# German elections bring complicated coalition talks

## The conservative CDU wins the elections as Germany's political landscape becomes more fragmented than ever


Friedrich Merz's CDU party won the German election, however, forming a coalition is likely to be complicated

Friedrich Merz's CDU and the Bavarian sister party, CSU, have won the German elections, getting some 28% of the votes. The far-right AfD came in as the second largest party with some 20%, followed by the SPD (16%), Greens (12%), the Left Party (9%) and BSW (5%). At 9:00pm CET, the FDP had not made it into parliament with slightly less than the required 5% threshold. However, given how close it is, the final result could still shift the balance for BSW and FDP.

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 20 percentage points 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, the SPD had the 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.

## Complicated coalition negotiations ahead

The fragmentation of Germany's political landscape will make the upcoming coalition negotiations very complicated. Adding to these complications is the fact that during the election campaign CDU and CSU fired aggressive political attacks on the Greens, at times explicitly ruling out any coalition with the Greens. It is not necessarily the smartest move to rule out parties from the political centre in an ever-fragmented political landscape.

At the time of writing, it is still unclear whether the FDP and the BSW can still make it into parliament. While the BSW will clearly not be a candidate to join the next CDU-led government, the FDP would. An even more complicated situation would arise if the BSW makes it into parliament but the FDP doesn't. In this scenario, the CDU/CSU would need two coalition partners: SPD and Greens. A CDU kneeling before the Greens, new elections or a surprise move towards the AfD could then no longer be ruled out.

From where we are at 9:00pm CET, the CDU/CSU, SPD and Greens coalition is the only option for a CDU-led government. In case the BSW still drops out of parliament, another revival of the grand coalition of CDU/CSU and SPD would be the most likely government coalition. If the FDP still makes it into parliament, another three-party coalition of CDU/CSU, SPD and FDP would be possible. As much as Friedrich Merz tonight called for swift coalition negotiations as "the world was not waiting for Germany", his potential coalition partners might not be able to follow. While the FDP would clearly love to partner up with the CDU/CSU, the SPD will have more troubles. The party has recorded the worst result ever and 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. Between CDU/CSU and Greens, recent days had brought some significant atmospherical tensions and broken glass, making a cooperation more than only a challenge.

## Quick take on what potential coalitions would mean for the economy

No matter how the next government will look like, a lot will depend on the individual parties' and leading politicians' willingness 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 any such coalition will be to prevent the AfD from winning the next election – a likely scenario if the next government doesn't succeed. In this regards, stricter immigration rules are a more likely outcome than agreement on economic policies.

***CDU/CSU and SPD***

A revival of the grand coalition could bring tax cuts for households and corporates without cuts in social expenditures as well as some deregulation. Outright changes to the debt brake are unlikely but a special purpose vehicle for infrastructure and defence funding should be possible. Germany could even open up for more European efforts to fund defence and infrastructure spendings.

***CDU/CSU, SPD and Greens***

A very complicated coalition with a high likelihood of not surviving the full four-year term. Tax cuts for households and corporates without cuts in social expenditures as well as some deregulation should also be possible – as well as a special purpose vehicle for infrastructure and defence.

However, little agreement on energy policies could keep energy prices too high. For Europe, such a coalition could – with some delay – be the best possible outcome, opening the door to more European efforts to fund defence and infrastructure spendings.

### *CDU/CSU, SPD and FDP*

Same tax cuts as in the other two options with at least a promise to look into possible expenditure cuts. Less investment initiatives as the FDP would limit fiscal space. Interestingly, FDP leader Christian Lindner kept the door open tonight for special purpose vehicles. Fiscal room would probably be open for defence but not necessarily infrastructure investments. For Europe, such a coalition would bring a return of German fiscal frugality.

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 tonight. The positive more psychological effect of the change of political leadership could be quickly offset and dampened by complicated coalition negotiations. The risk is high that after tonight, the longing for a significant overhaul of the German economy will last much longer. It is hard to see that the next government will be 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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