

Germany's second election debate brings heated discussions but no winner

With one more week to go until Election Day, the second tv debate brought the candidates of the four largest parties together in a sometimes heated discussion. The debate is unlikely to have significantly moved the needle but in these elections small shifts can make a big difference



Germany's second tv debate featured the four major candidates for chancellor: Olaf Scholz (SPD), Friedrich Merz (CDU), Alice Weidel (AfD) and Robert Habeck (Greens)

Another Sunday, another German election tv debate but this time it wasn't a duel but a 'quadrell'; a discussion of the four potential next chancellors of Germany: Olaf Scholz (SPD), Friedrich Merz (CDU), Alice Weidel (AfD) and Robert Habeck (Greens). It was actually the first time in this election campaign that these four politicians came together in one live tv event.

Ahead of the tv debate, opinion polls had the CDU at 30%, the AfD at 20%, the SPD at 15%, the Greens at 13%, the Left Party at 6%, BSW at 5% and the FDP at 4%. Our feeling is that today's debate hasn't significantly shifted the needle.

The debate

The debate tackled the topics of (illegal) immigration, the economy, Ukraine and defence, housing

and pensions. The interesting aspect of today's format was that the viewers could see all four candidates at the same time and sometimes even in direct interaction. All four candidates were able to present their well-known policy proposals and sometimes tried to confront political opponents.

As regards the economy, the debate remained superficial and only brought an exchange of the well-known policy proposals. Proposals which follow in fact an almost stereotypical distinction between centre-left and centre-right economic policies. Investment subsidies, tax hikes for the highest incomes and changes to the debt brake from Scholz and Habeck; tax cuts for corporates and households, public expenditure cuts, sticking to the debt brake and hoping for the magic Laffer curve to bring in more tax revenues via higher growth from Merz. Weidel shared the policy proposals from the party's programme, intending to lower energy costs and taxes. Unfortunately, the debate on the economy was too much backward-looking, trying to point the finger, and too little forward-looking. A bit scary as it suggests that the sense of urgency that the economy needs a huge overhaul has faded away again, or is not deemed digestible for most voters.

Contrary to last week's tv debate between Olaf Scholz and Friedrich Merz, the fiscal debt brake was only touched marginally and the two moderators missed the opportunity to press for clear answers during the discussion on economic plans and the need to increase defence spending. Interestingly, earlier this week, the Ifo institute released a study estimating the fiscal impact of the different political programmes. Of the four parties represented in today's debate, CDU and AfD had the largest funding gap (96.7bn euro and 154.6bn euro respectively), while SPD and Greens (8.4bn euro and 2.5bn euro) had almost fully funded plans. To finance the plans of AfD and CDU, according to the Ifo institute, one option would be to increase the VAT from currently 19% to more than 27% or 24% respectively. We don't know how Donald Trump would react. In any case, it is clear that the political parties in favour of sustainable public finances and sticking to the debt brake have the largest funding gap.

One more week to go until Election Day

More than one-quarter of German voters haven't made up their minds, yet. With just one week to go until election day, strategic voting will also become an important driver. While the opinion polls have been relatively stable for the CDU and AfD, in recent days, the smaller left-wing parties, Die Linke and BSW, have seen an increase in voters' support. This rise of the left is actually an important reason for not entirely ruling out that Olaf Scholz could still manage to get a second term in office or that even Robert Habeck becomes next German chancellor. It's a highly unlikely but not entirely impossible scenario if SPD, Greens, Die Linke and BSW could manage to get more than 50% of the votes. The more likely outcome, however, is still a government led by the CDU.

In any case, we can only remind you of the fact that the election day will be more exciting than many think. The day could end with as many as eight but also as little as four parties in parliament. It could end with the far right AfD as the second (or) largest party and will in any case mark the start of very complicated coalition talks. The more parties in parliament, the more parties will probably be needed to form a coalition.

All in all, the German election campaign has entered the final stretch. A crucial election for Germany, but also for Europe. We still expect a mild fiscal stimulus after complicated coalition talks, garnered with some structural reforms. Whether this will be enough to substantially restore German competitiveness is a different question.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.