

## ***Narrow victory by ruling party in German election could stall deepening EU integration***

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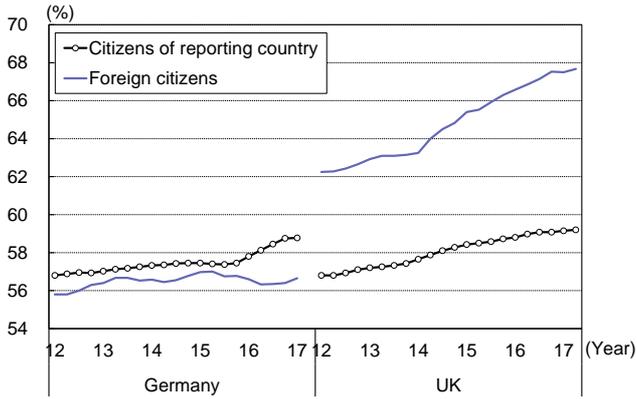
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On 24<sup>th</sup> September, in the German federal election, the Christian Democratic Union (CDU), headed by Angela Merkel, received 26.8% of the vote and shared 246 seats with sister party Christian Social Union (CSU). A 4<sup>th</sup> term for Chancellor Merkel is assured, due to the fact that the CDU/CSU remain the largest party.

Like the UK, which chose to leave the EU in June last year, immigration to Germany is on the rise. The proportion of foreign citizens in the workforce rose to 11%, the same level as the UK in 2016. Turning to employment rate, foreign citizens in the UK have both a higher rate of employment and a greater rate of increase compared to UK citizens. On the other hand, the employment rate in Germany for foreign citizens is below that of German nationals, and rate of increase is in foreign citizens is limited compared to German citizens (Chart 1). German manufactures have seen an increase in exports follow improvement in price competitiveness due to supply chain expansion in the EU and depreciation of the euro (Chart 2). As a result of this, there has been a lesser degree of hollowing out of the domestic base, and no significant loss of employment in the domestic manufacturing industry. This employment situation in Germany is different to that in the UK, which chose to withdraw from the EU, and the USA, birthplace of the Trump Administration's "America first" policy, and is seen as one of the causes for the CDU/CSU remaining the largest party.

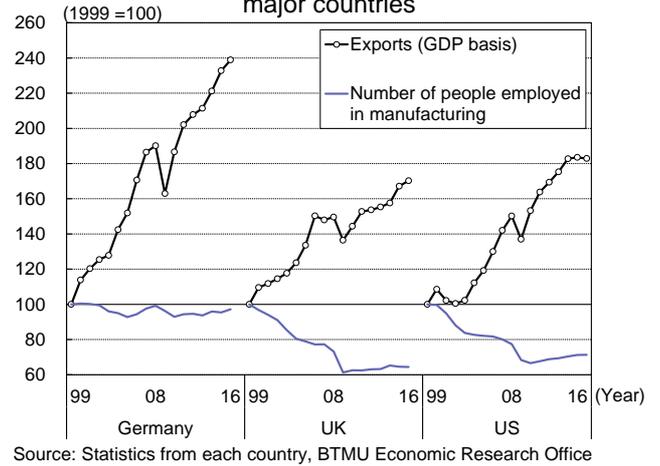
Whilst CDU/CSU did win the election, the fact that their held seats has fallen below the 355 necessary for a majority means that they will be forced into coalition talks with Free Democratic Party (FDP), which has 80 seats and Greens, which have 67 seats. Each party has considerable differences of opinion on domestic issues such as the reform of regulation and the tax system, as well as the issues surrounding deepening EU integration such as shared Eurozone budget. There is an undeniable possibility that the exclusionist eurosceptic Alternative for Germany (AfD), with 94 seats, could influence policy making. Before the election, Angela Merkel demonstrated a cooperative attitude towards French President Emmanuel Macron's policies such as shared Eurozone budget. Nevertheless, depending on the content of coalition negotiations, it may be necessary to monitor the possibility that discussions about deepening EU integration might stall.

Chart 1: Employment rates in Germany and UK



Note: "Employment rate" is the percentage of employed persons within each population. 4-Quarterly average.  
Source: Eurostat, BTMU Economic Research Office

Chart 2: Exports and employment in manufacturing in major countries



Source: Statistics from each country, BTMU Economic Research Office

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