The most likely outcome of the federal election on 22 September is that Angela Merkel (CDU) will continue as Chancellor.

Opinion polls give CDU/CSU and the junior coalition partner FDP a slim majority in the Bundestag, while Peer Steinbrück’s SPD and Greens coalition is lagging behind.

However, the FDP is struggling to stay above the 5% threshold. If both coalitions fail to win a majority in the Bundestag, a broad CDU-SPD coalition cannot be ruled out.

Both the current coalitions and a possible broad CDU-SPD coalition are pro euro. Euro-sceptic Alternative für Deutschland has only around 3% of the votes in the polls.

Nevertheless, the elections are important, because sensitive European issues have de facto been paused in order not to upset the German voters.

Thus, we expect progress on issues from the Banking Union to Greek debt forgiveness to gain renewed momentum after the elections, no matter who wins.

Bundestag

The Bundestag is elected by mixed-member proportional representation, under which each voter has two votes. A total of 299 members are elected in single-seat constituencies and 299 members are elected on national party lists (landeslisten). Parties that obtain fewer constituency seats than their national share of the vote are allotted seats from the party lists to make up the difference. Parties that obtain more constituency seats than their national share of the vote are allowed to keep these overhang seats. In the current parliament, there are 22 overhang seats, giving the Bundestag a total of 620 members.

A party must receive either 5% of the national vote or win at least three directly elected seats to be eligible for non-constituency seats in the Bundestag.

The outgoing Bundestag is dissolved only once a newly elected Bundestag has gathered in order to constitute itself, which has to happen within 30 days of its election. In theory, a minority government is possible but this is very unlikely in practice.

Political parties

Historically the German federal elections have been races between on the one side the conservative sister parties the Christian Democratic Union and Christian Social Union of Bavaria (CDU/CSU) and on the other side the Social Democratic Party (SPD). One of them would then usually form a coalition with the Free Democratic Party (FDP) as a junior partner. This pattern changed with the formation of the Greens in the 1970s, a left-wing party with focus on environmental matters, which has become a new credible partner for SPD. Many new parties have been formed over the last 10 years but only the Greens and Die Linke have been able to win a substantial number of seats in the Bundestag. In the current elections, as many as 30 parties will participate at the national level.

Key facts

- The election is due to be held on 22 September 2013.
- Chancellor candidates:
  - Angela Merkel (CDU)
  - Peer Steinbrück (SPD).
- Opinion polls give CDU/CSU and the junior coalition partner FDP about 46% of votes versus 43% for the opposition.
- The formation of a new coalition may be complicated if the current CDU/CSU-FDP does not get a majority of seats in the Bundestag.
- German EU/euro policies are unlikely to change much regardless of the outcome.

Senior Economist
Frank Øland Hansen
+45 45 12 85 26
franh@danskebank.dk

Assistant Analyst
Mikael Olai Milhøj
milh@danskebank.dk
And the winner is...

The most likely outcome of the federal election on 22 September is that Merkel (CDU) will continue as Chancellor, although nothing is given. She is favoured as Chancellor by about 54% of Germans, while only about 23% would choose Steinbrück, who has so far delivered a somewhat clumsy election campaign. However, the Chancellor is not elected directly and party politics deliver a less clear-cut result.

Recent opinion polls give CDU/CSU and the junior coalition partner FDP about 46% of votes in total. With about 11% of votes likely to be lost on parties that fail to reach the 5% threshold, CDU/CSU and FDP might be able form a majority government with a slim margin.

The euro-sceptic Alternative für Deutschland (AfD), which wants to abolish the euro is getting about 3% of votes in most polls. Despite all the fuss, it seems that AfD will not even enter parliament, as it is unlikely to reach the German 5% threshold for getting seats in the Bundestag.

The emergence of AfD might still have significant implications even though it may not enter the Bundestag. More than a third of those who intend to vote for AfD voted for FDP at the previous elections in 2009. FDP, which received 14.6% of votes in the 2009 election, is not far above the 5% threshold in recent polls and if AfD manages to win over a few more votes, it could mean FDP is not represented in the Bundestag at all. Votes are wasted if parties do not get seats in the Bundestag. Merkel would then have to bet on forming a grand coalition.

The opposition coalition SPD and Greens are lagging behind with about 33% of votes. Die Linke, which polls about 10% of votes, said in early August that it wouldn’t support an SPD/Greens minority government. An SPD-Greens-Die Linke coalition would be difficult for the SPD and Greens to accept due to Die Linke’s communist past. The SPD and Greens also dislike the idea of a coalition with Die Linke nationally because of its public opposition to NATO and its distaste for euro area bailouts forced on southern European countries. In any case an SPD-Greens-Linke coalition currently seems to likely to command about 43% of votes, which is not enough to secure a majority.
If none of the current coalitions wins a majority in the Bundestag, a grand CDU-SPD coalition would become a possibility. However, there is very little appetite for this, particularly within the SPD. The last time the SPD joined a grand coalition with Merkel in 2005-09, its popularity plummeted to the lowest level in the post-war era. Merkel has said that it would not be credible to rule out a grand coalition given that she has led one before, even though she prefers her current coalition formation. However, Steinbrück has publicly rejected the idea of serving in a new grand coalition (he served as Finance Minister in the grand coalition of 2005-09) but it is possible that he might either change his mind or could choose to resign if necessary.

**In our view, the current positive economic developments in Germany increase the likelihood that the CDU/CSU, FDP coalition will be able to continue after the election. If this fails, a grand coalition seems to be the most likely alternative.**

**EU issues on pause**

The elections are important because sensitive European issues have *de facto* been paused in order not to upset German voters. We expect progress on issues from a third rescue package for Greece to debt forgiveness and banking union will gain renewed momentum after the elections, no matter who wins. This said, an important driver of EU politics in recent years has been the sense of crisis. In the absence of market pressure, progress on banking union may remain slow – German elections or not.

Merkel has tried to avoid Greece as an election theme. Many Germans fear that rescuing peripheral countries will turn out to be much more expensive than initially thought. Steinbrück has tried to play on this saying that ‘Ms Merkel has been pulling the wool over our eyes for three years’. In return, Merkel has blamed Gerhard Schröder for letting Greece into the euro in 2001 and has stated that ‘Chancellor Schröder accepted Greece in and weakened the Stability Pact and both decisions were fundamentally wrong and one of the starting points for our current troubles’. Possibly in order not to be blamed for lying, Finance Minister Schäuble at a CDU campaign rally on 20 August said that ‘there will have to be another programme in Greece’. This attracted a lot of attention, although it should not be much of a surprise as the IMF has already stated that there is a funding gap. Merkel insists that the issue of further help for Greece will not be discussed until next year. She also continues to rule out debt relief for Greece. In our view, Greece will need additional financial assistance and it seems to us that some kind of debt relief from the EU will eventually be unavoidable. Nevertheless, Steinbrück will probably not get much out of attacking Merkel on this ground, as she is generally seen as defending national interest.

Germany’s standpoint on EU issues is likely to remain broadly unchanged after the election even if the opposition wins. Decisions regarding Europe have passed the German Parliament with stable broad-based support (roughly an 80% majority in recent years) and this is likely to continue. The SPD is pro-euro and its stance with regard to the European debt crisis is not far from the line followed by the incumbent government. If anything, Peer Steinbrück appears somewhat less tough with regard to imposing strict austerity measures on peripheral countries.

It may matter who becomes finance minister. The incumbent Wolfgang Schäuble is almost feared in parts of Europe because of his hard stance on countries in need of rescue. He advocates the need for structural reform and fiscal tightening in order to get the peripheral countries back on track. He also believes that they need to feel pressure from markets and/or the EU in order to keep up reform momentum. If CDU/CSU, FDP wins a majority, Schäuble is likely to continue as Finance Minister. It is much more open who would take the position in a grand coalition led by Merkel. It could be Steinbrück (who also had the position in 2005-09) or maybe ECB board member Jörg Asmussen. The stance on European issues will probably be softened the most if Steinbrück becomes Finance Minister.
The difference is mainly found in domestic politics

The difference between CDU and SPD is found mainly in their different views on domestic issues, which are unlikely to affect the euro area as a whole. Maybe the biggest difference is on tax policy but recently the SPD’s intention to hike the top tax rate from 42% to 49% and reintroduce a wealth tax have been played down in order not to scare voters. Instead, there has been a shift to focus on combating tax fraud. The SPD also wants to spend more money on education and infrastructure.
Political parties in Germany

German political parties

- Christian Democratic Union (CDU) is a traditional conservative and Christian democratic party in Germany. Its candidate for Chancellor is Angela Merkel. The CDU’s campaign will centre on Angela Merkel’s crisis management, her popularity with the public and the view that the opposition is unreliable. Also, the CDU will not deviate from its fiscal conservative path, so budgets must balance and taxes not increase.

- Social Democratic Party (SPD) is a traditional labour party based on the labour movement in the 19th century. The SPD’s election programme consists of classic social democratic elements such as tax increases for top earners, introduction of a minimum wage and more regulation of financial markets and so on. Its Chancellor candidate is Peter Steinbrück.

- Free Democratic Party (FPD) is based on classic liberalism and advocates free markets. The FPD has lost many of its voters due to infighting.

- The Green Party’s political ideology is based on environmental activism and pacifism, although the party has become less pacifistic over time. The Greens want to close down Germany’s nuclear power plants, increase investments in green technologies and reduce the income gap between rich and poor without increasing the burden on future generations.

- Die Linke was formed in 2007 as a merger of the Party of Democratic Socialism (PDS) (successor to the communist party in East Germany) and WASG, a group of unhappy former SPD members. Many voters dislike it because of the party’s past in East Germany and it will most likely be a supporting party for a possible new SPD-Greens coalition.

- Christian Social Union (CSU) is a sister party to the CDU but in general its members are more conservatively minded than CDU members. It is located in Bavaria.

- The Pirate Party is inspired by the party of the same name in Sweden. Surprisingly, the party has had success in several regional elections. The party’s election programme is based on reforms of copyright laws, resistance to the NSA’s surveillance in Germany and securing protection of private information on the internet.

- Alternative for Germany (AfD) is based on the growing EU and euro scepticism in Germany, in particular on the right of the political middle. The party is not based on nationalism like other anti-EU parties around Europe.

- For more information, see Spiegel.
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