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Economic Briefing

German ruling coalition breaks up – what next?

Following the withdrawal of the Liberals (FDP) from the German governing coalition, the Social Democrats (SPD) and Greens want to continue governing without an own parliamentary majority for the time being. However, snap elections are to be called in mid-January, which will probably take place in March. According to current polls, a coalition of the Christian Democratic CDU/CSU and SPD would be the most likely outcome.

After the break-up of the ruling coalition ...

Yesterday evening, Chancellor Scholz dismissed Finance Minister Lindner, who is also chairman of the liberal FDP, due to major differences of opinion on economic policy. The other FDP ministers resigned, ending the governing coalition of SPD, Greens and FDP. Now, Chancellor Scholz no longer has a majority in the lower house of parliament (Bundestag). Nevertheless, Scholz and the ministers from the SPD and the Greens will remain in office for the time being.

... probably a minority government consisting of SPD and Greens for the time being ...

Chancellor Scholz announced yesterday that he wants to continue with this minority government for the time being. The opposition cannot prevent the SPD and the Greens from doing so. This is because the opposition can only topple the Chancellor by electing a new Chancellor with a majority of the members of the Bundestag (so-called Chancellor majority) – currently this would be 367 votes out of a total of 733 seats (so-called constructive vote of no confidence). However, this will not happen as the CDU/CSU, even together with the FDP, does not have the necessary majority (Chart 1). They are unlikely to get any support from the SPD and the Greens, and they certainly do not want to rely on the support of left and right wing parties.

7 November 2024

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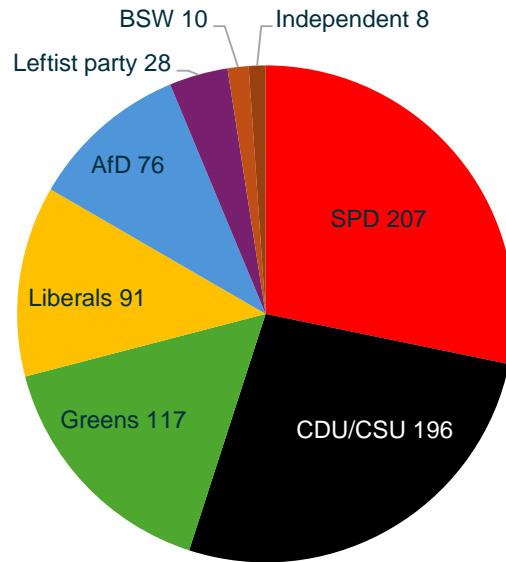
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Chart 1 - No alternative majority in current Bundestag

Distribution of seats in the German Bundestag, as of November 7, 2024



Source: Deutscher Bundestag, Commerzbank Research

A minority government should ensure that some of the laws prepared by the previous government are still passed by the Bundestag. Mr. Scholz mentioned, among other things, the reform of the income tax to compensate for so-called cold progression or the laws on EU border security. In order to obtain the necessary majority in the Bundestag for these laws, he apparently wants to approach the opposition parties CDU/CSU.

... and then snap elections, ...

On January 15, Mr. Scholz wants to call a vote of confidence in the Bundestag. If he does not receive the support of the majority of members of the Bundestag, which is to be expected, he can propose that the Federal President dissolves the parliament. The President is likely to do so. The Bundestag is then likely to be re-elected in March.

... which could be followed by a difficult formation of a government

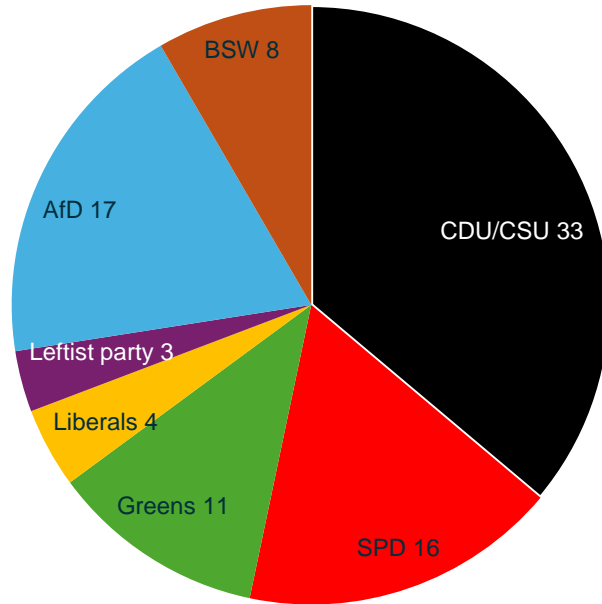
According to current polls, the CDU/CSU and SPD could form a government together after such an election, which would have a majority of MPs behind it. This would also apply if the FDP and the Left Party were to re-enter the Bundestag, which is currently at least questionable (Chart 2).

However, the last federal election in the fall of 2021 showed how much the mood can change in the three months until a possible new election. If three or – since the CSU is also an independent party – strictly speaking four parties are needed for a majority, forming a government would once again be a very protracted process.



Chart 2 - CDU/CSU and SPD with majority in a new Bundestag according to current polls

Share of votes in the next Bundestag election, average of the projections of 8 institutes, in percent, percentages missing from 100 are attributable to “other parties”



Source: wahlrecht.de, Commerzbank Research



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This report was completed 7/11/2024 06:37 CET and disseminated 7/11/2024 06:37 CET.

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