

## Back to square one: German coalition talks collapse

Likelihood of new elections in Germany has increased as coalition talks failed last night when the liberal FDP walked away from the negotiations.



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What a contrast! While the German election campaign was rather dull and unexciting, the so-called exploratory talks of the last five weeks had already turned into a daily soap opera. For five weeks, Angela Merkel's CDU, the Bavarian sister party CSU, the liberal FDP and the Greens have negotiated behind closed doors. Almost every day, key politicians showed up on a balcony, providing pictures and motives for journalists. Last night, these talks ended with hard bang: the talks failed.

Initially, the talks were supposed to be brought to an end already last Thursday. The last three days were already extra-time. Contrary to Angela Merkel's experience with European summits in Brussels, where long meetings eventually end with a compromise, yesterday's meeting did not. The liberal FDP walked away from the talks, with FDP leader Christian Lindner saying that "it's better not to govern, than to govern badly". He added that party leaders had failed to build "a foundation of trust". This probably is the best summary of why the talks for a so-called Jamaica coalition failed: next to political differences, personal and atmospheric tensions had overshadowed the talks from the beginning onwards.

## No Jamaica - now what's next?

In our view, there are currently three options to go ahead: a minority government, a continuation of the current grand coalition of CDU/CSU and SPD or new elections.

1. Minority government: Given the very special way the talks now failed, a minority government looks unlikely. Initially, the most likely option for a minority government would have been Merkel's CDU/CSU together with the FDP. However, the FDP's walking away from the talks will have created lots of mistrust and political damage. A minority coalition between CDU/CSU and Greens is also unlikely, given the permanent quarrels between CSU and Greens. A minority government of CDU and Greens, but without the Bavarian CSU, could probably work but would be a political earthquake, which currently also looks unlikely.
2. Another grand coalition. On paper the only other option possible. However, the SPD already today repeated its stance taken since the election results that it wants to stay in the opposition. Let's not forget that the SPD recorded its worst election result ever.
3. New elections. The most realistic option. The process of getting there is a bit complicated and president Steinmeier eventually will have to initiate it. Interestingly, Steinmeier earlier said that he did not support new elections but in our view there will hardly be any other way out.

## New in Europe: political instability in Germany

For the German economy, the collapsed talks will probably have no impact in the short run. The examples of Belgium or the Netherlands, when having a caretaker government did not do the economy any harm for a long while, even seem to suggest that caretaking governments do more good than harm. However, given the lack of structural reforms and the urgent need for investments in digitalization and education, German politics should not waste too much time if they don't want to put the economy's future at risk. For Europe, last night's developments mean that the European Summit in December can almost be cancelled, at least when it comes to the discussion on the future of the Eurozone. In general, the last weeks have shown that Europe has lost another illusion: Germany is no longer the role model of political stability.

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