

German Elections – Post-Merkel, what next?

Summary

- Germany's next federal elections will take place on Sunday 26th of September. Recent polls suggest an increased likelihood of a government led by the Social Democrats (SPD). Around 40% of voters remain undecided.
- In the event of an SPD victory, we would see the odds increasing for a "traffic light" coalition with the Greens and Free Democrats, although a "Jamaica" coalition with the participation of the Christian Democrats instead of the SPD would still be possible.
- All parties will want a new government in place ahead of France taking over the rotating EU Council presidency in January and French Presidential elections in April.
- Fighting climate change and focusing on infrastructure expenditure programs seems quite consensual. Most other topics split SPD/Green compared to CDU/CSU and Liberals. All in all, these coalitions are growth friendly for Germany and the Eurozone.
- Regardless the outcome of the election, the effect on politics should be limited. Indeed, the German political system is highly consensual as most of the key issues need the approval of the second chamber of parliament (the "Bundesrat") where all parties except the rightwing AfD are involved.

Potential "Traffic Light" Coalition

Germany's next federal elections will take place on Sunday 26th of September. Recent polls suggest an increased likelihood of a government led by the Social Democrats (SPD), but the outcome remains uncertain. Television debates with the three main candidates (SPD, Greens and CDU/CSU) clarified positions but did not lead to a major shift in opinions. The latest debate on Sunday 19 did not bring any major surprise. Probabilities were not really affected by this event. Should the SPD win, we would see the odds increasing for a "traffic light" coalition with the Greens and Free Democrats, although a "Jamaica" coalition with the participation of the Christian Democrats instead of the SPD would still be possible (see charts below).

SPD LEAD IN LATEST OPINION SURVEYS



Guy Ertz, PhD

Chief Investment Advisor

BNP Paribas Wealth Management



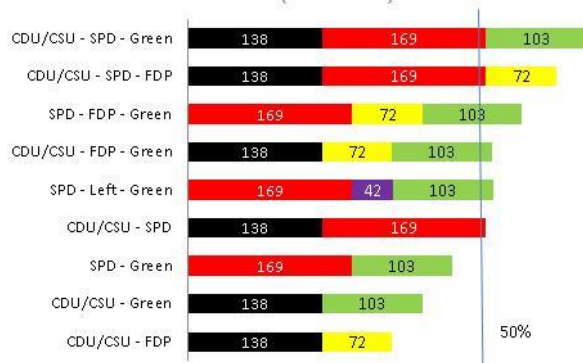
BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

COALITION AND ARITHMETICS

Possible coalitions

After the federal election of 2021 (19.09.2021)*



*Source: : www.bundestagswahl-2021.de/umfragen
Number of seats in the Bundestag according to the projection.
598 total seats. (without overhang and compensation mandates).

At this stage, we do not think an all-left coalition (SPD-Green and Left party) is very likely. Scholz's and the Green's view of some radical positions (related to the NATO and EU) held by the Left party make such a coalition unlikely. The left wing of the SPD would be happy with such a view, but we expect the internal balance to shift to Scholz in case of an SPD victory.

The option has however not been officially ruled out for two main reasons (1) Not alienating voters and (2) as a bargaining tool during the formation of a coalition.

According to a recent poll published on September 14, around 40% of voters remain undecided over which party to vote for. Participation should be high. The SPD retains a small lead for now, but the high share of undecided voters suggests that the race remains quite open.

Coalitions and Policy outlook

The key policy topics are

- Climate change
- Public investments
- Taxes
- Debt brake reform
- Regulation of the housing market (limiting rent increases)
- Labor market policies (minimum wage)

While there seem to be a consensus on the first two issues, there are major divergences in opinion on the others. Globally speaking, SPD and Green and to some extent the Left party defend similar positions. The opposite is true for the FDP and to some extent the CDU/CSU.

An SPD-led government would support our view of a more growth-friendly fiscal policy in Germany. An SPD-led government would also increase the chances for a loosening of European fiscal rules. In such a scenario, the CDU/CSU, especially as an opposition party, would probably oppose changes like the debt brake and stick to its core values of fiscal discipline. The Greens would look to get around the debt brake rather than loosen it. This could be done via setting up an off budget special purpose vehicle.

Keeping in mind the most probable election outcomes (see charts), the effects on politics and global economic growth should be limited. Indeed, the German political system is quite consensual, as most of the key issues need the approval of the second chamber of parliament (the Bundesrat). This chamber represents the governments of the states ("Bundesländer") where all parties except the rightwing AfD are represented.



THE INVESTMENT STRATEGY TEAM



FRANCE

Edmund SHING

Global Chief Investment Officer

ASIA

Prashant BHAYANI

Chief Investment Officer

Grace TAM

Chief Investment Advisor



BELGIUM

Philippe GIJSELS

Chief Investment Advisor

Alain GERARD

Senior Investment Advisor, Equities

Xavier TIMMERMANS

Senior Investment Strategy, PRB



LUXEMBOURG

Guy ERTZ

Chief Investment Advisor

Edouard DESBONNETS

Investment Advisor, Fixed Income



BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

CONNECT WITH US



wealthmanagement.bnpparibas

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas, a French Société Anonyme, Head Office 16 boulevard des Italiens, 75009 Paris, France, registered under number 662 042 449 RCS Paris, registered in France as a bank with the French Autorité de Contrôle Prudentiel et de résolution (ACPR) and regulated by the French Autorité des Marchés Financiers (AMF). As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of BNP Paribas SA, BNP Paribas Wealth Management SA or their affiliates ("BNP Paribas") and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for information and shall not constitute an offer or solicitation in any state or jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer, solicitation or sale. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission. BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the fore-



BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

information regarding such theoretical historical performance. This document may contain or refer to past performance; past performance is no guarantee for future performance.

going limitations.

© BNP Paribas 2021. All rights reserved.

Pictures from Getty Images.



BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world