



## Angela Merkel win fourth term as German Chancellor, positive for the EU

### Event

- The results of German elections in the evening of September 24th (local time) saw the electoral victory of Christian Democratic Union (CDU) and Christian Social Union in Bavaria (CSU) of German Chancellor Angela Merkel. The combined votes of the two parties finished first at 32.8%, while Social Democratic Party (SPD), the major contending party of pro-EU Martin Schulz, finished second with 20.4% of the votes. The election results are in line with the market's expectations and with the pre-election polls. The results also suggest that a large number of Germans are still in support of Merkel as the leader of Germany and EU, despite the anti-immigration sentiments of the past two to three years that had led to the lowest level of the popularity of CDU and CSU in 70 years. Although CDU and CSU did not win the majority of the seats in the parliament, it is likely that Angela Merkel will form a coalition and thereafter assume the position of the Chancellor in the next four years.
- The anti-immigration, anti-EU party Alternative for Germany (AfD) finished third, totaling 13% of the votes. Their popularity rose markedly as they only manage to win 1.9%<sup>1</sup> of the votes in the 2013 election. Moreover, this is the first time since the Second World War that a far-right party gains seats in the German parliament.

### Analysis

- **Merkel's victory reinforces investor confidence** as reflected in the strengthening of the Euro and the yield gap between 10-year US and German bonds, which had been declining since the French presidential election (Figures 1 and 2). The market response after the election results did not fluctuate much, and in fact even positively responded as the two front-running parties are pro-EU. Moreover, the votes of anti-EU AfD did not exceed the pre-election polls by a lot.
- **In cooperation with France, Merkel sets out to reform the EU.** The phenomena of Brexit and anti-EU movements in the recent years have brought to the attention of France and Germany, two main EU pillars, the need to reform the EU and to prevent similar cases of Brexit. The positive turnouts of the German elections will work in favor of France, Germany, and other EU countries in their endeavor to reform the EU. The reform will importantly help strengthen the EU's security and prosperity in the long run. The French president Emmanuel Macron revealed for the first time his preliminary EU reform

<sup>1</sup> In the 2013 election, AfD did not gain seats in the parliament since their votes were below 5%.

plan on September 26, 2017. The plan consists of many EU policy sectors including economic growth, security, anti-terrorism, immigration, and social and cultural harmony among the EU members.

- **However, the electoral victory of the pro-EU French and German leaders will add strain to Brexit negotiation.** Angela Merkel and Emmanuel Macron share the stance towards Brexit, which is to promote reform and strengthen the EU. Therefore, any Brexit negotiation will be stringent as 'Free Brexit' will not be an option, since it may set a precedent for other EU members that may follow suit. Moreover, the Single Market principle is non-negotiable ('Nothing but the Single Market')<sup>2</sup>. Therefore, if the UK seeks to regain its control over immigration, the only Brexit option is a Hard Brexit, which is to leave the Single Market altogether. At the same time, the UK Prime Minister Theresa May faces obstacles at home in domestic politics. The UK General Elections in June left May with a hung parliament as her Conservative Party failed to command the majority of the votes. The newly formed Coalition proves an obstacle as it delays the bill passing process as well as Brexit negotiation. Moreover, the Coalition has a preference for Soft Brexit, which is to maintain UK's status in the EU's Single Market. Pressures from both the EU and domestic politics will prove difficult and lengthy for May's Brexit Negotiation. In the worst case scenario, the UK may be forced to leave the UK with 'No Deal'<sup>3</sup> if the two parties fail to reach an agreement by March 2019

## Implication

- **The expected turnout of German election will help reinforce confidence and promote growth in the EU economy in 2017.** Angela Merkel's victory supports a positive outlook towards the EU, lessening concerns over anti-establishment sentiment in Europe's largest economy. Moreover, this will ensure that the momentum of EU reform will be carried forward. In this regard, EIC believes that these factors will contribute positively to the Eurozone economy, hiking its growth to 1.9% in 2017 from 1.7% in 2016. This will also have positive impact on Thai exports to the EU, the market that accounts for 12% of Thailand's exports. Major Thai exports to the EU include computers and parts, auto and parts, and jewelries.
- **EU reform will determine the EU's future.** The major risk for the Eurozone economy in 2017 is the general elections of the major member countries, including Germany, France, the Netherlands, and the UK amidst the escalating popularity of anti-EU political parties and anti-establishment sentiment around the world. However, the election results have proved that the majority of voters remain hopeful in the prospects of the EU, entrusting the pro-EU

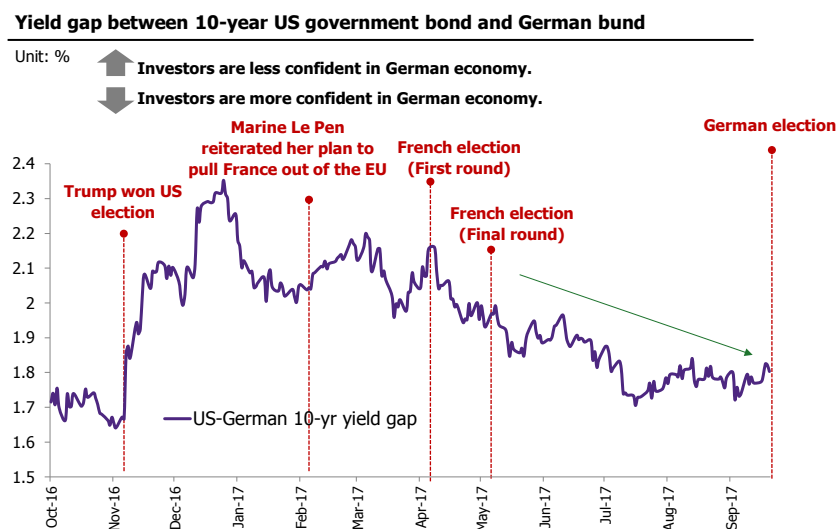
<sup>2</sup> The Single Market principle is based on free movement of goods, services, capital, and people.

<sup>3</sup> If the two parties fail to reach an agreement by March 2019, trade relations between the UK and EU will be determined by WTO terms.

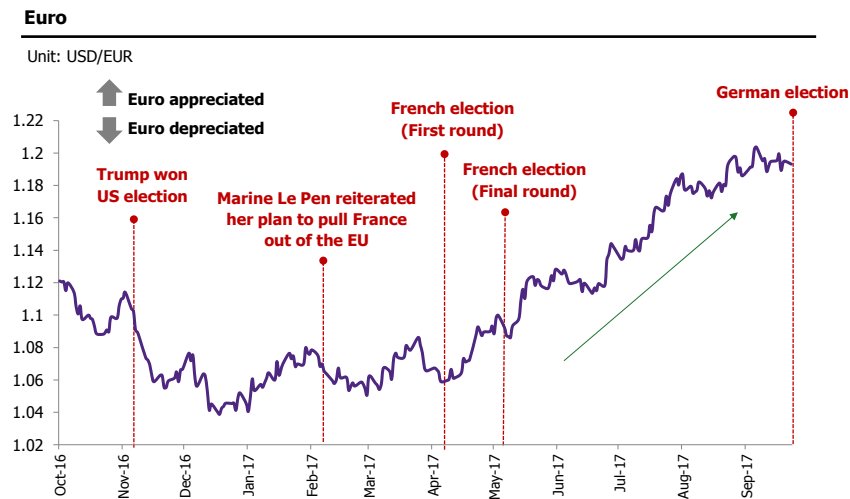
leaders the control of their parliaments in the next four years. However, these next four years will prove challenging for the pro-EU leaders. If they manage to restore popular confidence, it will help improve the security of the Union. Or else, in the event of reform failure or social disruptions, e.g. immigration problems or Greece's debt crisis, the future of EU and its common currency will be at serious risk.

- **On the Watch: Italy's election of 2018.** Apart from Brexit, another political risk for the EU is Italy's election that will take place in May 2018. The pre-election polls in September suggest that the anti-EU party of 5-Star Movement (M5S) is leading in popularity at 27.6%, while the popularity of the party PD of the former Prime Minister Matteo Renzi has dropped to 26.8%<sup>4</sup>. Italy's chronic economic stagnation, particularly in the banking sector, has boosted the popularity of M5S. If M5S manages to win the majority of the votes and form an administration, a Brexit-like referendum to leave the EU is likely.

Figure 1 and 2: Increasing investor confidence in the Eurozone and German economy since the final round of French presidential election

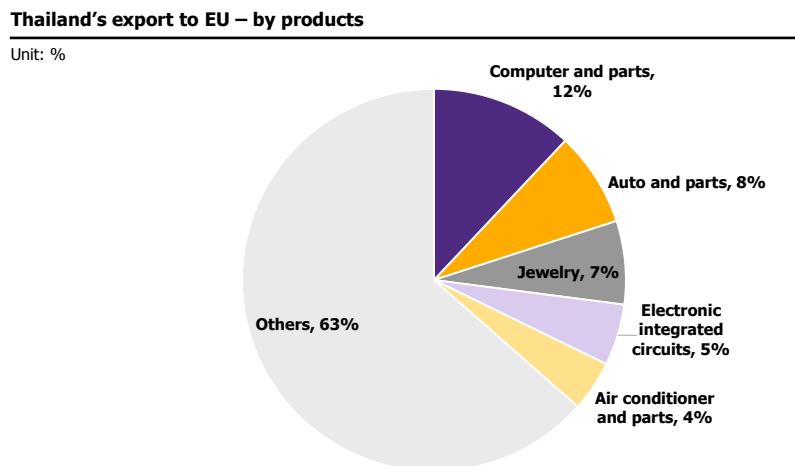


<sup>4</sup> According to Wikipedia.



Source: EIC analysis based on data from Bloomberg

Figure 3: computers, computer parts, automobiles and auto parts as Thailand's main exports to the EU and the UK



Source: EIC analysis based on data from Ministry of Commerce

By : Pimnipa Boosang([pimnipa.boosang@scb.co.th](mailto:pimnipa.boosang@scb.co.th))  
 Economic Intelligence Center (EIC)  
 Siam Commercial Bank Public Company Limited  
 EIC Online: [www.sceic.com](http://www.sceic.com)