

## Germany: Political slip hazard

The result of the SPD leadership race will increase tensions within the German government



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On Saturday, the SPD announced the results of the grassroots vote on the party's leadership. The duo of the two more leftist critics of the coalition with Chancellor Merkel's CDU, Norbert Walter-Borjans and Saskia Esken, won the vote, beating Finance Minister Olaf Scholz and his duo partner, Klara Geywitz. The SPD party convention next weekend will officially vote the new party leaders, but it is highly unlikely that the member vote will not be followed.

Walter-Borjans and Esken campaigned during the last months, arguing for a shift of the SPD towards the political left and criticizing the party's role in the grand coalition. They do not propose an imminent withdrawal of the SPD from the grand coalition but want to renegotiate the coalition agreement, demanding changes on the recent climate package, a higher minimum wage and an end to the "Black Zero" to open the door for more investments. While such ideas are currently not really "leftish" proposals, as for example the employers' association has recently also called for more investments and a more flexible approach to fiscal policies. Once presented by the new SPD leaders such proposals could lead to new tensions in the government coalition. The CDU does not seem to be interested in opening any of these discussions. Therefore, it is the sheer attempt to renegotiate the coalition agreement and not so much the substance of any new proposals, which is worrisome. Also, don't forget that the SPD party convention could easily come up with additional

pressure to either increase the SPD's profile in the grand coalition or even a proposal to end the coalition.

In a first reaction to the SPD leadership vote, some senior CDU party members said that there wouldn't be any renegotiations. However, the next days up to the SPD party convention could be very lively. In our view, there are three possible scenarios after the SPD party convention:

1. Some minor concessions to the new SPD leaders from the CDU, stepping up investments and promising to look into ways to make fiscal policies more flexible
2. Failed talks within the government to accommodate the new SPD leaders
3. An outright withdrawal from the grand coalition before Christmas

In the first scenario, the current government would very likely continue until the officially scheduled next elections in 2021, while in the other two scenarios an end of the current government would materialize. In case the government would fall, Merkel's CDU could either continue as a minority government, find a new junior coalition partner (without new elections) or decide to go for new elections. Our base case scenario remains a continuation of the government until 2021, but the probabilities of the risk scenarios have clearly increased.

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