



Our take on the German federal election and its implications

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September 6, 2021



Executive summary: Our take on the German elections



- **Volatile polls have turned it into a race that is too close to call.** Current poll-of-polls indicates a neck-and-neck race (given the margin of error) between the SPD (25%) and the CDU/CSU (21%) with the Greens coming in third (17%). As things stand today, the only fairly safe projection to make is that there will be a three-way coalition, a novelty at the federal level.
- **Traffic-light or Jamaica coalition with roughly equal probabilities.** We attach roughly equal probabilities to either an SPD-led traffic-light coalition or a CDU-led Jamaica coalition. The chances of a traffic-light coalition have been boosted by SPD campaign momentum, but a considerable ideological gulf (liberals vs. SPD/Greens) must be overcome for that option to work out. However, ex-ante red lines might blur, once coalition talks start.
- **Timeline: Preliminary results expected at 10-11pm; coalition negotiations may take months, not weeks.** Three-party coalition negotiations are likely to drag on well into 2022 as they require difficult compromises. Merkel's government will stay as caretaker.
- **Red-red-green – a tail risk with significant market impact.** While such a coalition could hit financial markets, we attach a very low probability to that scenario materializing, even if it arithmetically secures a majority: (i) both Scholz and Baerbock hail from the pragmatic wing of their parties and the Greens explicitly target the middle of society, (ii) lacking commitment to NATO and other positions on foreign and security policy by the ideological Left party would likely prevent the SPD and Greens from entering such a coalition (unless the Left u-turns on foreign and security policy after the elections). So far, SPD and Greens have not ruled out such a coalition – likely for tactical reasons.
- **Germany's EU policy stance – no major shift.** Despite all potential coalition partners being various shades of pro-Europe, no strong push to advance the EU's role as a geopolitical player is expected. Regarding fiscal policy, the Greens advocate looser debt rules and turning the NGEU into a permanent fiscal capacity. However, in our two most plausible coalition scenarios, the CDU/CSU and/or the liberals will insist on the one-off nature of the NGEU and object to a formal relaxation of the fiscal rules. Thus, we do not expect any significant shift of Germany's EU related fiscal policies.
- **Fiscal policies – potential compromise to involve a de facto loosening of the debt brake.** Funding of tax relief / higher investment / rising pension spending could result in ways to stretch existing debt brake rules (e.g. via off-budget items).
- **Climate policies – energy prices will be key for Germany's industry.** In either of the two most plausible coalitions, we expect a mix of market-based climate policies (e.g. focus on CO₂-price) and regulatory measures (bans, quotas, etc.). All parties are aware of too high electricity prices in Germany driven by taxes and charges. Thus, the EEG levy could be reduced after the elections.
- **Growth and inflation outlook. Potential growth is unlikely to get a boost** in any of the two most plausible coalition scenarios. GDP growth could reach 4 ½% in 2022 but slow towards its potential rate of just below 1% during the term. We expect environmental and distributional policies to create additional inflation pressure. **Average HICP inflation should be 3% this year and 2.4% in '22.**

Timeline Bundestag election 2021

What will happen from voting until government formation?



Federal election, Sep 26

- Election of the Bundestag
- 60m Germans are called to cast their vote; turnout might be lower this time due to the pandemic (76.2% in 2017)
- Polling stations close at 6pm, preliminary official results usually available at 10-11pm
- Distribution of Bundestag mandates might be published at a later stage due to the complex allocation process

Postal voting

- Starting about 6 weeks before the election; postal vote has to arrive by closing of polling stations
- Further increase expected due to the pandemic, could be well above the 30% share of postal votes in 2017
- No frictions expected even in case of a large increase in postal votes

Coalition talks (usually take a couple of weeks)

- Usually the strongest party kicks off explorative talks with other parties
- Three-way coalition talks likely to be complex and will thus take time
- Merkel's caretaker government to stay in place until the new government assumes office
- Potential stumbling block: Coalition agreements might have to be adopted by party conventions and sometimes even a vote among party members

Constituent session of the Bundestag

30 days after the elections at the latest

Government formation

- Federal President proposes the next chancellor based on the agreement by the newly formed coalition
- Bundestag elects candidate in a majority vote (absolute majority of all MPs required). So far, all chancellors have been elected in the first round, mostly with a comfortable majority
- In the past, the chancellor was elected 24 (1969, Brandt) - 171 (2017, Merkel) days after the elections

Aug

Sep

Oct

Nov

Dec

Jan

For more insights on the German electoral system please see [Appendix](#).

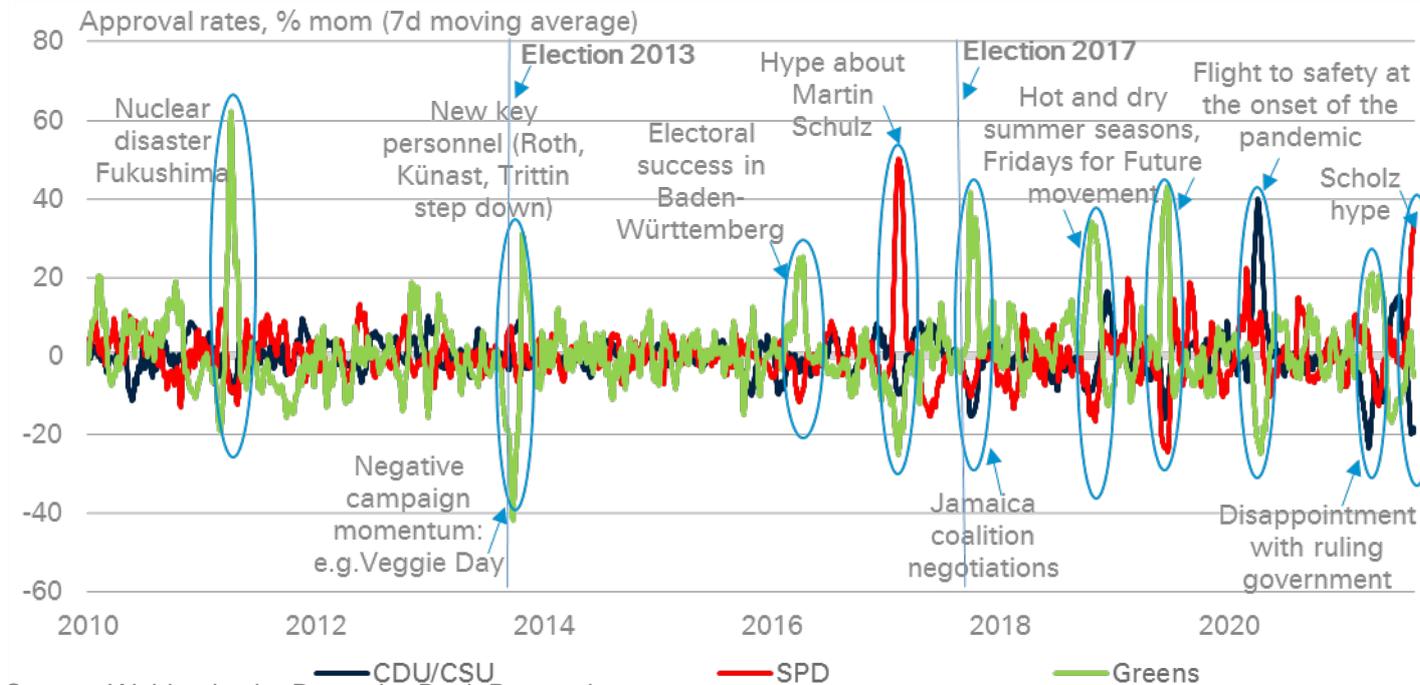
Source: Deutsche Bank Research

Is the SPD boom yet another spike in voter preferences?

Volatile polls have turned it into a race that is too close to call



Overshooting of SPD approval rates or sustained positive campaign momentum?



Where does that leave us with respect to the upcoming elections?

- A look at historical episodes of spikes in voter preferences shows that they tend to mean-revert after a couple of weeks (see chart above).
- As polls have become increasingly volatile over the last couple of years, forecasts based on poll-of-polls even a few weeks before the election have to be interpreted with caution. In the past, none of the pollsters has systematically outperformed competitors close to the final election result.
- Ever-weakening party identification means that very short-term drivers like economic conditions/sentiment, the election campaign and perceived image of the candidates a few days ahead of the election (or the time when the 30% postal votes are being cast) will be decisive for the election outcome.
- A more proactive campaign by the CDU/CSU (shadow cabinet, 100-day action plan) and/or mobilization of their voter potential (estimated at 30%) might still lead to some %-points gains for the conservatives.

Three-way coalition – a novelty at federal level

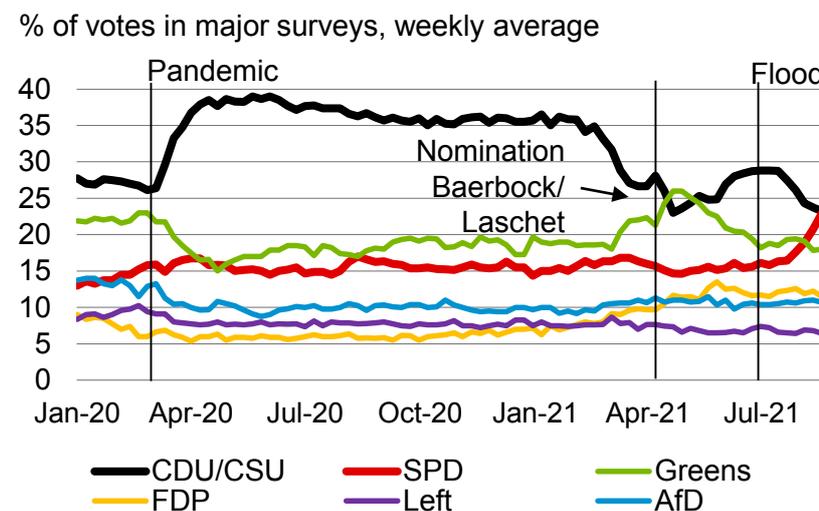
Liberals as kingmakers – traffic-light or Jamaica seem most likely options



Which are the most likely coalition options?

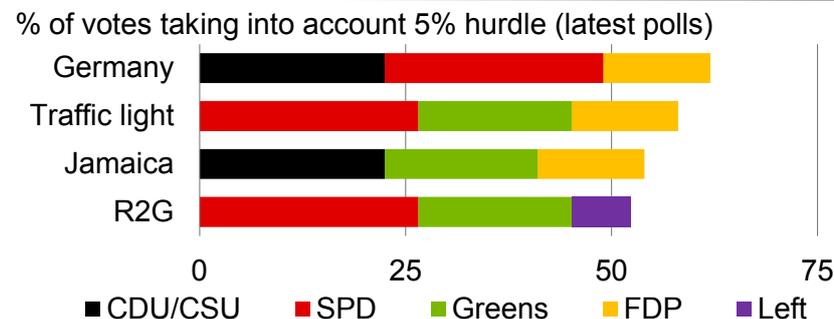
- **Roughly same probability of traffic-light or Jamaica coalitions.** As things stand today, the only relatively safe projection to make is that there will be a three-way coalition, a novelty at the federal level. We attach a roughly similar probability to both.
- **Jamaica – somewhat fewer crunch points.** Policy platforms of the liberals and the CDU/CSU have the strongest pro-business overlap. To find common ground with the Greens, they will have to resort to alternative financing means like an off-budgetary investment fund – otherwise Green state investment plans lack funding. Unlike 2017, when the FDP pulled out of Jamaica coalition talks, it has now clearly signalled its intent to govern in such a coalition.
- **Traffic light – are the liberals willing to bridge the ideological gulf?** If Olaf Scholz’s popularity holds, he would be at the helm of such a coalition. Prima vista, it seems difficult to reconcile the liberals’ tax proposals with those of the Greens/SPD. FDP party leader Lindner even stated that he “lacks the fantasy” on how to govern with the leftish Greens and SPD. However, ex-ante red lines might blur, once coalition talks start.
- **Red-red-green – a tail risk with significant market impact.** While such a coalition could hit financial markets, we attach a very low probability to that scenario: (i) both Scholz and Baerbock hail from the pragmatic wing of their parties, (ii) lacking commitment to NATO by the ideological Left party would likely prevent the SPD and Greens from entering such a coalition (unless the Left u-turns on its foreign and security policy stance). So far, SPD and Greens have not ruled out such a coalition – likely for tactical reasons. In a recent survey, half of SPD voters rejected such a coalition.

SPD is enjoying strong campaign momentum



Source: Allensbach, Kantar, Forsa, FG Wahlen, Infratest, INSA

Roughly same probability of traffic light or Jamaica coalition



Source: Wahlrecht.de, Deutsche Bank Research

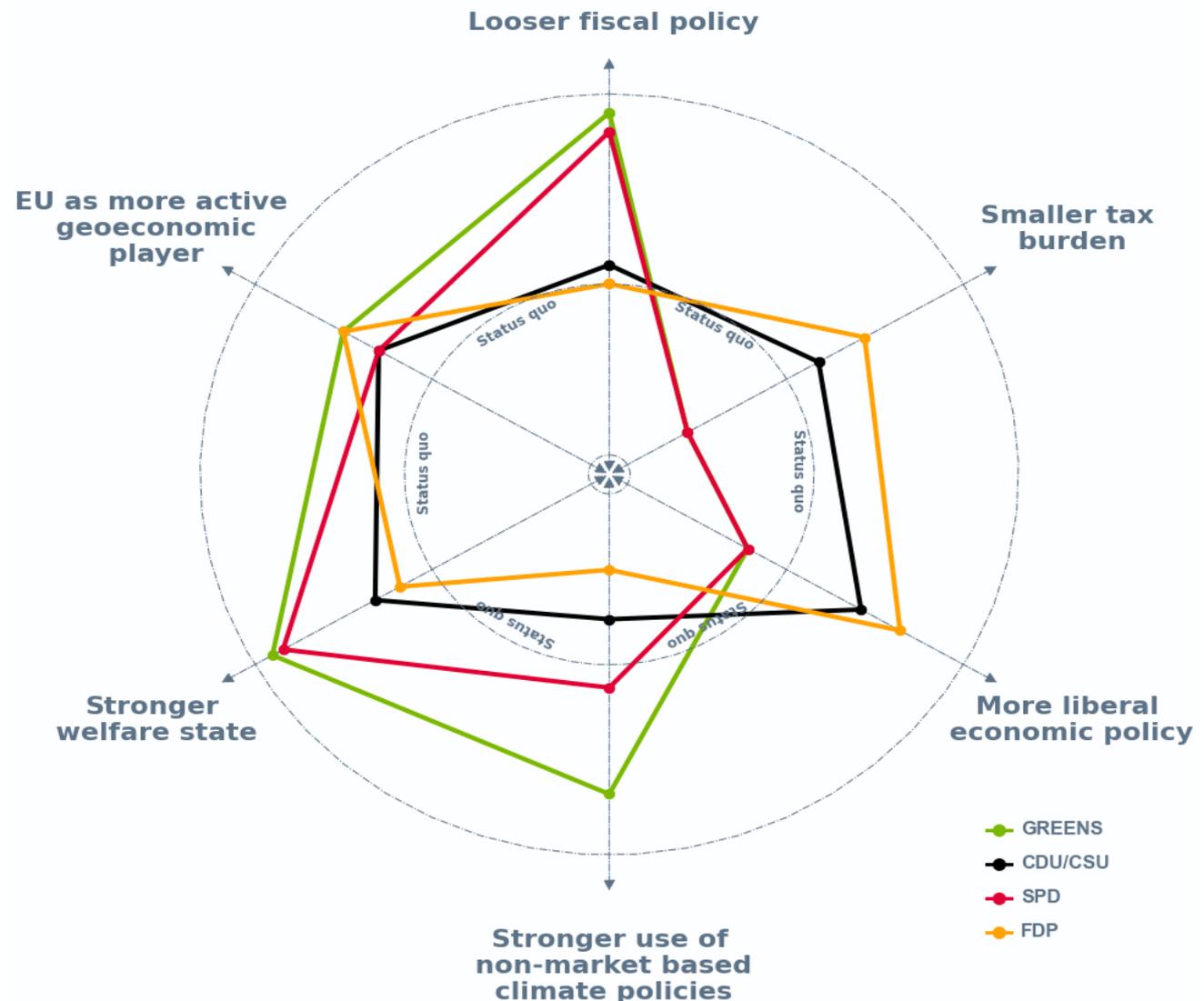
Visualisation of the parties' policy stances

Still two camps with strong policy overlaps, but lacking governing majority



How to read our cobweb

- **The six policy fields.** First, we identified six broad policy fields. We then looked into the parties' election manifestos collecting policy proposals that aim for a policy shift away from the status quo.
- **How did we position the parties?** For a total of 50 very concrete policy proposals we assigned scores to each of the parties. 50 if they campaign for the status quo, 75 or 100 if they want to change the policies in the direction indicated by the arrow (e.g. lower maximum tax rate). The average score for each of the six policy fields is displayed in our cobweb.
- **Bottom line: Natural partners lack governing majority.** Our cobweb neatly illustrates where parties deviate most from the status quo with respect to their policy proposals (e.g. Greens on climate/fiscal, SPD on welfare state/fiscal, liberals on tax policy). It also confirms that there are still two camps with relatively strong policy overlaps, each of them a lacking a governing majority (Greens/SPD on the one hand, and conservatives/ liberals on the other hand).



Source: Deutsche Bank Research; own assessment based on the parties' election manifestos

Traffic-light coalition – boosted by Scholz momentum

Considerable ideological gulf to overcome for that coalition to work



50 shades of red (lines)

- **Red lines for the FDP.** Tax increases, weakening the debt brake and overregulation in climate policies are clear red lines for the liberals as they campaigned for tax relief and a more agile state.
- **Red lines for the Greens.** The Greens will stick to their more ambitious CO₂ reduction targets or at least pockets of it (e.g. coal phase-out). Moreover, they will push for regulatory measures (compulsory solar panels, speed limit), cushioning the negative income effect for the less affluent.
- **Red lines for the SPD.** The SPD will insist on stronger redistribution, especially to mitigate the negative income effects of climate policies (energy prices, CO₂ prices, higher minimum wages).
- **Potential compromises.** The liberals might postpone promised tax relief and resort to alternative financing means like an off-budgetary investment fund as otherwise state investment plans lack funding (and they can blame it on the Greens and the SPD). Climate policies will be a mix of market-based instruments (higher national CO₂ price) and administrative/regulatory measures. Redistributive measures to cushion the costs of green transition will be introduced.
- **Scholz or surprisingly Baerbock for chancellor?** Day-to-day government business is likely to be smoother under Scholz. We expect a stronger focus on social justice under Scholz and more emphasis on green transformation under Baerbock, whose chances appear to have substantially narrowed.

Where Greens, SPD and liberals disagree

	Controversial issue	Greens	SPD	FDP
Fiscal	Reforming debt brake	■	■	■
	Taxing high-income earners	■	■	■
	Reducing corporate tax burden	■	■	■
	NGEU as permanent fiscal capacity	■	■	■
Economy	Industrial policy: Promotion of key industries (green, digital)	■	■	■
	Re-regulation of the labour market	■	■	■
	Expansion of social aid	■	■	■
	Restrictive migration policy	■	■	■
Climate	Completely “market-driven” CO ₂ -price	■	■	■
	End of combustion engine by 2030	■	■	■
Geopolitics	Stick to 2% NATO spending target	■	■	■
	Full switch to QMV in EU Council	■	■	■
	Concluding pending free-trade/ investment deals in current form	■	■	■

■ Supporting the policy stance ■ Opposing the policy stance

Source: Deutsche Bank Research; own assessment based on the parties' election manifestos

Jamaica coalition – this time for real (potentially)

Improved business environment and a more market-based climate policy



Political horse trading

- **Red lines for the conservatives.** The reform of the national debt brake is a red line for the CDU/CSU (in any event, this requires a two-thirds majority), as is the establishment of an empowered cross-portfolio climate ministry.
- **Red lines for the Greens.** The Greens will stick to their more ambitious CO₂ reduction targets/timeline or at least pockets of it (e.g. coal phase-out). Moreover, they will push for additional funds for the green transition, regulatory measures (compulsory solar panels, speed limit), cushioning the negative income effect for the less affluent.
- **Red lines for the FDP.** Tax increase, the reform of the debt brake as well as overregulation with respect to climate policies are red lines for the liberals as they campaigned for tax relief and a more agile state.
- **Potential compromises.** The conservatives and liberals will work to improve the business environment and provide tax relief for the corporate sector. To do so, they will likely resort to alternative financing means like an off-budgetary investment fund as otherwise state investment plans lack funding (and they could blame it on the Greens). Climate policies will likely rely more on market-based instruments (higher national CO₂ price), less on regulatory measures.
- **Potential cabinet line-up.** Above all, the liberals are eyeing the FinMin, the CDU/CSU might prefer the EconMin. The Greens are likely to secure the climate and environment ministry and/or the foreign office. In addition, new ministries are likely to be set up (e.g. ministry for digital affairs).

Where CDU/CSU, Greens and liberals disagree

	Controversial issue	CDU/CSU	Greens	FDP
Fiscal	Reforming debt brake	■	■	■
	Introducing a wealth tax	■	■	■
	Relief for the corporate sector (depreciation rules, etc.)	■	■	■
	NGEU as permanent fiscal capacity	■	■	■
Economy	Industrial policy: Promotion of key industries (green, digital)	■	■	■
	Re-regulation of the labour market	■	■	■
	Expansion of social aid	■	■	■
	Restrictive migration policy	■	■	■
Climate	CO ₂ -price as key instrument (not bans, quotas, standards)	■	■	■
	End of combustion engine by 2030	■	■	■
Geopolitics	Stick to 2% NATO spending target	■	■	■
	Full switch to QMV in EU Council	■	■	■
	Concluding pending free-trade/investment deals in current form	■	■	■

■ Supporting the policy stance ■ Opposing the policy stance

Source: Deutsche Bank Research; own assessment based on the parties' election manifestos

EU policy post-Merkel

Greener but still no big spender in both Jamaica or traffic-light coalition



What to expect from the new government?

- Fiscal stance – no significant shift.** The Greens advocate looser debt rules and turning the NGEU into a permanent fiscal capacity. However, in our two most plausible coalition scenarios, the CDU/CSU and/or the liberals will likely insist on tight fiscal rules and the one-off nature of the NGEU. Thus, we do not expect a major shift of Germany's EU fiscal policies (for now).
- Role-modelling the green transformation at measured pace.** The next government is likely to support the extension of the EU ETS, as already pioneered nationally. The Greens will likely push for stricter regulations and an active green industrial policy. The planned Carbon Border Adjustment Mechanism (CBAM) will probably face more resistance given Germany's strong industrial base.
- Remaining in free-trade camp** by virtue of Germany's economic weight and openness. But future trade/investment deals are likely to shift to the back burner as Greens insist on social and environmental standards and are more hawkish on China.
- No strong push to advance the EU's role as a geopolitical player.** With treaty changes out of reach given lack of support in the EU-27, fostering coalitions of the willing or a switch to a qualified majority voting in more policy fields seem to be the maximum the next German government can aim for.

EU agenda - key issues for next government

	2021			2022				2023	2024
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NGEU		●	----->						●
Reform fiscal rules			●	----->					
Introduction new own resources		●	----->						
EU climate package 'fit for 55'		●	----->						
Glasgow climate summit			●						
Carbon Border Adjustment Mech.		●	----->						
Pending trade & investment issues (CAI, post Brexit)									
Digital regulations (DMA/DSA/AI/Data Governance)									
Conference on the Future of Europe		●	----->						

Source: Deutsche Bank Research

- Stuttering German-French engine.** Merkel's departure will leave a void in EU leadership until the new chancellor has gained political weight and relevant ministers have settled in. The new chancellor might be more occupied with domestic politics and coalition management and thus have limited appetite to push ambitious EU institutional reforms.

For more insights please see: Deutsche Bank Research, Focus Germany, [German EU policy post-Merkel: Greener but still no big spender](#), July 12

Climate policy: Similar goals, different choice of instruments

Challenging to reach a compromise but probably not a deal-breaker (again)

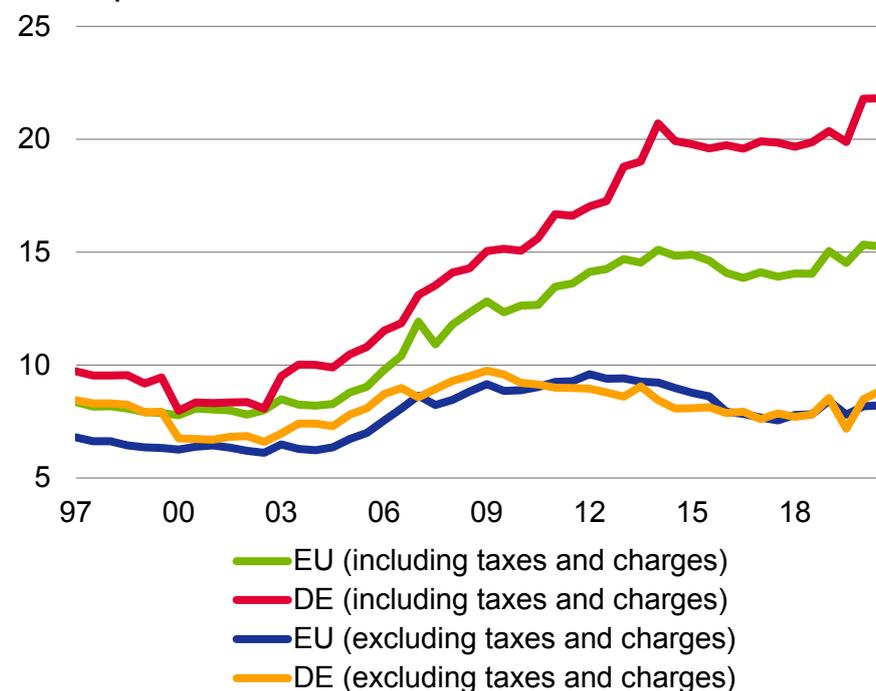


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- Diverging climate and energy policy stances contributed to the failure of negotiations for a Jamaica coalition after the 2017 elections.
- Today, all parties that are likely to form the next federal government are committed to a climate-neutral Germany by 2045 (CDU and SPD), by 2050 (FDP) or 'in 20 years' (Greens).
- But they disagree on how to reach that goal. All parties (and economists) generally agree that carbon pricing (e.g. EU ETS) is an efficient and effective instrument to reduce CO₂ emissions.
- The FDP as well as the conservatives bank on R&D and innovation to combat climate change rather than regulation such as bans, limits, quotas. The Greens also trust in carbon pricing. However, they also focus on new regulation and subsidies for green technologies. The Greens call for less road and air traffic.
- The conservatives and the Greens propose 'carbon contracts for difference' to support the transformation of the industrial sector and to prevent carbon leakage.
- Parties differ with respect to specific questions (timing for coal phase-out and end of internal combustion engine, standards for refurbishment of buildings, compensation for higher carbon/energy prices, etc.) with the Greens being more 'ambitious'.
- All parties address the problem of high electricity prices in Germany. EEG levy could be reduced after the elections.

Taxes/charges are main drivers of electricity prices in Germany

Electricity price for industrial customers*, cents per kilowatt hour



* Annual electricity consumption between 500 and 2,000 MWh

Source: Eurostat

For more insights please see: Deutsche Bank Research, Focus Germany, [Climate policy claims encounter energy sector hurdles](#), June 25
[For a more successful energy transition: Down with electricity prices](#), Sep 3

Declining trend growth – countermeasures not in sight

Education, M&E investments, R&D, and regulated immigration are options to offset the impact of the shrinking labor force

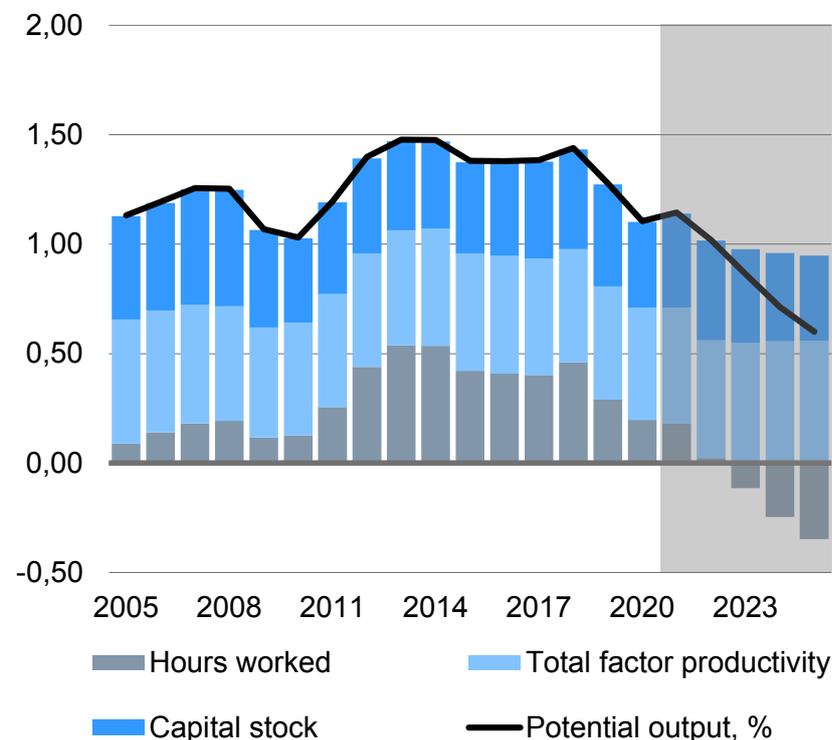


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- **Shrinking German labor force will dampen potential GDP growth in the years ahead. Policy options:** Productivity enhancing R&D, forward-looking investments, higher labor force participation, later retirement, workforce training and immigration.
- **But strengthening of labor supply** by working longer and retiring later **does not seem to be in vogue among the parties.**
- **Calls for more investment and innovation** can be found in all major parties' programs, **but potential growth is not enough in direct focus.** Shortage of skilled labor is likely to be a problem.
- **Conservatives and liberals favor strengthening research efforts**, especially in the context of climate goals. **The Greens** have also recognized that climate targets can only be achieved with a **new openness to technology.**
- **Climate policy pressure could force production capacities out of the market** before adequate replacements are installed, **which would reduce GDP potential.**
- **The need to cut red tape** has been recognized by **most parties.** Implementation could increase the efficiency of the economy and **promote investment.**
- **Contradiction: More investments in infrastructure and housing** will lead to CO₂ emissions and thus **contradict the reduction targets.**
- **Potential growth seems unlikely to get a boost** in either of the two most plausible three-way coalition scenarios.

Potential GDP growth might fall below 1%

Components of potential output (modified EU method), pp



Source: Federal Statistical Office; calculations and projections of the Joint Economic Forecast (Gemeinschaftsdiagnose)

Inequality: Distribution policy back in focus

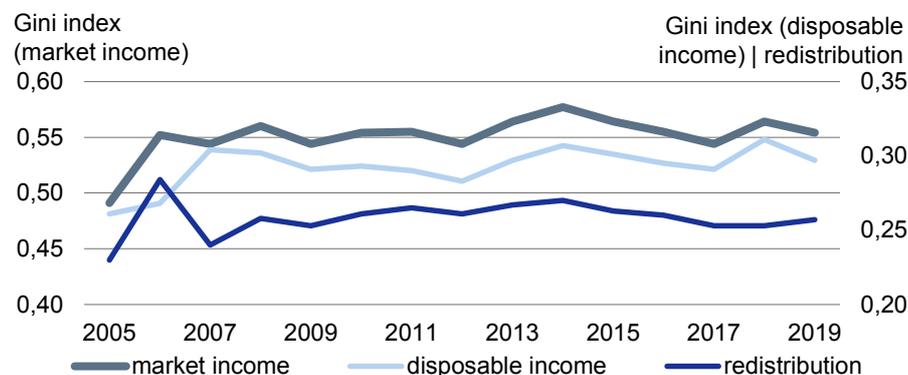
An even bigger social state versus more growth and equal opportunity



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- **The impact of the COVID-19 pandemic, the looming costs of climate policies and the extreme monetary policy, confronting ordinary savers with negative rates while offering massive gains for the owners of financial and non-financial assets, have brought distribution policy back into the centre of the political debate.**
- **The most important topic for voters:** 51% of German voters perceive “social justice” as the most important topic for their election choice, with climate protection the far-behind No. 2 (39%).
- While matters of fairness and justice are at the heart of every society, surveys show that **people do not really have a good grasp of the income distribution** or their own position within.
- While there is a general agreement that the government has to redistribute so that people have a realistic chance to provide for themselves, **the balance of support provided by the governments and self effort expected from the individual is at the core of the political debate.**
- **Not surprisingly income distribution features prominently among centre-left parties, which explicitly criticise the status-quo:** „Extremely unfair distribution of income and wealth,“ (SPD), „never have incomes and wealth been so unfairly distributed“ (Left), „top income provide relatively less taxes & social duties than the middle income group“ (Greens).
- **Their solution is a more redistributive state**, increased income tax rates for higher incomes, additional taxes for the (super) rich, a reintroduction of the wealth tax, higher inheritance taxes, higher minimum wages or an unconditional basic income are their preferred instruments, with the Left offering the by far most aggressive proposals.
- **The CDU and FDP focus on growth as the key prerequisite for social justice and individual opportunities.** They explicitly rule out higher income taxes or wealth taxes and are promising lower taxes for lower and middle incomes (as all other parties), and a top tax rate kicking in at higher incomes as a means to generate more growth and fairness.
- **Distribution promises are unlikely to be financed through higher taxes alone**, especially since the FDP has so far ruled out tax hikes. **Additional debt-financed demand will add to potentially higher inflation in the coming years.**

Inequality in Germany



Source: Federal Statistical Office, Deutsche Bank Research

Fiscal policy: Empty pockets and enormous challenges

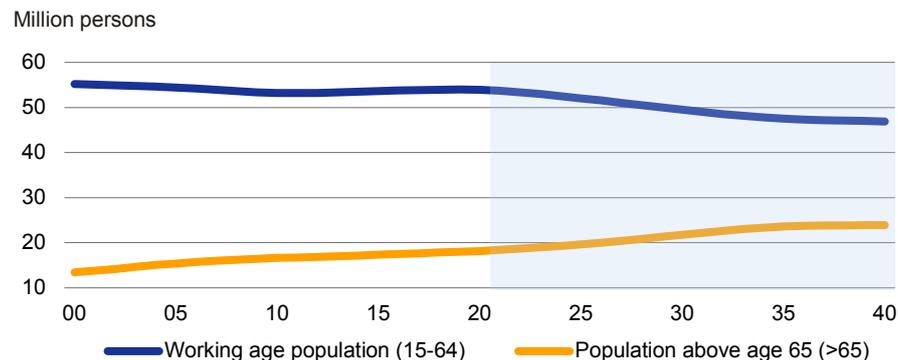
Debt sustainability threatened by ageing, structural reforms to be deferred



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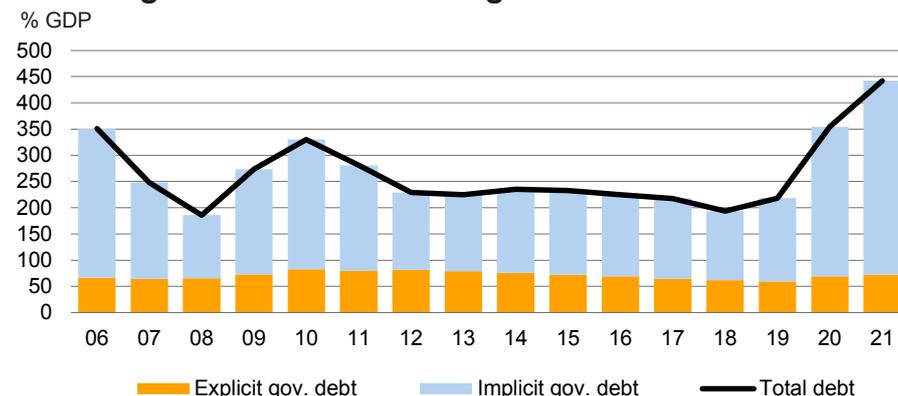
- The COVID-19 pandemic has led to a harsh setback for public debt sustainability.** Moreover, financial pressures from rapid population ageing are building up quickly over the coming years. On top of that, sizeable fiscal resources will be required to fund the ecological and digital transformation of the economy.
- The Maastricht debt ratio of roughly 70% is just the tip of the iceberg.** Public finances are in dire straits due to the pandemic and will be pressured further by the projected rise in age-related spending starting by the middle of the decade (once baby boomers begin to retire). Implicit debt due to uncovered promises in the social security systems have surged to c. 370% of GDP (see *Stiftung Marktwirtschaft*), increasing Germany's fiscal sustainability gap to more than 440% of GDP.
- Although debt sustainability is threatened by rapid ageing, unpopular structural reforms are likely to be deferred.** Ensuring debt sustainability is a mammoth task, requiring a delicate balancing act of setting more growth-friendly policies (e.g. tax relief), adhering to reasonable spending restraint (e.g. clearer budget priorities) and implementing structural reforms in the public pension, health care and long-care systems.
- Diverging lines on the role of fiscal policies and the importance of debt sustainability.** While the CDU/CSU and the FDP argue for a return to solid public finances (e.g. lowering of the Maastricht debt ratio to below 60% of GDP), the SPD, Greens and the Left Party tend to prefer a more active state, higher (social) spending and overall looser fiscal policies. Financing & sustainability problems in the social security system remain widely unaddressed in the election campaign.

Germany is facing adverse demographic trends ...



Source: UN, Deutsche Bank Research

... and significant fiscal challenges



Implicit government debt: Estimates by Stiftung Marktwirtschaft. Explicit government debt: General government debt (Maastricht definition – national accounting). 2021F Maastricht debt forecasts: DB Research forecast.

Source: Stiftung Marktwirtschaft (Generationenbilanz), Eurostat, Deutsche Bank Research

For more insights please see: Deutsche Bank Research, Focus Germany, [The return of big government spending: Will this time be really different?](#), June 21

Taxation, spending policies, and the debt brake

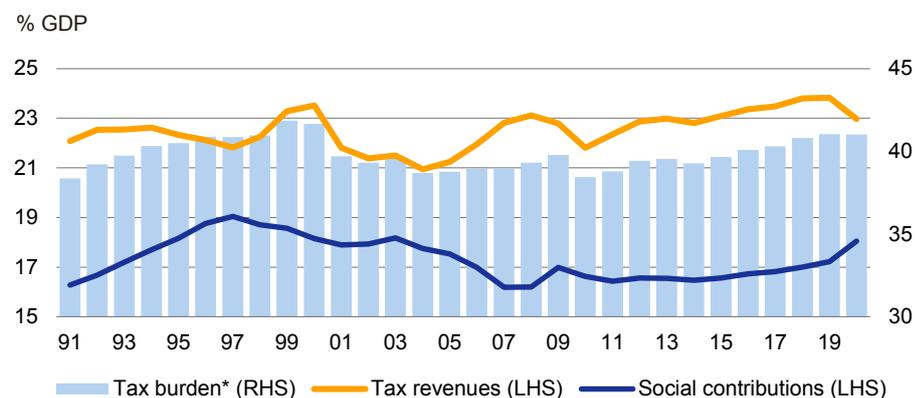
Spending & tax relief plans might lead to a stretching of debt brake rules



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- **Taxation.** While the CDU/CSU and the FDP pledge a lower tax burden (e.g. full abolishment of the solidarity surcharge tax, lower income/corporate taxes), the SPD, the Greens and the Left Party plan to raise taxes for high-income earners and to reintroduce a wealth tax (a no-go for the two former parties). **Broad agreement is only on lowering taxes for low- and middle-income earners.**
- **Investment.** Public investment has risen briskly in recent years in the context of large infrastructure investment needs. Still, supply-side constraints (e.g. skilled labor shortages) and manifold non-financial hurdles (e.g. high bureaucracy) have resulted in pent-up investment. **Essentially all parties aim to upgrade the country's public infrastructure (digitalization, de-carbonization).**
- **Social security.** Despite growing demographic pressures, the SPD and Greens promise to keep a pension level of at least 48%. The Left even wants to raise it to 53%. The CDU/CSU, the FDP and the Greens want to supplement the pay-as-you-go by a capital funded pension system. The FDP aims to introduce a flexible pension age. The SPD opposes a further rise in the statutory pension age, while the Left Party wants to reduce it. Moreover, **all parties are shy of advocating for inevitable structural reforms in the pension system (such as linking the pension age to life expectancy).**
- **Debt brake.** While CDU/CSU and FDP profess to maintain the debt brake, the Left Party wants to abolish it. The SPD only hints it wants to make full use of the fiscal scope permissible under the constitution; the Greens clearly postulate to ease the debt rule to allow for higher net investments. **Funding of tax relief & spending plans might lead to a stretching of the existing debt brake rules (e.g. via off-budget items, changes in the computational method).**

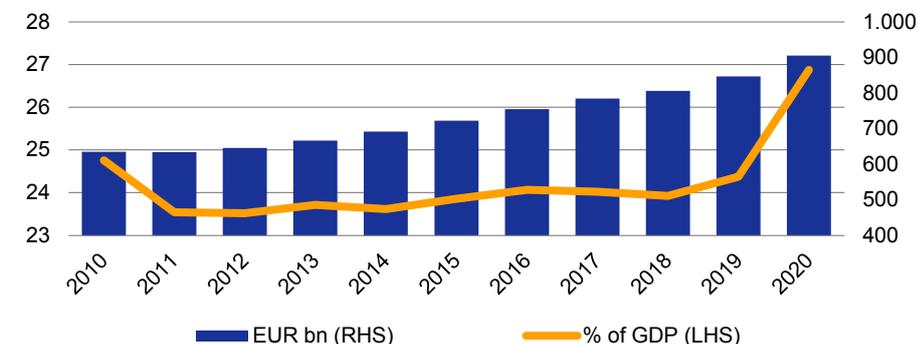
High tax burden



* Taxes and social contributions

Source: Federal Ministry of Finance, Deutsche Bank Research

Social spending accounts for almost one-third of GDP



Data are for the general government level (national accounting).

Source: Destatis, Deutsche Bank Research

Financial sector policy

No blockbuster – only minor changes to the status quo

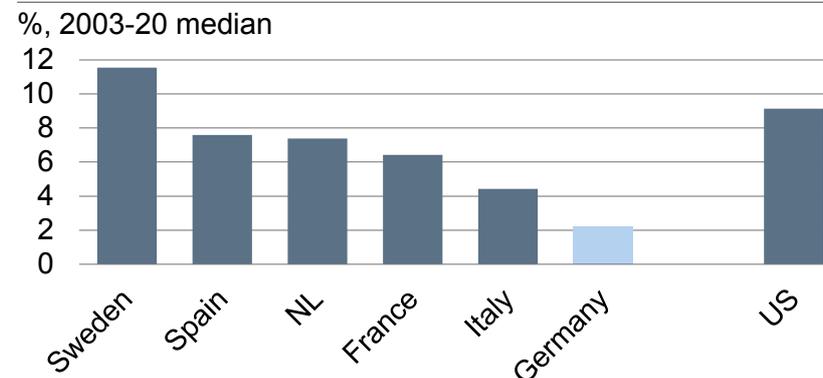


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What to expect from the new government?

- **Financial sector probably not in focus.** The election campaign has not even touched on financial policy so far. No major reform proposals on the domestic (or EU/international) agenda, apart from a shift towards sustainability. In addition, the conservatives and the social democrats both essentially advocate for the status quo with only minor changes.
- **Greens with most far-reaching – and strongly left-leaning – proposals.** They demand introduction of capital requirements for climate and environmental risks, a leverage ratio of 10%, a split banking system with separation of securities business from lending/deposit-taking operations, stronger proportionality in regulation (easing of rules for small banks) and stricter regulation of shadow banks. However, they will likely struggle to find support for radical changes among potential coalition partners.
- **All parties advocate for reform of private old-age provisions.** It is clear that Riester has failed and a new funded component (based on capital market investments) is needed. All four traffic-light/Jamaica parties agree on this in principle, yet the devil is in the details. Still, an agreement may be found as reform is pressing given the negative rate environment and German demographics.
- **Capital withholding tax: Diverging views.** The conservatives and the liberals want to increase annual tax exempt amounts (on interest, dividends, capital gains) and also partly reintroduce a tax exemption for capital gains after a certain holding period. The Greens, by contrast, aim to abolish the flat withholding tax and return to taxation by the personal income tax rate incl. the half-income assessment method for dividends.
- **Other policy areas:** Lukewarm support for a financial transaction tax among most parties. The liberals are the only party demanding the introduction of capital requirements and large exposure limits for banks' sovereign risk exposure, and thus these are unlikely to become the German government's position in potential future European negotiations.

Laggard Germany: Banking sector ROE post tax



Source: ECB, FDIC, Deutsche Bank Research

Housing policy: A lower property transfer tax seems feasible

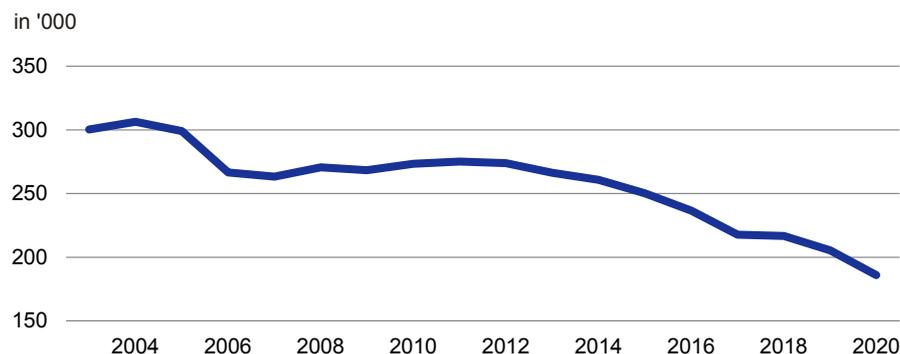
Left- and right-wing parties disagree on how to address rising rents



Contact: jochen.moebert@db.com

- As in 2017, the FDP and CDU/CSU propose a more supply-oriented, and the Left, Greens and SPD a more demand-oriented housing policy.
- **Conservatives and liberals promise to eliminate price and rent pressure via additional supply and to offer incentives for maintenance and investments.**
- **Those who live in rented accommodation and do not plan to move are likely to feel addressed by the SPD, the Left or Greens.** All three want to put a cap on rising rents. The proposals of the Greens and the Left might even imply a decrease in rents.
- The program of the Greens and the Left in particular include little incentives for investment. Future maintenance investments will be meagre, if made at all.
- Private households could face lower ancillary acquisition costs after the election. **This time, it is not only the FDP and CDU/CSU that are in favour of a reduction of land transfer tax, but also the Greens.**
- **The biggest surprise is that the liberals also vote against share deals used by large investors to reduce the property transfer tax.**
- Demand-side oriented parties give the impression that the relationship between landlords and renters is marked by quarrels. This holds partly true for some metropolises, in particular Berlin. But official data shows that rental disputes have steadily decreased for Germany as a whole (see chart).
- Digitalization, climate change, competitiveness and also the consequences of an ageing society are more important issues than housing policy for all parties. Hence, it seems likely that the **new coalition will broadly stick to the status quo** and we might see **only minor supply-oriented impulses in a Jamaica** and **only minor demand-oriented impulses in a traffic-light coalition.**

Court decisions: Rental disputes



Source: Federal Statistical Office, Deutsche Bank Research



Appendix

More insights into the federal elections

Germany's mixed electoral system demystified

System peculiarities might have an impact on the election outcome



How to translate the two votes into final seats

1st vote – decides which politician from the constituency will go to parliament

- An element of majority vote: In each of the 299 constituencies, the candidate receiving the most 1st votes gets elected directly into the Bundestag. Mainly won by candidates of large parties. This element assures regional representation, but might lead to overhang mandates.
- The remaining 299(+) seats of the Bundestag are assigned to reflect the parties' share of 2nd votes.

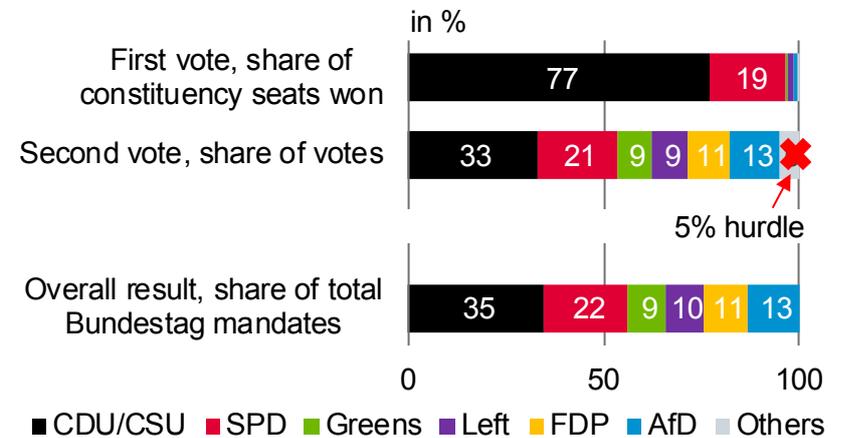
Share of 2nd votes determines party strength

- Strong element of proportional representation: Voters vote for a party. The share of 2nd votes achieved by parties determines their share of mandates in the Bundestag.

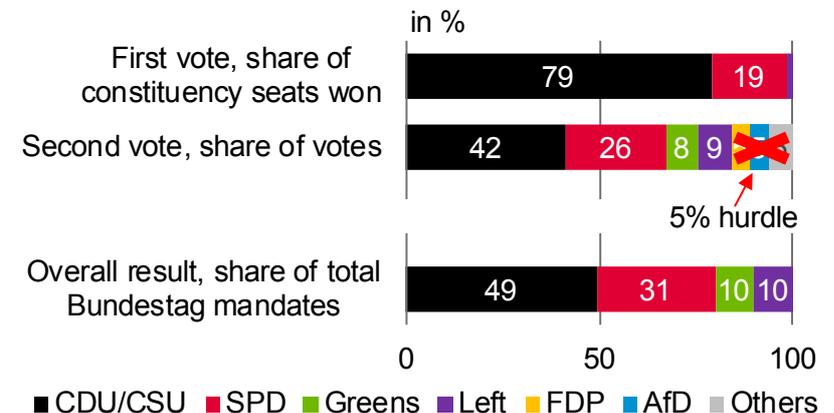
Peculiarities of the system might have an impact on the outcome

- **5% hurdle might shift weight to large-enough parties** (see 2013 example). Only parties with at least 5% of 2nd votes enter the Bundestag. The hurdle prevents strong fragmentation of the party system. In current polls, the Left is polling relatively close to the 5% threshold.
- **Overhang mandates can also slightly shift the balance** and have an impact on the outcome in case of a close race (in the past mainly to the benefit of the CDU/CSU). This could be amplified by a recent amendment of the electoral law allowing up to 3 overhang mandates not to be compensated with extra mandates.

2017 elections - all major parties clear the 5% hurdle, overall result close to 2nd vote



2013 elections - FDP and AfD fail to clear the 5% hurdle, shifting weight to other parties



See: Deutsche Bank, Focus Germany, [German parliament XXL](#), July 9, 2020

Source: Wahlrecht.de, Federal Returning Officer, Deutsche Bank Research

Casting votes during a pandemic

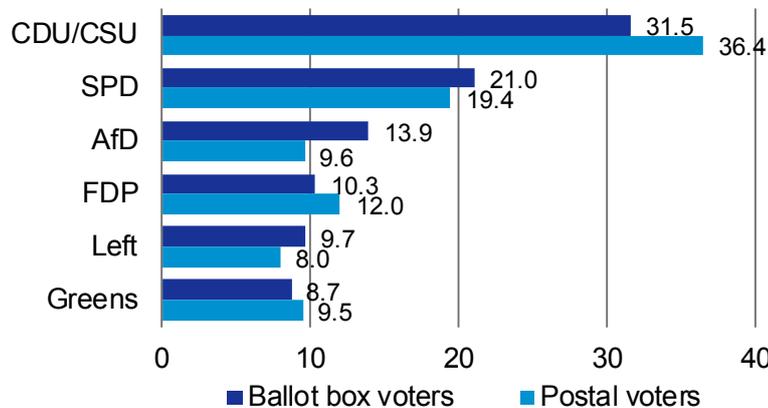
Postal vote boom, but voter turnout likely to be lower still



Postal vote – increasingly popular

Share of votes by voter type - biggest difference for CDU/CSU and AfD

% of voters in the 2017 Bundestag elections



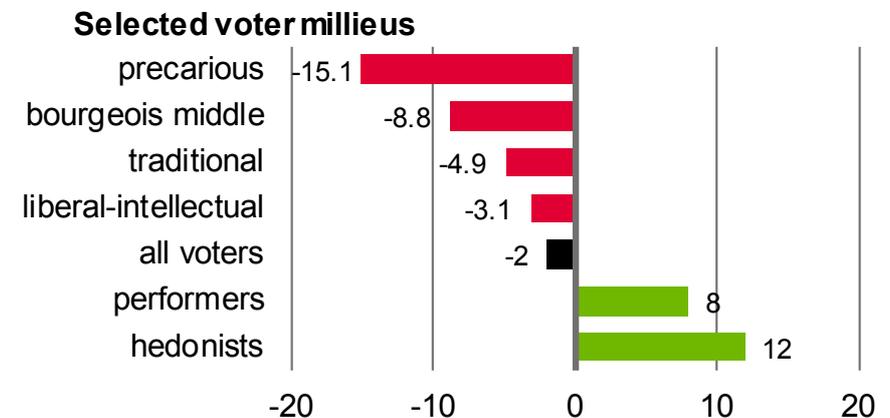
Source: Federal Returning Officer

- **Pandemic reinforces the general trend towards more postal voting.** In the March state elections in Baden-Wuerttemberg and Rhineland-Palatinate the share of postal votes more than doubled (to 51% resp. 66%). We expect no frictions as the German voting system is well prepared for an increase in postal votes.
- **Parties benefit to differing degrees from postal vote.** Several parties are specifically targeting postal voters. Events shortly before the elections will not be taken into account by early postal voters.

More voters to abstain from voting due to the pandemic

Lower inclination to vote in most voter millieus

Intention to vote, pp shift in comparison to 2017 elections



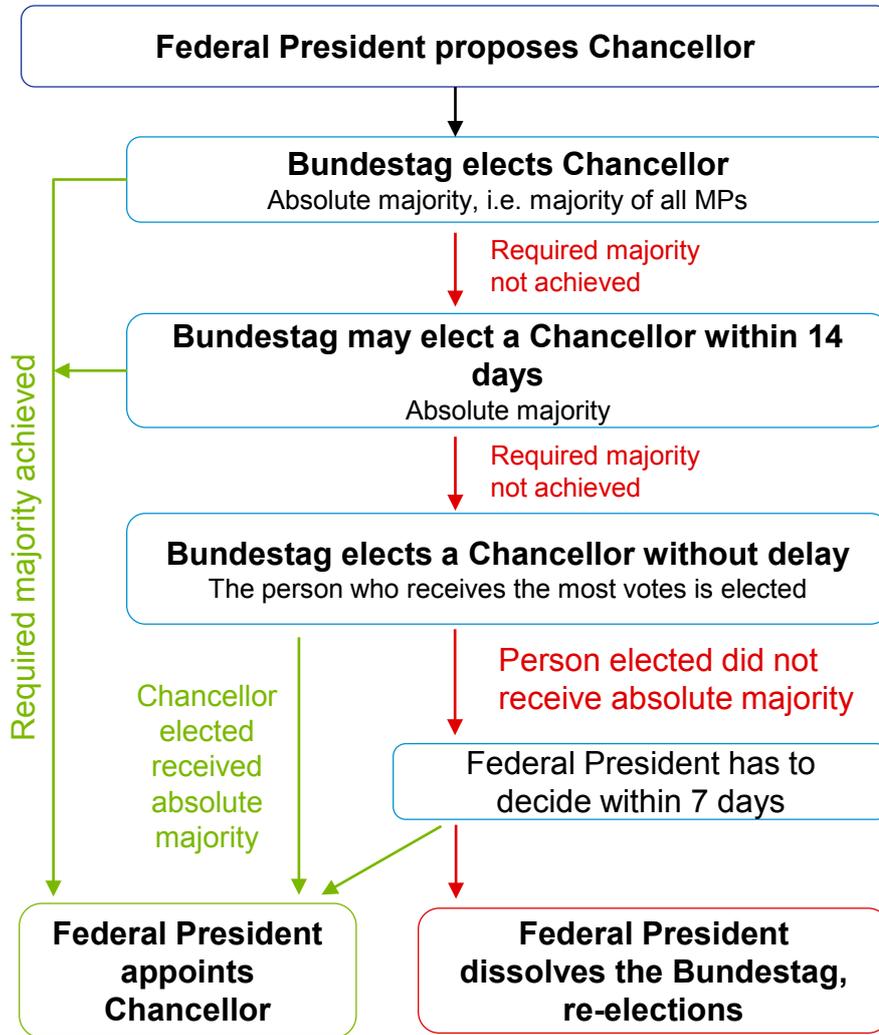
Source: [Bertelsmann Stiftung, Der "Corona-Effekt", 2021](#)

- **Pandemic may lead to lower voter turnout.** 1) Due to restrictions and safety reasons some voters may stay at home. 2) A recent study finds a certain "election fatigue" among different voter groups.
- Voter turnout was markedly lower in the March regional elections, 6pp lower compared to previous elections. Especially the AfD (not able to raise its profile despite coronavirus protests) and the CDU (voters disappointed with the management of the pandemic) were not able to fully mobilize their voters.

For more insights please see: Deutsche Bank, Germany Blog, [Kitchen table polling stations are open](#), August 26

Election of the Federal Chancellor

Usually just a formality



Election process foresees several rounds in theory – never happened in practice

- **Chancellor is elected once the coalition is formed.** The Federal President proposes a Chancellor, usually a common candidate agreed on in coalition negotiations (chancellor candidate), though the President is free in his choice. No deadline is set by law. Former Chancellors have been elected 24 to 171 days after the federal elections* depending on the length of coalition negotiations.
- **All Chancellors have been elected in 1st round so far.** Only 3 of 24 chancellor elections so far were tight:**
 - 1949, Adenauer (CDU/CSU) with 202 of 202 votes required
 - 1969, Brandt (SPD) with 251 of 249 votes required
 - 1976, Schmidt (SPD) with 250 of 249 votes required
- **Vote is held in secret.** In past elections some MPs abstained from the vote or even voted against their own candidate or for the opposing candidate respectively.
- The Chancellor appoints the cabinet after his/her election.

Source:

* Konrad Adenauer Stiftung, Koalitionsverhandlungen im Beziehungsgeflecht von Fraktion und Partei, 2021

** Welt, March 14, 2018, Das waren bislang die knappsten Kanzlerwahlen

Appendix 1

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