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Holger Schmieding, Chief economist | holger.schmieding@berenberg.com | +44 20 3207 7889

GERMAN ELECTION SEASON STARTS WITH A BANG

Berenberg Macro View

CDU FALLS TO HISTORIC LOWS IN TWO STATE VOTES

Some six months before the end of Angela Merkel's final term as chancellor, Germany's election season has started with a bang. Support for Merkel's centre-right CDU fell to historic lows in two state elections. A kickback scandal in the CDU/CSU parliamentary faction in Berlin and, to a lesser extent, rising discontent with slow vaccination progress and a somewhat confusing approach to an easing of lockdowns amid rising infection numbers have curtailed the support for the conservatives who had been riding high in opinion polls last summer. As many postal votes were cast before the scandal had broken, today's election results likely understate the loss in support for the CDU. Although it is still very early days, the results today can impact the debate on Germany's political future after Merkel.

Despite today's setback in Baden-Württemberg and Rhineland-Palatinate, the CDU – jointly with its Bavarian sister CSU – remains the favourite to lead the next German government after the 26 September 2021 federal elections and to by and large continue Merkel's policies. We ascribe a 75% probability to that outcome. After the state election results, however, the discussion will likely focus more than before on the two potential alternatives to a CDU/CSU-led federal government: we see (i) a 15% probability of a centre-left/left alliance between the Greens, the SPD and the Left Party, and (ii) a 10% chance of a "traffic light coalition" between the Greens, the "red" SPD and the "yellow" liberal FDP. In a leftist alliance at the federal level, the left-wing base of the SPD and Greens would likely tilt regulatory policies to the left. In a Green-SPD-FDP coalition, however, the liberals would likely see to it that the regulatory burden does not increase too much. The latter option will receive more attention in coming months. If the Green state prime minister of Baden-Württemberg, Winfried Kretschmann, were to drop the CDU as his junior partner in Stuttgart and form a "traffic light coalition" on the state level instead, as he could, many observers would probably see that as a signal that the Greens may be inclined to explore such an option in Berlin this autumn as well.

LESS BAD FOR SÖDER THAN FOR LASCHET

Laschet or Söder? As the new leader of the CDU since late January, the centrist "continuity" candidate Armin Laschet would be the natural joint CDU/CSU candidate to succeed Angela Merkel as German chancellor in late 2021. However, his apparent rival, Söder from the Bavarian CSU, is much more popular with voters. In a poll in February, 53% of respondents rated Söder as a suitable chancellor versus a mere 28% for Laschet, whom 57% saw as not suitable (source: ZDF Politbarometer). The probability that the CDU establishment may ask Laschet to cede to Söder has risen with today's drubbing for the CDU. Although Laschet probably bears little blame for the election outcome, his first two months at the helm of the CDU have not gone well. Senior representatives of the CDU may fear that, with Laschet, their party may do worse than with Söder in September. In the past, a CDU boss had twice let the then-CSU contender run for the chancellorship on the joint CDU/CSU ticket. The CDU leaders, who first stepped aside only to win the next election after



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the CSU candidate had failed in 1980 and 2002, respectively, were Helmut Kohl and Angela Merkel.

The CDU/CSU originally wanted to anoint their joint candidate to succeed Merkel by early April. We would not be surprised if Laschet now tries to delay the decision to May, hoping that – as time goes by – vaccinations will progress faster and the kickback scandal may fade into the background. If so, the fortunes of the CDU and of him as CDU leader may improve. A late decision would likely strengthen Laschet’s position relative to Söder again. On balance, Laschet remains slightly more likely than Söder to be the next German chancellor.

ADVANTAGE FOR POPULAR INCUMBENTS

Although the details differ, the state election results for Baden-Württemberg and Rhineland-Palatinate show some common features beyond the losses for the CDU (see charts 1 and 2 below).

- In both states, the popular incumbent state prime ministers led their parties to an apparent victory. Both Winfried Kretschmann (Greens) in Baden-Württemberg and Malu Dreyer (SPD) in Rhineland-Palatinate look set to stay in office. They will probably rule with the same coalition as before, namely a Green-CDU alliance in Baden-Württemberg and a “traffic light” coalition in Rhineland-Palatinate. In Baden-Württemberg, however, the CDU may be forced into opposition if the Greens decide to form an alliance with the SPD and FDP instead of keeping the CDU as their junior partner. Such a possible shift would be another setback for the CDU and Laschet and a boost for a possible “traffic light” coalition at the federal level after the September election.
- The risk that the FDP may fall below the 5% threshold needed to win seats in the federal parliament in September has receded. The FDP largely held its ground in Rhineland-Palatinate and picked up votes from the CDU in Baden-Württemberg.
- The ultra-right AfD, which had been riding high in 2016 in the wake of the refugee crisis, lost votes in both states. The left-wing Left Party again failed to even get close to the 5% hurdle needed to win seats. In this sense, the votes strengthen the German mainstream relative to the more extreme fringes.

Despite significant dissatisfaction with the way Germany is currently tackling the pandemic, the yearning for change seems to be limited. On the state level, voters rewarded pragmatic prime ministers who tilt more to the centre than the base of their party and who are more popular than their party. In principle, the pattern also seen in some other recent state elections, namely a premium for incumbents, could bode well for the CDU/CSU in the national election on 26 September – except that Merkel as the incumbent chancellor who is more popular than her party is not running again.

CDU/CSU STILL AHEAD FOR SEPTEMBER ELECTIONS

Following a strong surge after the outbreak of the Covid-19 pandemic, support for the CDU/CSU has continued to slip since mid-2020 – see chart 3. Nonetheless, it seems unlikely that either the Greens or the SPD could win more votes than the CDU/CSU in September. The question would then be whether the Greens or the SPD join the CDU/CSU as junior partner in a new coalition led by Laschet or Söder – or whether the two centre-left parties could cobble together a three-way



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coalition for a majority of seats without the CDU/CSU. As the ultra-right AfD is untouchable, such potential three-way coalitions would either be a **green-red-red alliance** (R2G in German parlance for Greens, SPD and the Left Party) or a “**traffic-light**” coalition between the Greens, the SPD and the liberal FDP. In the last “ARD Deutschlandtrend” poll, these two potential alternative coalitions would have 43% of the vote. This is roughly 4 points short of the 47.0%-47.5% of the popular vote usually needed for a majority of seats in the Bundestag where parties with less than 5% of the vote are not represented.

Judging by all recent opinion polls, the Greens are more likely to be the stronger of the two-centre left parties and would thus be able to nominate the chancellor in a potential non-CDU/CSU government. Whether this would be the more charismatic Robert Habeck or the more policy-savvy Annalena Baerbock remains an open question, though. Against a field of male candidates from other mainstream parties, Baerbock may potentially enliven the campaign even more than Habeck.

WOULD IT MAKE A BIG DIFFERENCE?

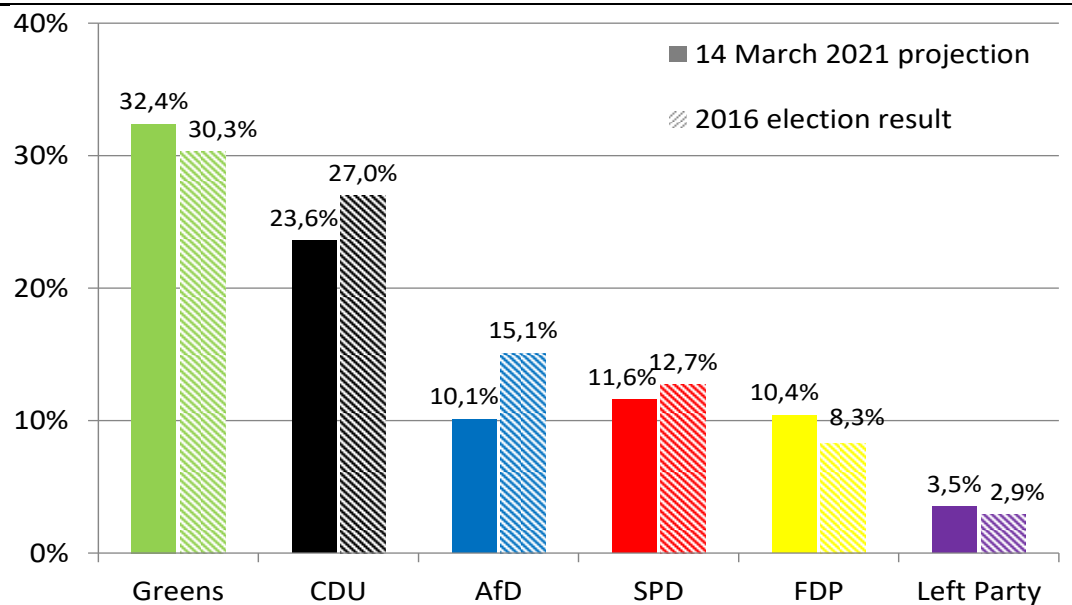
Germany’s political system works largely by consensus. Because the major opposition party (or parties) can usually wield a veto in the upper house of parliament, key decisions on fiscal policy and European affairs can rarely be taken on a partisan basis. As a result, a change at the top of the federal government (say from Merkel to Laschet or Söder) or even a major change in government to a coalition without the CDU/CSU would have less of an impact on the overall fiscal stance and on Germany’s position on key European issues than many outside observers seem to believe. As in the US, however, the federal level can impose serious regulations even without parliament (or without the upper house of parliament in which the CDU/CSU would most likely still have a veto even if it is no longer part of the federal government). As to the kind of policies which a green-red-red coalition at the federal level may pursue, think of the cap on housing rents imposed by a red-red-green state government in the city state of Berlin writ large and extended to further sectors. Tighter regulations of labour and service markets could turn into a serious drag on German trend growth over time. This is the tail risk to watch in German politics.

The next and probably only other German state election before 26 September is due in small Saxony-Anhalt on 6 June.



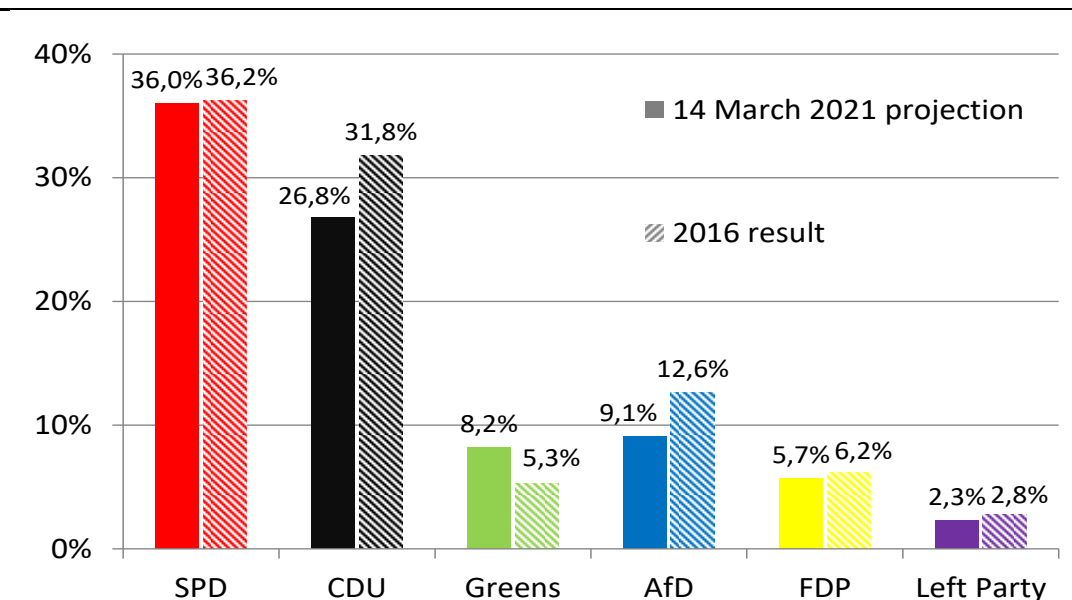
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Chart 1: Baden-Württemberg – 2021 versus 2016 state election



Support for political parties, in %; ARD projection for 2021 result as of 19:58h local time. Source: ARD, Wikipedia

Chart 2: Rhineland-Palatinate – 2021 versus 2016 state election – to be updated

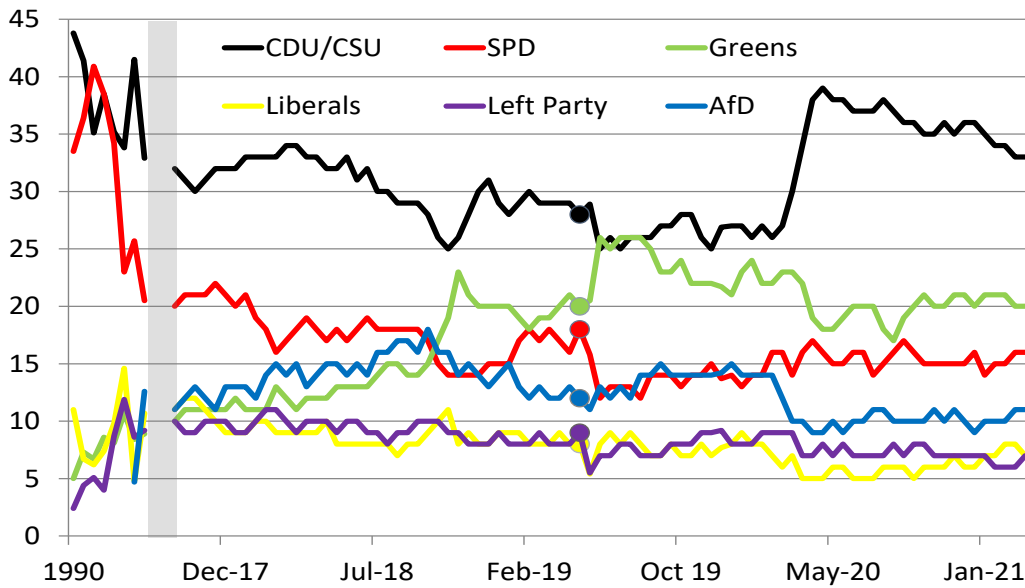


Support for political parties, in %; ARD projection for 2021 result as of 19:58h local time. Source: ARD, Wikipedia



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Chart 3: National election results and opinion polls (in %)



Election results 1990-2017; "ARD DeutschlandTrend" opinion polls thereafter, the dots mark the European election result of 26 May 2019. Sources: Bundeswahlleiter, ARD



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