Germany's coalition options down to one after a long election night

Germany is heading towards another revival of the grand coalition as its political landscape grows increasingly fragmented

Chairman of Germany's Christian Democratic Union (CDU), Friedrich Merz

According to the preliminary official result from 1.30am this morning, Friedrich Merz's CDU and the Bavarian sister party, CSU, have won the German elections, getting 28.6% of the votes. The far-right AfD came in as the second largest party with 20.8%, followed by the SPD (16.4%), Greens (11.6%) and the Left Party (8.8%). The BSW missed some 13,000 votes to get into parliament, while the FDP is clearly out (4.6%). We wouldn't exclude some recounting of votes over the coming days, which could still change the result.

The 84% voter turnout was the highest since reunification. A few important observations: the three parties of the collapsed government coalition lost some 18 percentage points of their 2021 votes, with the SPD and the FDP suffering severe losses. At the same time, far-right and far-left parties gained almost 20ppt compared with 2021, reaching almost 30% of the total votes.

And there is more – despite winning the elections, Merz's CDU had the second weakest result ever, and the SPD had its worst result ever. The four parties of the political centre, CDU/CSU, SPD, Greens and FDP received almost 90% of the votes in 2002; today it was slightly more than 60%. The German political landscape has become more fragmented than ever.

Towards another revival of the grand coalition

In our first take on the election results, there were still three possible coaltions remotely likely. WIth the preliminary official result, this has come down to one: a revivial of the grand coalition between the CDU/CSU and SPD. Still, after its worst election result ever, the SPD will not easily move into a government coalition as junior partner to the CDU/CSU. The party is likely to now enter a new era of political leadership and another existential crisis. Also, any coalition agreement will probably have to pass a grassroots vote. Still, eventually the SPD will budge, as a grand coalition is the only feasible option for the CDU/CSU to form a government. The only other option would be a coalition with AfD; a scenario Friedrich Merz had strictly ruled out.

Last night, Merz announced that he would like to form a government before Easter. This should now be possible. Still, a lot of the success of the next government will depend on willingness from individual parties and leading politicians to leave personal and party interests behind and focus on getting the economy out of its structural stagnation. This would also imply leaving some political holy cows behind. This is a feasible scenario if the main motivation of such a coalition will be to prevent the AfD from winning the next election – a likely scenario if the next government doesn't succeed. In this regard, stricter immigration rules are a more likely outcome than agreement on economic policies.

In short, a revival of the grand coalition could bring tax cuts for households and corporates without cuts in social expenditures, as well as some deregulation. A reform of the pension system looks highly unlikely. The biggest challenge will be the financing of any new plans. Remember that the CDU/CSU had presented plans with a large funding gap during the campaign. However, we had always suspected the CDU/CSU would change its stance on the debt brake after the elections. With the Left and the Greens, there would now even be a 2/3 majority in parliament for outright changes to the debt brake. In any case, another grand coalition is likely to agree on investments in infrastructure and defence, either via a special purpose vehicle or changes to the debt brake. Germany could even open up for more European efforts to fund defence and infrastructure spendings.

All in all, an exciting election evening will lead to more excitement over the coming days and weeks. The longing of many Germans and Europeans for German political and economic stability will not end today. The more positive psychological effect of the change of political leadership could be quickly offset and dampened by complicated coalition negotiations. The risk is high that after election night, the longing for a significant overhaul of the German economy will persist; it's hard to see the next government being able to deliver much more for the economy than a short-lived positive impact from some tax cuts, small reforms and a bit more investment. That is, unless the next government has really read the sign of the times.

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