German history, a right-wing populist protest party seems to be able to establish itself as a political force with staying power. Still, we need to put the AfD result into perspective:

- The AfD does best in comparatively small and rural East German states. In the state election in Berlin on 18 September, the AfD will likely score well below 15%. Interestingly, the xenophobic AfD slogans seem to resonate especially in rural places with few foreigners.
- Today's result for the AfD does not fully match the record 24.3% which the party had garnered in the east German state of Saxony-Anhalt in March.
- State elections often serve as an opportunity to cast a protest vote. They are no reliable guide to the federal election in September 2017. On the national level, opinion polls put the CDU/CSU at 33%, far ahead of the SPD (23%) and the AfD (13%).
- Even after scoring rather well in regional protest votes, the AfD will remain light years away from any position of influence. No other party is ready to form any alliance with the AfD on the regional or national level.
- The postwar German taboo of never voting for the extreme right is losing force over time. But relative to the strength of right-wing populists in many other Western countries, support for the anti-immigration AfD remains modest.

By and large, the AfD remains a single-issue protest party without a serious programme and a convincing leadership. Over time, the sheer incompetence of many AfD parliamentarians may become ever more apparent. While that may not matter much for regional protest votes, it likely matters for the national election next September. Today's strong showing of the AfD will make headlines. But it no longer comes as a major surprise. It seems to be close to the last opinion polls taken before the vote, which had suggested that the SPD would win again while the AfD might overtake the CDU.

In my view, the rise of the AfD does not pose a serious risk to the fundamental orientation of German politics, pro-EU, pro-euro, pro-NATO. This orientation 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



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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 75% of the vote on the national level in September 2017.

### **SPAIN: THE CLOCK IS TICKING**

If no candidate can muster a simple majority of votes in the Spanish parliament by 31 October, Spain will have to hold its third national election within a year, likely on 18 December. At first glance, the chance to avoid this looks slim. On Friday, acting prime minister Mariano Rajoy got only the 170 votes of the parties that had pledged to support him. All other 180 members of parliament voted against him, as they had done in a first round on Wednesday. Despite significant public pressure to abstain in order to let Rajoy prevail, none of the Socialists broke ranks with their controversial party leader Pedro Sanchez.

Whether or not new elections can still be avoided will probably become clear only after regional elections in Galicia and the Basque country on 25 September. (i) The Socialists may find it less difficult to compromise once these votes are out of the way. Also, a bad regional result may suggest to them that they should better not risk a crushing defeat at repeat national election which few voters want. (ii) Rajoy may try to strike a deal with the mainstream Basque nationalist PNV after the regional vote, especially if the PNV needed support from Rajoy's Popular Party to lead the Basque regional government thereafter. If Rajoy gets the 5 PNV members in the national parliament on board, he could win if only one Socialist MP abstains, a fact that could increase the pressure on the Socialists a lot to seek a compromise. (iii) If Rajoy were to make way for some other member of his own party to run for prime minister, for instance for the speaker of Parliament Ana Pastor, securing enough votes for such a government would probably be easier as the Socialists could then claim a significant success. While not impossible, this looks unlikely, though.

Any alternative? That the Socialists could form a government instead, relying on the 180 parliamentarians who voted against Rajoy on Friday, does not seem likely. While ultra-left Podemos and the Catalan nationalists insist that such a government would have to allow an independence referendum for Catalonia, major parts of the Socialist Party are strongly against that. Jointly voting against Rajoy is very different from agreeing on key questions of national identity.

Does it matter whether or not Spain's political stalemate continues until potential repeat elections in December? Yes and no. Yes, Spain needs a proper rather than a caretaker government to prepare a 2017 budget and discuss it with the EU. The political uncertainty is also weighing on business confidence, likely heralding some slowdown in growth from the stellar pace of 3.6% annualised achieved so far this year. But for Europe, the Spanish stalemate is not a major concern. As Rajoy had delivered many key reforms, Spain is fundamentally in satisfactory shape. Whatever the outcome of the Spanish political situation, it poses no significant threat to the stability of the Eurozone or the EU. In Spain, even the radical left Podemos is largely pro-European.



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