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## GERMAN POLITICS: A CENTRE-LEFT ALTERNATIVE TO MERKEL?

### Berenberg Macro Flash

Merkel at risk? Germany's major centre-left party SPD has started the campaign for the 24 September federal election with a sort-of surprise. Party leader Sigmar Gabriel will yield to the ex-president of the EU parliament, Martin Schulz, at the helm of the SPD and candidate to replace chancellor Angela Merkel according to various media reports.

Will the rise of Schulz make a difference? Probably not much. He is a bit more popular than the somewhat unsteady Gabriel. According to a January 2017 infratest dimap poll, 57% of Germans think that Schulz is doing a good job versus 43% for Gabriel. However, Merkel's centre-right CDU/CSU is far ahead of the SPD in opinion polls (see chart below). If the CDU/CSU remains the strongest single party, as it very likely will, the only chance for any SPD leader to become chancellor would be to forge a coalition of other parties that would have to jointly garner about 48% of the popular vote to win a majority in the Bundestag. As some fringe parties don't clear the 5% threshold, it takes about 48% rather than 50%+ to have a majority of seats. In opinion polls, a red-red-green coalition of SPD, Left Party and Greens currently has just 40% of the vote. As the support for the liberal FDP at 6% is smaller than that for the Left Party (10%), trying an SPD-Green-FDP alliance instead looks even more hopeless.

Of course, there are still eight months to go. Opinion polls can be wrong. But the key issues at the moment – domestic security, immigration, foreign policy risks associated with Trump and Putin, the future of Europe – do not play into the hands of the centre-left. The SPD usually needs softer issues such as income redistribution and welfare to dominate the domestic debate in order to thrive. To bet that the combined centre left (SPD, Greens) and ultra left can jointly pick up 8 percentage points of the popular vote in the election campaign is quite a stretch, to put it mildly. That Gabriel is resigning probably signals that he sees little chance for the SPD to win in September, at least not with him as party leader.

Would it matter if – against the odds – SPD candidate Schulz would deny Merkel a fourth-term as chancellor and move into her office instead? For some domestic policies, it would make a small difference. But the SPD – as Merkel's junior partner – has set much of the domestic economic agenda (minimum wage, pension at 63 for some workers etc.) in Merkel's current term already. As a result, the difference would be small. On the more important key areas of national interest, the EU, the euro and NATO, Schulz is a solidly pro-European and pro-NATO centre-left leader with little sympathy for Putin. In these policy areas, a Schulz-led government wouldn't change anything significant. Even on fiscal policy, an SPD-led government would probably dare only a small departure from Schäuble-style prudence as it would otherwise suffer an almost immediate public opinion backlash. The clear differences between Schulz and the ultra-left Left Party on many issues such as Europe and Putin would make a potential red-red-green alliance under Schulz quite difficult anyway.

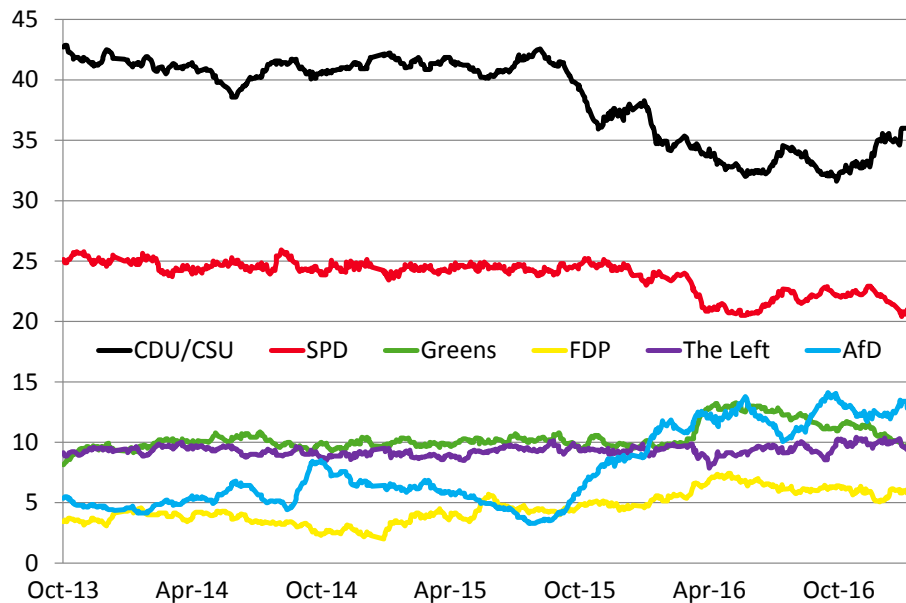
What about support for the ultra-right AfD? Hasn't the rise of that nasty party weakened Merkel? In a way, yes. Support for her centre right is lower than it was before the migrant crisis started in mid-2015. But the shift of some votes from the centre right to the ultra right does not bring the centre-left closer to power. As the SPD has also lost some support to the upstart AfD, a hypothetical red-red-green alternative to Merkel is now actually further away from power than it was before. That the centre left would team up with the AfD against Merkel looks simply impossible.



## MACRO NEWS

The most likely outcome of the German election on 24 September remains that Merkel will continue to lead the biggest political party in Germany and will remain chancellor, probably leading a coalition with either the SPD or the Greens – or potentially both the Greens and the small FDP.

### Advantage Merkel: German opinion polls



Average of last five opinion polls. Source: Allensbach, Emnid, Forsa, FG Wahlen, INSA, GMS.

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