

## Germany: Political shockwaves reach Berlin

What do the recent political events mean for the German economy and the rest of the eurozone? Expect an even more inward-looking Germany, less progress on any more Eurozone integration and increasing risk of snap elections in early 2021



Minister of Defence Annegret Kramp-Karrenbauer (L) and German Chancellor Angela Merkel (R), Berlin

Source: Shutterstock

The shockwaves of the political events in [Thuringia last week](#) still haven't calmed down and have now officially reached national politics in Germany.

Yesterday, CDU party leader, Annegret Kramp-Karrenbauer announced she would not seek running for the chancellor's office in the next elections and that she would step down as party leader in the summer. She plans to stay on as minister of defence. The criticism in her own party on the handling of the events in Thuringia was the last straw after plenty of criticism from parts of her own party since she had been elected as party leader in December 2018.

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*Annegret Kramp-Karrenbauer decision to not run for*

*the chancellor's office in the next elections means the experiment of separating political leadership from party leadership in the CDU hasn't really quite worked*

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While Kramp-Karrenbauer hadn't officially announced her candidacy to lead the CDU into the next elections, her position as party leader had made her one of the few designated successors to Angela Merkel. Yesterday's decision now means the CDU will again be preoccupied with the leadership discussion and a more strategic discussion on how to deal with the AfD, as it was in the fall months of 2018.

The decision also means that the experiment of separating political leadership from party leadership in the CDU hasn't worked. Potential candidates to succeed Kramp-Karrenbauer are the ones who challenged her during the 2018 leadership vote including Friedrich Merz, Jens Spahn and Armin Laschet. Given that the new party leadership vote will come closer to the next scheduled national elections, due to take place in fall 2021, the most likely scenario is that the new party leader will also lead the party in the election campaign.

The only exception could be if the CDU asks the Bavarian minister-president and CSU leader, Markus Söder, to run for the chancellor's office.

[Thuringia's new premier minister marks a new milestone in German politics](#)

## Impact on the economy

Though very interesting – if we leave German domestic political considerations and discussions aside, another important question is what these events mean for financial markets, the economy and Europe?

- For markets, the events won't have any significant short-term impact. The leadership debate will not change Germany's economic policies, at least not in the short run.
- For the economy, the likelihood of any additional fiscal spending remains unchanged, at least not as long as the new leadership race at the CDU has not been solved. This vacuum leaves the government enough political space to react. However, once the CDU has a new party leader and a successor for Angela Merkel, the room to manoeuvre will be limited as the new vote would mark the start of the next election campaign.
- For the eurozone, expect even more inward-looking German politics than before and, hence, less progress on any more Eurozone integration. The German EU presidency in the second half of the year could end up being just more symbolic instead of leaving a strong impact on Eurozone or EU policies.

The orderly transition of German politics into the post-Merkel era seems to be failing. The country will continue to face a more fragmented political landscape, with parties having to rethink past red lines and potential coalition partners.

In our view, the risk of an imminent end of the government is small, however, after Germany's EU presidency and the CDU's party leadership vote, the risk of snap elections in early 2021 has increased.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

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