

German Politics Monitor

Let the game of thrones begin!

- **SPD becomes the largest party, giving Olaf Scholz the best chances to succeed Angela Merkel as chancellor. ‘Traffic light’ (60% probability) and ‘Jamaica’ (40% probability) coalitions most likely and positive from an economic perspective. Markets reacted mutely to the inconclusive election result in line with in our expectations. Difficult and lengthy coalition negotiations lie ahead.**

Uncharted territory

With the ‘era Angela Merkel’ drawing to an end, German politics has entered uncharted territory with a possible change in government. Preliminary results put the Social Democrats (SPD) as largest party in the Bundestag with 25.7% of the votes, giving its candidate Olaf Scholz the best chances to succeed Angela Merkel as chancellor. For the Conservatives (CDU/CSU), election night confirmed a bitter defeat with its worst ever election result of 24.1%, that could see the party returning to opposition for the first time in 16 years. In line with past experiences, the Green party underperformed on election night compared to polling, but with a vote share of 14.8%, still achieved its best ever result in federal elections, positioning the party as a kingmaker in upcoming coalition negotiations. Another election ‘winner’ (and possible kingmaker) in the coalition talks is the liberal FDP party, which increased its vote share to 11.5%. The eurosceptic AfD party on the other hand could not capitalize on the weakness of the ‘established’ parties and gained less votes (10.3%) than in 2017. As a political pariah, its chances of affecting actual policy-making remain slim. As the election result was broadly in line with latest polls, the market reaction was relatively muted as we expected.

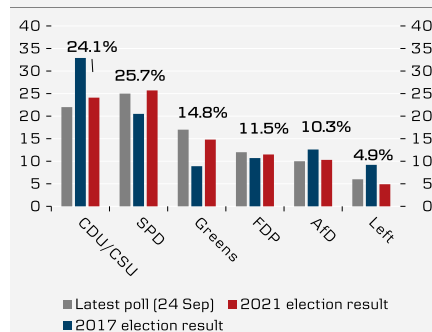
The election result leaves several coalition possibilities on the table (for what policies to expect from them, see also below). With SPD’s chancellor candidate Scholz and CDU/CSU’s candidate Laschet both claiming the right to lead the next government, we expect parties to start parallel talks on a ‘traffic light’ (60% probability) and ‘Jamaica’ (40% probability) coalition in the coming days. A left-wing ‘Red-red-green’ coalition of the SPD, Greens and the Left, that held the biggest potential for a fiscal regime shift, failed to gain a majority, contributing to the muted market reaction. While Olaf Scholz has the best cards to succeed Angela Merkel as chancellor in our view, his fortunes will depend on whether he can convince the FDP to make one of the ‘traffic light’ trio. From an economic perspective, both outcomes - ‘traffic light’ or ‘Jamaica’ - would be positive in our view, due to an increased focus on public and climate investments as well as the potential for a somewhat more relaxed fiscal stance down the line that could boost Germany’s long-term growth prospects. We also expect any future German government to maintain a strongly pro-European stance.

Difficult and lengthy coalition negotiations now lie ahead and we would be surprised to see a new German government in place before the end of the year (after the 2017 election it took 172 days). In the meantime we expect markets to remain very headline driven as Germany’s ‘game of thrones’ unfolds and pay close attention to any comments from the ‘kingmakers’ regarding economic and fiscal policy plans and priorities.

Other research on Germany

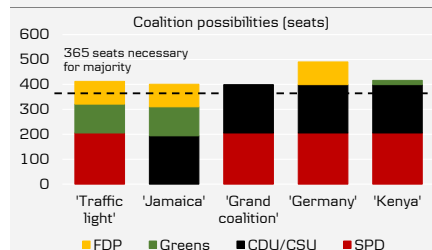
- *German Politics Monitor - The tables are turning left, 9 September*

SPD becomes the largest party in the Bundestag



Source: Forsa, Bundeswahlleiter, Danske Bank

‘Traffic light’ and ‘Jamaica’ coalitions are the most likely scenarios

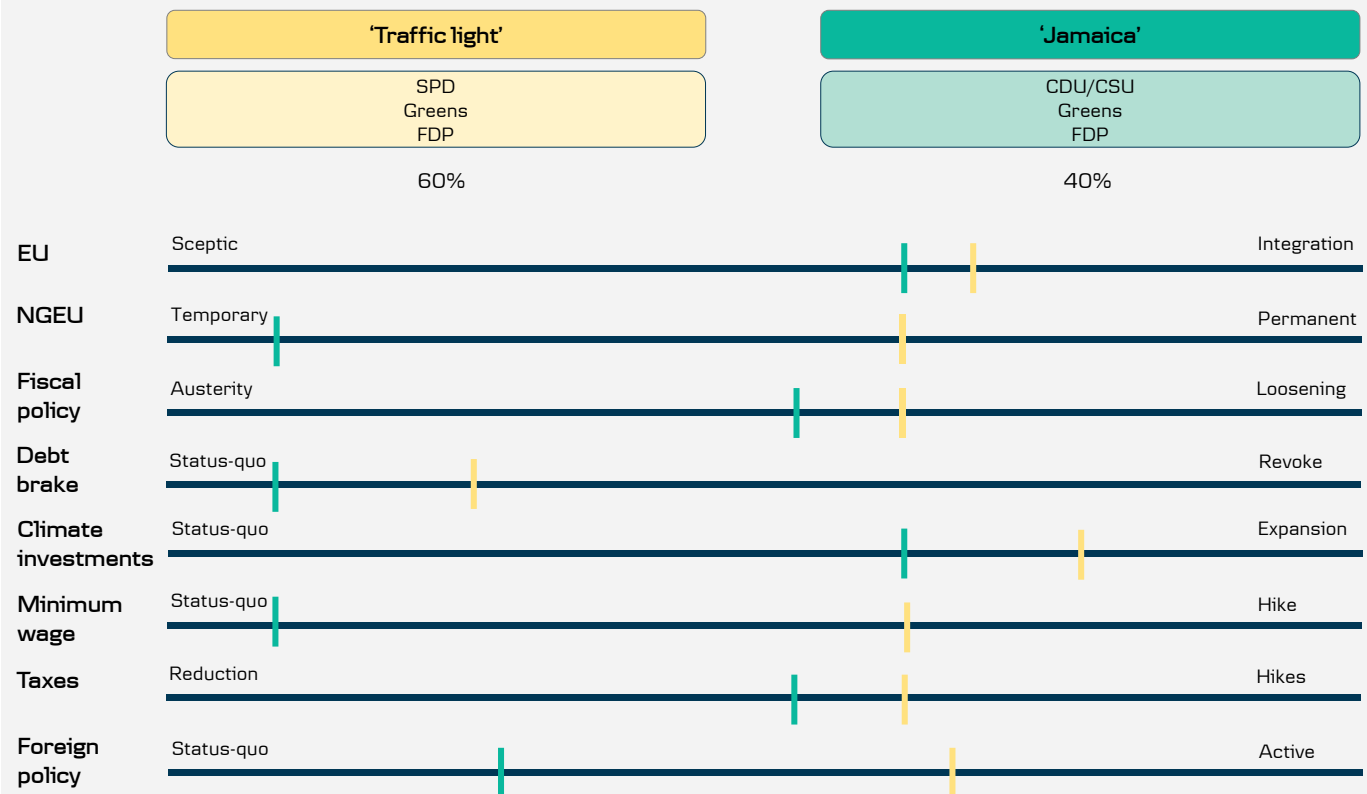


Source: Bundeswahlleiter, Danske Bank

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German coalition possibilities and policies



Source: Danske Bank

Overview of party programmes

	CDU/CSU	SPD	Greens	FDP	The Left	AfD
Economic policy	<ul style="list-style-type: none"> Reduce bureaucracy Climate protection through innovation and new technologies Support German Mittelstand and car industry 	<ul style="list-style-type: none"> Investments of €50bn/year (infrastructure, digitalisation, climate) Long-term industrial strategy in line with EU Green New Deal National minimum wage of €12/hour 'Greening' of capital markets (more green bond issuance) 	<ul style="list-style-type: none"> Investments of €50bn/year (infrastructure, digitalisation, climate) CO₂ price raised to 60€/tonne in 2023 Exit from coal-fired power by 2030 National minimum wage of €12/hour 'Greening' of capital markets 	<ul style="list-style-type: none"> Support German Mittelstand Reduce bureaucracy and role of the state after pandemic Improve environment for private investments Spend 1% of VAT revenues on education Create ministry for digital transformation 	<ul style="list-style-type: none"> Minimum wage of EUR13/hour and 30h/4-day work week Minimum pension/basic income of €1200 and lowering retirement age to 65 More public investments (€120 bn per year) Strengthen union bargaining Rent cap and more social housing 	<ul style="list-style-type: none"> Stricter immigration and refugee policy More protectionism Support German Mittelstand and car industry Investments in technology and education through 'Blue Deal' Reduce bureaucracy
Fiscal policy	<ul style="list-style-type: none"> No tax increases Corporate tax of 25% Return to balanced budget and debt brake 	<ul style="list-style-type: none"> Lower taxes for low and middle income earners, higher taxes on high income earners and wealth No balanced budget policy (but conform with debt brake) Debt relief for highly indebted municipalities Financial transaction tax, EU-wide digital tax and carbon border adjustment 	<ul style="list-style-type: none"> Lower taxes for low and middle income earners, higher taxes on high income earners and wealth Reform debt brake to allow for investments European-wide corporate tax of 25% 	<ul style="list-style-type: none"> Corporate tax of 25% Reduce income taxes Return to EU budget rules and debt brake 	<ul style="list-style-type: none"> Lower taxes for low and middle income earners, higher taxes on high income earners and wealth Introduce a digital tax Eliminate debt brake 	<ul style="list-style-type: none"> Fiscal conservatism End CO₂ price

Source: Party programmes, Danske Bank

Overview of party programmes (continued)

	CDU/CSU	SPD	Greens	FDP	The Left	AfD
Europe	<ul style="list-style-type: none"> • Pro-EU stance • Maintain close Franco-German ties • Support EU Green Deal • Return to EU fiscal rules • NGEU is temporary, oppose debt mutualisation • Complete banking union after risk reduction • ECB independence 	<ul style="list-style-type: none"> • Pro EU integration (make NGEU permanent) • Transform ESM into European Monetary Fund • EU minimum wage • Complete banking union 	<ul style="list-style-type: none"> • Pro-EU stance • Bigger EU budget and new EU own resources (digital and plastics tax) • Strengthen NGEU and make it permanent • Transform ESM into European Monetary Fund 	<ul style="list-style-type: none"> • Pro-EU stance, strengthen strategic autonomy and defence • Extend EU-ETS to all transport sectors • EU-wide competition rules • NGEU is temporary 	<ul style="list-style-type: none"> • Anti-austerity stance • European investment plan • Common EU debt instruments • Make ECB democratically accountable and allow monetary financing 	<ul style="list-style-type: none"> • EU/euro exit • No common EU debt and taxes • End ECB's low interest policy and Target2 balances • Opposes EU Green Deal
Foreign policy	<ul style="list-style-type: none"> • Pro multilateralism and NATO • Strengthen ties with US, dialogue with Russia, Turkey and China • Maintain good ties with Poland • Pro FTAs • EU seat in UN Security Council • Strengthen EU defence cooperation 	<ul style="list-style-type: none"> • Establish EU foreign minister and strengthen defence union • Pro multilateralism and NATO • Cooperation and dialogue with US, Russia and China 	<ul style="list-style-type: none"> • Higher contributions to UN and WHO • Gender equality at multilateral negotiations • Closer cooperation of EU foreign and defence policy • Critical stance towards Russia, Turkey and China • Object Nord Stream 2 pipeline 	<ul style="list-style-type: none"> • Reform WTO and strengthen global trade • Multilateralism • Pro-NATO • Critical stance towards Russia, resume dialog with China • Transatlantic FTA • Reform UN 	<ul style="list-style-type: none"> • Anti-military stance, critical of NATO • Against EU defence union • Cut defence spending by 10% • Pro-Russian stance • Against FTAs 	<ul style="list-style-type: none"> • Stronger ties with Russia, China and UK • More defence spending • Against FTAs and Paris climate agreement

Source: Party programmes, Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Aila Mihr, Senior Analyst.

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