



German elections – can the next government kickstart growth?

The "Union" of CDU and CSU is expected to win the German parliamentary elections on Sunday and thus provide the chancellor. However, the new governing coalition is likely to consist of parties with very different economic policies. This dampens hopes that the structural weaknesses of Germany will be significantly reduced after the election.

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Friedrich Merz will probably be the next Chancellor,...

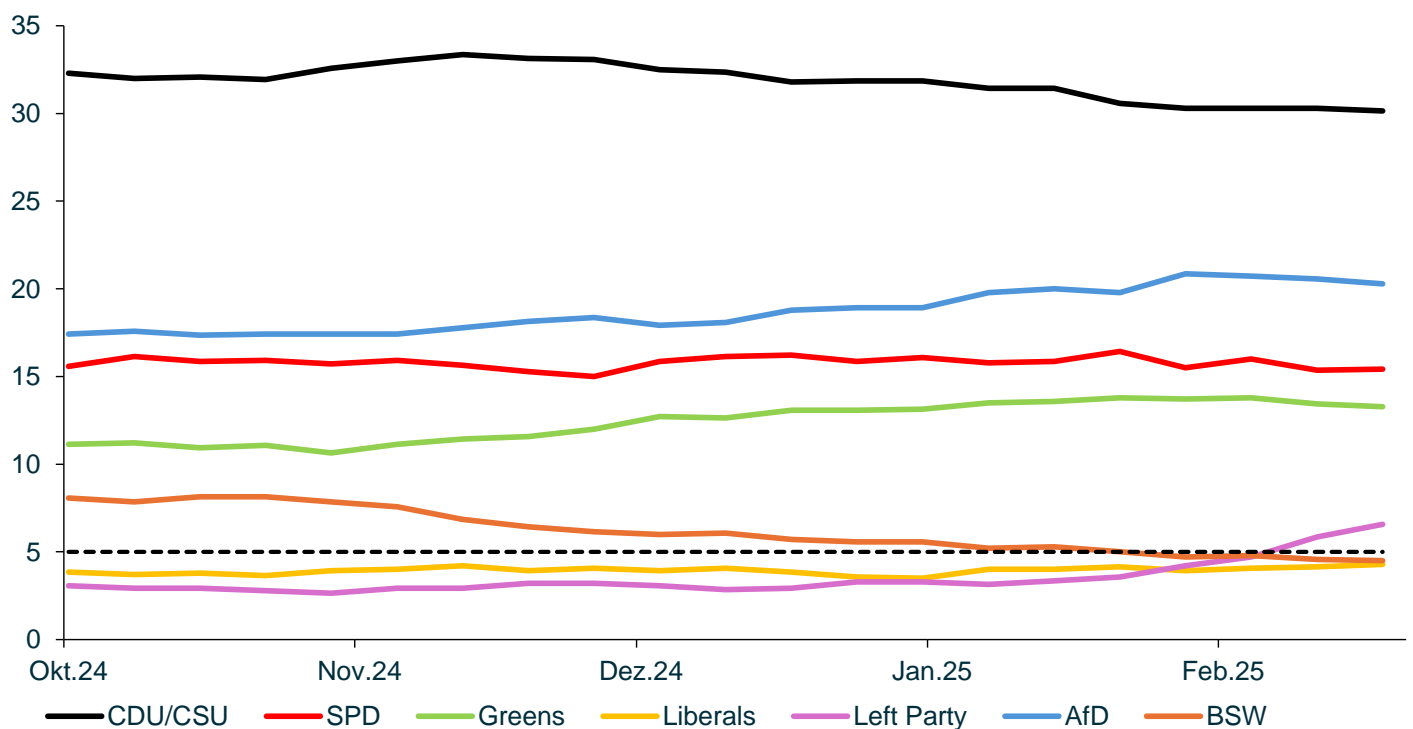
Shortly before the Bundestag election, one thing seems clear: the CDU/CSU (who form a "union" in the Bundestag) will win this election by a clear margin, and the CDU's party leader Friedrich Merz will be the next Chancellor. Despite a slight downward trend, the average poll numbers for the two parties are still just over 30% and thus well above the numbers for the other parties (Chart 1).

There has also been little movement among the other "major" parties in recent weeks. The right-wing AfD is clearly in second place, followed by the SPD and the Greens, with the gap between the two parties being quite small.

There has been more movement recently among the "smaller" parties. The poll numbers of the Left Party have improved significantly in recent weeks; there is now much to suggest that this party will also be part of the next Bundestag. On the other hand, the trend in the poll numbers for the "Bündnis Sahra Wagenknecht" (BSW, a newly formed left-wing party named after her leader) continues to point downward, with the result that this party is now below 5% in the average of the seven opinion research institutes we have considered. The latter also applies to the business-friendly FDP, which was recently estimated at 5% again in two surveys, which would be enough for it to enter the Bundestag.

Chart 1 - CDU/CSU still with a big lead

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



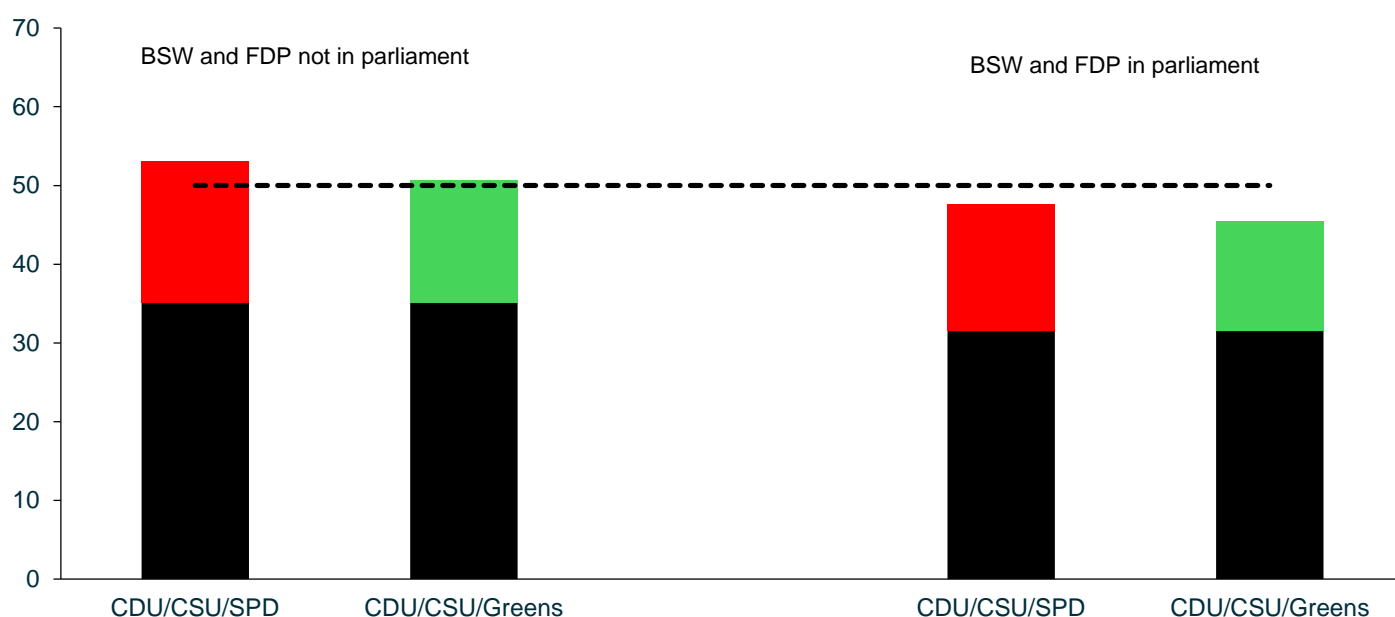
... but with which coalition?

Whether BSW and FDP enter parliament could determine which coalitions are formed. If both fail to clear the 5% hurdle, the latest polls suggest that CDU/CSU and SPD would together have a majority in the Bundestag (Chart 2). The same would probably apply to a combination of CDU/CSU and the Greens, although the majority would be very small.

The situation would be different if the BSW and FDP were represented in the next Bundestag. In that case, the CDU/CSU and SPD would probably have to look for an additional partner, which would likely be either the Greens or the FDP. Mathematically, a “Jamaica coalition” of CDU/CSU, Greens and FDP would also be possible. However, the FDP has ruled out working with the Greens.

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 polls by 7 institutes



Source: wahlrecht.de, Commerzbank Research

Conflict over economic policy inevitable

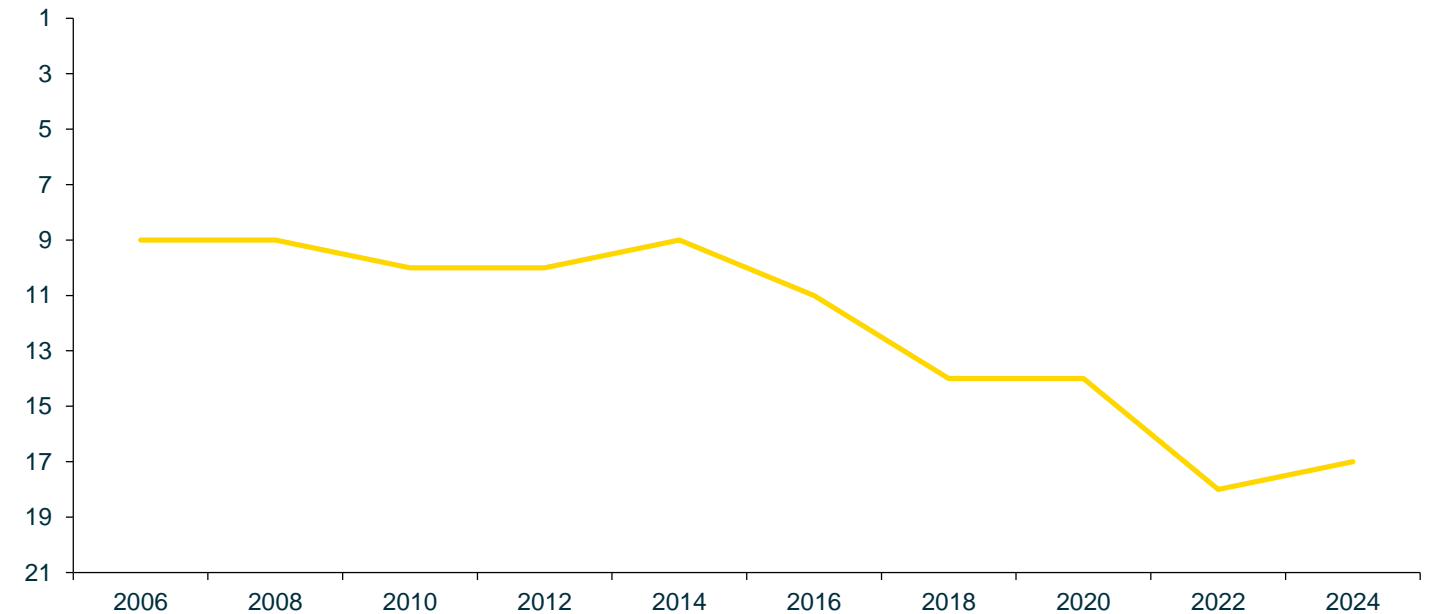
The “classic” coalitions of CDU/CSU and FDP and SPD and the Greens will in all likelihood not have a majority in the Bundestag. It is therefore almost certain that in the new coalition – as previously in the “traffic light coalition” of SPD, Greens and FDP (the SPD usually has the color red, the FDP yellow) – parties will have to work together that have different ideas about how to get the German economy back on track. This dampens hopes that the new federal government will actually take decisive action to give the German economy a new boost.

Competitiveness has been eroding for ten years...

And yet there is an urgent need for action. This is evident not only from the fact that the German economy has not grown on balance in the past five years. Rather, many studies show that Germany has lost much of its competitiveness. According to the Country Index of the Foundation for Family Businesses, Germany has steadily fallen behind in the rankings since 2014. It used to be in the middle of the 21 countries surveyed, but now it is very far down the ranking list (Chart 3). It is little consolation that France, Spain and Italy, the other large economies in the eurozone, perform even worse.

**Chart 3 - Germany on a downward trend ...**

Germany's ranking in the "Family Business Country Index" and its subcomponents among 21 countries



Source: Stiftung Familienunternehmen, Commerzbank Research

Action needed in infrastructure and energy...

A look at the sub-components of the index shows that Germany is not at the bottom of the table in two areas that are often mentioned as urgent problem areas, but rather in the middle of the pack: infrastructure and energy (Chart 4). The substance that still exists in many areas has a positive effect. For example, the result in the area of energy is positively influenced by the very high security of supply to date, where Germany occupies the top position. In the case of electricity prices, the result depends very much on the consumption of the respective company. In particular, energy-intensive companies face significantly higher costs than in a number of other countries, with the differences to the US being greater than to the average of European countries.

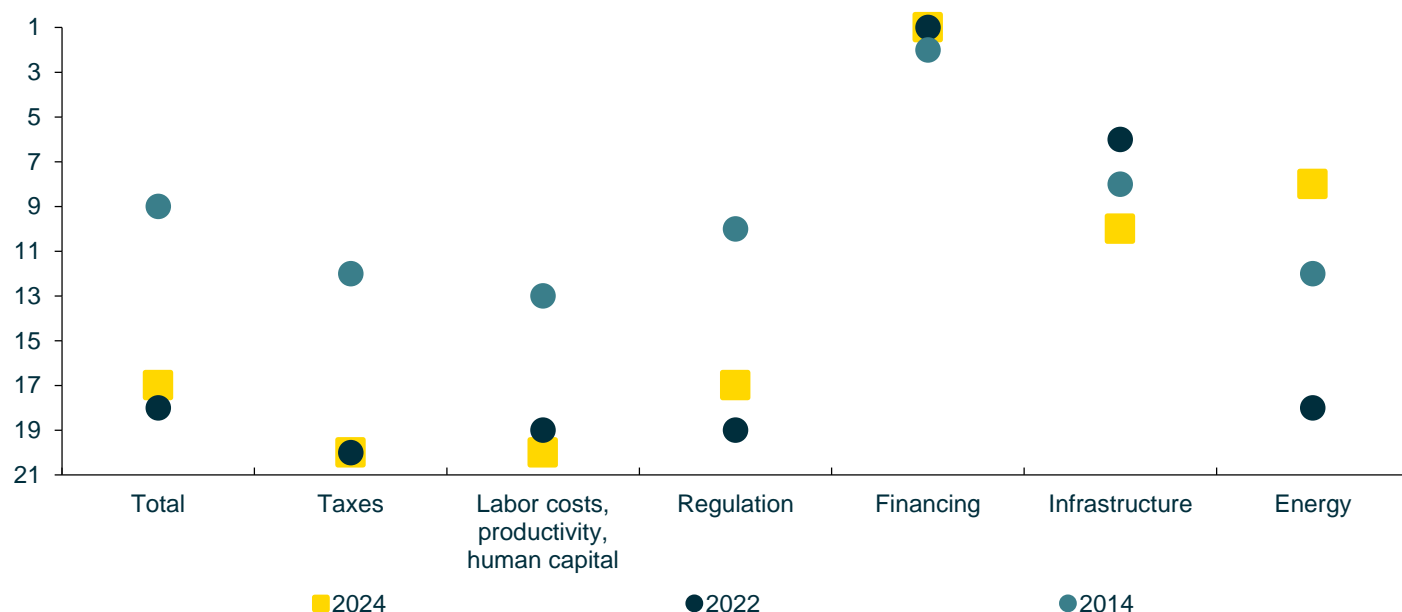
The infrastructure sub-item benefits, on the one hand, from the fact that factors such as legal certainty and a largely functioning corruption control are also taken into account here. But the transport infrastructure in the narrower sense also performs better than some might expect. Although the condition is assessed rather poorly, this is partially offset by the good development.

This is not to say that there is no need for action in these areas. Without investment in the power grid and reserve capacities at the power plants, the security of supply could be jeopardized if renewable energies are further expanded. Without investment in the transport infrastructure, its deterioration could more than offset the generally good development of the regions. However, according to the study, the biggest weaknesses of Germany as a business location lie elsewhere.



Chart 4 - ... with weaknesses particularly in taxes, labor costs and regulation

Germany's ranking in 2014, 2022 and 2024 in the "Family Business Country Index" and its subcomponents among 21 countries



Source: Stiftung Familienunternehmen, Commerzbank-Research

... but much more urgently in the areas of taxes, labor costs and regulation

Because the decline in the ranking is primarily due to three other areas in which Germany is now performing very poorly: taxes, labor costs/human capital and regulation. This is not necessarily due to an absolute deterioration of the situation in Germany, but rather to the fact that other countries have taken action, but the German government has not. For example, in recent years, many countries have lowered corporate tax rates, while they have remained unchanged in Germany.

Will the weaknesses be addressed after the election?

Some of the weaknesses identified in this study are also mentioned prominently in most of the election manifestos. For example, most parties want to reduce energy costs, invest more in infrastructure and reduce bureaucracy. However, there are often differences when it comes to the "how". For example, many parties want to reduce the electricity tax in the short term and pass on the grid costs previously included in electricity prices to the state. However, there are certainly differences in the ideas of how electricity prices can be reduced in the long term by expanding supply.

When it comes to reducing bureaucracy, there are likely to be significant differences in opinion as to which regulations are dispensable. It is no coincidence that this point has been on the agenda for many years, and yet the situation has continued to deteriorate.

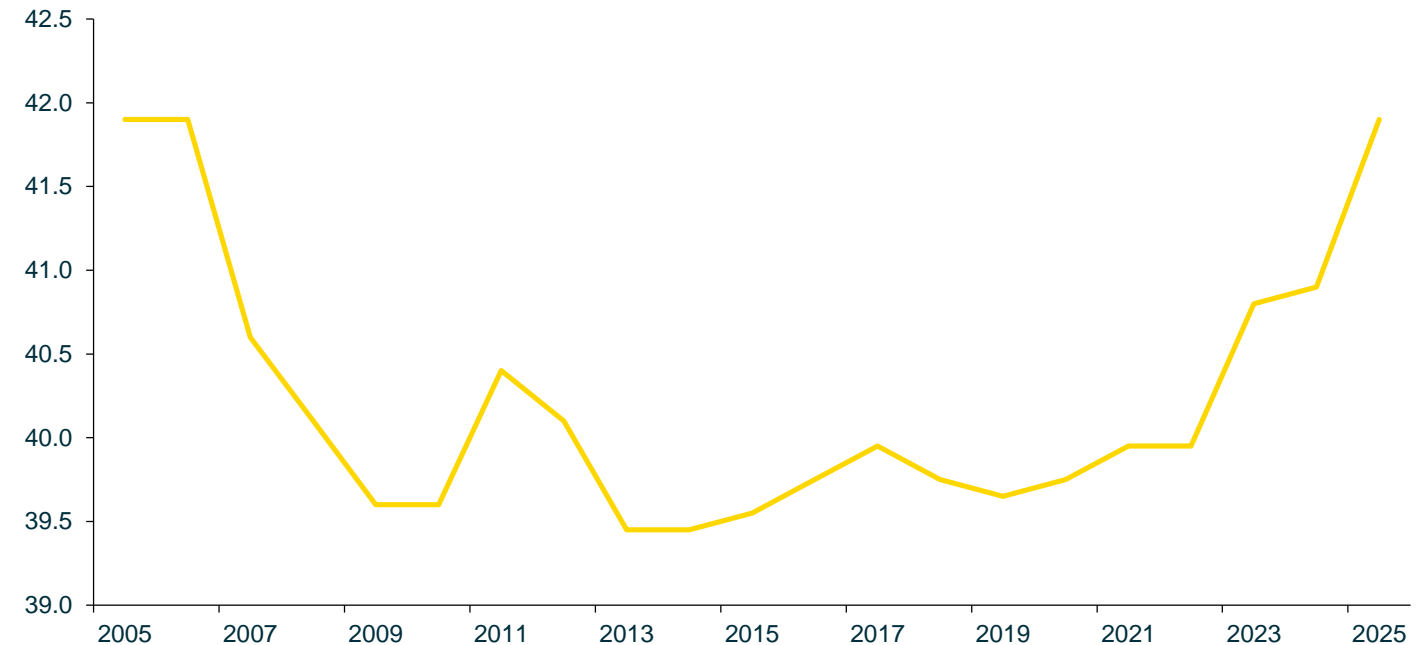
Two of the weak points in the location ranking, on the other hand, are not seen as urgent by some potential governing parties. Although the SPD and the Greens are calling for lower incomes to be relieved, they would rather increase the top tax rate, which would also affect many companies. In contrast to the CDU/CSU and FDP, a lower corporate tax rate is not on the agenda for them. Instead, they want to make Germany more attractive as a business location for companies, among other things, by offering a premium for investments – in other words, subsidies.

Important aspects of the topic "labor costs and human capital" are neglected in the programs. All parties are calling for more spending on education, although this would probably only have a positive impact in the long term.^[1] However, the parties have little to say about high labor costs in their manifestos. The CDU and CSU want to "move back towards the 40% mark" for social security contributions (chart 5), which have risen significantly in the last two years. But there are hardly any concrete proposals to this end. For the Greens and the SPD, too, high labor costs play practically no role as an economic problem. Instead, the minimum wage is to be raised to EUR 15 per hour, and the promised stabilization of the pension level at 48% of average income would cause contributions to the pension insurance system to rise significantly in the coming years due to demographic trends.



Chart 5 - Significant increase in social security contributions

Contributions to social insurance, as a percentage of wages



Source: www.sozialpolitik.de, Bundesministerium für Arbeit und Soziales, Commerzbank Research

Loosening the debt brake – Will more money cure all ills?

The next coalition is most likely to make improvements in the areas of energy and infrastructure. They are likely to be able to agree most easily on investments in these areas. However, the financing issue would have to be resolved for this, especially since high additional expenditures will be incurred for defense. Therefore, after the election, there will be strong pressure to relax the requirements of the constitution for new borrowing. In this context, we consider it more likely that there will be one or two additional special funds for these two areas, at least in the short term, than that the debt brake will be formally relaxed.

Greater leeway for additional debt could also help the coalition to reach an agreement in other areas. After all, if more money is available, a future federal government would have to set fewer priorities, allowing all partners to implement some of their ideas at the same time, which would certainly stabilize the coalition. However, this would only be a temporary solution, which would be bought at the cost of even higher government debt and future burdens. Furthermore, this would further increase the federal budget and thus the state's influence on the economy, which would hardly lead to a more efficient use of economic resources in the long term.

[1] In the "human capital" section, the study's assessment of the situation in Germany is too poor in one respect. That's because one of three points is the percentage of employees with a university degree, in which Germany only ranks 16th among the 21 countries. However, this does not take into account the high percentage of in-company training, the quality of which is often cited as a particular advantage of Germany as a business location. Therefore, the need for action in the field of education may not be as great as the study shows. ([back to text](#))



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