

Germany: More turbulent political times ahead

The aftershocks of the European elections and regional votes in Bremen continue to affect German politics. Our tail risk of snap elections has increased



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Yesterday, Andrea Nahles announced her resignation as leader of the SPD. Nahles will also resign as leader of the SPD's parliamentary group and will even give up her seat in parliament. Nahles took on the leadership role after the difficult and – within the party grassroots – controversial decision to join another grand coalition with Angela Merkel's CDU last year. This followed a continued downward slide in the polls and regional elections, leading to the worst result for the party at the national level in last week's European election and losing its crown as the biggest party in Bremen for the first time since WW2. However, critical voices had been growing louder even before last week's elections and subsequent unrest in the party, with some members of the parliamentary group contesting Nahles's role as leader.

What to watch out for

There is a lot more that can be said about the SPD and German politics but for financial markets,

the following two trends are now probably the most important:

1. The SPD will now once again go through a cumbersome quest to find a new party leader. This will be about more than just a leader, it will be an almost existential search for answers about the party. Which direction will it take? How can it stop the continuous loss of popularity? Chances are increasing that the party will opt for an extreme break.
2. With the SPD's stay in government becoming more uncertain by the day, the CDU will accelerate its own leadership debate. The new party leader and initially designated successor to Angela Merkel, Annegret Kramp-Karrenbauer (AKK), has lost popularity and come under pressure within her own party for the suboptimal handling of a media outcry triggered by a YouTube vlogger. It has become much less certain that AKK will run as the CDU's candidate for chancellor in any future elections. Expect other more or less prominent politicians to also show ambition.

More turbulent times ahead

The German government hasn't only lost further electoral support since the 2017 elections, unrest in both coalition partners has also increased. Developments since the European elections have made the fall of the government before the 2021 elections more likely. With the recent successes of the Greens, any fall of the government would, in our view, lead to snap elections, not just a simple reshuffling of coalition partners. The Greens have become too strong to simply go into a government with the CDU as a small junior partner. According to the latest polls, the CDU and Greens could almost form a government of near equals.

The only upside to the latest developments is that Angela Merkel's position has actually strengthened. This is simply because she remains firm as a rock and is currently probably the only tower of stability for the government, both internationally and domestically. However, this stability will definitely be over by 2021 as Merkel never tires of emphasising that she will not run for another term in office, nor for any European job. In any case, watch this space. German politics has probably never been more exciting than it is now and there are more turbulent times ahead.

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