

## German state elections bring more tensions for Olaf Scholz' government

Last night, the German political landscape was hit by the expected shake-up, adding to the already existing tensions of the federal government



German Chancellor Olaf Scholz and his governing coalition took a hit at state elections this past weekend

Some 4 ½ million Germans in the two states of Thuringia (1.5m) and Saxony (3m) were eligible to vote yesterday (more than 7% of the total electorate). According to the preliminary results, the anti-immigrant Alternative for Germany (AfD) came in as the largest party, slightly ahead of the CDU (32.8% of the votes vs 23.8%) in Thuringia, while in Saxony it is the CDU which came in as the largest party, ahead of the AfD (31.8% of the votes vs 30.8%). In both states, the new populist-left party, Sahra Wagenknecht Alliance (BSW), finished third. The parties of Olaf Scholz' federal government suffered severe losses in both state. In Thuringia, the Greens and the FDP appear to have both crashed out of the state parliament, failing to meet the five-percent threshold necessary to gain seats. In both states, all three parties together received less than 15% of the votes. This is a huge hit for the government.

It is for the first time since WW2 that a right-wing populist party has won elections in Germany. Still, it is unclear whether the AfD will actually be able to take real governing power. In the run-up to the elections, all other parties had refused to govern in a coalition with the AfD.

While the coalition talks in Thuringia and Saxony will start in the coming days, the two elections could have imminent implications for the government coalition of Olaf Scholz. With less than 15% of the votes in both states, the tensions within the coalition are unlikely to fade away. To the contrary, last night, politicians from the coalition parties have already questioned the legitimacy of the government.

## A few observations and possible implications from the two state elections from our side

The relatively strong result of the CDU in Saxony comes after a clear shift towards the political right by CDU minister-president Michael Kretschmer. Taking over political positions from AfD or BSW could now be seen as a recipe for success for the CDU.

Support for the AfD is more deeply-rooted than some might think. It increasingly looks as if at least for now support for the AfD reacts less on individual candidates than in the past. It is either deeply-rooted support for the AfD or deeply-rooted protest against the government coalition in Berlin, or a combination of both, which explains the success of the AfD.

All of the above will increase the tensions within the government coalition in Berlin. With one more year to go until the next federal elections, the risk of snap elections increases. However, in our base-case scenario, none of the three coalition partners will pull the plug. Why? Because there is very little to gain for them with early elections. The budget for 2025 is set, and Chancellor Olaf Scholz has often said that Germans will see the benefits from the government policy measures next year. There have been plenty of good occasions to actually end the coalition before, but it has never happened.

One way out could be to push the economic policy reset button and announce a big investment programme, with both short- and longer-term benefits for the economy (and its voters). However, this would require an enormous effort by all three parties, without knowing which party would eventually benefit from it. Plus, it would require new budget negotiations. Instead, a more likely route is some reshuffling of cabinet positions. This is easier to implement with a much smaller impact.

All in all, last night's election results in Thuringia and Saxony were not only the expected historical moment for German politics, but it was also another hit for the government coalition of Olaf Scholz. The upcoming days will show whether these elections functioned as a wake-up call for more powerful economic policies or whether they only worsened the political deadlock.

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