

German elections: Bittersweet victory

As Merkel celebrates her fourth victory, losses for her party and a difficult coalition building challenge ahead will make this a bittersweet victory



The German elections have delivered the almost unexpected. According to last night's polls, Angela Merkel and her party, the CDU, recorded strong losses, receiving some 32% of the votes; this would be the worst result for the CDU since 1949. The SPD and Martin Schulz came in as the second largest party, though also recording the worst result since World War II, with some 20% of the votes. In total, the current government has almost lost 15 percentage points. The AfD seems to be the third largest party with some 13% votes, while the FDP with around 10%. Greens and The Left are still close to each other with 9% each.

With this outcome, there are only two coalitions possible: a continuation of the current grand coalition (CDU and SPD) and an unprecedented 'Jamaica' coalition of CDU, FDP, and Greens. However, none of these two coalitions will be easy. The SPD has already announced it will not form a coalition and will go into opposition. Interestingly, in the course of yesterday evening, CDU politicians have called upon the SPD to not draw quick conclusions, trying to keep the door open for another grand coalition.

In any case, the weak result could make Angela Merkel a lame duck much faster than international observers and financial markets think

The 'Jamaica coalition' will also be a difficult political compromise. Not only have FDP and Greens fought each other almost to the bones during the election campaign, they also have almost opposing views on the future of the Eurozone, energy transition and industry policy.

Given Germany's traditional craving for stable governments, we think all parties will try to make the 'Jamaica coalition' work. However, the negotiations will be very difficult and it could take until the end of the year or even longer before all parties reach an agreement. It might not be a stable government but could clearly lead to more investments in digitalisation, education and some structural reforms in the labour market. In this coalition, Merkel would probably try to keep a pro-Eurozone course but the FDP would clearly slow down any Merkel-Macron attempts for deeper Eurozone integration. After the election results, FDP leader Lindner confirmed his parties view that it opposes a Eurozone budget.

On a positive note, if the 'Jamaica coalition' succeeds, Angela Merkel could build a new and unprecedented coalition, with a clear focus on investments, digitalisation, and ecological change. But if the 'Jamaica coalition' fails, new concepts like a minority government with the CDU and either the FDP or the Greens should not be excluded.

For a long time, Germany seemed to be immune to right-wing populism and enjoyed a strong and stable political center. The center is still stable but less strong

In any case, the weak result could make Angela Merkel a lame duck much faster than international observers and financial markets think. The combination of a weak result together with a difficult coalition and possible tensions (within a new coalition but also her own party) will not make Angela Merkel's political life any easier.

The rise of the right-wing AfD should make the next German parliament the most diverse parliament ever, with extreme parties both to the left and the right of the political spectrum. As regards the AfD, the question will be whether the AfD can do parliamentary work or whether it could implode in the next four years, as seen with other right-wing parties in other European countries in the past.

[Read our detailed report on the German elections here](#)

In sum, yesterday's election result has finally pushed German politics into Europe. For a long time, Germany seemed to be immune to right-wing populism and enjoyed a strong and stable political center. The center is still stable but less strong. Losses to parties in the political center, right-wing populists in parliament and difficult coalition building are a

combination all other European countries have been facing for a long while. Now Germany joins the crowd.

Angela Merkel will start her fourth term in office but it could be her most difficult one. A weak electoral outcome and a difficult coalition-building challenge ahead makes yesterday's victory a bittersweet one.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.