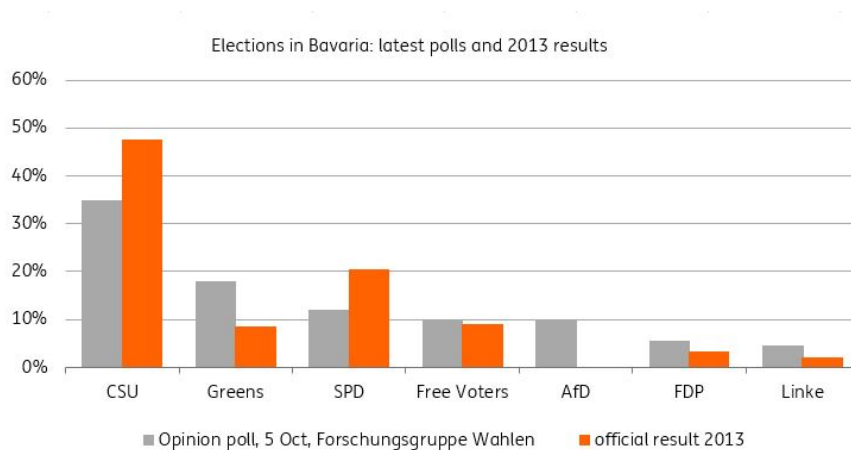


Germany: Warning - political landslide in Bavaria ahead

Sunday's regional elections in Bavaria could become an important milestone, either imminently or in the future



Since the start of the new government in March this year, German politics have been hijacked by the forthcoming regional elections in Bavaria. In a bid to defend its absolute majority in Bavaria, the CSU (the sister party and coalition partner of Angela Merkel's CDU) has been openly criticising Merkel, starting several inner-coalition conflicts which almost led to a collapse of the government. In June, the CSU and CDU clashed bitterly over the issue of whether or not German police should be allowed to turn back refugees at the German-Austrian border, even forcing Chancellor Merkel to convene a special European Summit. For much of September, both parties were in an almost permanent fight over the fate of the head of the domestic intelligence service. When Bavarians go to the polls this Sunday, many observers hope that political tensions in Berlin will ease. They could be wrong.



National politics are often hijacked by regional elections

Regional elections in Germany often leave a mark on national and international politics. Just think of the election in North-Rhine Westphalia back in 2010, which led to a rule-changing delay of the very first Greek bailout package or the series of SPD defeats at the start of last year, which turned Merkel contender Martin Schulz from party saviour to disappointing failure within only a couple of weeks. Regional elections can always be a kind of confidence vote on national politics, a vote on pure regional issues, parties and the main actors or a combination of both. Very often the interpretation of what drove the election results only comes after Election Day.

CSU tried to score by being trouble-maker at federal level

In the case of the coming elections in Bavaria, however, the question of what drove the election result seems to have been answered already. While the CSU tried to make the election a kind of referendum on Merkel's stance on refugees, the continuous nagging and trouble-seeking in Berlin, initiated by the CSU, has completely turned this around. According to the trend of latest opinion polls, the CSU's strategy to distance itself from Merkel in order to prevent a rise of the AfD in Bavaria seems to have been a double failure. With less than 40% of the votes, the CSU is on track to come in with the worst result since 1954. The AfD is currently polling at 10%, as are the Free Voters, an EU-sceptical group that wants to return political power to local authorities. The Greens could come in a surprisingly strong second, currently polling at 18%, while the SPD stands at 12% and the liberal FDP at 5%.

Impact on national politics

Bavaria matters. The Bavarian elections are not only important due to the sheer size of the state, with some 16% of the total German population and more than 18% of German GDP. They also matter because the CSU's dominance – 12 absolute majorities in the last 13 elections – has been an integral part of the success of the CDU/CSU bloc in federal elections. Currently, some 20% of the CDU/CSU seats on German parliament come from Bavaria.

Looking ahead, the most important aspect for national politics will be the CSU's performance in Sunday's elections. In this regard, two scenarios look plausible: current polls are right and the CSU suffers a historic defeat, garnering less than 40% of the votes, or it sees an unexpected comeback, with the party coming close to or even above the absolute majority of seats in Bavarian parliament.

- **Historic defeat:** The CSU would probably still lead the next Bavarian government with one or two coalition partners. There would be no significant shift in the federal upper house. Instead, Chancellor Merkel would emerge as the real winner of the election. The CSU would need some time to digest such an election defeat, focusing on inner-party issues and wasting less energy on conflicts with Merkel. As a result, the coalition in Berlin could again focus on implementing the substance of its coalition agreement. At the same time, however, a historic CSU defeat could be a worrying sign for Merkel, marking a new chapter in the deterioration of the conservative bloc. A significant loss would simultaneously fuel the AfD's position as a strong opposition party, illustrating the increasing frustration of some voters with established parties, a trend which would definitely complicate coalition-building at the next federal election.
- **Unexpected comeback:** In this scenario, expect many CSU politicians to experience a testosterone boost. The CSU would be emboldened in its criticism of Merkel, continuing to be a permanent thorn in her side and pushing the federal government coalition closer to the edge of the cliff. As the SPD is also in a kind of existential crisis, the chances of the federal government coalition collapsing before the 2021 elections would clearly increase. In this scenario, any bigger and far-reaching European or international projects will probably be further hampered by German national politics.

Political landslide – one way or the other

Regardless of the outcome of Sunday's elections in Bavaria, be prepared for a political landslide with a long-term impact on German national politics. A dramatic defeat of the CSU would first lead to an earthquake in Bavaria, foreshadowing future political developments and structural shifts at the national level. An unexpected comeback of the CSU would probably prompt a political landslide in Berlin. German politics continue to be anything but boring.

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.