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## GERMAN POLLS: SMALL CHANGE, SERIOUS RISK

### Berenberg Macro View

#### Lively debate without a decisive blow

The headlines today may focus on last night's TV debate between German chancellor Olaf Scholz of the centre-left SPD and his centre-right CDU/CSU challenger Friedrich Merz. Scholz came slightly ahead of Merz by a margin of 37% to 34% in a post-debate ZDF survey. Neither seems to have scored a decisive victory. Despite some recent slippage in the polls for his CDU/CSU (see Chart 1), Merz thus remains in the pole position to lead the next coalition government with one (or possibly two) other mainstream parties (**SPD**, centre-left **Greens** and possibly even the small liberal **FDP**) as junior partner(s).

#### A fiscal veto for the fringe?

While Merz is still far in the lead, another issue has become key for the outlook: Will populists protest parties win one third of the seats in the German parliament and thus be able to block any significant change to country's fiscal straightjacket? The polarised political debate in the wake of two controversial votes on curbing irregular migration in the *Bundestag* some ten days ago has added to the uptrend of a small left-wing party called The Left. Support for the **Left**, which opposes tougher migration controls, has risen from 3% in early January to just above 5% now. If both the Left and a separate left-wing outfit **BSW** clear the 5% threshold to gain seats, they might – jointly with the right-wing **AfD** – command a third of the votes in the *Bundestag* – see Chart 2. If so, they could jointly veto any change to the constitution and hence to the debt brake enshrined in the constitution.

A key part of any debt brake reform would be to raise defence spending and put it on a secure footing. The special €100bn fund created right after Russia's full-scale attack on Ukraine will be depleted during the next parliamentary term. 90% of the money has already been committed. The three populist protest parties from the right and left disagree on many counts. But they all oppose aid to Ukraine, de facto doing the bidding of Russian president Vladimir Putin. The mainstream would not negotiate a change to the constitution (or any other issue) with the **AfD**. Negotiating more defence spending with the left-wing fringes (**BSW** and The Left) could be close to impossible as well.

A constitutional veto for the fringe parties is the biggest risk to our base case that Germany is heading for major supply-side reforms and significant extra fiscal space after the election. Even without changing the constitution, a new coalition between, say, the CDU/CSU and the SPD, could still find some fiscal space by pruning some welfare spending, reforming the inefficient energy policy and injecting capital into semi-public institutions such as KfW development bank or the railways to enable them to borrow more. At the margin, it may even make it slightly less unlikely that Germany could agree to some additional common EU borrowing for a specific one-off purpose such as supporting Ukraine. However, the much more constrained domestic fiscal space would make it far more difficult to cut business taxes, lower electricity charges and ease other burdens on consumers and businesses. If the centre-right CDU/CSU cannot offer its prospective centre-left coalition partners SPD or – less likely – the Greens more fiscal space through a reform of the debt brake, the centre left may also be less inclined to agree to some pruning of welfare and pension benefits and to major changes in energy and migration policies. In a similar vein, a failure to ramp up military spending could get Germany into deep trouble with its NATO partners. By infuriating US president Donald Trump, it would also add to the risk of a US-EU trade war.

#### A fatter tail

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A fiscal veto for the fringe parties remains a tail risk, in our view. However, the tail has become fatter. Nonetheless, two other scenarios still look somewhat more likely, in our view.

- Our base case remains that a Merz-led coalition with either SPD or Greens will command a narrow majority of seats in the Bundestag and be able to change the constitution with the support of the other centre-left party that is not part of the new coalition in order to attain the two-thirds majority for this task. In this case, we would expect major reforms including a significant overhaul of the debt brake with a higher annual deficit ceiling (say a cyclically adjusted 1% instead of 0.35% of GDP) in addition to an expansion of the special defence fund by, say, €200bn.
- If the FDP enters parliament and is needed for the two-thirds majority, debt-brake reforms would likely be more constrained, possibly with only a top-up of the defence fund.

### German elections basics

Parties with at least 5% of the popular vote (or with first-past-the-post wins in at least three constituencies) enter parliament (with a minor carve-out for a party representing the Danish minority). Seats are then distributed between these parties according to strict proportional representation. Some very small parties with a combined 5-7% of the vote always fall far short of the 5% hurdle and never enter parliament.

Three parties are currently polling close to the 5% threshold, the left-wing Left (5.1% and rising judging by the average of the most recent polls), the separate left-wing BSW (4.8%) and the classical liberal FDP (4.0%) – see Chart 1. Whether or not they will clear the 5% threshold is within the margins of error of the polls. If they all make it into parliament, it would take roughly 47% of the popular vote to attain a simple majority of seats. If none of the three small parties makes it, a much larger share of the popular vote would not be represented in parliament. In such a case, c41% of the popular vote would suffice for a simple majority and 55% of the popular vote for a two-thirds majority of seats.

It takes a simple majority of seats (*Kanzlermehrheit*) to elect a government. However, two-thirds majorities are needed in the Bundestag (and the chamber of state governments called “Bundesrat”) to change the constitution. As a result, changes to the debt brake including the extension of existing or the creation of new special funds need to be passed with two-thirds majorities.

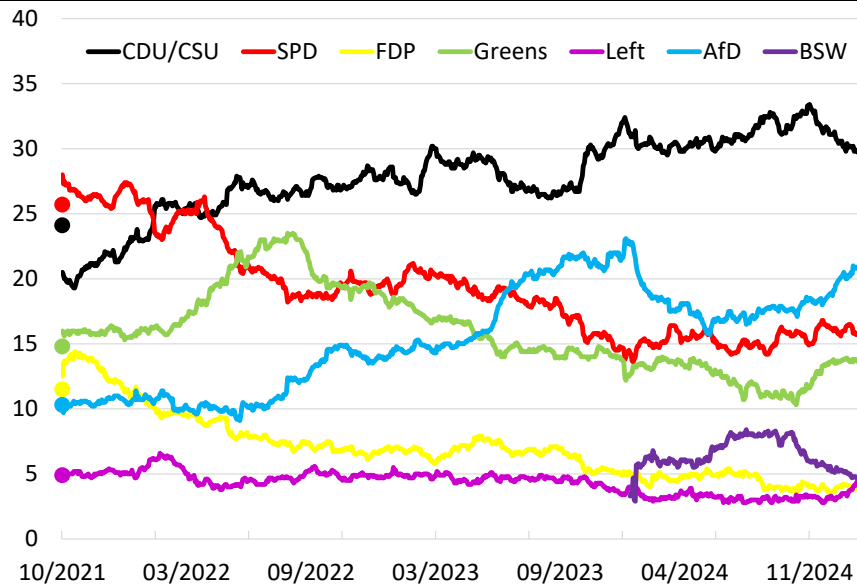
See also

- [The real German risk: a fiscal veto for fringe parties](#) (20 September 2024)
- [German politics update](#) (31 January 2025).



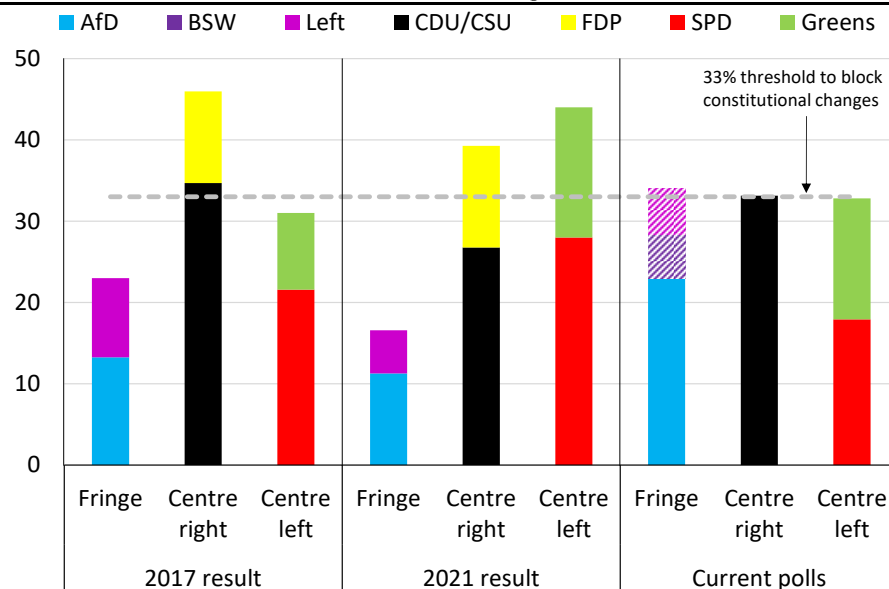
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**Chart 1: German opinion-polls: shares in popular vote, in %**



Centre-right CDU/CSU, centre-left SPD and Greens, liberal FDP, right-wing AfD, left-wing BSW and Left. Moving average of recent polls (% of votes); Dots: results of September 2021 election. Sources: Bundeswahlleiter, [dawum](#).

**Chart 2: Share of seats in German Bundestag, in %**



Striped: assuming BSW and Left both enter parliament although BSW falls slightly short of the 5% threshold in current polling. Sources: Bundeswahlleiter, dawum, Berenberg.

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