

## Germany: The election campaign's begun

With six weeks to go, political parties have launched their official campaigns.



### The polls suggest a win for Merkel

Unlike in other countries, parties in Germany cannot put up campaign posters or run TV ads until six weeks before the election. These six weeks started on Sunday. Now, the campaign floodgates are open, no lamp post will be safe from the cardboard visages of each party's main candidates and politicians will tour the entire country. It's the final stage of what so far has been an overly dull election campaign; some might be tempted to call it typically German.

Judging from latest opinion polls, the main election outcome seems to be clear: Chancellor Angela Merkel and her party, the CDU, should come in as the largest party, very likely enabling Merkel to start her fourth term as German chancellor. The margin between the CDU (currently at 38% in the latest polls) and the current coalition partner and second largest party, the SPD which currently stands at 24% and is led by former European Parliament president Martin Schulz, is simply so wide that it would almost require a political miracle, an unexpected huge scandal, very flawed polling or the combination of all of these factors for Merkel not to win the elections.

### What happened to the 'Schulz-hype'?

The so-called "Schulz hype" from the spring, when Schulz and the SPD were all of a sudden "neck-

and-neck” with Merkel and her party and when Germany seemed to have been hit by a political wind of change has apparently evaporated into thin air. The reasons for the return of what many international observers see as German election boredom are manifold. In our view, it is a combination of campaigning mistakes by the SPD and Schulz, who for example missed the opportunity to use a Macron-type pro-European platform and only gradually presented piecemeal elements of the SPD’s electorate platform, and a return of Merkel, benefiting from strong economic developments and her performances and appearances on the international stage.

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*To some extent, uncertainty stemming from the US administration or Brexit has re-built Merkel’s reputation as a reliable and stable crisis manager in the eyes of many German voters.*

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Even though an extreme tail risk, a scenario in which Angela Merkel would not return as chancellor should not be entirely ruled out. This is mainly due to German political arithmetic. Besides the two largest parties, four other parties would, according to current polls, enter the German parliament on 24 September, a record. These four parties (Left Party, Liberal FDP, anti-euro AfD and the Greens) currently are all around 10% in the polls. (Small) changes in both directions are clearly still possible and a combination in which SPD, Left Party and Greens could gain a tiny majority of the electorate vote may be possible, even with Merkel’s CDU coming in as the largest party – as unrealistic as it currently might sound.

## The future of the Eurozone

The issue of political arithmetic will probably be the most exciting part of the next six weeks. It touches upon the important question of which parties will join the next government.

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*Currently, the most likely coalition combinations are Merkel’s CDU together with the FDP, SPD or Greens.*

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As stated above, in the case of a totally unexpected election outcome, combinations led by the SPD could also be possible. The biggest turn-off for Merkel could be the fact that none of the possible next governments under her leadership would be love at first sight. In fact, Merkel’s choice for a junior coalition partner (if the election outcome allows for a choice) will clearly have an impact on the future of the Eurozone. While in any governments headed by Merkel, more public investment and few structural reforms look likely, the plans for future Eurozone integration could range between muddling through or a return to no-bail-out and a Eurozone budget with a European Monetary Fund. Stay tuned.

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