

CIO View Special

German Bundestag Election 2013

Parties, manifestos, coalitions and their impact
on financial markets and the economy





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CIO View Special

Germany goes to the polls. How will financial markets and businesses react to the potential election outcomes?

The results of the federal election on September 22, 2013 could have noticeable economic consequences for Germany and the eurozone. A review of the election manifestos shows that the Bundestag election could bring substantial changes depending on the outcome, especially with regard to tax laws and economic policies. In addition, the parties have different plans regarding European integration and a common European liability fund for bank deposits.

Based on the party manifestos and the possible election outcomes, two coalitions are currently seen as probable: a continuation of the existing government of Angela Merkel's Christian Democrats (CDU/CSU) and the Liberals (FDP) on the one hand, and a grand coalition of Christian Democrats and Social Democrats (SPD), on the other. A lot will depend on the Liberals' ability to get elected to the next Bundestag. For this to happen, the party needs to garner at least five percent of the votes.

Tax policies, in particular, are likely to be a major issue in any coalition negotiations. Social Democrats and Greens propose an increase in the highest income tax rate and the introduction of a wealth tax. The current governing parties want to adjust income tax rates for inflation to avoid "cold progression"¹. An increase in taxation via wage inflation should thereby be abolished.

This example shows the salient differences between party manifestos. It is highly unlikely that one party will obtain an absolute majority. Therefore, it will all come down to coalition negotiations, where extreme tax or spending proposals will be watered down. However, the party manifestos clearly illustrate the direction in which the different coalitions are going. Aim of this study is to describe the possible effects of the different party programs on German growth and on capital markets.

¹ The term "cold progression" refers to an effect that occurs in the current tax system when wages are adjusted to inflation: real wages will increase by a smaller percentage since a higher tax rate needs to be paid.

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1 Party programs at a glance

Four of the five established parties only differ slightly in their basic political positions. The two largest parties, the Christian Democrats and the Social Democrats, as well as the Greens and the Liberals, want to advance European integration, push ahead with more renewable energy, invest more money in education and expand childcare. The differences become more obvious if one looks at tax policy, labor policy and regulation of the financial markets. These could affect households' disposable income and thus economic growth in Germany and in the eurozone.

1.1 Election manifesto of the Christian Democrats

A party which has been governing for eight years is unlikely to propose fundamental changes in tax policy. The ruling center-right Christian Democrats see a need for changes to the tax tables: inflation should be taken into account in order to reduce the so-called "cold progression". The main economy-related goals of the Christian Democrats for the next legislative period are set out in the table below.

Key Takeaways

- Overall reduction in tax burden
- Bank supervision at ECB, separated from monetary policy
- Retain universal banks
- Sector-specific minimum wages
- Financial transaction tax

Summary of the main goals of the Christian Democrats

Tax policy objectives	– The Christian Democrats reject tax increases and want to prevent new borrowing
Income tax and top tax rate	– Address inflation and consequently reduce "cold progression" – Income taxation scheme for married couples should be maintained and supplemented by a family taxation scheme. The basic child allowance should be gradually increased to bring it in line with the tax-free allowance for adults
Capital gains tax	– The current taxation model should be maintained
Corporate taxes and incentives	– Companies should receive tax incentives to help them bolster their capital base – Acquisitions and sales of businesses should not be taxed too highly – Seed and venture capital should benefit from tax incentives – Research and development should benefit from tax incentives
Business tax	– A change in business tax is not planned
Wealth tax	– Wealth taxation is rejected
Inheritance tax	– An increase in inheritance tax is not being considered, since it is levied to a large extent on business assets and real estate and is indirectly borne by employees and tenants
Value added tax	– Reduced tax rates on goods should be fundamentally revised
Environment	– Electromobility should be promoted with tax incentives – Tax incentives to promote the refurbishment of buildings
Real estate tax	– No change
Growth	– Infrastructure projects totaling 25 billion euros are planned through to 2017
Job market	– Minimum wages per sector, to be negotiated by labor and management
Financial transaction tax	– The Christian Democrats officially endorse the introduction of a financial transaction tax – However, we believe that eventually the Christian Democrats are not overly keen to introduce a broad, far-reaching financial transaction tax
Banking supervision	– The ECB should be responsible for the supervision of banks that are "too big to fail". Existing regulations should be maintained for all other financial institutions. It is important to separate the ECB's monetary policy and its supervisory role
Banking regulation	– The universal banking system should be maintained
Bank resolution	– Introduce procedures for the liquidation of insolvent banks – There should be uniform standards for national deposit guarantee systems
Eurobonds	– The introduction of eurobonds is rejected. Instead, the rules of the Stability and Growth Pact and of the Fiscal Pact should be strictly implemented. A debt rescheduling procedure should be developed for States which can no longer meet their debts

Source: Wahlprogramm der CDU (CDU Election manifesto); ZDH (German Confederation of Skilled Crafts); Ulm Chamber of Commerce and Industry; Bundestagswahl am 22.09.2013 (Bundestag election on September 22, 2013) from Ebner, Stolz, Mönning & Bachem; Stuttgart, June 24, 2013

1.2 Election manifesto of the Social Democrats

The Social Democrats are quite specific in their election manifesto with regards to fiscal and social policy. The party proposes, among other things, the introduction of a solidarity pension and the tax-financed revaluation of low pension entitlements. The current pension level should be preserved and pension levels between East and West Germany equalized. Additionally, they want to establish the possibility of a discount-free pension before the age of 67.

A further goal of the party is the abolition of the dual system of statutory and private health insurance schemes and the transition to a citizens' insurance plan for healthcare and nursing. Another objective is the adoption of a new definition of the term "in need of care".² The Social Democrats' main economy-related goals for the coming legislative period are set out in the following table.

Key Takeaways

- Higher taxes
- Minimum wage of €8.50 per hour
- Financial transaction tax
- European banking supervision independent from monetary policy
- Split commercial from investment banking

Summary of the main goals of the Social Democrats

Tax policy objectives	— The "debt brake" (net borrowing of the German Federation of a maximum of 0.35% of GDP) should be maintained, debt reduced and taxes increased
Income tax and top tax rate	<ul style="list-style-type: none"> — The income tax splitting for married couples should be replaced for newly married couples by a partner's tax rate combined with the current system whereby couples can choose their tax class (so-called factor procedure) — The existing top tax rate of 42% should only apply up to a maximum income of 64,000 euros — Beyond an income level of 64,000 euros, the tax rate should rise further, so that a marginal tax rate of 49% should apply to income exceeding 100,000 euros
Capital gains tax	— Capital gains tax should be raised to 32% from 25% (or alternatively abolition and taxation at the individual income tax rate)
Corporate taxes and incentives	<ul style="list-style-type: none"> — Only 50% of manager salaries of over 500,000 euros should be tax-deductible — The Social Democrats favor subsidizing research and development for small and medium-sized enterprises
Business tax	<ul style="list-style-type: none"> — Business tax should be developed further — The tax revenues of municipalities (Gemeinde) should be safeguarded — An investment and a debt-reduction pact should be entered into with local authorities (Kommunen)
Wealth tax	— A tax on wealth should be introduced. As from a net worth of 2 million euros per natural person a tax rate of 1% should be applied
Inheritance tax	— The reduced tax on corporate assets should be abolished
Value added tax	— The reduced tax rate should be limited to everyday necessities
Environment	<ul style="list-style-type: none"> — Ecologically harmful subsidies should be reduced — Taxes and levies on electricity should be reduced — The deduction of fuel costs for large company cars should be limited
Real estate tax	— No change
Growth	— Additional annual expenditure of 80 billion euros is planned for the modernization of Germany. Private investments should cover 60 billion euros
Job market	— A minimum wage of 8.50 euros per hour should be introduced
Financial transaction tax	— The party wants to introduce a financial transaction tax
Banking supervision	— The Social Democrats are in favor of independent European banking supervision. The ECB's monetary policy should be separate from this
Banking regulation	— Commercial banking should be separated from investment banking
Bank resolution	<ul style="list-style-type: none"> — The Social Democrats are in favor of a procedure for the liquidation of insolvent banks — The national deposit protection should be maintained
Eurobonds	— The Social Democrats do not rule out eurobonds (subject to conditions)

Source: Wahlprogramm der SPD (SPD Election manifesto); ZDH (German Confederation of Skilled Crafts); Ulm Chamber of Commerce and Industry; Bundestagswahl am 22.09.2013 (Bundestag election on September 22, 2013) from Ebner, Stolz, Mönning & Bachem; Stuttgart, June 24, 2013

² "Die Programme zur Bundestagswahl 2013 von SPD, Bündnis 90/Die Grünen, Die Linke, FDP und CDU/CSU" (Manifestos of SPD, Greens, Left, FDP and CDU/CSU). Published July 2013 by Institut der deutschen Wirtschaft, Cologne.

1.3 Election manifesto of the Greens

In their election manifesto, the Greens (“Bündnis 90/Die Grünen”) have made clear statements on taxation. Goals include an increase in the highest tax rate to 49 percent, the abolition of the capital gains tax in its current form (taxing capital gains at the individual tax rate instead) and the introduction of a wealth tax. As for social insurance, the party wants to introduce a guaranteed pension and harmonize pension levels between western and eastern Germany. In the healthcare sector the Greens promote a change to a citizens’ insurance scheme as well as the adoption of a new definition of “in need of care”³. Important economy-related goals of the Greens for the coming legislative period are set out in the following table.

Key Takeaways

- Higher taxes
- Minimum wage of €8.50
- Financial transaction tax
- Centralized European banking supervision independent from monetary policy
- Split commercial from investment banking

Summary of the main goals of the Greens

Tax policy objectives	– The goal is to consolidate the national budget by cutting subsidies and spending, and raising taxes. The strong should be taxed more, the weak should be taxed less
Income tax and top tax rate	– The income tax splitting for married couples should be abolished, but the basic allowance should be transferable. This transition should be conducted in keeping with the social contract – The top tax rate should be increased to 45% for taxable incomes over 60,000 euros and increased in a straight line up to 49% for incomes above 80,000 euros
Capital gains tax	– Withholding tax should be abolished. Capital gains should be taxed at the individual income tax rate
Corporate taxes and incentives	– The deductibility of managers’ salaries should be limited to 500,000 euros – The thresholds for the immediate depreciation of low-value assets should be increased and tax on retained earnings should be reduced – Subsidize research and development for small and medium-sized enterprises
Business tax	– Business tax should be converted into a local economic tax. The assessment basis should be widened – Self-employed persons, interest, rents and royalties should be subject to business tax
Wealth tax	– Starting from a net worth of 1 million euros, a one-off levy of 15% payable over ten years should be imposed. There should be allowances of 250,000 euros per child and 5 million euros for corporate assets – After the ten year period a wealth tax should apply in constitutional form
Inheritance tax	– The Greens want to double inheritance tax revenues – The discount on corporate assets should be abolished and allowances should be granted to reduce the tax burden
Value added tax	– The reduced tax rate should be abolished for hotels, fast food outlets, cut flowers and ski lifts, for example – In favor of the uniform application of a reduced VAT rate within the European Union
Environment	– Eco-tax exceptions should be abolished – Motor vehicle and air traffic tax should be reformed – The climate impact of company cars should be taken into account in their taxation
Real estate tax	– Real estate tax should be based on current market values
Growth	– Expenditure of 50 billion euros on education, childcare, energy transition, climate protection and infrastructure
Job market	– A minimum wage of 8.50 euros per hour should be introduced. A commission should define the exact amount
Financial transaction tax	– The party favors the introduction of a financial transaction tax
Banking supervision	– The party advocates a common European banking supervision with uniform supervisory standards. Monetary policy and the supervisory function should be separated within the ECB
Banking regulation	– Commercial banking should be separated from investment banking
Bank resolution	– Introduction of a European mechanism for the liquidation of distressed banks – The party is for a European deposit guarantee system
Eurobonds	– Introduction of eurobonds and the participation of the private sector in national debt crises by means of an organized and stabilizing State insolvency procedure

Source: Wahlprogramm von Bündnis 90/Die Grünen (The Green Party Election manifesto); ZDH (German Confederation of Skilled Crafts); Ulm Chamber of Commerce and Industry; Bundestagswahl am 22.09.2013 (Bundestag election on September 22, 2013) from Ebner, Stolz, Mönning & Bachem; Stuttgart, June 24, 2013

³ “Die Programme zur Bundestagswahl 2013 von SPD, Bündnis 90/Die Grünen, Die Linke, FDP und CDU/CSU” (Manifestos of SPD, Greens, Left, FDP and CDU/CSU). Published July 2013 by Institut der deutschen Wirtschaft, Cologne.

1.4 Election manifesto of the Left

The program of the Left deviates significantly from the other parties' programs. The maximum tax rate should be increased significantly. Relating to old-age pensions, the Left wants a return to the maintenance of living standards in old age, retirement at 65, and discount-free early retirement schemes. In relation to social security, the transition to citizens' insurance should take place without an upper limit for the assessment of premiums. Care should be transformed into a public service that is financed completely by taxes. In addition, basic social security benefits should be raised to 500 euros per month and, in the medium term, a basic income of 1,050 euros per month should be introduced. The most important economy-related goals of the Left for the coming legislative period are set out in the following table.

Key Takeaways

- Higher taxes, especially for higher incomes and corporates
- Minimum wage of €10
- Financial transaction tax
- Bank bailouts only by owners and creditors
- Basic income to be introduced
- Downsizing financial institutions

Summary of the main goals of the Left

Tax policy objectives	– The goal of the party is redistribution by means of tax increases
Income tax and top tax rate	– The income tax splitting for married couples should be replaced by individual taxation – The basic exemption should be raised to 9,300 euros – The top tax rate should be raised to 53% for incomes above 65,000 euros – Wealth tax of 75% on income exceeding 1 million euros
Capital gains tax	– Abolition of withholding tax – Taxation of capital gains at the individual tax rate
Corporate taxes and incentives	– Increase the corporate income tax rate from 15% to 25% – Annual salaries in excess of 500,000 euros should no longer be eligible for tax deductions. Bonuses and excessive remuneration should not be deductible as operating costs – Profits on business sales should be taxed fully
Business tax	– Transformation into a local business tax – Expansion of the assessment base (rents, leases, interest on debts and leasing installments) and self-employed persons – The tax-free allowance should be raised to 30,000 euros and the tax liability taken into account for income tax
Wealth tax	– Property of over 1 million euros should be subject to a tax rate of 5%. Above 10 million euros the tax rate should increase to 20% and above 100 million euros, to 30% – On property of over 1 million euros a one-off levy of 10% should apply – Both private and business assets should be assessed – A tax-free allowance of 2 million euros would apply to business assets required for operation
Inheritance tax	– Revenues from inheritance tax should be significantly increased – Tax relief for business assets that are not necessary to protect jobs should be abolished
Value added tax	– Abolition of the reduced tax rate for hotels and catering services
Environment	– Abolition of exceptions from energy taxes – Reduction of ecologically harmful subsidies – Introduction of a kerosene tax – Adaptation of the motor vehicle tax to ecological criteria – Reduction of the tax advantages for company vehicles
Real estate tax	– No information
Growth	– No information
Job market	– Minimum wage of 10 euros per hour
Financial transaction tax	– Introduction of a financial transaction tax of 0.1% per transaction
Banking supervision	– No information
Banking regulation	– Nationalization of the banking sector and downsizing of financial institutions – Bank bailouts should be solely financed by owners and creditors – Deposits of small savers should be publicly guaranteed
Bank resolution	– Not necessary owing to the nationalization of the banking sector
Eurobonds	– The Left does not reject the introduction of eurobonds – Creation of a bank for public loans which obtains refinancing from the ECB

Source: Wahlprogramm der Partei Die Linke (Election manifesto of the Left); ZDH (German Confederation of Skilled Crafts); Ulm Chamber of Commerce and Industry; Bundestagswahl am 22.09.2013 (Bundestag election on 09-22-2013) from Ebner, Stolz, Mönning & Bachem; Stuttgart, June 24, 2013

1.5 Election manifesto of the Liberals

Like the Christian Democrats, the pro-business Liberals of the Free Democratic Party (FDP) are cautious about proposals for change. A factor here is that the Liberals, as a coalition partner, were able to incorporate their goals to some extent into the work of the government in recent years. The party's objectives for the coming legislative period are the adjustment of the income tax rates to avoid fiscal drag and the abolition of Tax Class V and the simultaneous introduction of higher child allowances. As for social insurance, the Liberals support the free choice of retirement age from 60 with actuarial discounts, as well as the adoption of a new definition of the term "in need of care"⁴. Important economy-related goals of the Liberals for the coming legislative period are set out in the following table.

Key Takeaways

- Avoid tax increases
- Reject spending programs
- No financial transaction tax
- Central banking supervision by ECB for large banks
- Retain universal banks

Summary of the main goals of the Liberals

Tax policy objectives	<ul style="list-style-type: none"> – The Liberals want to balance the budget without tax increases – Debt reduction should be accelerated – Subsidies should be reduced
Income tax and top tax rate	<ul style="list-style-type: none"> – Fiscal drag should be avoided by regularly adjusting income tax rates – The solidarity tax should be reduced – The income tax splitting for married couples should be maintained and the basic allowance for children should be gradually raised to the amount of the allowance for adults
Capital gains tax	<ul style="list-style-type: none"> – The existing taxation model should be maintained – The tax-free allowances on dividends and interest should be increased
Corporate taxes and incentives	<ul style="list-style-type: none"> – Transparent taxation of smaller and medium-sized companies (GmbHs), so that they are taxed in the same way as single-member businesses and partnerships – Introduction of reduced taxation on funds invested as share capital based on the model of other European countries – Research and development should be increased by means of tax incentives
Business tax	<ul style="list-style-type: none"> – A transfer to a municipal income and corporate tax system is planned – The additional taxation of rents and interest should be eliminated
Wealth tax	<ul style="list-style-type: none"> – Renewed interest in wealth tax and its introduction are rejected
Inheritance tax	<ul style="list-style-type: none"> – An increase in inheritance tax is rejected – Taxation should take place on a uniform assessment basis using market value as well as moderate tax rates and tax-free allowances
Value added tax	<ul style="list-style-type: none"> – Value added tax should be levied on an actual, not target basis – Within the European Union a uniform, reduced VAT rate should apply
Environment	<ul style="list-style-type: none"> – Expansion of the European Union emissions trading to the entire transport and energy sector – Tax incentives for energy-efficient building refurbishment
Real estate tax	<ul style="list-style-type: none"> – No change
Growth	<ul style="list-style-type: none"> – The Liberals reject spending programs – Private incentives for investment by means of tax reform
Job market	<ul style="list-style-type: none"> – The Liberals strictly reject a general, nationwide minimum wage
Financial transaction tax	<ul style="list-style-type: none"> – The Liberals reject a financial transaction tax
Banking supervision	<ul style="list-style-type: none"> – Banks that are deemed "too big to fail" should be subject to ECB supervision. For the other banks existing regulations should be maintained. It is important to separate monetary policy and the supervisory function within the ECB
Banking regulation	<ul style="list-style-type: none"> – The universal banking system should be maintained – The Liberals reject access to national deposit guarantee funds or the national restructuring fund – Rescue and capitalization measures in respect of banks should be permitted only if there is simultaneous joint liability on the part of the state of residence concerned
Bank resolution	<ul style="list-style-type: none"> – No information
Eurobonds	<ul style="list-style-type: none"> – The party rejects joint liability for the government loans of Member States, for instance, by means of eurobonds or a debt redemption fund

Source: Wahlprogramm der FDP (Election manifesto of the FDP); ZDH (German Confederation of Skilled Crafts); Ulm Chamber of Commerce and Industry; Bundestagswahl am 22.09.2013 (Bundestag election on September 22, 2013) from Ebner, Stolz, Mönning & Bachem; Stuttgart, June 24, 2013

⁴ "Die Programme zur Bundestagswahl 2013 von SPD, Bündnis 90/Die Grünen, Die Linke, FDP und CDU/CSU" (Manifestos of the SPD, Greens, Left, FDP and CDU/CSU). Published July 2013 by Institut der deutschen Wirtschaft, Cologne.

1.6 Election manifesto of Alternative for Germany

Alternative for Germany (Alternative für Deutschland – AfD) was founded in 2013. The party believes that Germany should leave the eurozone. This is the main objective of the AfD and the only real topic addressed in detail in the election manifesto. In practical terms, it proposes the dissolution of the monetary union or the division into smaller sub-communities. A further essential point is the liability of private creditors in connection with the financing of banking crises. In addition, legislative powers should be given back to the national parliaments. It should be noted that the party does not describe itself as fundamentally anti-European. For example, it is in favor of a common internal market. In recent polls, the AfD's poll numbers fluctuated between one and three percent, they therefore wouldn't win any seats in parliament. The following table summarizes the most important economy-related aims of the AfD.

Key Takeaways

- Germany to leave European Monetary Union
- No common banking supervision
- No public bailout of banks

Summary of the main goals of Alternative for Germany

Income tax and top tax rate	— A radical simplification of the tax law is proposed, comprising a progressive tax model with three tax bands
Capital gains tax	— No comment
Corporate Taxes and incentives for enterprises	— No comment
Business tax	— No comment
Wealth tax	— No comment
Inheritance tax	— No comment
Value added tax	— No comment
Environment	— A reform of the renewable energy law is proposed with the aim of paying subsidies out of the current tax budget — The types of energy and how heavily they are subsidized should be published
Real estate tax	— No comment
Growth	— No comment
Job market	— No comment
Financial transaction tax	— No comment
Banking supervision	— No common European supervision
Banking regulation	— No comment
Bank resolution	— In the debt crisis, banks should bear their own losses or should be stabilized at the financial cost of their major private creditors
Eurobonds	— Joint liability for government loans of Member States in any form, for example, by means of eurobonds or debt redemption funds, is rejected by the party

Source: Election manifesto of Alternative for Germany

1.7 Election manifesto of the Pirates

The Pirates see themselves, in particular, as a representative and supporter of more direct democracy. Their core concern is a fundamental reform of copyright law in order to adapt it to the digital age's new requirements. Politically and economically, the Pirates favors the conversion of the tax system to a system with an unconditional basic income. They pursue a pro-European policy and support the introduction of a new "Marshall Plan" and greater solidarity in the face of the euro crisis. The Pirates currently have poll ratings of between two and four percent and would therefore not be represented in the next Bundestag. The party's most important economy-related goals are summarized in the following table.

Key Takeaways

- Introduce basic income
- Financial transaction tax
- Common European banking supervision outside of ECB

Summary of the main goals of the Pirates

Tax policy objectives	— Reform of the current system to make an unconditional basic income possible
Income tax and top tax rate	— The Pirates demand a reform of the income tax system by a generally understandable tax system, which functions without exceptions and is valid for all types of revenue. This major reform entails: <ul style="list-style-type: none"> — Base income instead of benefits plus part-time employment — Personal basic tax-free allowance for all, instead of old-fashioned income tax splitting for married couples — Health and nursing care insurance contributions should be deducted instead of set off — Uniform procedure instead of special arrangements – abolition of special arrangements
Capital gains tax	— Capital gains tax revenues used to pay pension contributions
Corporate taxes and incentives	— No comment
Business tax	— No comment
Wealth tax	— No comment
Inheritance tax	— No comment
Value added tax	— Standard rate of 19%
Environment	— Ecologically harmful subsidies should be reduced — Promotion of sustainable mobility — Energy taxes should bring about a change of direction — CO2 certificate trading should be re-considered
Real estate tax	— No comment
Growth	— Investment program in renewable energies
Job market	— Minimum wage as bridge technology to unconditional basic income
Financial transaction tax	— The party favors the introduction of a financial transaction tax
Banking supervision	— The Pirates demand European supervision that is independent of the ECB
Banking regulation	— Commercial banking should be separated from investment banking
Bank resolution	— Substantial participation of equity holders in case of bank insolvencies — Nationalization as last resort
Eurobonds	— No comment

Source: Election manifesto of the Pirates

2 Potential coalitions

Since 1949, there have only been short periods in which a single party has governed in Germany. In order to form a government, parties have had to build coalitions most of the time. A glance at the opinion polls shows: this should be the case after this year's Bundestag elections, too. Which coalition will be formed depends on the parties' goals and their willingness to compromise. However, based on opinion polls⁵ and election manifestos, the most probable coalitions can already be assessed. Given the high proportion of undecided voters, six different coalitions appear feasible. We do not review a coalition of Christian Democrats, Greens and Liberals since, based on the latest polls, Christian Democrats and Greens would achieve a clear majority in parliament without the Liberals.

2.1 Coalition of Christian Democrats and Liberals

Even before the election, the statements of party leaders show that Christian Democrats and Liberals are hoping for this coalition to continue. The party programs should be another reason for this. In relation to tax policy, financial market regulation and European policy, the two parties' goals coincide to a large extent. The current coalition parties reject an increase in the tax burden and want to reduce national debt. There are differences of opinion, above all, with regards to minimum wages and the financial transaction tax, although among Christian Democrats opposition to a financial transaction tax is growing. In the end, Christian Democrats would probably favor a limited tax. To stimulate economic growth Christian Democrats recommend larger government investments in infrastructure, whereas Liberals favor the promotion of private investment by means of tax incentives. The following table depicts the parties' positions on key topics and the likelihood of conflict and agreement.

		Christian Democrats	Liberals
Fiscal policy	Taxation of private households (income tax)	— No tax increase — Fight cold progression ^a	— No tax increase — Fight cold progression ^a
	Corporate taxes	— Tax relief for small and medium-sized enterprises ^a	— Simplification of the tax laws ^b — Moderate reduction of the tax burden ^c
	Capital gains tax	— No change	— No change in tax rates — Increase in tax-free allowances
	Introduction of wealth tax	— No ^a	— No
	Minimum wage	— Yes	— No
Growth	Economic stimulus programs	— Infrastructure investments of 25 billion euros through to 2017 ^a	— Investment incentives by means of tax reform
	Financial transaction tax	— Officially yes, but the number of proponents is declining ^a	— No ^d
Financial market regulation	Banking regulation	— Maintenance of the universal banking system	— Maintenance of the universal banking system ^d
	Central Supervisory Authority as part of the ECB	— Yes ^a	— Yes ^e
	Resolution mechanism for troubled banks	— Procedures for the liquidation of insolvent banks ^a	— Joint liability of the state of residence ^a
	European deposit protection fund	— No ^a	— No ^b
	Supranational liability	— Combined with further structural reforms in the peripheral countries ^a	— Combined with further structural reforms in the peripheral countries ^b
Europe	Eurobonds	— No ^a	— No ^b

■ common goals ■ compromise is probable ■ possible conflict
Sources: Current programs and publications of the parties

^a Dieter Bräuninger (Deutsche Bank): "The CDU/CSU election manifesto: Something for everyone"; June 24, 2013

^b Frank Zipfel (Deutsche Bank): "The Liberals (FDP) – election campaign for another term of the conservative-liberal coalition"; May 8, 2013

^c Election manifesto of the Liberals: "Bürgerprogramm 2013; Damit Deutschland stark bleibt", page 14; June 27, 2013

^d Georg Restle, Jan Schmitt: "Transaktionssteuer: Der Schlingerkurs der Bundesregierung"; May 20, 2010

^e Election manifesto of the Liberals: "Bürgerprogramm 2013; Damit Deutschland stark bleibt", page 19; June 27, 2013

⁵ Since 1949, opinion poll institutes have regularly asked people which party they would vote for if the election were held on the coming Sunday. Some institutes ask the question directly; others use a list of party names.

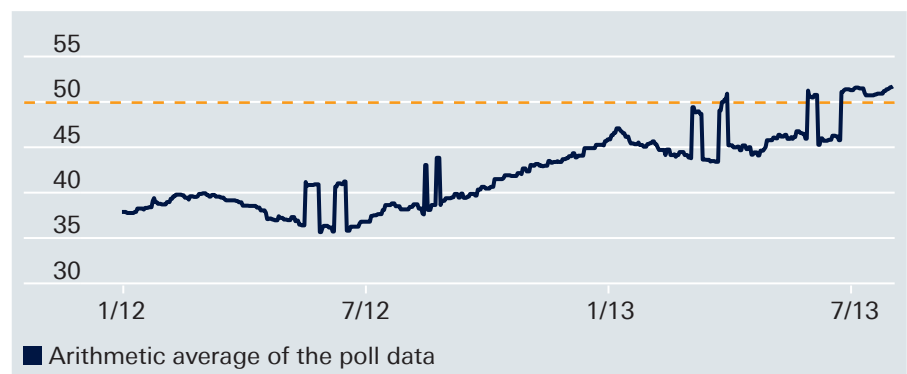
Hoping for a majority

Due to growing popularity, a coalition between Christian Democrats and Liberals could obtain a majority. The polls however point to a very close election.

Owing to the numerous similarities in their election manifestos, it is probable that both parties would like to continue their coalition. Whether this will happen also depends on the voters. The Liberals must first overcome the five-percent hurdle in order to get elected into the next Bundestag. The polls conducted by various institutes are the indicator to watch. For improved clarity, an average was calculated from the polls of Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap. The five-percent hurdle was also taken into account when calculating the distribution of seats in the next Bundestag.

The survey results for Christian Democrats and Liberals and the resulting share of seats show that the governing coalition has caught up a lot since 2012 (see appendix for the polls of each party). This is explained, in particular, by rising polls of the Christian Democrats in the second half of 2012. Moreover, the Liberals were lately able to stay above the five-percent hurdle permanently. There is some uncertainty however, stemming from the fact that the surveys indicate that the Liberals are still very close to the five-percent hurdle.

Predicted share of the seats of Christian Democrats and Liberals in the Bundestag (in %)



Source: Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap; own calculations

Should the income tax policies be implemented, consumers' mood could be positively affected and provide an additional stimulus for economic growth. The elimination of cold progression, i.e. an increase in taxes due to inflation, could increase disposable incomes and push up consumer spending. However, the financial transaction tax, which has not yet been completely ruled out, would slow down growth.

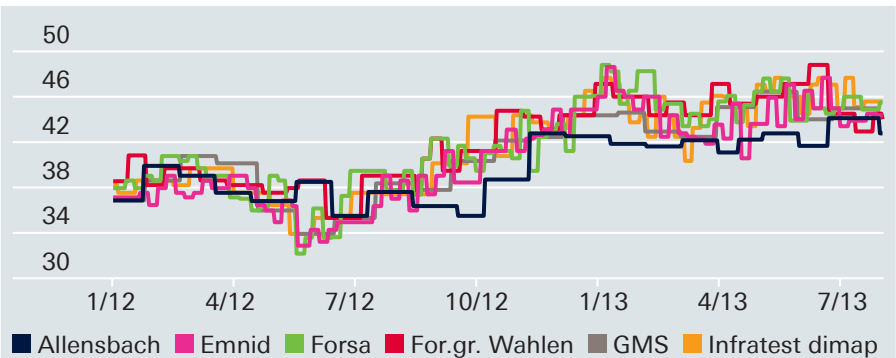
Multicolored mixture

The survey results of the institutes some in part vary significantly from each other.

Excursus: Calculation of the poll average

The poll results of the various institutes partly vary quite significantly. One reason for this is that different samples are taken. Another reason is that the institutes do not publish the actual survey data. They generally reach older persons or home-workers and relatively few young or working people. In order to make the data more representative results are weighted. This leads to deviations and somewhat masks the real trend. Consequently, political scientists suggest to calculate an average from all polls.

Christian Democrats' share of seats (in %)



Source: Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap; own calculations

Based on the average value of Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap surveys, the historical results as well as present political opinions can be more clearly ascertained. The formula is:

$$\text{Expected share of seats} = \frac{\text{Party's average poll result}}{\text{Average of all votes relevant for the Bundestag}}$$

"Average of all votes relevant for the Bundestag" means that votes allotted to parties receiving less than five percent are not considered. An average value below the five-percent hurdle indicates that the party's presence in parliament is in danger and/or improbable. The average survey value is then set to zero. Use of this approach produces the charts depicting the expected share of seats of the five major parties. The charts can be found in the appendix on pages 30 and 31.

2.2 Grand coalition of Christian Democrats and Social Democrats

Chancellor Angela Merkel has already led a grand coalition, from 2005 to 2009. At that time she spoke of a “coalition of new possibilities”. The large majority in the Bundestag and the two parties’ combined popular support allowed her to implement (sometimes unpopular) reforms. It became apparent however that although a grand coalition enables reforms, it can also immobilize any government. By reforming the federal system, the Merkel government was able to reduce the number of laws requiring approval from the upper chamber of parliament, making the government’s work easier.

However, little progress was made in relation to healthcare. Christian Democrats and Social Democrats were proposing different concepts during their joint governmental activity. The result was a reform which does not prevent either of the parties from implementing their concept under more favorable majority conditions. In this case, the grand coalition only adopted a policy of the lowest common denominator. A comparison of the election manifestos shows that this lowest common denominator is not very big. The following table depicts the two parties’ positions on important topics and the likelihood of conflict and agreement.

		Christian Democrats	Social Democrats
Fiscal policy	Taxation of private households (income tax)	<ul style="list-style-type: none"> — No tax increase — Fight against cold progression^a 	<ul style="list-style-type: none"> — Introduction of a third income bracket beginning at 64,000 euros — New top tax rate of 49% above 100,000 euros^b
	Corporate taxes	<ul style="list-style-type: none"> — Tax relief for small and medium-sized businesses^a 	<ul style="list-style-type: none"> — Limitation of the deductibility of managers’ salaries — Promotion of research and development for small and medium-sized enterprises
	Capital gains tax	<ul style="list-style-type: none"> — No change 	<ul style="list-style-type: none"> — Increase to 32% (with the option to abolish and replace with taxation at individual income tax rate)^b
	Introduction of wealth tax	<ul style="list-style-type: none"> — No^a 	<ul style="list-style-type: none"> — Net worth in excess of 2 million euros taxed at 1%^c
Growth	Minimum wage	<ul style="list-style-type: none"> — Yes (sector-related minimum wages)^a 	<ul style="list-style-type: none"> — Yes (8.50 euros/hour)^c
	Economic stimulus programs	<ul style="list-style-type: none"> — Annual infrastructure investments of 25 billion euros through to 2017^a 	<ul style="list-style-type: none"> — 80 billion euros per year for the modernization of Germany^d
Financial market regulation	Financial transaction tax	<ul style="list-style-type: none"> — Officially yes, but the number of proponents is decreasing^a 	<ul style="list-style-type: none"> — Yes^c
	Banking regulation	<ul style="list-style-type: none"> — Maintenance of the universal banking system^a 	<ul style="list-style-type: none"> — Separation of commercial banking from investment banking^a
	Central Supervisory Authority as part of the ECB	<ul style="list-style-type: none"> — Yes^a 	<ul style="list-style-type: none"> — Yes^f
	Resolution mechanism for troubled banks	<ul style="list-style-type: none"> — Procedures for the liquidation of insolvent banks^a 	<ul style="list-style-type: none"> — European procedure for the liquidation of insolvent banks^g
	European deposit protection fund	<ul style="list-style-type: none"> — No^a 	<ul style="list-style-type: none"> — No^g
European policy	Supranational liability	<ul style="list-style-type: none"> — Combined with further structural reforms in the peripheral countries^a 	<ul style="list-style-type: none"> — Economy measures to be revised and transition towards an economic and social union^h
	Eurobonds	<ul style="list-style-type: none"> — No^a 	<ul style="list-style-type: none"> — Eurobonds not ruled out^h

■ common goals
 ■ compromise is probable
 ■ possible conflict
 Sources: Current programs and publications of the parties

^a Dieter Bräuninger (Deutsche Bank): The CDU/CSU election manifesto: Something for everyone; June 24, 2013

^b Election manifesto of the Social Democrats for 2013 to 2017: “Das Wir entscheidet”, page 67

^c Dieter Bräuninger (Deutsche Bank): SPD’s party convention amidst unfavourable approval ratings; April 16, 2013

^d Joris Steg: “80 Milliarden für unsere Zukunft”; interview with Florian Pronold, published July 4, 2013

^e Election manifesto of the Social Democrats for 2013 to 2017: “Das Wir entscheidet”, page 16

^f Thilo Kühne (SPD): “EZB soll Bankenaufsicht übernehmen”; May 8, 2013

^g Election manifesto of the Social Democrats for 2013 to 2017: “Das Wir entscheidet”, page 25

^h SPD: “Der Fiskalpakt greift zu kurz – unsere Forderungen für mehr Wachstum und Beschäftigung in Europa”; Jun 16, 2012

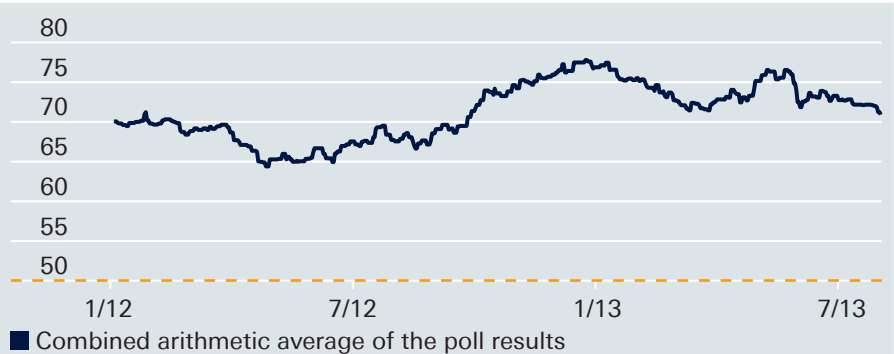
Solid majority

By summing up the Christian Democrats' and Social Democrats' shares of seats it emerges that a grand coalition would have a clear majority in the Bundestag. The differences in the election manifestos suggest however that co-operation will not be easy.

The Christian Democrats oppose the Social Democrats' plans to increase the income tax and the capital gains tax and reintroduce the wealth tax. Banking regulation would be another bone of contention. With regards to European policy, both parties represent contrasting opinions, too. Social Democrats want an unconditional transfer community. Christian Democrats only want to permit transfers if countries simultaneously implement structural reforms, thereby generating economic growth from the supply side.

Within the two parties a grand coalition is not seen as desirable due to the huge differences in objectives. However, should the election results not allow another combination, coalition negotiations will begin. That could be the case, in particular, if the Liberals fall short of the five-percent hurdle or if voter support for the Christian Democrats plummets in the coming weeks.

Predicted share of seats for Christian Democrats and Social Democrats in the Bundestag (in %)



Source: Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap; own calculations

Coalition negotiations between the two major parties could be difficult due to the parties' differences relating to tax policy. Ultimately, a compromise could consist of tax increases that are more moderate than what Social Democrats are hoping for. The way things are today, a tax on financial transactions could come into being. During the negotiation stage, private households and businesses might react cautiously and reduce their planned consumption and capital expenditure, respectively. That would have negative consequences for growth in Germany.

2.3 Coalition of Social Democrats and Greens

On the basis of the election manifestos, a coalition between Social Democrats and Greens is quite likely. In terms of tax policy, the two parties differ in a few points only. Both parties support the introduction of a minimum wage and economic stimulus programs. There are also many similarities regarding regulation of the financial markets. The two parties disagree about the question of a common European deposit guarantee. Environmental policy could also be a point of contention in coalition negotiations. In connection with the elimination of eco-tax exceptions, the Greens want to reduce CO₂ emissions. In contrast, the Social Democrats want to reduce the tax on electricity. The following table shows the parties' positions on important topics and the likelihood of conflict or agreement.

		Social Democrats	Greens
Fiscal policy	Taxation of private households (income tax)	<ul style="list-style-type: none"> Introduction of a new income bracket starting from 64,000 euros New top tax rate of 49% starting from 100,000 euros^a 	<ul style="list-style-type: none"> Introduction of a third income bracket starting from 59,440 euros New top tax rate of 49% starting from 80,000 euros
	Corporate taxes	<ul style="list-style-type: none"> Limitation of the deductibility of managers' salaries Promotion of research and development for small and medium-sized enterprises 	<ul style="list-style-type: none"> Limitation of the deductibility of managers' salaries Promotion of research and development for small and medium-sized enterprises^b
	Capital gains tax	<ul style="list-style-type: none"> Increase to 32% (with the option to abolish)^a 	<ul style="list-style-type: none"> Taxation based on the individual tax rates^b
	Introduction of wealth tax	<ul style="list-style-type: none"> a tax of 1% on net assets in excess of 2 million euros^c 	<ul style="list-style-type: none"> 15% tax on assets in excess of 1 million euros, payable over 10 years^b
Growth	Minimum wage	<ul style="list-style-type: none"> Yes (8.50 euros/hr.)^c 	<ul style="list-style-type: none"> Yes (8.50 euros/hr.)^b
	Economic stimulus programs	<ul style="list-style-type: none"> 80 billion per year for the modernization of Germany^d 	<ul style="list-style-type: none"> 50 billion per year for education, child-care as well as environmental and infrastructure measures^e
Financial market regulation	Financial transaction tax	<ul style="list-style-type: none"> Yes^c 	<ul style="list-style-type: none"> Yes^b
	Banking regulation	<ul style="list-style-type: none"> Separation of deposit and loan business from investment banking^f 	<ul style="list-style-type: none"> Separation of deposit and loan business from investment banking^b
	Central Supervisory Authority as part of the ECB	<ul style="list-style-type: none"> Yes^g 	<ul style="list-style-type: none"> Yes^b
	Resolution mechanism for troubled banks	<ul style="list-style-type: none"> European procedure for the liquidation of insolvent banks^h 	<ul style="list-style-type: none"> Procedures for the liquidation of insolvent banks^b
	European deposit protection fund	<ul style="list-style-type: none"> No^a 	<ul style="list-style-type: none"> Yes^a
European policy	Supranational liability	<ul style="list-style-type: none"> Economy measures to be revised and transition towards an economic and social unionⁱ 	<ul style="list-style-type: none"> Growth pact for the European union Rejection of the austerity policy in the eurozone^j
	Eurobonds	<ul style="list-style-type: none"> Eurobonds not ruled out^h 	<ul style="list-style-type: none"> Introduction of eurobonds welcome^k

■ common goals
 ■ compromise is probable
 ■ possible conflict
 Sources: Current programs and publications of the parties

There are many points of agreement, but the current polls do not point to a coalition between Social Democrats and Greens. At the beginning of the year the Social Democrats were riding high in the opinion polls, but have since lost more than five percentage points since. Based on the polls they would obtain 26.4 percent of the seats in the Bundestag (as at August 26, 2013). According to forecasts from the six survey institutes, the Greens would obtain an average representation of 13.8 percent in the Bundestag. In total, this would amount to 40.2 percent of the seats for the coalition.

^a Election manifesto of the Social Democrats for 2013 to 2017: "Das Wir entscheidet", page 67

^b Dieter Bräuninger (Deutsche Bank):

"The Greens – A better SPD"; April 29, 2013

^c Dieter Bräuninger (Deutsche Bank): "SPD's party convention amidst unfavourable approval ratings"; April 16, 2013

^d Joris Steg: "80 Milliarden für unsere Zukunft", interview with Florian Pronold, published July 4, 2013

^e Bündnis 90/Die Grünen: "Der Grüne Wandel – für mehr Investitionen und Arbeitsplätze"; page 1; July 6, 2013

^f Election manifesto of the Social Democrats for 2013 to 2017: "Das Wir entscheidet", page 16

^g Thilo Kühne (SPD): "EZB soll Bankenaufsicht übernehmen"; May 8, 2013

^h Election manifesto of the Social Democrats for 2013 to 2017: "Das Wir entscheidet", page 25f

ⁱ SPD: "Der Fiskalpakt greift zu kurz – unsere Forderungen für mehr Wachstum und Beschäftigung in Europa"; June 16, 2012

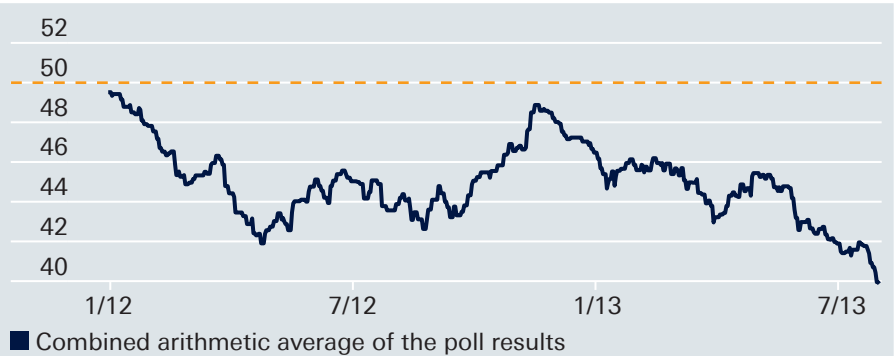
^j Election manifesto of the Greens: "Zeit für den grünen Wandel"; page 24; April 28, 2013

^k Greens: "Fragen und Antworten zur Eurokrise"; July 16, 2013

Under 50 percent

According to the institutes' surveys, a Social Democrats and Greens coalition would currently barely win 40 percent of seats in the Bundestag.

Predicted share of seats of Social Democrats and Greens in the Bundestag (in %)



Source: Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap; own calculations

This coalition cannot be ruled out at the moment though. If the Social Democrats make headway in the run-up to the election and if the Liberals fall short of the five-percent hurdle, the probability increases enormously. The coalition negotiations could then lead to sizable increases in income tax for the upper income group. Additionally, a substantial part of the new wealth tax would have to be paid out of taxpayers' regular income, since production capital cannot be liquidated easily. Savers and investors would see further taxation in the form of a financial transactions tax. The investment incentives provided to small and medium-sized enterprises would nonetheless provide some relief. All in all, however, investors would have to be prepared for weaker growth in this election outcome.

2.4 Coalition of Christian Democrats and Greens

If the Liberals falter at the five-percent hurdle and the coalition negotiations between Christian Democrats and Social Democrats fail, Christian Democrats and Greens could conceivably form a government. For this to happen, the Christian Democrats would have to rack up a considerable number of votes and Social Democrats and Greens would have to stick to their declaration not to form a coalition with the Left.

However, a comparison of election manifestos shows that the coalition negotiations might be a rough ride. The Greens want to raise the income tax, introduce a wealth tax and replace the capital gains tax with an individual taxation scheme. The Christian Democrats are exactly opposed to all these measures. There are more areas of consensus, however, when it comes to financial market regulation. Both Greens and Christian Democrats support a European banking oversight and a liquidation mechanism for distressed banks. The following table depicts the parties' positions on important topics and the likelihood of conflict and agreement.

		Christian Democrats	Greens
Fiscal policy	Taxation of private households (income tax)	<ul style="list-style-type: none"> — No tax increase — Abolition of cold progression^a 	<ul style="list-style-type: none"> — Introduction of a third income bracket starting from 59,440 euros — New top tax rate of 49% starting from 80,000 euros
	Corporate taxes	<ul style="list-style-type: none"> — Tax relief for small and medium-sized enterprises^a 	<ul style="list-style-type: none"> — Limitation of the deductibility of managers' salaries — Promotion of research and development for small and medium-sized companies^b
	Capital gains tax	<ul style="list-style-type: none"> — Tax to be kept^a 	<ul style="list-style-type: none"> — Taxation based on the individual tax rate^b
	Introduction of wealth tax	<ul style="list-style-type: none"> — No^a 	<ul style="list-style-type: none"> — 1% tax on assets in excess of 1 million euros, payable over 10 years^b
Growth	Minimum wage	<ul style="list-style-type: none"> — Yes (branch-related minimum wages)^a 	<ul style="list-style-type: none"> — Yes (8.50 euros/hr.)^b
	Economic stimulus programs	<ul style="list-style-type: none"> — Annual infrastructure investments of 25 billion euros through to 2017^a 	<ul style="list-style-type: none"> — 50 billion per year for education, childcare as well as environmental and infrastructure measures^c
Financial market regulation	Financial transaction tax	<ul style="list-style-type: none"> — Officially yes, but the number of proponents is decreasing^a 	<ul style="list-style-type: none"> — Yes^b
	Banking regulation	<ul style="list-style-type: none"> — Maintenance of the universal banking system^a 	<ul style="list-style-type: none"> — Separation of deposit and loan business from investment banking^b
	Central Supervisory Authority as part of the ECB	<ul style="list-style-type: none"> — Yes^a 	<ul style="list-style-type: none"> — Yes^b
	Resolution mechanism for troubled banks	<ul style="list-style-type: none"> — Procedures for the liquidation of insolvent banks^a 	<ul style="list-style-type: none"> — Procedures for the liquidation of insolvent banks^b
	European deposit protection fund	<ul style="list-style-type: none"> — No^a 	<ul style="list-style-type: none"> — Yes^b
European policy	Supranational liability	<ul style="list-style-type: none"> — Combined with further structural reforms in the peripheral countries^a 	<ul style="list-style-type: none"> — Growth pact for the European union — Rejection of the austerity policy in the eurozone^d
	Eurobonds	<ul style="list-style-type: none"> — No^a 	<ul style="list-style-type: none"> — Introduction of eurobonds welcome^e

■ common goals
 ■ compromise is probable
 ■ possible conflict
 Sources: Current programs and publications of the parties

Regarding banking oversight, an agreement should be reached quickly. Such a coalition could also lead to reduced pressure on periphery countries to carry out structural reforms in return for financial assistance, since the Greens are against this.

^a Dieter Bräuninger (Deutsche Bank): "The CDU/CSU election manifesto: Something for everyone"; June 24, 2013

^b Dieter Bräuninger (Deutsche Bank):

"The Greens – A better SPD"; April 29, 2013

^c Greens: "Der Grüne Wandel – für mehr Investitionen und Arbeitsplätze", page 1; July 6, 2013

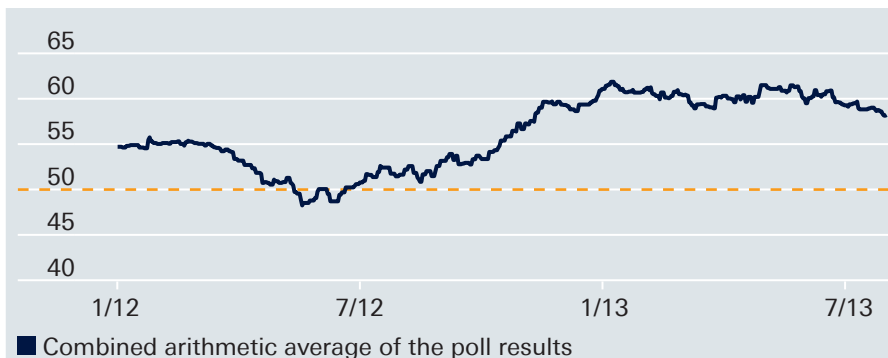
^d Election manifesto of the Greens: "Zeit für den grünen Wandel", page 24; April 28, 2013

^e Greens: "Fragen und Antworten zur Eurokrise"; July 16, 2013

Solid majority

The two parties would have a large parliamentary majority in the event of a coalition. Since the parties' goals are very different, such a coalition is however unlikely.

Predicted share of seats of Christian Democrats and Greens in Bundestag (in %)



Source: Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap; own calculations

It if looked like this, a coalition would form the government. This would cause uncertainty in businesses and households. Due to their contrasting tax positions, it is almost impossible to predict what compromises the two parties would reach. Citizens and businesses would probably refrain from consumption and capital expenditures, respectively. Tax increases as a result of the coalition negotiations would further hinder growth.

2.5 Coalition formed by Social Democrats, Greens and Liberals

If the common political denominator in a coalition is small, a policy of tiny steps would result. In the event of a coalition between Social Democrats, Greens and Liberals, advancing on a piecemeal basis might be the only option. The parties' differences are simply too vast. The Liberals would hardly agree to tax increases demanded by Social Democrats and Greens. Most probably, not even a minimum wage would be feasible with the Liberals. After all, the Liberals have ruled out such a coalition and would only agree to such an alliance if they could push through their central demands. The following table depicts the parties' positions on important topics and the likelihood of conflict and agreement.

		Social Democrats	Greens	Liberals
Fiscal policy	Taxation of private households (income tax)	<ul style="list-style-type: none"> Introduction of a new income bracket starting from 64,000 euros New top tax rate of 49% starting from 100,000 euros^a 	<ul style="list-style-type: none"> Introduction of a third income bracket starting from 59,440 euros New top tax rate of 49% starting from 80,000 euros 	<ul style="list-style-type: none"> No tax increase Abolition of cold progression^b
	Corporate taxes	<ul style="list-style-type: none"> Limitation of the deductibility of managers' salaries Promotion of research and development for small and medium-sized enterprises 	<ul style="list-style-type: none"> Limitation of the deductibility of managers' salaries Promotion of research and development for small and medium-sized enterprises^c 	<ul style="list-style-type: none"> Simplification of the tax laws Moderate reduction of the tax burden^d
	Capital gains tax	<ul style="list-style-type: none"> Increase to 32% (with the option to abolish)^e 	<ul style="list-style-type: none"> Taxation based on the individual tax rate^e 	<ul style="list-style-type: none"> Maintenance of the taxation Increase in tax-free allowances^f
	Introduction of wealth tax	<ul style="list-style-type: none"> Tax of 1% on net assets in excess of 2 million euros^g 	<ul style="list-style-type: none"> 15% tax on assets in excess of 1 million euros, payable over 10 years^h 	<ul style="list-style-type: none"> Noⁱ
Growth	Minimum wage	<ul style="list-style-type: none"> Yes (8.50 euros/hr.)^j 	<ul style="list-style-type: none"> Yes (8.50 euros/hr.)^j 	<ul style="list-style-type: none"> No^k
	Economic stimulus programs	<ul style="list-style-type: none"> 80 billion per year for the modernization of Germany^l 	<ul style="list-style-type: none"> 50 billion per year for education, care as well as environmental and infrastructure measures^h 	<ul style="list-style-type: none"> Investment incentives by means of tax reform
Regulation of the financial markets	Financial transaction tax	<ul style="list-style-type: none"> Yes^m 	<ul style="list-style-type: none"> Yes^c 	<ul style="list-style-type: none"> Noⁱ
	Banking regulation	<ul style="list-style-type: none"> Separation of deposit and loan business from investment banking^l 	<ul style="list-style-type: none"> Separation of deposit and loan business from investment banking^c 	<ul style="list-style-type: none"> Maintenance of the universal banking system^h
	Central Supervisory Authority as part of the ECB	<ul style="list-style-type: none"> Yesⁱ 	<ul style="list-style-type: none"> Yes^c 	<ul style="list-style-type: none"> Yes^m
	Resolution mechanism for troubled banks	<ul style="list-style-type: none"> European procedure for the liquidation of insolvent banksⁿ 	<ul style="list-style-type: none"> Procedures for the liquidation of insolvent banks^c 	<ul style="list-style-type: none"> Joint liability of the state of residence^m
	European deposit protection fund	<ul style="list-style-type: none"> No^o 	<ul style="list-style-type: none"> Yes^c 	<ul style="list-style-type: none"> No^d
European policy	Supranational liability	<ul style="list-style-type: none"> Economy measures to be revised, transition towards an economic and social union^o 	<ul style="list-style-type: none"> Growth pact for the European union Rejection of the austerity policy in the eurozone^o 	<ul style="list-style-type: none"> Combined with further structural reforms in the peripheral countries^d
	Eurobonds	<ul style="list-style-type: none"> Eurobonds not ruled out^o 	<ul style="list-style-type: none"> Introduction of eurobonds welcome^o 	<ul style="list-style-type: none"> No^d

■ common goals
 ■ compromise is probable
 ■ possible conflict
 Sources: Current programs and publications of the parties

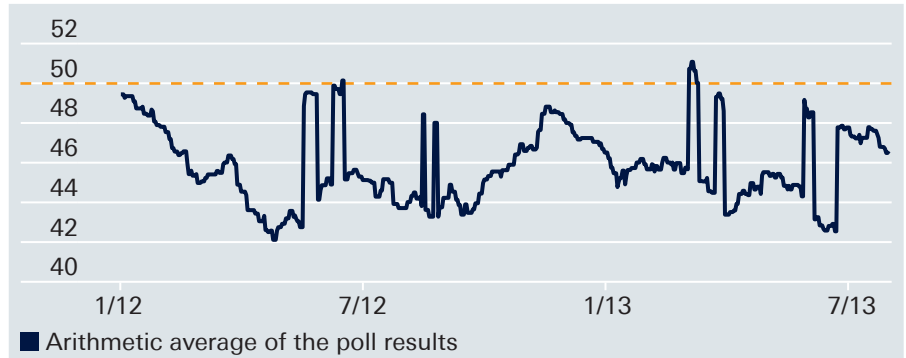
^a Election manifesto of the Social Democrats for 2013 to 2017: "Das Wir entscheidet", page 67
^b Dieter Bräuninger (Deutsche Bank): "The CDU/CSU election manifesto: Something for everyone"; June 24, 2013
^c Dieter Bräuninger (Deutsche Bank): "The Greens – A better SPD"; April 29, 2013
^d Frank Zipfel (Deutsche Bank): "The Liberals (FDP) – election campaign for another term of the conservative-liberal coalition"; May 8, 2013
^e Dieter Bräuninger (Deutsche Bank): "SPD's party convention amidst unfavourable approval ratings"; April 16, 2013
^f Election manifesto of the Liberals: "Bürgerprogramm 2013; Damit Deutschland stark bleibt", page 32; Juni 27, 2013
^g Joris Steg: "80 Milliarden für unsere Zukunft", interview with Florian Pronold; published July 4, 2013
^h Election manifesto of the Greens: "Der Grüne Wandel – für mehr Investitionen und Arbeitsplätze", page 1; July 6, 2013
ⁱ Georg Restle, Jan Schmitt: "Transaktionssteuer: Der Schlingerkurs der Bundesregierung."; May 20, 2010
^j Election manifesto of the Social Democrats for 2013 to 2017: "Das Wir entscheidet", page 16
^k Election manifesto of the Liberals: "Bürgerprogramm 2013; Damit Deutschland stark bleibt", page 21; June 27, 2013
^l Thilo Kühne (SPD): "EZB soll Bankenaufsicht übernehmen"; May 8, 2013
^m Election manifesto of the Liberals: "Bürgerprogramm 2013; Damit Deutschland stark bleibt", page 19; June 27, 2013
ⁿ Election manifesto of the Social Democrats for 2013 to 2017: "Das Wir entscheidet", page 25
^o Election manifesto of the Greens: "Zeit für den grünen Wandel", page 24; April 28, 2013
^p Greens: "Fragen und Antworten zur Eurokrise"; July 16, 2013
^q Election manifesto of the Liberals: "Bürgerprogramm 2013; Damit Deutschland stark bleibt", page 14; June 27, 2013
^r SPD: "Der Fiskalpakt greift zu kurz – unsere Forderungen für mehr Wachstum und Beschäftigung in Europa"; June 16, 2012

Poor chances

Given the large number of compromises the parties would have to make, such a coalition would be difficult. In addition, it is questionable whether this coalition would have a majority in the Bundestag. Based on the surveys, the three parties would obtain less than 47 percent.

Their European policy positions are also very different. While Social Democrats and Greens reject austerity policy, the Liberals propose that financial assistance to countries within the eurozone be associated with structural reforms.

Predicted share of seats for Social Democrats, Greens and Liberals in the Bundestag (in %)



Source: Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap; own calculations

The list of conditions to be met before coalition talks could take place is long. Christian Democrats and Liberals would have to fall short of a majority in the Bundestag and coalition negotiations between Christian Democrats and Social Democrats would have to fail. It is practically impossible to predict what the resulting tax policy would be. Accordingly, the uncertainty during coalition negotiations would probably slow down growth.

2.6 Coalition of Social Democrats, Greens and the Left

Many weeks before the election, Social Democrats and Greens have already ruled out a coalition with the Left. Similarly, the Left views such a coalition as improbable. It is open to question whether this will not change after the election. The following table depicts the parties' positions on important topics and the likelihood of conflict and agreement.

		Social Democrats	Greens	The Left
Fiscal policy	Tax on private incomes	<ul style="list-style-type: none"> Introduction of a new income bracket starting from 64,000 euros New top tax rate of 49% starting from 100,000 euros^a 	<ul style="list-style-type: none"> Introduction of a third income bracket starting from 59,440 euros New top tax rate of 49% starting from 80,000 euros 	<ul style="list-style-type: none"> The top tax rate rises to 53% for incomes above 65,000 euros Wealth tax of 75% on incomes exceeding 1 million^b
	Taxes and assistance for businesses	<ul style="list-style-type: none"> Limitation of the deductibility of managers' salaries Promotion of research and development for small and medium-sized enterprises 	<ul style="list-style-type: none"> Limitation of the deductibility of managers' salaries Promotion of research and development for small and medium-sized enterprises^c 	<ul style="list-style-type: none"> Annual salaries of over 500,000 euros should no longer be tax-deductible Increase in corporate income tax from 15% to 25% Full taxation of profits from sales^d
	Capital gains tax	<ul style="list-style-type: none"> Increase to 32% (with the option to abolish)^a 	<ul style="list-style-type: none"> Taxation according to the individual tax rate^c 	<ul style="list-style-type: none"> Taxation based on the individual tax rate^b
	Wealth tax	<ul style="list-style-type: none"> a tax of 1% on net assets in excess of 2 million euros^a 	<ul style="list-style-type: none"> 15% tax on assets in excess of 1 million euros, payable over 10 years^c 	<ul style="list-style-type: none"> Property in excess of 1 million euros should be taxed at 5%, in excess of 10 million euros at 20% and in excess of 100 million euros at 30%^f
Growth	Minimum wage	<ul style="list-style-type: none"> Yes (8.50 euros/hr.)^a 	<ul style="list-style-type: none"> Yes (8.50 euros/hr.)^c 	<ul style="list-style-type: none"> Yes (10 euros/hr.)^g
	Economic stimulus programs	<ul style="list-style-type: none"> 80 billion per year for the modernization of Germany^h 	<ul style="list-style-type: none"> 50 billion per year in education, childcare as well as environmental and infrastructure measuresⁱ 	<ul style="list-style-type: none"> In favor of economic stimulus programs, but no concrete proposals
Financial market regulation	Financial transaction tax	<ul style="list-style-type: none"> Yes^a 	<ul style="list-style-type: none"> Yes^c 	<ul style="list-style-type: none"> Yes^g
	Banking regulation	<ul style="list-style-type: none"> Separation of deposit and loan business from investment banking^j 	<ul style="list-style-type: none"> Separation of deposit and loan business from investment banking^c 	<ul style="list-style-type: none"> Nationalization of the banking sector and measures to make banks smaller^k
	Banking oversight by the ECB	<ul style="list-style-type: none"> Yes^l 	<ul style="list-style-type: none"> Yes^c 	<ul style="list-style-type: none"> No^k
	Bank resolution	<ul style="list-style-type: none"> European procedure for the liquidation of insolvent banks^m 	<ul style="list-style-type: none"> Procedures for the liquidation of insolvent banks^c 	<ul style="list-style-type: none"> Not necessary owing to the nationalization of the banking sector
	European deposit guarantee	<ul style="list-style-type: none"> Eurobonds not ruled outⁿ 	<ul style="list-style-type: none"> Introduction of eurobonds welcome^c 	<ul style="list-style-type: none"> Eurobonds are not a solution
European policy	Eurobonds	<ul style="list-style-type: none"> Eurobonds not ruled out^a 	<ul style="list-style-type: none"> Introduction of eurobonds welcome^o 	<ul style="list-style-type: none"> Eurobonds are not a solution Creation of a bank for public loans which obtains refinancing from the ECB^p
	Liability for other countries in the eurozone	<ul style="list-style-type: none"> Revision of the economy measures and transition towards an economic and social union^m 	<ul style="list-style-type: none"> Growth pact for the European Union Rejection of the austerity policy in the eurozone^q 	<ul style="list-style-type: none"> Rejection of the austerity policy in the eurozone Rejection of the Treaty of Lisbon Fines for countries with a current account balance surplus or deficit of more than three percent by way of sanction mechanism^r

■ common goals
 ■ compromise is probable
 ■ possible conflict
 Sources: Current programs and publications of the parties

^a Election manifesto of the Social Democrats for 2013 to 2017: "Das Wir entscheidet", page 67
^b Election manifesto of the Left: "100% sozial", page 26; June 16, 2013
^c Dieter Bräuninger (Deutsche Bank): "The Greens – A better SPD. April 29, 2013
^d Election manifesto of the Left: "100% sozial", page 12; June 16, 2013
^e Dieter Bräuninger (Deutsche Bank): "SPD's party convention amidst unfavourable approval ratings"; April 16, 2013
^f Election manifesto of the Left: "100% sozial", page 9; June 16, 2013
^g Election manifesto of the Left: "100% sozial", page 24; June 16, 2013
^h Joris Steg: "80 Milliarden für unsere Zukunft", interview with Florian Pronold, published July 4, 2013
ⁱ Election manifesto of the Greens: "Der Grüne Wandel – für mehr Investitionen und Arbeitsplätze", page 1; July 6, 2013
^j Election manifesto of the Social Democrats for 2013 to 2017: "Das Wir entscheidet", page 16
^k Election manifesto of the Left: "100% sozial", page 48; June 16, 2013
^l Thilo Kühne (SPD): "EZB soll Bankenaufsicht übernehmen"; May 8, 2013
^m Election manifesto of the Social Democrats for 2013 to 2017: "Das Wir entscheidet", page 25
ⁿ SPD: "Der Fiskalpakt greift zu kurz – unsere Forderungen für mehr Wachstum und Beschäftigung in Europa"; June 16, 2012
^o Election manifesto of the Greens: "Zeit für den grünen Wandel", page 24; April 28, 2013
^p Axel Troost (Left): "Austerität in Europa"; February 11, 2013
^q Greens: "Fragen und Antworten zur Eurokrise"; July 16, 2013
^r Axel Troost (Left): "Bank- und Staatsschulden: Den Teufelskreis mit kontrollierten Pleiten durchbrechen?"; October 18, 2012

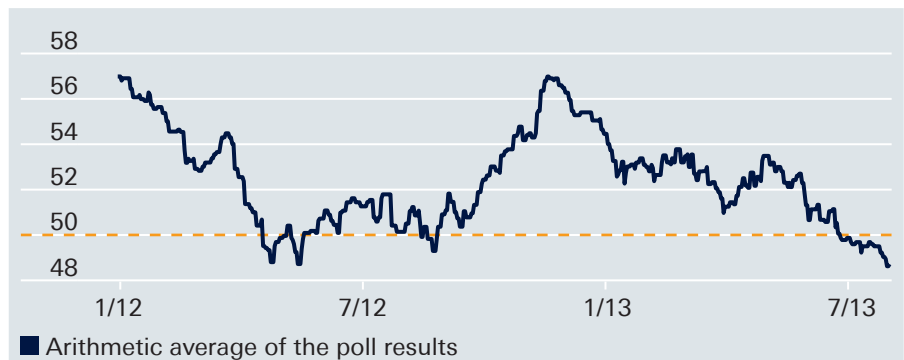
Current polls indicate that there is a possibility of such a coalition achieving a majority in the Bundestag. Based on current polls, the three parties would obtain a total share of parliamentary seats of just under 49 percent (as at August 26, 2013). If the Liberals fail to win seats in parliament, such an alliance would be able to form a governing coalition. However the Social Democratic decision makers would have to move away from their stated positions of not forming a coalition with the Left.

A glance at the topics the three parties agree and disagree on shows that they are more likely to reach a coalition consensus than Social Democrats, Greens and Liberals. All three parties support national spending programs to stimulate the economy, and argue for minimum wages and tax increases. High-income households would have to expect a massive increase in income tax. With such an election outcome, taxpayers would also have to count on an upward revision of the capital gains tax and the introduction of a wealth tax. A Social Democrats, Greens and Left coalition could result in strict regulation and oversight of the financial markets as well as a financial transactions tax.

A close race

The most recent surveys suggest that a Social Democrats, Greens and Left alliance would not achieve a Bundestag majority. There is not much separating them from the 50-percent mark however.

Predicted share of seats of Social Democrats, Greens and Left in the Bundestag (in %)



Source: Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap; own calculations

The tax burden of consumers and businesses would increase substantially. Businesses would also have to reckon with rising labor costs. Uncertainty over financial charges could lead to a sharp fall in consumption and investment. Economic growth would almost certainly be slowed down considerably.

3 Impact on capital markets

The International Monetary Fund (IMF) has given Germany a positive rating in its current country report. In particular, they praised the healthy economic balance and the stable financial system. Under these conditions the economy should continue to grow. In the same breath, the IMF welcomed the federal government's tax plans.⁶ From their point of view, the approach to eliminate "cold progression" – i.e. eliminate the fact that even if wages are adjusted for inflation, real disposable income cannot keep up with inflation because taxpayers might move into a higher tax bracket – appears to be a step in the right direction.

By the same token it is to be feared that "wrong" tax policy choices could reduce the growth momentum. Any tax increases, which reduce disposable income, would reduce the growth rate of the domestic economy. The Cologne Institute for Economic Research (IW)⁷ and the German Institute for Economic Research (DIW)⁸ have calculated the effects of the tax cuts and tax increases put forward by the parties in their manifestos for the upcoming legislative period.⁹

In the current fiscal environment we expect economic growth of 1.5 percent in Germany in 2014. Based on our estimates, private consumption is likely to make a contribution of 0.83 percentage points to this growth. Depending on the election results there will be tax adjustments in the coming year, which would increase/decrease disposable income and, consequently, boost/lower private consumption (see excursus below).

A continuation of the Christian Democrats/Liberals coalition in the next legislative period is likely to have a positive effect on growth, because the two parties are planning to abolish the "cold progression". According to our regression analysis, the planned tax changes would also lead to an increase in private consumer spending. Based on the historical relationship between growth of disposable income and real consumption, it is to be expected that approximately 80 percent of additional disposable income would flow into consumption growth.

Excursus: Disposable income and consumption

A regression analysis was undertaken to determine the relationship of (real) disposable income growth to (real) consumption growth. We used the quarterly change rates (q/q) in this analysis. The regression formula is:

- Growth of real consumption (q/q %) = constant + a * growth of real disposable income (q/q %)
- Growth of real consumption (q/q %) = 0.083346 + 0.807786 * growth of real disposable income (q/q %)
- t_{stat} : 1.621 15.74
- $R^2 = 0.74$

Where:

R^2 = Regression coefficient (the equation explains 74% of the change in real consumption)

t_{stat} = T-test (based on a significance level of 95%)

q/q % = Percentage change over previous quarter

⁶ IMF Country Report No. 13/255: Germany. August 2013

⁷ "Manifestos of the Social Democrats, the Greens, the Left, the Liberals and the Christian Democrats ("Die Programme zur Bundestagswahl 2013 von SPD, Bündnis 90/Die Grünen, Die Linke, FDP und CDU/CSU"). Published July 2013 by the Cologne Institute for Economic Research

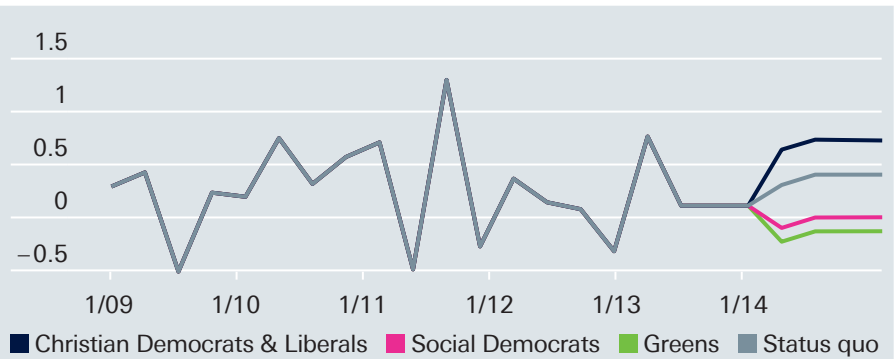
⁸ Proposals for Income Tax reform: More real and less "cold" progression ("Reformvorschläge zur Einkommensteuer: Mehr echte und weniger kalte Progression"). Published by the German Institute for Economic Research. Edition 30/2013.

⁹ The tax proposals from the Left were not included in this analysis, since the results from the two institutes DIW and IW as to the impact of this party's planned tax burden and tax relief differ greatly. A credible result can only be obtained by undertaking a longer-term analysis.

Politics and the economy

The parties' tax plans have an impact on disposable income and, thus, on consumption. The Christian Democrats and the Liberals plan tax relief, the Social Democrats and the Greens, however, increased taxation.

Change in real consumption (over previous quarter in %)



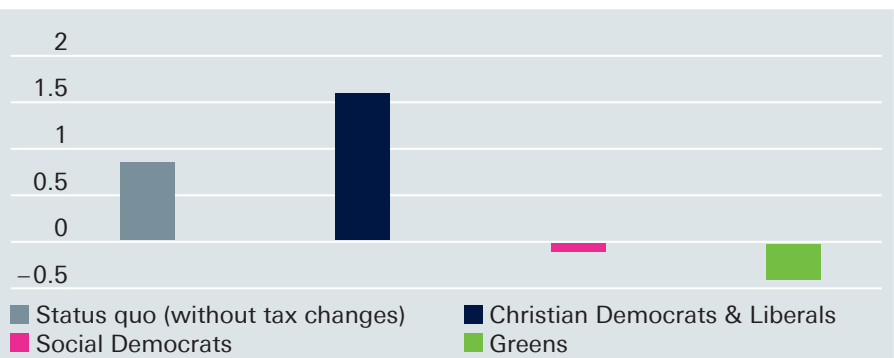
Own calculations based on the parties' plans

Should a Christian Democrats/Liberals coalition put its tax plans into effect immediately, it is quite likely that the real contribution from consumption of 0.83 percentage points (status quo scenario without any tax changes) would increase to 1.56 percentage points. The Social Democrat tax plans, on the other hand, are likely to cause private consumption to bring about a 0.09 percentage point reduction in growth. The Greens, however, are planning an even more massive tax burden on households. Consequently, implementation of their plans is likely to bring a contribution of private consumption to real growth of -0.38 percentage points.¹⁰ The effects of new government consumption and economic stimulus packages which are planned by a coalition of Social Democrats and Greens are not quantifiable over the short-term and were therefore not included in these calculations. Nonetheless, they should bring about a positive contribution and thus lessen the detrimental effects of the tax plans.

Consumption and growth

If the tax burden decreases, then disposable income rises together with consumption and gross domestic product. The tax relief planned by the Christian Democrats and Liberals could ensure that consumption makes a higher contribution to economic growth in the coming year.

Contribution of real consumption to growth (in % of GDP)



Own calculations based on the parties' plans

¹⁰ Additional tax and deficit financed State spending programs and additional projects have not been taken into account in the calculations nor, then, in the figures. In our analysis, we took into account only the points in the election programs which are quantifiable (such as new tax rates). This analysis can only give an indication as to the way private consumption could influence growth.

3.1 Impact of potential election outcomes on the Euro and on European bond markets

The long-term real growth of an economy and the expected inflation rates for the coming years are considered the main influencing factors for the level of interest rates on government bonds. Holders of government bonds should therefore keep an eye on the federal election. As already shown, the results have an influence on German growth. The new government’s European policies are also likely to have an effect on yield levels in Germany and in other eurozone countries.

Since interest rates and spreads usually have an impact on the currency, the external value of the euro should also be affected by the federal election. Euro-denominated corporate bonds are also influenced by interest rates in the eurozone. Credit ratings, however, play a major role for these securities. In view of this, the German federal election plays a rather minor role, also because most German companies have an international footprint so that German politics should influence their solvency only marginally. Even so, it is worth taking a look. A financial transaction tax, depending on how much and how it is levied, could significantly decrease the attractiveness of corporate bonds for investors.

According to the latest polls there is a relatively high probability that the current coalition of **Christian Democrats and Liberals** will be able to continue to govern. Therefore, it is expected that discussions with the peripheral countries on debt reduction will be pursued more vigorously after the election. This could also bring slightly higher volatility to bonds issued by southern eurozone countries. However, the impact should be limited. Further objectives of the coalition are the reduction of public debt, retention of the current income tax rates (while abolishing cold progression) and no adoption of a wealth tax. The changes in the area of financial regulation should remain manageable. A tax on financial market transactions is currently the subject of controversial discussions within the Christian Democrat party. It is therefore unclear whether such a tax will ever see the light of day. If it does, we expect that the Liberals moderate the effects. Both parties are against a European Deposit Protection Fund and eurobonds.

Coalition of Christian Democrats and Liberals	
Government Bonds	Since this government would make sure to limit Germany's liability for other countries, German government bonds are expected to remain stable with little change in interest rates. A financial transaction tax is possible, but it should be low and have a correspondingly low impact on the bond sector.
Euro	Over the short term the election results should have little influence on the external value of the euro. Over the long term it is expected that a continuation of the consolidation of public finances will bring a reduction of the risk premium on peripheral government bonds and a strengthening of the euro.
Corporate Bonds	Corporate bonds should not be affected by such an election outcome. The introduction of a financial transaction tax remains a risk factor. It is still open as to which countries want to introduce it and how the tax will be levied. Consequently at this moment in time no statements are possible as to the impact of the tax.

If Christian Democrats and Liberals do not achieve a majority then a new edition of the “Grand Coalition” of **Christian Democrats and Social Democrats** is most likely. The Christian Democrats are against higher income taxes and capital gains taxes as well as against the introduction of a wealth tax. This means that they, in all of these respects, are in opposition to the Social Democrats who are calling for tax increases. Increases are possible, but they should be contained by the Christian

Democrats since these taxes put a strain on growth. The financial transaction tax promoted by the Social Democrats could be introduced but the influence of the Christian Democrats should moderate its impact because their opposition against such a tax is growing. Social Democrats are open to a separation of investment banks and commercial banks but Christian Democrats reject this. Both parties are against a European Deposit Protection Fund.

Coalition of Christian Democrats and Social Democrats

Government Bonds	The Christian Democrats are in favor of harsher austerity measures within the eurozone whereas the Social Democrats favor less austerity. Compromises are to be expected. Significant impact on the interest rates of government bonds is not to be expected. The amount and the effect of a financial transaction tax are very difficult to assess. However, it is expected to be less than in a Social Democrats / Greens coalition.
Euro	A Grand Coalition usually leads to a policy of small steps. This could lead to a new adjustment in risk premiums and in turn to a slight depreciation of the euro.
Corporate Bonds	Corporate bonds should not be affected by such an election outcome. The introduction of a financial transaction tax remains a risk factor. It is not yet clear as to which countries want to introduce it and how the tax will be levied. Consequently at this moment in time no statements are possible as to the impact of the tax.

If the **Social Democrats and the Greens** obtain a majority, this could have a distinct impact on bond markets in the eurozone and lead to higher volatility on the foreign exchange market. Finally, both parties want to use state spending programs to stimulate the economy in the long term, financed by higher debt in the near term and through tax increases. Increased income taxes, increased capital gains tax and the introduction of a wealth tax as well as a separation of investment banks from commercial banks are all probable.

Coalition of Social Democrats and Greens

Government Bonds	Both parties could put a burden on economic growth, at least in the near term (long-term effects of stimulus packages are not quantifiable and therefore not taken into account here). Weaker growth is likely to bring about decreasing yields on Bunds. On the other hand, such a government would be more open to joint liability for the debts of the peripheral countries. This would stimulate Bund yields. It is unclear which effect would dominate. The spreads between German Bunds and government bonds issued by peripheral countries should decrease. A tax on financial market transactions should have a negative effect, but this effect is almost impossible to determine.
Euro	Lower growth rates in Germany and higher growth rates in the periphery are possible due to falling interest rates. A more expansive monetary policy at the ECB is likely. Higher growth rates in the eurozone should boost the euro in the short term. Over the long term, lower fiscal discipline could increase the risk of inflation and weigh on the external value of the euro.
Corporate Bonds	Corporate bonds should not be affected by such an election outcome. The introduction of a financial transaction tax remains a risk factor. It is not yet clear as to which countries want to introduce it and how the tax will be levied. Consequently at this moment in time no statements are possible as to the impact of the tax.

A coalition of **Christian Democrats and Greens** is less probable. The differences between the parties are simply too big. As a consequence it is difficult to predict any compromises on tax policy. It is likely that the Christian Democrats could limit tax increases, but would not be able to prevent them. Also in the field of energy policy the differences are enormous. The Greens want a continuation of the subsidies for renewable energy and an increase in electricity prices for energy-intensive industries. A financial transaction tax is to be expected, with Christian Democrats fighting to limit the burden.

Christian Democrats are in favor of maintaining the universal banking system but the Greens advocate the separation of investment banking from traditional banking. Their positions are also contradictory on a European Deposit Protection Fund as well as on eurobonds.

Coalition of the Christian Democrats and Greens

Government Bonds	Moderate tax increases are likely to weigh on growth slightly and reduce yields on German Bunds. On the other hand, such a government would take a softer stance toward the peripheral countries which would in turn push up Bunds prices. Overall, the impact on government bonds would be limited.
Euro	Due to the weight of the Christian Democrats in such a coalition, any changes in fiscal policy and in banking regulation should remain limited. The lower pressure to consolidate public finances should lead to higher growth in the peripheral countries. This could lead to a temporary rise in the euro.
Corporate Bonds	Corporate bonds should not be affected by such an election outcome. The introduction of a financial transaction tax remains a risk factor. It is not yet clear as to which countries want to introduce it and how the tax will be levied. Consequently at this moment in time no statements are possible as to the impact of the tax.

A coalition of Social Democrats, Greens and Liberals is just about as unlikely as a coalition of Social Democrats and Greens. Compromises should be hard to find in such a three-way coalition due to their widely differing ambitions. The probability is high that these three parties would end up in deadlock over expenditure and tax policies, the regulation of financial markets and on European policies.

Coalition of Social Democrats, Greens and Liberals

Government Bonds	A battle over tax policy and eurobonds is clearly on the cards. The result is likely to be higher volatility in German government bonds.
Euro	In this regard, any compromise would appear to be difficult. A more expansive monetary policy from the ECB is likely to have a positive influence on growth in the eurozone. The euro is likely to reap short-term benefit from this.
Corporate Bonds	Corporate bonds should not be affected by such an election outcome. The introduction of a financial transaction tax remains a risk factor. It is not yet clear as to which countries want to introduce it and how the tax will be levied. Consequently at this moment in time no statements are possible as to the impact of the tax.

Based on their manifestos and political statements, the ground for political cooperation between **Social Democrats, Greens and the Left** would appear to be bigger. Results of such a coalition government are expected to be stimulus programs, an increase in taxes for higher income groups, a wealth tax and a reform of the capital gains tax. The financial system should be heavily regulated, and the capital markets could be put under strict political surveillance. The pressure for structural reform in the periphery countries is likely to be reduced significantly. The ECB would lose its independence, in the unlikely event that its mandate moves in the direction of direct monetary financing of public budgets (as envisioned by the Left). Since concessions by the Social Democrats and the Greens in favor of the Left Party are likely, the tax burden should increase drastically under such a coalition. A minimum wage of 10 euros could lead to an increase in unemployment.

Coalition between Social Democrats, Greens and the Left

Government Bonds	Such a coalition could lead to a reduction in growth (long-term effects of stimulus packages are not quantifiable and therefore not taken into account here). This is likely to lead to a decline in yields on German Bunds. On the other hand, such a government would be open to joint liability for public debt in the eurozone. This should push up yields on German government bonds. It is not possible to predict which effect would dominate.
Euro	The euro is likely to come under pressure due to higher uncertainty. Because of the roll-back of consolidation of public finances and the risk of increased regulation, this coalition is seen as the least desirable for the financial markets, even if higher growth appears possible in peripheral countries over the near term.
Corporate Bonds	The regulation of financial markets and the separation of investment banks from commercial banks would have a negative impact on the market for corporate bonds. The introduction of a financial transaction tax remains a further risk factor. It is not yet clear as to which countries want to introduce it and how the tax will be levied. Consequently at this moment in time no statements are possible as to the impact of the tax.

3.2 Impact of the election on stock markets

The election outcome should have an effect on economic growth in Germany and the eurozone as well. Nevertheless, the impact on stock markets should be limited since many listed companies operate internationally. In addition, stockholdings in larger companies are spread internationally. The German stock market might nevertheless be affected.

Coalition	Stock markets
Christian Democrats and Liberals	Political stability should have a marginally positive effect on the German stock market.
Christian Democrats and Social Democrats	A "grand coalition" is not favored by the domestic stock market. However, the fact that Angela Merkel continues to head the government would be seen as positive.
Social Democrats and Greens	Such a coalition is expected to act in a rather unfriendly way towards businesses. Because of the political uncertainty, minor setbacks on the domestic stock market are likely.
Christian Democrats and Greens	The markets would also respond positively to this coalition given that Angela Merkel would have won the election. Whatever concessions the Christian Democrats make in favor of the Greens, it is likely that the response of the domestic stock market would be neutral to positive.
Social Democrats, Greens and Liberals	Any prediction as to a coalition agreement here is difficult. The Liberals are expected to push strongly for pro-market policies. In contrast to a coalition of Social Democrats and Greens, this should calm the stock market.
Social Democrats, Greens and Left Party	Such an outcome is the biggest risk to the stock market, because this coalition would act in a very hostile way towards corporations. The consequences on businesses are unpredictable. The resulting uncertainty would weigh on the domestic stock market.

Appendix

The expected share of parliament seats of the parties

We converted the poll ratings of the German poll institutes Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap into an arithmetic average. Based on this average, the share of seats for every party in parliament was calculated (see excursus on page 13). Parties which receive less than five percent of total votes will not be part of the next Bundestag. This five-percent hurdle was considered in our calculations.

High acceptance

The Christian Democrats are leading the polls of all institutes. However, it is unlikely that they reach the majority in parliament.

Predicted share of seats of Christian Democrats in the Bundestag (in %)



Source: Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS und Infratest dimap; own calculations

Under pressure

At the beginning of the year, the Social Democrats enjoyed the favor of nearly one third of voters. Since then, their party's popularity has dwindled according to the polls.

Predicted share of seats of Social Democrats in the Bundestag (in %)

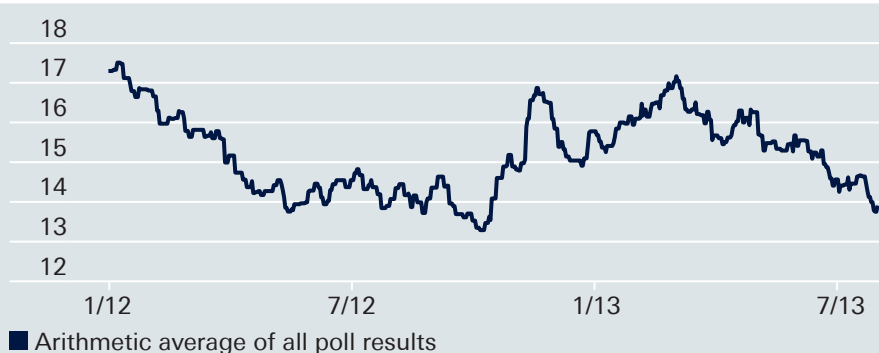


Source: Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS und Infratest dimap; own calculations

Volatile development

Voters' opinion of the Greens has fluctuated strongly since the beginning of 2012.

Predicted share of seats of Greens in the Bundestag (in %)



Source: Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap; own calculations

Loyal supporters

The socialist party "Die Linke" has loyal supporters in Eastern Germany. The polling institutes are expecting that the party will take the five percent hurdle very easily.

Predicted share of seats of the Left in the Bundestag (in %)

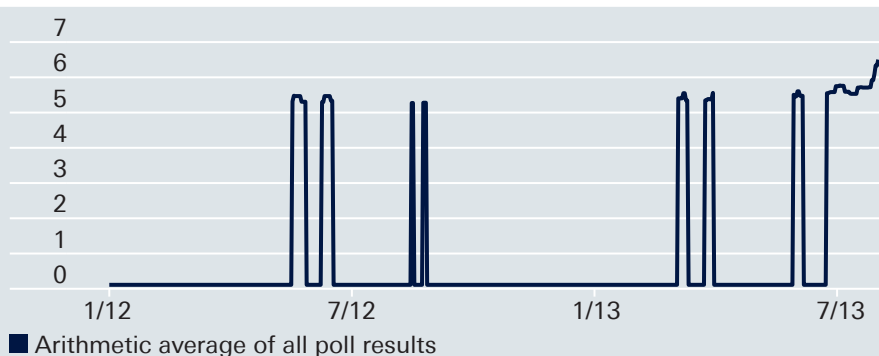


Source: Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap; own calculations

Barely over the hurdle

In previous years, surveys frequently kept Liberal politicians on tenterhooks. In recent weeks, the probability that the party will make it into the Bundestag has risen according to the institutes' surveys.

Liberals' predicted share of seats in the Bundestag (in %)



Source: Allensbach, Emnid, Forsa, Forschungsgruppe Wahlen, GMS and Infratest dimap; own calculations

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