

## GERMANY: POLITICS

### MERKEL SIGNALS THE BEGINNING OF THE END

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#### SUMMARY

- > Following heavy losses in regional elections, Chancellor Angela Merkel declared she will not run again for leadership of the Christian Democratic Union (CDU) at the December party convention and that she will end her political career in 2021.
- > While Merkel intends to stay in office until the next elections scheduled for 2021, it is an open question whether she will be able to do so. Merkel's future as German chancellor will depend on many variables, which we explore in this Flash Note.

#### Heavy losses in regional elections for the CDU and SPD

Support for Germany's governing parties plunged in regional elections in Hesse last Sunday, delivering the latest blow to Chancellor Angela Merkel just two weeks after the CDU's sister party, the Christian Social Union (CSU), lost its majority in elections in Bavaria. The CDU had its worst showing in Hesse in more than 50 years, although it managed to remain the largest party there with 27% of votes (down 11 points from the previous regional election in 2013). The Social Democrats (SPD), Merkel's junior coalition partner at federal level, garnered its lowest level of support in Hesse since 1946 (19.8%). The Greens, by contrast, surged to 19.8% of the vote, up from 11% in 2013, to come second. The far-right Alternative für Deutschland (AFD) received 13.2% of the vote, taking it into the Hesse regional assembly for the first time. The party is now represented in all of Germany's 16 regional parliaments.

#### Repercussions at the federal level

As a consequence of the heavy drop of support in the Hesse elections, **Chancellor Merkel declared she would not run again for leadership of the CDU at the 6-8 December party convention.** Merkel also said she would retire from politics at the end of the current parliament in 2021. But it is questionable whether she will be able to do so. Merkel's future as German chancellor will depend on many variables:

##### 1. Front-runners for leadership of the CDU

The leadership contest can be counted on to lead to intense internal debate about the CDU's position on Europe, taxes and immigration. The party is scheduled to meet on 4-5 November to discuss how to proceed. So far, **three main contenders to take over from Merkel have come to the fore: Annegret Kramp-Karrenbauer (AKK)**, the CDU's current secretary general; **Jens Spahn**, the current health minister (considered further to the right than AKK); and **Friedrich Merz**, one of Merkel's oldest rivals, who left parliament in 2009 and is seen as the most conservative and right wing of the three. More candidates could still emerge.

##### 'Merkel 2.0'

**The election of a close ally** (such as AKK) would allow Merkel to gradually hand over power ahead of the next general election, scheduled for 2021. It seems unlikely that somebody like AKK would challenge Merkel's chancellorship as long as the latter wants to stay.

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#### A shift to the right?

However, if one of Merkel's internal adversaries, such as Friedrich Merz or Jens Spahn, ends up as CDU party chief, things will become more complicated for her. Particularly since her decision in 2015 to grant passage into Germany of around 1 million migrants, Merkel has come under criticism within her own party from conservative voices who attack her for moving the CDU too far to the centre. The election of Friedrich Merz would be a clear signal that CDU members want a major change in the government's political course. **In such a scenario, the probability of Chancellor Merkel resigning before her term ends would rise.**

#### 2. What will the SPD do?

Having suffered heavy losses in regional elections and with polls showing popular support at an all-time low, the SPD would appear to have little incentive to quit the government immediately and push for a new general election. But an eventual departure of the SPD from the 'Groko' coalition would leave the CDU and CSU without a majority in parliament. Attempts by these two sister parties to run a minority government would be challenging. An alternative would be to form a government with the Greens or the Free Democrats, but coalition talks with both formations collapsed less than a year ago. **In short, withdrawal of the SPD from the Grand Coalition would leave Merkel with little choice but to call fresh general elections.**

#### Snap elections in 2019?

Technically, Merkel could stay on as chancellor until the end of the current parliament in 2021. In the past, **German chancellors have left power before the scheduled end of parliament in one of three ways:** either they have resigned, they have lost a vote of confidence, or the Bundestag has been dissolved—but a lost vote of confidence or resignation have not necessarily led to snap elections. The [German Constitution](#) (article 67) stipulates that the chancellor may be removed from office by majority vote in the Bundestag only if a prospective successor also has the support of a majority. Since 1949, only two 'constructive votes' of no confidence (where an alternative to the chancellor in place is proposed) have been attempted, and only one has been successful (in 1982, Helmut Schmidt was successfully voted out of office in favour of Helmut Kohl).

The chancellor can dissolve the Bundestag, leading to snap elections. **Elections must be held within 60 days of parliament's dissolution.** If the current Bundestag were to be dissolved, **our current best guess is that elections would be held in H2 2019.** The reason is that any new CDU leader will need time to define his/her priorities, while the SPD will probably not come to a decision on remaining in the GroKo coalition until next year. **European parliamentary elections in May 2019 could be a catalyst for early elections too if the SPD and CDU perform poorly.**

#### Implications for the European Union and the euro area

In the short run, **the chances of making progress on meaningful EU reforms at the EU summit in December seem very slim.** AKK seems to be the best guarantee of stability at the top of the CDU. Her election would probably mean little change in the party's position on Europe. But other candidates have more sceptical views.

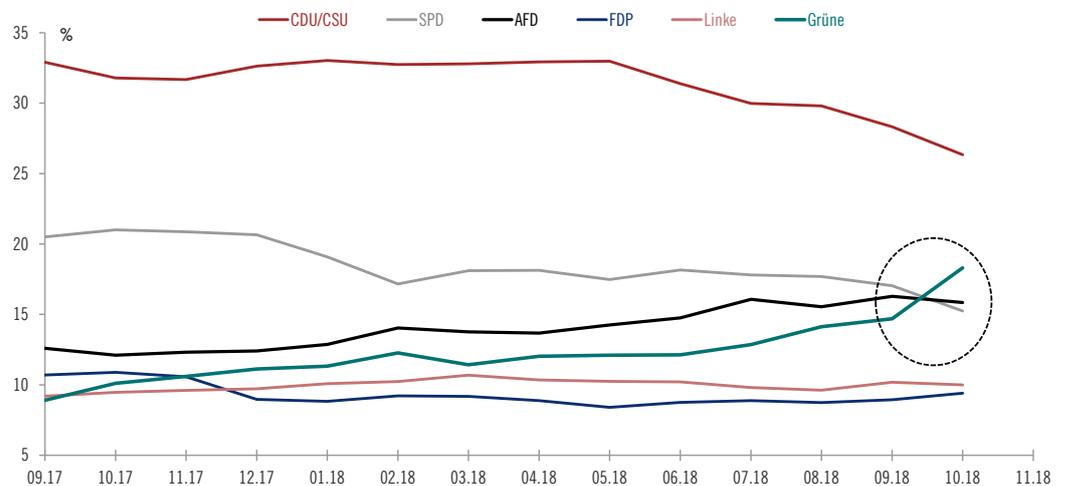
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Over the medium term, **the German government's stance on European matters will depend on the outcome of the next legislative elections and how the CDU/CSU's positions evolve on a number of critical topics**, including further integration, immigration and state spending.

Investors may be concerned by the rise in the AfD and of similar populist parties in other European countries. But the recent success of the pro-European Greens in Germany should not be ignored. Current polls indicate that if new elections were to take place today, agreement between at least three parties would be needed to form a government.

CHART 1: GERMANY – NEXT GENERAL ELECTIONS, OPINION POLL AVERAGES



Source: PWM - AA&MR, Various polls

TABLE: GERMAN UPCOMING EVENTS

2018	
3-4 Nov	SPD party leadership meeting
4-5 Nov	CDU party leadership meeting
<b>6-8 dec</b>	<b>CDU party conference</b>
2019	
Spring	EU budget negotiations
<b>23-26 May</b>	<b>European Parliament election</b>
26 May	Bremen state election
01 Sep	Brandenburg state election
01 Sep	Saxony state election
27 Oct	Thuringia state election

Source: PWM - AA&MR

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