



To the point!

Cross-Asset- and Strategy-Research

Germany on the eve of elections – part 2

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Potential coalitions and post-election scenarios

Last week, I presented [in this column](#), a study by LBBW Research in which we scrutinized the economic policy proposals in the election manifestos of the parties running in the German federal elections. The conclusion: The conservative Union parties (CSU in Bavaria and CDU in the rest of Germany), the Greens, and the liberal FDP offer above-average promising proposals to stimulate Germany’s sputtering growth engine. However, "above average" means just that: better than the mean of all reviewed manifestos; it does not suggest that any one party has discovered the holy grail to resolve Germany’s deep-seated [structural growth issues](#). None has.

Examining economic policy convergence

No single party will secure an outright majority. Consequently, a coalition government will need to be formed. It could potentially comprise two or more parties, depending on the number of smaller parties surpassing the crucial five percent threshold needed to gain parliamentary representation. The higher the number of parties in the Bundestag (Germany's lower house), the slimmer the chances for a two-party coalition. Focusing solely on economic policies, the accompanying table illustrates which programs align more closely (high value, green) and which pull into opposite directions (low value, red).

	Union	SPD	Greens	AfD	BSW	FDP
Union		0,10	0,02	0,28	-0,10	0,50
SPD	0,10		0,55	-0,37	0,34	-0,22
Greens	0,02	0,55		0,05	-0,03	-0,23
AfD	0,28	-0,37	0,05		-0,17	0,51
BSW	-0,10	0,34	-0,03	-0,17		-0,24
FDP	0,50	-0,22	-0,23	0,51	-0,24	
The Left	-0,48	0,26	0,16	-0,26	0,48	-0,21

No party has discovered the holy grail

No majority for aligned parties.

Significant alignment is observed between the Union parties and FDP on one side, and SPD and Greens on the other. So far, so unsurprising. Yet, current polling suggests that none of these combinations will garner a majority. The most plausible scenario points to a coalition led by the CDU with Friedrich Merz as Chancellor, possibly with SPD and/or Greens. Should the FDP manage to cross the electoral threshold, a so-called Germany coalition – comprising CDU (black), SPD (red), and FDP (yellow) – might also be viable. A tripartite coalition would be more complex to navigate, given the moderate programmatic convergence between Union Parties and SPD or Greens, and the particularly stark contradictions between FDP and SPD or Greens.

Nevertheless, this could also be turned to an advantage. If, for instance, CDU and the Greens were to form a coalition, each party could contribute its strengths to the coalition agreement: The Union focusing on deregulation and stronger incentives for employment, and the Greens emphasizing investment, education, and integration. The resultant coalition agreement could be better than each party's manifesto in isolation. Of course, such an outcome would necessitate a spirit of teamwork and humility.

My endorsement for election Sunday

You didn't seriously expect me to endorse a specific party, did you? Certainly not. However, the Bundestag election is not solely pivotal for the much-needed policy initiatives to give the economy a jolt. Geopolitically, the stakes have rarely been higher. Consequently, the new federal government, irrespective of its composition, needs a robust mandate. A high voter turnout is crucial to achieve this. Hence, my recommendation to the German electorate: cast your vote, even if no party has fully convinced you. Democracy is always about imperfect choices.

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The coalition negotiations will be difficult

A high voter turnout is urgently needed

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