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HIGH NOON IN GERMANY: SÖDER, THE GREENS, AND THE COURT

Berenberg Macro View

Söder against Baerbock in September? Germany will be in the news in the next two days and weeks. In Angela Merkel's CDU/CSU, the fight about a joint candidate to succeed her as chancellor after the 26 September election seems to have tilted a bit in favour of Markus Söder. The dispute could be resolved today or tomorrow. Separately, the **Greens** will announce their own candidate for the chancellorship at 10h BST today. The odds seem to favour Annalena Baerbock. And before the end of April, **Germany's Constitutional Court** is expected to rule whether or not Germany can ratify the law that would unlock the EU's €750bn recovery fund.

CDU/CSU: GAME OF CHICKEN DRAWING TO A CLOSE

Advantage Söder? Eight days ago, CDU leader Armin Laschet and his counterpart Markus Söder from the CDU's Bavarian sister CSU both declared their intention to succeed Merkel as chancellor after the election. Although both had vowed to resolve the issue between them by the end of last week, they have not done so yet. While Laschet was backed by much of the CDU's establishment including its executive board last Monday, Söder has drawn on significant support from the CDU base and from CDU parliamentarians who believe that they would have a better chance to win the election on 26 September with the more popular Söder at the helm – see Chart 2 below. Because the conflict is raging within Laschet's CDU rather than Söder's CSU, time seems to be on Söder's side. The CDU/CSU's youth organisation yesterday came out in favour of Söder. However, another crisis meeting between the two contenders did not yield a result according to various media reports. [PredictIt](#) betting market is now pricing in a 60% probability that Söder will be chancellor at the end of the year versus 10% for Laschet (and 22% for Annalena Baerbock and 3% for Robert Habeck, the two potential Green candidates).

We do not expect the results of the leadership contests to have a major impact on the policies of Germany's next government. In Berlin, coalition arithmetic often matters more than the traits of individual leaders. If Söder wins and manages to heal the rift with significant parts of the CDU, the chances of a CDU/CSU victory in September would rise. This would reduce the tail risk of a Green-red-red coalition (see below).

The CDU/CSU has no established process to settle the leadership question. If none of the two contenders withdraws today, the joint parliamentary faction of the CDU/CSU may vote on it on Tuesday, hoping that the loser would accept the result. The parliamentary faction is the major joint body of the formally separate CDU and CSU sisters. Twice before, the CDU/CSU had nominated the CSU leader rather than a CDU candidate for the chancellorship. In both cases, the CDU/CSU narrowly lost the election. But unlike his Bavarian predecessors Franz-Josef Strauß (1979) and Edmund Stoiber (2002), Söder hails from the Franconia region of northern Bavaria rather than from upper Bavaria which traditionally has been culturally more different from Northern Germany than Franconia.



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For the CDU/CSU, the choice between Söder and Laschet is about style, charisma and perceived electoral appeal rather than major differences on substance. Laschet is widely seen as the continuity candidate. He has usually supported Merkel on other policies including her handling of the 2015 refugee crisis. His somewhat unassuming style and penchant to moderate and bridge differences resembles Merkel's approach. Hailing from Aachen on the Belgian and Dutch border, he would be willing to go along with some additional fiscal burden sharing in the EU and the Eurozone. Söder comes from a more conservative background with stronger reservations against any mutualisation of risks in the Eurozone and the EU. He has also been more critical of unconventional ECB policies than Merkel. But the somewhat divisive Söder has proven to be a fast learner when it counts. If he makes it into the chancellor's office, he may not remain beholden to positions on Europe that had served him well in the past in conservative Bavaria.

To some extent, Söder's somewhat populist appeal to the base resembles that of Austrian chancellor Sebastian Kurz, who had successfully positioned him against the old guard of his conservative ÖVP before winning his a national election for the party in 2017.

Despite the bitter dispute between its leaders, the „union“ of CDU/CSU remains the clear favourite to win [the 26 September](#) elections. Amid the raging fight of Söder against Laschet, support for the CDU/CSU even rebounded by some 1.5 points to 28.6% last week relative to the average of the polls taken before. That puts the conservatives well ahead of the Greens at 21.4% - see Chart 1. Three overlapping factors may explain this somewhat surprising half-recovery: First, the noisy dispute has diverted attention away from the kickback scandal which roiled the CDU/CSU in March. Second, some voters may now see a better chance that their favourite (Söder?) may clinch the nomination. Third, Germany's more rapid inoculation progress may start to impress some voters amid a worsening pandemic that requires the strong leadership which the conservatives have often offered in the past even if they are disunited now.

See also [German politics: the race is on](#).

GREENS: CLOSER TO POWER

Advantage Baerbock? Unlike the usually more orderly conservatives, the once chaotic Greens have so far managed their own internal processes rather smoothly. At 10h London time today, the two co-leaders of the party, Annalena Baerbock (40) and Robert Habeck (51) will announce who of them should be their party's candidate to replace Merkel. The Greens have benefitted a lot from the fact that Habeck and Baerbock have worked together harmoniously ever since they became co-leaders of the Greens in January 2018. While Habeck is slightly more popular (see Chart 2 below), Baerbock has narrowed the gap significantly in the last few months, even overtaking Habeck in some recent polls. She is now seen as the clear favourite.

Habeck is more charismatic and experienced. He has been deputy prime minister of a federal state (Schleswig- Holstein) from 2012 to 2018. **Baerbock** comes across as more policy-savvy and focussed. We see no major differences in the policy outlook between them. Both represent the moderate wing of their party. Many observers would expect Baerbock to perform well on the



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campaign trail against an all-male cast of leaders from the other mainstream parties (CDU/CSU, SPD and FDP). However, she is vulnerable to the argument that she lacks experience. As the Greens have a chance to actually nominate the chancellor, other parties are likely to use this against her. But in any case, the two leaders of the Greens seem to be working together so well that they would likely campaign together and play major roles after the election.

POTENTIAL OUTCOMES OF THE SEPTEMBER ELECTION

After 16 years in power under the helm of Merkel, we see a 65% chance that the CDU/CSU will also lead the next German government, most likely with the Greens as junior partner – see chart. Laschet or Söder would be chancellor. A government without the CDU/CSU (35% probability) could be a coalition of the Greens and the SPD with either the liberal FDP (20%) or the far-left Left Party (15%) as third partner.

In any coalition, the strongest partner would nominate the chancellor. A government without the CDU/CSU would most likely be led the Greens rather than the SPD, which continues to lag well behind in the opinion polls. Of the 35% probability for a government without the CDU/CSU, we thus see a 30ppt chance for a Green chancellor (Baerbock or Habeck) and 5ppt for an SPD chancellor (current finance minister Olaf Scholz).

Slicing the same numbers differently yields a 95% probability that the Greens will be part of the next German government, either as junior partner of the CDU/CSU (60%), as senior partner of a three-way coalition which includes the SPD (30%) or as junior partner of such a coalition (5%).

Only a “green-red-red” coalition between the Greens, the SPD and the left-wing Left Party would herald a major shift in German policies, notably towards tighter labour, housing and product markets regulations that would reduce German trend growth. See also: [German politics: what the Greens are up to \(16 March 2021\)](#).

GERMAN COURT: A RISK TO REMEMBER

Can Germany ratify the law to allow the EU to borrow money for its €750bn recovery fund? Germany’s Constitutional Court is expected to rule on a request to issue an injunction against the ratification before the end of April. Three weeks ago, the court halted the ratification to give itself some time to consider the issue after both houses of the German parliament had passed the law with two-thirds majorities.

German Eurosceptics routinely challenge EU/Eurozone integration steps at the German Constitutional Court. In most cases, the court ultimately rejects the challenges. Sometimes, it does so with strings attached which narrow the scope for further integration steps. This time, the plaintiffs claim that the European Treaty does not authorise the European Commission to issue a major amount of debt. As economists, we cannot judge all the legal intricacies of the case. Conscious of the unprecedented emergency into which the Covid-19 pandemic has thrust all of Europe, the Court may well dismiss the case or at least the request for an injunction against the German ratification law. But the risk that the court will not do so is significant. If the court objected to the



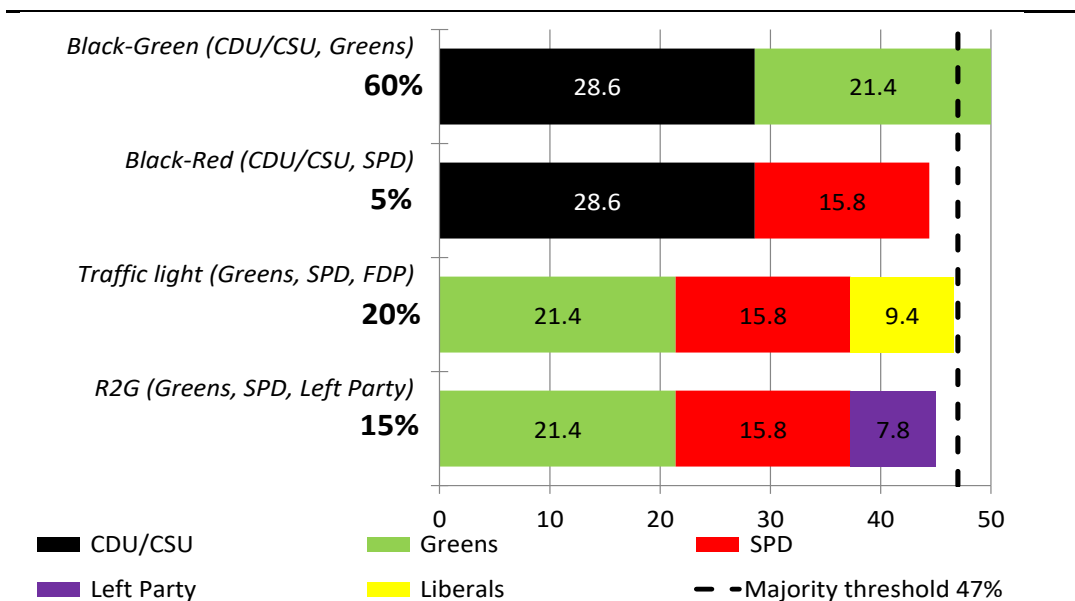
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current plan of financing the EU fund by EU debt, it could generate some noise in markets and the political arena. Even in this case, however, we would expect Germany and/or the EU to find a way around it so that recipient countries could still receive the first 13% tranche of the €750bn fund in 2H 2021. See [German court: EU recovery fund at risk \(29 March 2021\)](#).

An opportunity to discuss the issue in more depth will be our webinar on **Tuesday 27 April, 14:00 BST, 15:00h CEST, 09:00 EDT**, on “**Fiscal Integration in Europe: Opportunities and Limits**” with **Jörg Kukies**, State Secretary, German Ministry of Finance. As one of the one of four permanent state secretaries (deputy ministers) in the German Ministry of Finance since 2018, Kukies has played a key role in devising the German and EU fiscal responses to the Covid-19 pandemic. In the 45-minute webinar, a conversation between Kukies and me will be followed by a Q&A session for the audience. Click here for the [invitation](#). To register please contact [Charlotte David](#).

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Chart 1: Potential German coalitions after the 26 September election

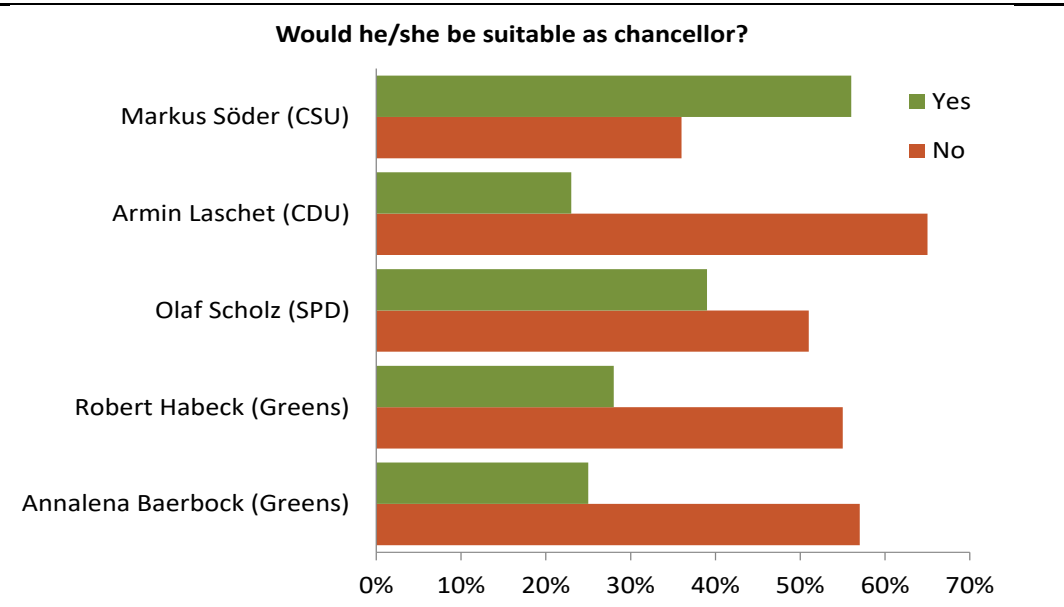


Berenberg probabilities for coalitions after the 26 September 20231 election. Numbers in the bars: average of recent opinion polls in %. Parties with less than 5% of the vote get no seats. As they may get c6% in total but not seats, c47% of the vote is needed for a majority of seats. Sources: Allensbach, FGW, INSA, Kantar, Forsa, infratest dimap, Berenberg



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Chart 2: How popular are the candidates to succeed Merkel?



Source: ZDF Politbarometer opinion poll 26 March 2021



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