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German state elections – implications for Mr. Merz and his reforms

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Sunday's state elections in Berlin and Mecklenburg-Western Pomerania have strengthened the fringes of the political spectrum. Chancellor Merz's power base has continued to shrink, although his removal is considered unlikely. It is increasingly doubtful whether the government will implement its reforms as already agreed upon.

Strengthening of the political spectrum's right and left fringe

The state elections in Berlin and Mecklenburg-Western Pomerania have strengthened the left and right fringes of the political spectrum. The right wing AfD made massive gains in both states and became the strongest party in Mecklenburg-Western Pomerania with 38.2% of the vote (Chart 1). In Berlin, the Left Party attracted the largest share of votes with 25.7% (Chart 2). By contrast, the parties governing at the federal level suffered heavy losses. For the first time in its history, the Christian Democratic CDU in Mecklenburg-Western Pomerania is no longer represented in a state parliament as it failed to clear the 5% hurdle. The Social Democratic SPD also lost significant support in both federal states.

State governments: Left Party in, AfD kept out

As far as governing coalitions are concerned, Berlin is likely to see a red-red-green coalition (a combination of the Left Party, the SPD and the Greens) led by the Left Party. In Mecklenburg-Western Pomerania, these parties also achieved an absolute majority of parliamentary seats. Despite heavy losses, the SPD is likely to continue to provide the state prime minister. The election winner AfD will not lead a government because all other parties refuse to cooperate with it ("firewall").

Merz's power base has shrunk, but he carries on

The election outcome is disastrous for Chancellor Friedrich Merz's CDU. The party will no longer hold the office of Governing Mayor in Berlin, and in Mecklenburg-Western Pomerania it has, after dropping out of the state parliament, been reduced to a mere shadow of its former self.

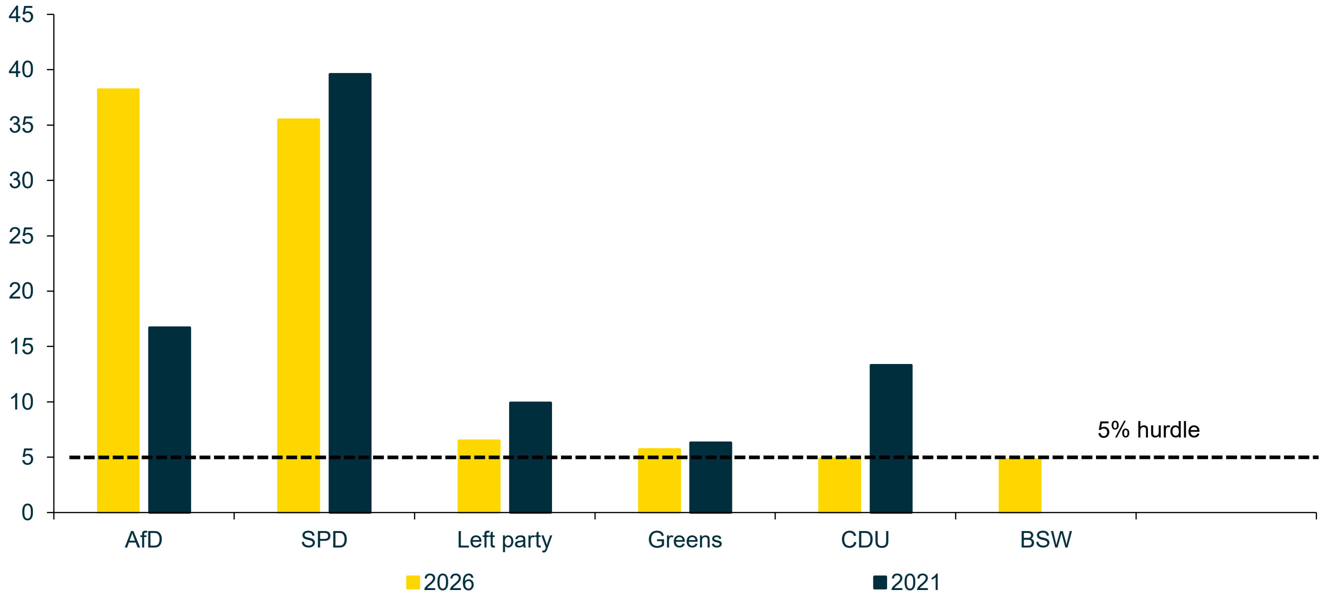
Ultimately, the CDU has been losing credibility among conservative voters for years. This erosion process began when then-Chancellor Angela Merkel dismantled the party's conservative profile and continued in the coalition with the SPD, which blocked the change of course promised by Chancellor Merz ("The left is over"). Any other CDU chancellor would, however, face the same problem, which is why the CDU is likely to stick with Friedrich Merz for the foreseeable future.

Questionable whether social reforms will be implemented as decided

The Social Democratic state prime minister Manuela Schwesig was able to limit her party's losses in Mecklenburg-Western Pomerania not only because of her popularity, but also because she campaigned against the federal government's planned social reforms. This, together with Chancellor Merz's shrunken power base, increases the headwinds facing these reforms. It is increasingly doubtful whether the government will implement them in the form already agreed, even though Chancellor Merz emphatically called for this on election night.

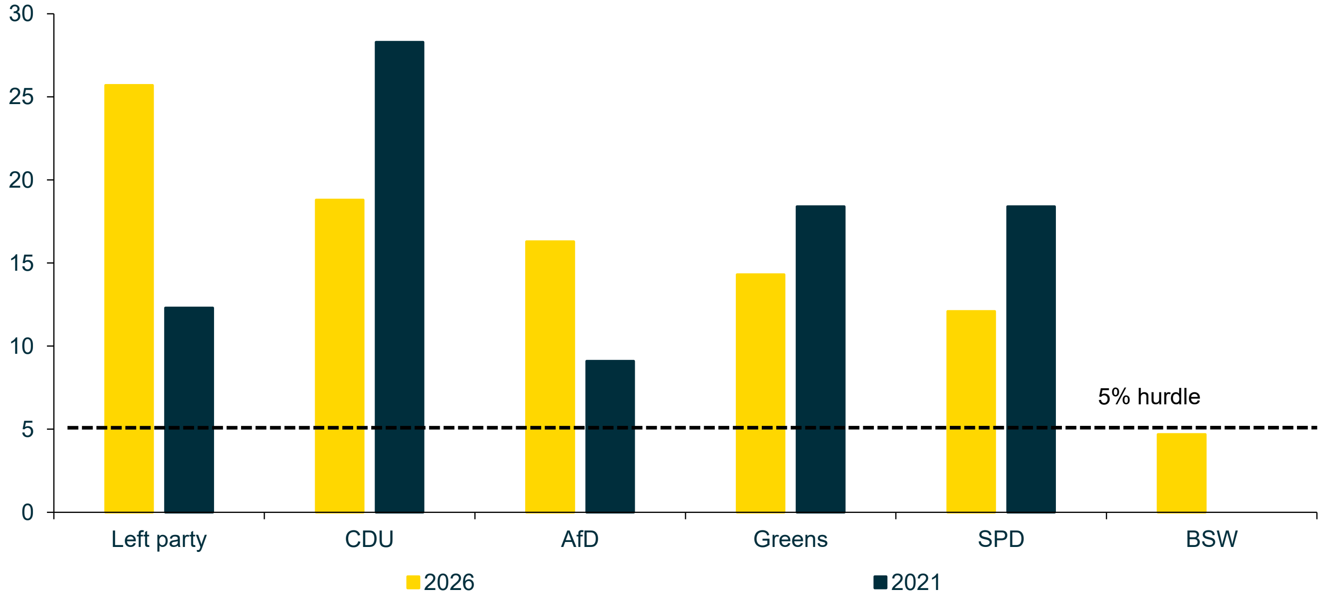
In the other policy areas that are more important for Germany's competitiveness (cutting red tape, energy, speeding up planning processes, taxes, etc.), no far-reaching reforms are planned across the board anyway, because the coalition partners are in large parts divided on economic policy. This weighs on corporate investment and prevents a recovery worthy of the name.

Chart 1 - AfD won state election in Mecklenburg-Western Pomerania, CDU below 5%-hurdle
Share of votes in the 2021 and 2026 state elections in Mecklenburg-Western Pomerania, in percent, preliminary official final results



Source: ARD, Commerzbank Research

Chart 2 - Left party won election in Berlin, severe losses for CDU and SPD
Share of votes in the Berlin state election, in percent, preliminary final results



Source: Spiegel, Commerzbank Research

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