

## 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 coalitions](#) remotely likely. With the preliminary official result, this has come down to one: a revival 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.

### Author

#### **Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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](http://www.ing.com).