



## Problems in Berlin

**What has happened?** This morning's election of CDU leader Friedrich Merz as German Chancellor was widely expected to be a formality. However, in a highly surprising turn of events, Merz did not achieve an absolute majority in the Bundestag's first-round vote. Only 310 of 630 members of parliament voted for Merz, short of the required absolute majority of 316 votes. Given the secret ballot, there is no clarity as to which party is (more) responsible for the failed vote. There had been no indications of a "revolt" today. Our base case is that this morning's vote failed because of a group of parliamentarians in one (or both) of the parties using the vote to express frustration with their leadership. There are no indications, however, that there is real appetite in either party for making the coalition fail.

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**What will happen now?** There will now be a period of 14 days during which the Bundestag can coalesce around Merz (or someone else) as the new Chancellor. As just confirmed <sup>1</sup>, Friedrich Merz will run again for office in a second vote and can still be elected Chancellor. There is no limit to the number of ballots that can take place within this period. An absolute majority is still required. According to media reports, the second ballot is set to take place on Friday, though it could yet be brought forward to tomorrow (if two-thirds of parliament agree on this) or even today. If this second phase does not result in an absolute majority after 14 days, the Bundestag must immediately hold another vote in a third phase. The candidate who receives the most votes is then elected, though if that person still lacked an absolute majority, the German President would have to decide within 7 days whether to appoint this person the new Chancellor or to call a snap election. The bottom line: if Merz cannot secure an absolute majority by 20 May, Merz could still be elected with a simple majority and be appointed by the German President or Germany will be heading towards early elections (see chart below).

**What does this mean structurally for the coalition?** Even if Merz secured an absolute majority in a second-round ballot, which is our strong base case, today's events have already done significant damage to the credibility of the prospective government coalition. There is no precedent in the Federal Republic's history of a first-round vote failing to result in an absolute majority. The concern is that the prospective government could find itself at the mercy of a small number of MPs, despite the coalition ostensibly enjoying a comfortable majority. This morning's vote is thus a negative signal in terms of a prospective Merz government being able

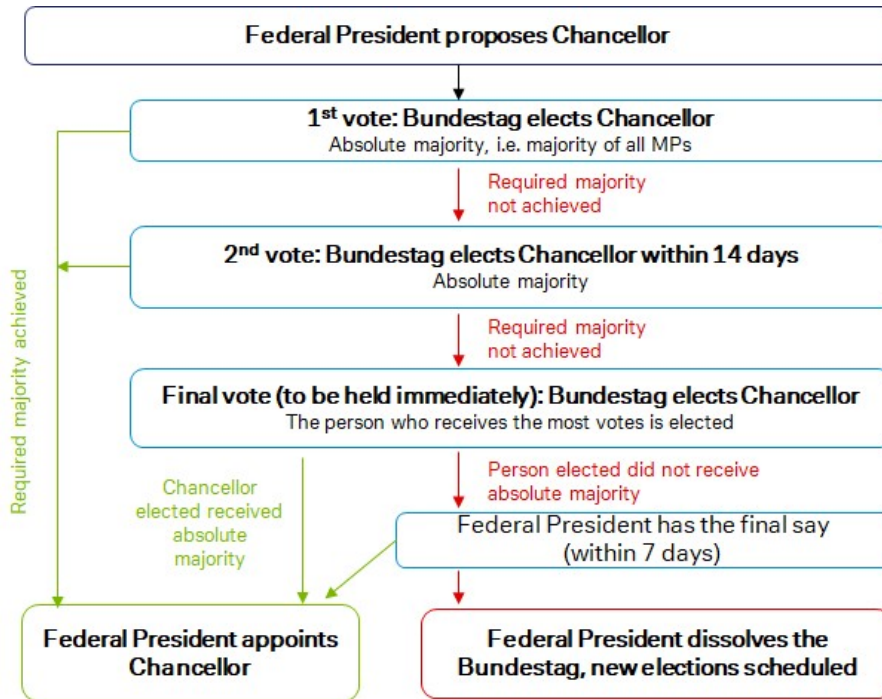
<sup>1</sup> according to Jens Spahn in the welt.de livestream



to govern effectively in the next four years.

**What are the policy implications?** In light of this morning's events, political uncertainty could remain higher than previously assumed, as the coalition's policy agenda could be trickier and slower to be implemented. This uncertainty would pertain more to certain structural reforms than to the planned fiscal expansion, in our view. Assuming that the dissent this morning came mostly from the SPD's left wing, this would not at face value jeopardize the planned fiscal reforms, especially the infrastructure investment plans. That said, if there were to be frictions within the coalition over the planned reforms to migration or social policy, this could also make it harder for CDU/CSU leadership to maintain party discipline on greater debt-funded spending.

Figure 1: What happens if a Chancellor candidate is rejected in the first ballot?



Source : Bundesregierung, Deutsche Bank

6 May 2025  
Germany Blog



# Appendix 1

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6 May 2025  
Germany Blog



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6 May 2025  
Germany Blog



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