

# A BITTER VICTORY FOR MERKEL IN GERMANY

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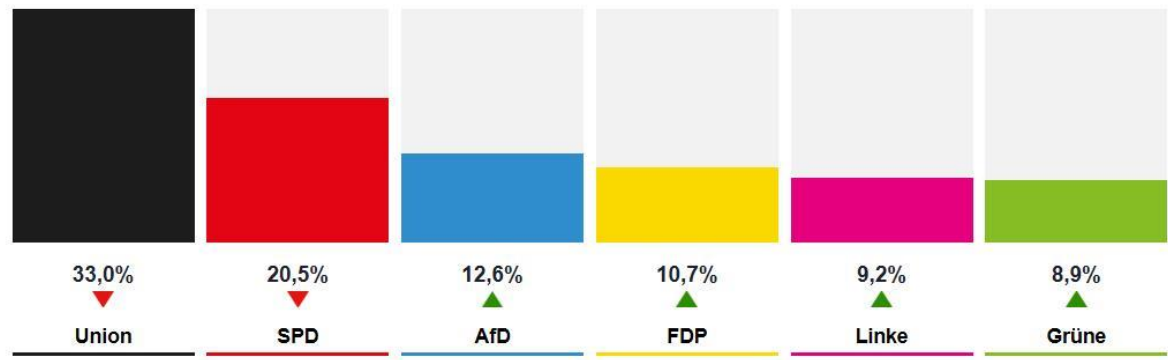
Chancellor Merkel set to form new government with new partners after both government parties suffered major defeat

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Angela Merkel has won a bitter victory in Germany's general election. On the one hand, her Christian Democrats, expectedly, gained the biggest share of votes by far. On the other hand, the Christian Democrats, unexpectedly, only won 33 per cent of the vote, which is their worst result since 1949, and stands at more than 8 points below the last elections in 2013. In other words: The Chancellor has won the election, but she has lost trust as well. It's something she will have to take into account as she heads into her fourth term in office.

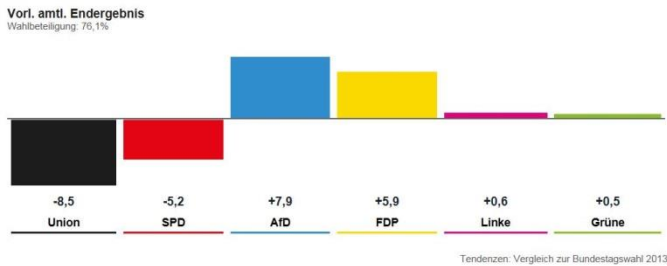
Vorl. amtl. Endergebnis  
 Wahlbeteiligung: 76,1%



Source: dpa.infocom

## A Bitter Victory for Merkel

Looking at the numbers, only two options remain for her to form a new majority: One, a repeat of the grand coalition with the Social Democrats of the SPD, and two, a rather experimental alliance between the Christian Democrats, the re-born Liberals of the FDP, and the Green Party.



Source: dpa.infocom

Politically speaking, option One falls through, unfortunately for Merkel: The Social Democrats, finding themselves confronted with their own worst result ever, at 20.5 per cent, immediately made clear they wouldn't be ready to partner with Merkel again, as voters, in their understanding, had voted the grand coalition out of office. They will now seek renewal as leaders of the opposition in Germany's new 6-party Bundestag. This means Merkel will have to bring together new partners who will not be easy to manage. Outside her Christian Democrats, that'll be the Liberals of the FDP, back in parliament with a triumphant result of 10.7 per cent, and the Green Party, who performed better than expected and landed at 8.9 per cent, marginally better than in 2013. Downsides of this prospect are: Both parties lack government experience in recent years, both have been at odds with each other for decades, and both will have to learn to overcome their differences in order to form part of a successful government. But the upside is that both Liberals and Greens can pride themselves as winners of this election, which creates a sense of togetherness and willingness to cooperate which wouldn't be possible had the Greens fallen significantly below their 2013 result, as the pollsters had predicted.

But there's more trouble for Merkel closer to home: Inside her own Christian Democratic family, the world is in turmoil, with the Bavarian sister party CSU bringing in even bigger losses than the CDU itself had to endure. This is an unusual situation creating serious tensions within Merkel's party at the start of the new term, and the job of bringing this under control will not be an easy one indeed.

Add to that the fact that from now on, the xenophobic populist AfD party will be given presence and voice in the

German parliament, with a share of 12.6 per cent of the vote. It's mostly disillusioned former Christian Democratic voters and abstainers who brought about this result, and it's already clear that the AfD appearance will bring a new tone of rude aggressiveness to the German parliament.

The AfD success is obviously a direct consequence of Merkel's decision to open up the German borders to refugees in 2015. The debate on this will continue, and Merkel's challenge will be two-fold: The Chancellor will have to improve on explaining her immigration policy in order to roll-back the AfD, and she will have to do a lot of fine-balancing to form a new government. If she succeeds on both counts, Germany will continue to be a haven of stability in the next four years.

## What does it mean for the EU?

Those looking for answers as to what the election will mean for EU policy and politics will have to wait a little longer.

The new German Government's approach to a variety of important EU issues will be subject to the coalition negotiations. What stance the German government adopts in Brussels will be determined both by policy programme of the coalition, but also by which party gains control of which ministry.

The CDU will, despite heavy losses, still be by far the strongest party and therefore ensure a degree of stability and continuity in EU policy making.

However, while both junior parties stand fully behind a strong EU, they differ fundamentally in several important EU issues, such as on trade, energy and climate change, as well as the future of the Eurozone. Some of those issues lie at the core of the two parties' identities and consequently they will fight tooth and nail to not weaken their profile and disappoint their supporter base.

Given that the two potential junior coalition partners have opposing policy stances on several EU issues, this could become a highly politicised aspect during the long talks.

Which political party takes over which Ministry is also important for the substance of policy development. For example the question whether the FDP gets the Finance Ministry and the Greens the Environment Ministry would be highly relevant for several priorities that are currently discussed among EU institutions such as the glyphosate ban and the support for renewables

Below we provide an overview of some issues at EU level for which the direction of the German Government will be critical.

## EU issues to watch

### EU integration and Eurozone reform

- Re-establishing the French German engine
- Reforming the Eurozone i.e. Euro finance minister and Euro budget
- European Monetary Fund
- Position towards Greece

### Energy, Climate and Environment

- The future of coal - support for the 550 limit for the capacity mechanism in the Energy Market Design Legislation
- Support for renewables - targets and priority dispatch for renewables
- Nord-Stream II
- Phase out of biofuels in the Renewables Directive
- Diesel bans in cities and a mandate for electric vehicles
- Glyphosate ban and opposition towards endocrine disruptors and new breeding techniques

### External Policy

- Relationship with Turkey / accession talks
- USA as continued strategic partner?
- Relationship with Russia
- Establishment of joint European defence and security policy
- Immigration

### Digital Single Market

- Copyright reform - balance between ensuring competitiveness and unrestricted access to information and works
- Digital taxation – how to adjust tax rules with new business models
- Online platforms - role and responsibilities of business in relation to platforms
- Privacy - control of citizens have over their data and possibilities for companies to develop innovative solutions in Europe
- Big Data – adjusting current rules to allow Europe to become competitive

### Trade

- Level of support for trade deals, e.g CETA and investor protection
- Support for trade defence instruments

### Financial Services

- Where to go with the banking union & Eurozone deposit protection scheme?
- European finance minister
- Weakening or strengthening European supervision of financial markets
- Move of European Supervisory Authorities
- Market access in times of Brexit (pass porting & clearing)

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