

Petropoulou Paraskevi  
 Senior Economist  
[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr)

Olga Kosma  
 Research Economist  
[okosma@eurobank.gr](mailto:okosma@eurobank.gr)

### Germany: Coalition talks come to a deadlock; what options are on the table

The three-party Jamaica coalition talks involving Angela Merkel's Conservative Christian democratic political alliance CDU/CSU, the liberal Free Democratic Party (FDP) and the Greens fell apart late on Sunday November 19 after the chairman of the FDP Christian Lindner unexpectedly pulled out of negotiations. Apparently, after four weeks of exploratory talks, the negotiators failed to reach a compromise on a number of key issues, including: (i) *immigration*. The CDU/CSU reportedly insisted on a 200,000 ceiling per year on immigrants while the Greens wanted unconditional permission for family members to follow refugees to Germany. As a compromise, the FDP proposed the option families to be allowed to follow a refugee once he was integrated in the German society and able to financially support them; (ii) *climate protection*. Among others, the FDP opposed a request by the Greens for closing down coal mining; and (iii) *fiscal policy*. The FDP reportedly insisted on eliminating the "solidarity tax". With coalition talks coming to a deadlock, Germany is now left with four possible options:

1. **Resumption of coalition talks.** The attitude of the chairman of the FDP does not necessarily mean that he favors new elections. Instead, his decision to pull out of negotiations may suggest an attempt to push for further advantages in the negotiations. Admittedly, in the absence of other options, it is possible the Greens and the CDU/CSU to make further concessions to get the FDP back to the negotiation table.
2. **Grand coalition between CDU/CSU and the Social Democratic party (SPD).** In an attempt for snap elections to be avoided, Federal President Frank-Walter Steinmeier —the former SPD foreign minister— will hold discussions with SPD party leader Martin Schulz on Wednesday November 22 to scope out whether there is any chance for another grand coalition. However, for the time being, the SPD sticks to its pledge to enter opposition in an attempt to rebuild its credibility after the party's popularity support dropped to 20.5% at the September 24th election, the worst post-World War II performance. In case the Federal President puts pressure on the SPD to participate in a grand coalition, the price the party could likely ask could reportedly be very high, e.g., requesting Angela Merkel to step down as Chancellor. However, in view of Angela Market's high popularity rate (nearly 60% in the ranking of preferred politicians ahead of the September elections), it is highly dubious whether the CDU/CSU would replace her without her will.
3. **Minority government** (uncharted territory for Germany). According to the Basic Law for the Federal Republic of Germany, the Chancellor is nominated by the Federal President and is elected by an absolute majority in the 709-seat Bundestag (called the "chancellor majority"). If the nominee for Chancellor falls short of the required threshold, the Bundestag has 14 days to vote again and elect either the same nominee or someone else who is not necessarily member of the Bundestag. If this deadline passes and the Bundestag does not elect a candidate with an absolute majority, the Bundestag holds another vote soon after and the person with the most votes is declared the winner. However, if the winner ends up with less than an absolute majority (e.g. the "chancellor majority"), it is up to the Federal President to decide within seven days whether to appoint the winner as Chancellor or to dissolve the Bundestag within three weeks and new elections to take place. That said, the Federal President will play a crucial role in the coming sessions, i.e. whether he will force the formation of a minority government or call early elections. The German Constitution does not specify a deadline for the election of a Chancellor.

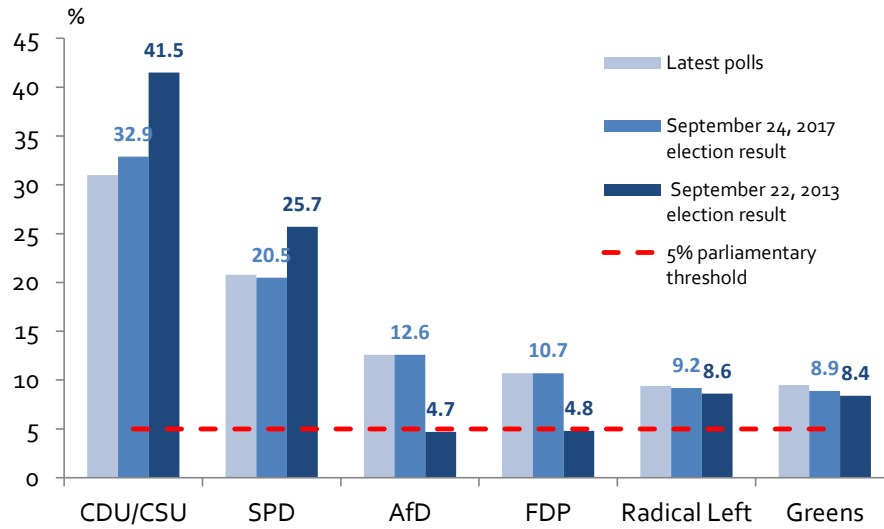
#### DISCLAIMER

This document has been issued by Eurobank Ergasias S.A. (Eurobank) and may not be reproduced in any manner. The information provided has been obtained from sources believed to be reliable but has not been verified by Eurobank and the opinions expressed are exclusively of their author. This information does not constitute an investment advice or any other advice or an offer to buy or sell or a solicitation of an offer to buy or sell or an offer or a solicitation to execute transactions on the financial instruments mentioned. The investments discussed may be unsuitable for investors, depending on their specific investment objectives, their needs, their investment experience and financial position. No representation or warranty (express or implied) is made as to the accuracy, completeness, correctness, timeliness or fairness of the information or opinions, all of which are subject to change without notice. No responsibility or liability, whatsoever or howsoever arising, is accepted in relation to the contents thereof by Eurobank or any of its directors, officers and employees.

However, from an economic perspective, the lack of democratic legitimacy makes it unlikely that important legislative initiatives could be undertaken under a minority government. This holds especially as Germany has to address a number of key issues in the period ahead including the migration policy, euro area reform and the Brexit process. The most likely minority government options are: (i) CDU/CSU-Greens with 42 seats short of majority; (ii) CDU/CSU-FDP with 29 seats short of majority; and (iii) CDU/CSU with 109 seats short of majority.

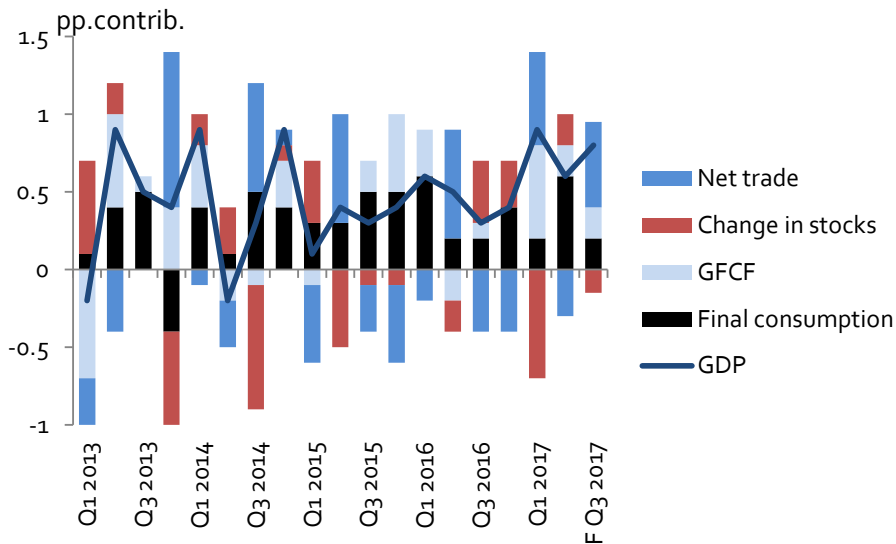
4. **New elections.** In case the Federal President calls early elections, these have to be held within 60 days of the dissolution of the Bundestag. That said, late January/early February 2018 would be the earliest possible date for snap elections while the exact date depends on how quickly the Federal President proceeds in the coming days towards proposing a candidate for Chancellor to the Bundestag. According to recent opinion surveys, the outcome of any new election would not be much different from that of the September 24th election and, therefore, it is unlikely to offer a way out of the current political impasse (Figure 1). In a televised statement earlier today following a meeting with Angela Merkel, the Federal President appeared to rule out snap elections, at least for the time being, emphasizing instead the obligation of all parties in the Bundestag, including the SPD, to help form a working majority in the foreseeable future for the good of the German nation.
- **Market reaction.** So far, markets have been little affected by increased political uncertainty in Germany presumably on the view that an agreement will likely be reached in the coming sessions, avoiding the need for repeated elections. In addition to the above, despite the collapse of coalition talks, there is no political vacuum in Germany as Angela Merkel and her cabinet hold office as an executive Chancellor and executive ministers while the executive government does not have to resign at a certain date. In FX markets, the EUR/USD retreated from last week's 1.1860 peak to a multi-session low of 1.1712 earlier today (Tuesday, November 21). However, in spite of its down move, the pair remained well above 1.1550 recent low (Nov. 7) on the view that the political deadlock in Germany is unlikely to deter the positive outlook of the euro area's biggest economy as evidenced in recent data showing a higher than expected 0.8%QoQ growth rate for Q3 2017 (Figure 2). With a very light data calendar in the coming sessions, focus will remain on Germany and, unless early elections are called, the EUR/USD does not seem poised for further significant losses in the coming sessions. This holds especially as market uncertainty about the prospects of the US tax reform lingers while investors continue to question the Fed's ability to push interest rates much higher in the months ahead on the back of persistently subdued inflation pressures.

Figure 1 - September 24, 2017 & September 22, 2013 federal election results vs. latest polls



Source: Wiki, Bloomberg, ARD, ZDF, Infratest Dimap, Eurobank Economic Research

Figure 2 - Strong growth momentum in Q3 German GDP, supported by foreign trade



Source: Bloomberg, German Federal Statistical Office, Eurobank Economic Research

## Eurobank Economic Analysis and Financial Markets Research

**Dr. Platon Monokroussos:** *Group Chief Economist*  
pmonokroussos@eurobank.gr, + 30 210 37 18 903

**Dr. Tassos Anastasatos:** *Deputy Chief Economist*  
tanastasatos@eurobank.gr, + 30 210 33 71 178

### Research Team

**Anna Dimitriadou:** *Economic Analyst*  
andimitriadou@eurobank.gr, + 30 210 37 18 793

**Ioannis Gkionis:** *Senior Economist*  
igkionis@eurobank.gr + 30 210 33 71 225

**Stylianos Gogos:** *Economic Analyst*  
sgogos@eurobank.gr + 30 210 33 71 226

**Olga Kosma:** *Research Economist*  
okosma@eurobank.gr + 30 210 33 71 227

**Marianna Papoutsaki**  
mpapoutsaki@eurobank.gr + 30 210 33 71 224

**Paraskevi Petropoulou:** *Senior Economist*  
ppetropoulou@eurobank.gr, + 30 210 37 18 991

**Galatia Phoka:** *Research Economist*  
gphoka@eurobank.gr, + 30 210 37 18 922

**Theodoros Stamatiou:** *Senior Economist*  
tstamatiou@eurobank.gr, + 30 210 33 71 228

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: [EurobankGlobalMarketsResearch@eurobank.gr](mailto:EurobankGlobalMarketsResearch@eurobank.gr)

## Eurobank Economic Analysis and Financial Markets Research

More research editions available at <http://www.eurobank.gr/research>

- **Daily Overview of Global markets & the SEE Region:** Daily overview of key macro & market developments in Greece, regional economies & global markets
- **Greece Macro Monitor:** Periodic publication on the latest economic & market developments in Greece
- **Regional Economics & Market Strategy Monthly:** Monthly edition on economic & market developments in the region
- **Global Economy & Markets Monthly:** Monthly review of the international economy and financial markets

Subscribe electronically at <http://www.eurobank.gr/research>

Follow us on twitter: <http://twitter.com/Eurobank>

