

German election update – Door open for loosening the debt brake

The election polls, which have been fairly stable so far, point to a coalition government between the CDU/CSU and SPD – possibly supplemented by the Greens or the FDP. Such a coalition would probably reform the debt brake without solving all financial problems.

CDU/CSU still clearly in the lead

The changes in the poll results are still very limited approximately a week before the general elections. The CDU/CSU have stabilized their average poll ratings at just over 30% and are therefore likely to be by far the largest parliamentary group in the new Bundestag, while the AfD, SPD and Greens have recently seen their poll ratings fall (Chart 1).

There has been more movement among the smaller parties. The Left Party, which has long been well below 5%, has made significant gains in recent weeks and therefore has a good chance of re-entering the Bundestag even if it does not win three direct mandates. The Sahra Wagenknecht Alliance (BSW), on the other hand, is trending downwards. The polling average for them is now below 5%, threatening the re-entry if their results falls below the 5% hurdle. The same holds true for the Liberals(FDP), whose poll ratings have been stable at around 4% for several weeks.

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Dr. Ralph Solveen^{AC}

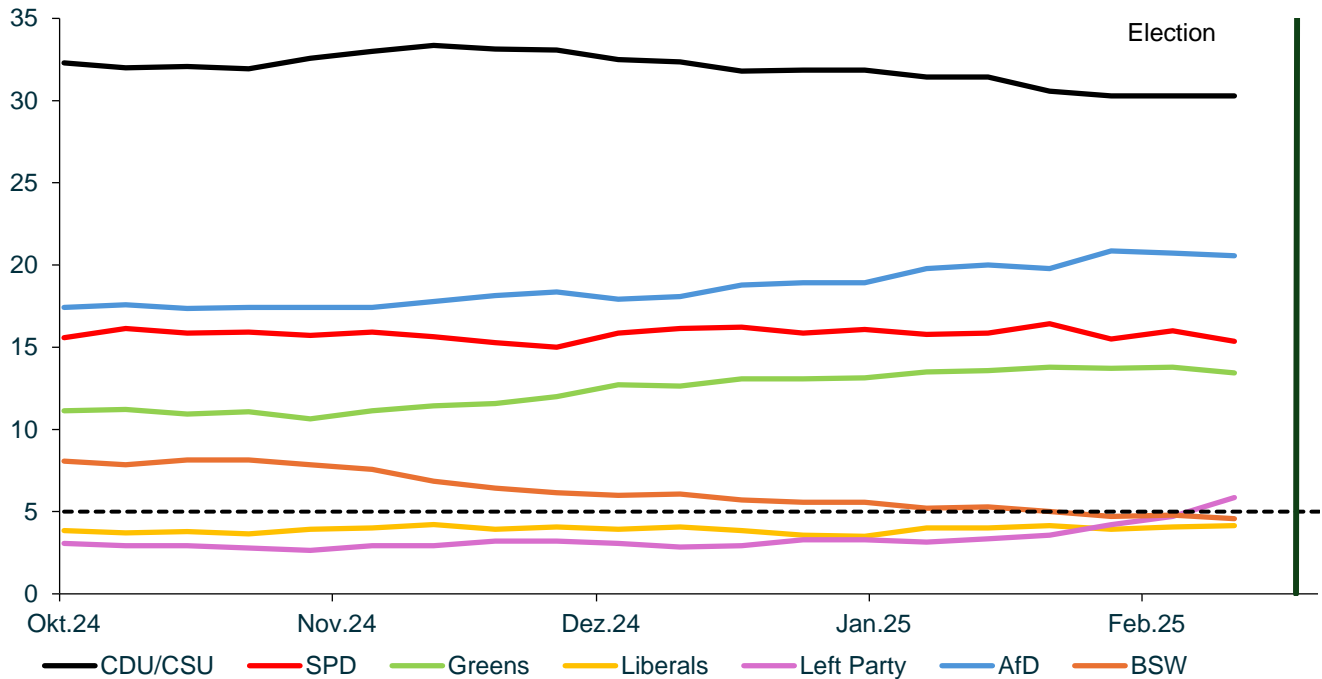
Table of contents

CDU/CSU still clearly in the lead	1
“Grand” coalition remains the most likely option, ...	2
... despite differing ideas	3
Loosening of the debt brake likely, ...	3
... but this would not solve all budgetary problems	3
Former publications on the general election 2025:	4



Chart 1 - CDU/CSU still with a big lead, Left party above the 5% hurdle

Parties' share of the vote in the next general election, average of the most recent projections by 7 opinion research institutes, in percent



Source: wahlrecht.de, Commerzbank Research

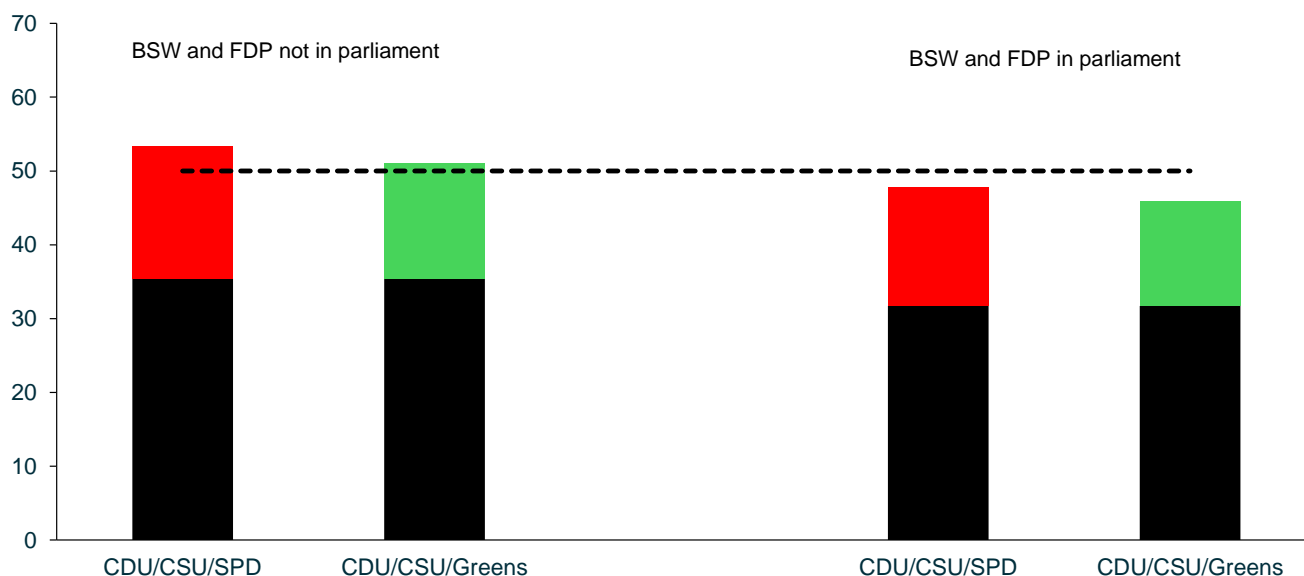
“Grand” coalition remains the most likely option, ...

Despite the recent tension between the CDU/CSU and SPD, there is much to suggest that these parties will form the new governing coalition after the election. Only this combination of parties would have a comparatively comfortable majority in the Bundestag based on the current polls (Chart 2). However, this only applies if BSW or FDP fail to enter the Bundestag. If both parties overcome the 5% hurdle, another partner would have to be added, which would probably be the Greens or the FDP.



Chart 2 - Performance of smaller parties could determine coalition options

Parties' shares of seats in the Bundestag in percent if BSW and FDP fail to reach the 5% threshold (left columns) or if they both receive at least 5% (right columns), based on the average of the latest poll by 7 institutes



Source: wahlrecht.de, Commerzbank Research

... despite differing ideas

The negotiations to form such a coalition would certainly not be easy. The tone between the parties has become much harsher during the election campaign. In the end, however, this is unlikely to cause a coalition to fail.

A higher hurdle in the negotiations is likely to be the differences in policy, particularly when it comes to economic policy. While the CDU/CSU want to spur growth in particular by improving conditions for firms – e.g. through tax cuts for companies – the SPD is focusing primarily on subsidies for private investment and additional government investment.

Loosening of the debt brake likely, ...

However, these plans have one thing in common: they will put a strain on the public budgets, at least initially. Added to this are the significant increases in defense spending in the coming years, which will probably be necessary, and the additional investments in infrastructure promised by all parties. As significant cuts in spending are unlikely to gain majority support, the discussion is likely to move very quickly towards a relaxation of the debt brake. The SPD and Greens have been calling for this for a long time, while the CDU/CSU and FDP have rejected it. However, the CDU/CSU candidate for chancellor, Friedrich Merz, has recently indicated that he is quite willing to talk on this point. This means that there is only likely to be serious resistance to such a relaxation if the FDP is part of the government, and this is rather unlikely based on the latest polls.

There are plenty of suggestions as to how the government's scope for debt can be increased: the declaration of subsidies as "financial transactions" [1], which are excluded from the debt brake, new special funds, an increase in the permitted structural deficit or the exclusion of (net) investments by the government (for a discussion of the details, see [here](#)). With the exception of the "financial transactions", however, the constitution must be amended for this, which requires a 2/3 majority in the Bundestag and Bundesrat. In the Bundestag, the CDU/CSU together with the SPD and the Greens are likely to get a 2/3 majority based on current polls. However, if the BSW and FDP were to make it into the Bundestag, the Left and/or the BSW would probably also have to agree to such an amendment to the constitution. In the Bundesrat, too, at least one state that is co-governed by one of these two parties would have to agree. However, this should be possible with the increase in the financial policy leeway of the federal states, which the other federal states will certainly also demand, especially as the BSW and the Left Party are also demanding a relaxation of the debt brake.

... but this would not solve all budgetary problems

However, the measures described above alone are unlikely to be sufficient to overcome the challenges facing the federal budget in the coming years. On the one hand, the CDU/CSU are likely to agree to a relaxation of the debt brake, but hardly to its de facto abolition. Secondly, European budget rules also limit the scope for national fiscal policy. As a result, only some of the parties'



proposals are likely to be implemented after the election, and the discussion about additional sources of financing – e.g. through further borrowing at European level – will continue.

[1] In “financial transactions”, the state acquires or sells assets. Even when the Maastricht criteria were implemented, these were excluded so that states could not push their deficits below the permitted 3% of gross domestic product by selling shares in companies or other assets. However, the political debate in Germany is now moving in the opposite direction: the previous government already wanted to reduce the subsidies for Deutsche Bahn's investments and increase the equity of this state owned company in return, and the SPD wants to fill its planned “Germany Fund” with such transactions. However, it is legally controversial to what extent this approach is compatible with the current provisions of the constitution. ([back to text](#))

Former publications on the general election 2025:

- [“What happens to the debt break?”](#), Economic Insight 21 November 2024
- [“Election update Germany – Upper house a big hurdle for the next government”](#), Economic Insight 2 December 2024
- [“Election update Germany – Will the SPD succeed in catching up?”](#), Economic Insight 11 December 2024
- [“Election update Germany – The plans of CDU and CSU”](#), Economic Insight 17 December 2024
- [“Election update Germany – Who will be in the next parliament?”](#), Economic Insight of 17 January 2025
- [“Election update Germany – Will the migration debate move the polls?”](#), Economic Insight of 27 January 2025
- [“Election update Germany – polls stable despite harsh migration debate”](#), Economic Insight of 3 February 2025



Analysts

Dr. Ralph Solveen ^{AC}
Senior Economist
+49 69 9353 45622
ralph.solveen@commerzbank.com

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Commerzbank Offices

Frankfurt

Commerzbank AG
DLZ - Gebäude 2,
Händlerhaus
Mainzer Landstraße 153
60327 Frankfurt
Tel: + 49 69 136 21200

London

Commerzbank AG
PO BOX 52715
30 Gresham Street
London, EC2P 2XY
Tel: + 44 207 623 8000

New York

Commerz Markets LLC
225 Liberty Street, 32nd
floor,
New York,
NY 10281-1050
Tel: + 1 212 703 4000

Singapore

Commerzbank AG
128 Beach Road
#17-01 Guoco Midtown
Singapore 189773
Tel: +65 631 10000