Germany: Another European Election Is Behind Us

After the 2016 surprises from Brexit and Donald Trump’s election, the many elections looming in Europe for 2017 had the potential to create a lot of uncertainty in the global economic situation. March’s general election in the Netherlands and the French presidential and legislative elections lowered the tension. Initially not expected, the June 8 general election in the United Kingdom did not, however, clarify Britain’s political situation.

In Germany, after a relatively easy election campaign, the gamble paid off with the re-election of Chancellor Angela Merkel. The results are a little bitter, however. Angela Merkel’s party (CDU/CSU) took about 33% of the vote, much less than it did in previous elections. Its main coalition partner (SPD) also lost votes and signalled that it would not form part of the new government. AfD, the far-right anti-immigration and anti-Europe party will make its entrance in Germany’s parliament. Angela Merkel and her party will probably have to form a government with the help of FDP (liberal) and the Green Party. Due to the colours associated with these parties (black, yellow and green), the potential coalition has been nicknamed “Jamaica” given the country’s flag.

Germany’s economic situation remains enviable. Angela Merkel’s government has generated a budget surplus since 2004. Its unemployment rate is the lowest in the euro zone, at just 3.7% in August. Annualized real GDP growth hit 2.7% in the first half of 2017, the best performance since 2013, and much faster than growth potential, which the European Commission puts at 1.7%.

However, there are some structural weaknesses. Demographic ageing is a heavy drag on Germany’s potential. It is being partially offset by faster immigration (Angela Merkel’s immigration policy came under fire). There are also steep cleavages among the regions, and economic opportunity remains in short supply in the former East Germany. Germany also has to deal with income disparities, although they are not as great as in most of the other leading economies. Even though the economy is doing well overall, these factors contributed to the two major parties’ loss of popularity, and the rise of the far-right party.

**IMPLICATIONS**

At first glance, Angela Merkel’s re-election is good news for those who believe in better economic integration in Europe. In some ways, the Chancellor’s ideas are similar to those of France’s new president. However, one of the likely partners in Germany’s new coalition government, FDP, is less inclined to give more support to European ties. During the campaign, it criticized financial support to countries that are struggling, like Greece. The Greens and Angela Merkel’s party are more united on this subject. The two parties were also fairly favourable to better fiscal and budgetary integration, and the creation of a pan-European finance minister’s position. At varying levels, the members of the potential new coalition might agree better on the issue of new infrastructure investment and potential tax cuts. These elements could favour the economy, which is already growing well in Germany.

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