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GERMAN POLITICS: THE ROUGH ROAD AHEAD FOR MERKEL

Berenberg Macro Flash

AFTER THE BERLIN VOTE: MORE PRESSURE ON MERKEL

Another blow for the German chancellor. As in the two other rounds of state elections earlier this year, Angela Merkel's centre-right CDU lost heavily in the city state of Berlin. The CDU's share of the vote fell by 5.7 points to a record low of 17.6%. Once again, the right-wing populist AfD did well, garnering 14.2% of the vote according to preliminary official results. The centre-left SPD stayed ahead with 21.6% despite losing even slightly more votes than the CDU (-6.7%).

Against the backdrop of such setbacks for the CDU, **some German media have started to ask whether Merkel will run for a fourth term as German chancellor in 2017.** Merkel herself has left the question unanswered so far, merely stating that she will announce her decision in due course. Judging by a combative speech she gave in parliament two weeks ago, she apparently wants to run. After nearly three terms in office, however, her grip on power is no longer as firm as it used to be. Her approval rating is down to 45%, the lowest level since the peak of the euro crisis in August 2011 according to an infratest dimap poll. 51% of Germans think that she should not run for chancellor again according to this survey.

Although Merkel now faces her most serious political crisis since she almost bungled her first national election in 2005, her chances to prevail again in 2017 still look remarkably good. She has no obvious rival or successor. If she decides to run again, her CDU would almost certainly nominate her. Mid-term protest votes such as the regional one in Berlin on Sunday are no clear guide to national elections that matter. In national opinion polls, support for the CDU/CSU has slipped by 9 points from 41% in mid-2015 to 32% now. However, the same polls also show that the centre-right CDU/CSU would remain far ahead of the centre-left SPD (23%) and the right-wing AfD (13%). As a result, it would be almost impossible to forge a parliamentary majority against her in the Bundestag. Despite the recent string of losses, Merkel's domestic approval ratings are still above those of many other leaders in the Western world. If her CDU/CSU recovers just a couple of points at the national election next September after disgruntled voters have let off some steam now, she would likely win a fourth term handsomely, probably having a choice between the centre-left SPD and the centre-left Greens as her coalition partner. An alternative anti-Merkel alliance between the two centre-left parties SPD and Greens and the ultra-left Left party would likely founder on serious differences about foreign policy. The ultra-left is just too pro-Putin to be a reasonable choice as partner on the national level. Most current opinion polls do not give a majority for such a coalition anyway.

DISPUTE ABOUT MIGRATION – OR ABOUT THE PAST?

Merkel's biggest problem is the open dispute with the CDU's Bavarian partner CSU. The CSU boss and Bavarian prime minister Horst Seehofer demands a hard cap of 200k per year on the number of asylum seekers that can be admitted into Germany. Merkel resists a formal cap, which might well be struck down by Germany's constitutional court anyway. To understand the dispute, we need to look back a little. Merkel's humanitarian decision of 4 September 2015 to open the German borders for some ten thousands of refugees stranded in Hungary was widely applauded in Germany at the time. However, Germany then did not act decisively to contain the follow-up inflow of migrants and refugees, focussing more on managing the swelling inflow for a while. It took various border closures en route from Greece to Germany in early 2016 and the EU-Turkey deal of 20 March 2016 to reduce the inflow of migrants and refugees to manageable proportions. Beyond these well-publicised measures, however, Germany also adjusted its own policies significantly over the course of 2016, making it less attractive for migrants to come and making it easier to



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send back those whose applications for asylum have been rejected. The number of asylum seekers registering in Germany has fallen to a monthly average of 16,5k in the last five months in the “EASY” registration system, equivalent to just below 200k on an annual basis.

By now, Merkel suffers more from a perception than from a policy problem. The current inflow of migrants and refugees is no longer the real issue. However, she has not communicated well that Germany has de facto hardened its stance significantly and that further measures to contain the inflow of migrants and refugees or to send more fake asylum seekers back have been thwarted not by her CDU but by her centre-left SPD coalition partner or by the Green Party in the upper house of parliament. Unfortunately for Merkel, she is still associated more with the policies of late 2015 rather than those that she is actually pursuing now.

The dispute with the CSU hurts her for two major reasons.

- First, it keeps the contentious migration issue in the limelight. Due to the much smaller number of new arrivals, the issue might otherwise fade somewhat into the background. That would allow Germany’s excellent economic situation to become more relevant for voting intentions again.
- Second, the well-publicised infighting within the CDU/CSU impairs the public standing of the centre-right and benefits the ultra-right AfD.

To prepare the ground for her re-election in 2017, Merkel needs to settle the dispute with the CSU. And she needs to do so well ahead of the CDU party convention on 5-7 December where she is due to be confirmed as leader of the CDU and where she is expected to announce a decision to run again for chancellor.

A CDU-CSU COMPROMISE?

Seasoned diplomats should be able to bridge the differences between Merkel and Seehofer. The dispute now seems to be more about the policy choices of late 2015 than about current policies. As the inflow of asylum seekers has slowed to an annual rate of no more than 200k anyway, why fight tooth and nail about a legally dubious hard cap of 200k? Instead, the CDU/CSU could propose in a joint platform for the 2017 election that it wants to harden immigration rules somewhat further and work closely with other countries with the political aim to keep the annual number of new asylum seekers below, say, 200k or 250k. Unfortunately, in politics as in other strands of human interaction, perceptions and personalities matter as much as actual facts. Merkel has probably missed the best opportunity to clearly communicate the gradual hardening of her stance on migration. Having spoken out so loudly on immigration in the hope of keeping the AfD at bay in Bavaria, Seehofer may not find it easy to bury the hatchet again.

Giving some ground to a regional chieftain could be especially tough for chancellor Merkel who is rightly seen as one of the most influential politicians on the global scene. However, the alternative to finding a way out, namely to risk further damage to the CDU/CSU and to possibly not run for office again, would be much worse for Merkel. In the end, both Merkel and Seehofer have more to lose than to gain from an ongoing dispute as they approach the national election in September 2017 and the Bavarian regional election in the autumn of 2018. My base case remains that, after quite some noise in the next few weeks, Merkel and Seehofer will settle or at least tone down their dispute and that Merkel will announce well ahead of the CDU party congress in early December that she will run again for chancellor in September 2017.

HOW MUCH WOULD IT MATTER?

Of course, we also have to consider “what if” scenarios even if they look unlikely. A surprise decision by Merkel to not run again in 2017 would be a political shock for Europe. It could send tremors through financial markets for a while. After all, some observers such as *The Economist* newspaper have called Merkel the “indispensable European”. But what would really change after an initial period of elevated uncertainty?



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Despite the rise of the populist AfD, the fundamental orientation of German politics, namely pro-EU, pro-euro and pro-NATO, reflects a consensus shared by all mainstream parties. Between them, these parties look set to win 75% of the seats again in the German parliament next year. Whichever way we shake the CDU/CSU, SPD, Greens and FDP and whichever coalition they may form in the end, they would pursue pro-EU, pro-euro and pro-NATO policies that would not be fundamentally different from those of Merkel. For the foreseeable future, the overall orientation of German politics is not at serious risk. In this respect, Germany still differs from the UK, which has voted for Brexit, and from the US or Italy where populist upsets are a less distant threat than they are in Germany. Merkel will likely remain German chancellor beyond September 2017. But whatever her political fate, any German government would use its political capital and financial resources to help keep Europe together.

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