

Germany's Greens and finance

The 10 big questions

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Cover image of the Greens' co-leaders Annalena Baerbock and Robert Habeck

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Greening of Germany

Baerbock will come under scrutiny - but September's election may be a turning point, writes David Marsh, chairman of OMFIF.

Germany is heading for a change in its political constellation that could rival in importance the post-war turning points in 1969, 1982 and 1989-90. At the centre of swirling debate ahead of the 26 September general election are the Greens, led in the campaign by high-flying but untried Annalena Baerbock, born in the year (1980) the party was formed.

In post-election coalition negotiations that may take months, the Greens are likely to emerge as a substantial party of government. The 'divide and rule' policy of Angela Merkel, chancellor for 16 years, has left Europe's pivotal nation with an uncertain legacy. Eight post-election coalitions are possible, the most widely touted between Merkel's Christian Democratic Union/Christian Social Union grouping and the Greens. Baerbock has come under greater scrutiny. In a bruising second half of May, a string of gaffes and revelations, including on hitherto undisclosed party remuneration and irregularities in her academic credentials, sent Baerbock's and the Greens' popularity ratings tumbling. Additionally, skirmishing for power by the liberal Free Democratic party, another potential ally for the Greens along with the Social Democrats (SPD), will complicate coalition arithmetic. This may make a four-party coalition – the first in Germany's post-war history – the most likely outcome.

The Greens have matured and broadened their appeal since their first period of federal government under Social Democrat Gerhard Schröder in 1998-2005. Yet the party remains beset by contradictions. Embracing a blend of progressive but realistic radicalism favoured by the party's 'realo' wing, the Greens participate in ruling coalitions in 12 of Germany's 16 federal states. In the industrially advanced state of Baden-Württemberg, they have held the premiership for 10 years.

Their leaders are generally inexperienced. But their environmental agenda has long set the benchmark for the main German parties. They have extended their expertise into many fields, including key areas of financial policies encompassing forward-looking but potentially expensive ideas on reinforcing economic and monetary union.

Widespread belief in German society that 'it's time for a change' after the wrenching experience of the pandemic has been a major factor behind the Greens' 2021 rise to draw neck-and-neck with the CDU/CSU in opinion polls. Enhanced worldwide focus on sustainability enshrined in the early policies of President Joe Biden has further burnished the Greens' credentials. If they enter government, they will do so from the mainstream, not the fringes.

Changes ahead in Europe's biggest economy may rank alongside the switch in leadership away from the CDU/CSU in 1969, the 1982 breakdown of Helmut Schmidt's coalition and the ascent of Helmut Kohl, and the seminal time of reunification in 1989-90. In public consciousness, the Greens' financial policies lag behind the party's stance on environmental and social issues. But they provide a compelling test of prowess in balancing ideological visions and the demands of a competitive world. How well, or badly, the Greens live up to their financial policy objectives will, directly and indirectly, shape the future of Europe.



'Widespread belief in German society that "it's time for a change" after the wrenching experience of the pandemic has been a major factor behind the Greens' 2021 rise.'



Momentum and markets

As party rides high in polls, debate needed on economics, financial markets and Europe

The Greens look set to participate in the next German government. The big question is: how would their policies work, particularly on economics and finance? And, with their new-found focus on European sovereignty, what impact would they have on the rest of the European Union?

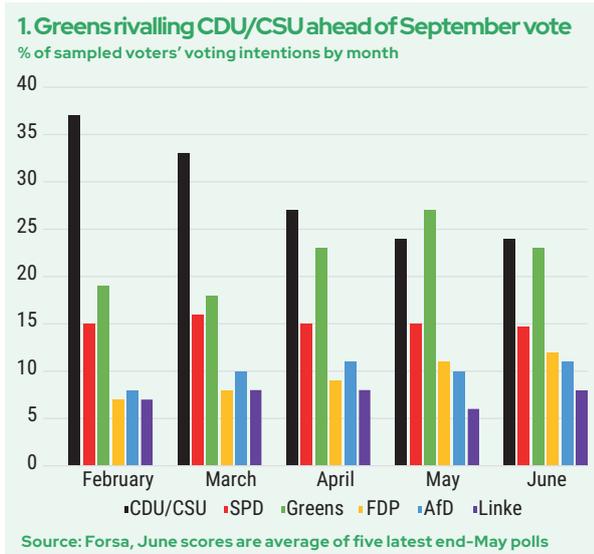
Annalena Baerbock, in the Bundestag since 2013, has enjoyed a meteoric rise. Although with no government experience, she stands for many as a mixture of Chancellor Angela Merkel, French President Emmanuel Macron and Jacinda Ardern, New Zealand's prime minister. The main factors behind the Greens' polling ascent (Figure 1) are voters' ennui with Merkel's Christian Democratic Union, frustration with its pandemic policies and general accord with the Greens' increasingly mainstream climate change stance.

Mishandling of the three-year operation for choosing Merkel's successor furnishes another reason. The process orchestrated by the CDU and the Christian Social Union, its Bavarian sister party, has been strewn

with setbacks, revealing ill-feeling between the two parties. A drawn-out attempt by Markus Söder, the opportunistic Bavarian prime minister, to become the CDU/CSU's chancellor-candidate narrowly failed last month. Instead, Armin Laschet, CDU prime minister of North Rhine Westphalia and party chairman after a close-fought January victory, will lead the campaign. Unprepossessing yet persistent, Laschet smiles permanently when told frequently how he trails Baerbock in popularity polls in nearly every one of Germany's 16 states.

Greens turn pragmatic – but strife beckons

The Greens were notorious in their 1980s and 1990s gestational years for internal rows between their fundamentalist and realist wings. After 40 years of ups and downs (Figure 2), they now show a distinct air of pragmatism. Baerbock has gained attention from the security establishment with strikingly emollient remarks about nuclear weapons on German territory, opposition



to which was one of the party's founding totems.

Similar pragmatism can be expected in economic dealings, and in financial markets in particular. But there is also plenty of room for strife with the CDU/CSU, the Greens' most likely coalition partner. Macron is showing clear support for Baerbock and her party co-chair, Robert Habeck; the French president received the duo for a demonstrative Elysée Palace audience in 2019. Yet disputes are likely with France, too. These centre on France's support for nuclear energy, making up two-thirds of its electricity supply, in opposition to the Greens' (and Germany's) anti-nuclear policies. The Greens' energy plans could bring to the surface French and German contradictions over environment policies - unleashing possible curbs on German nuclear electricity imports from France.

Friedrich Merz, the CDU lawyer and long-standing Merkel opponent, who failed in January in a bid to lead the party, is now allied with Laschet as the economic spearhead in his election team. As the campaign heats up, Merz will attack the Greens' economic plans as unrealistic and spendthrift. But he also speaks of the Greens as necessary partners for reforming German business and society. Merz highlighted how right-wing President Richard Nixon in 1972 forged an opening with China and Social Democrat (SPD) Chancellor Gerhard Schröder in 2003 tamed the trade unions. In a similar way, Merz says, the left-leaning Greens can bring along German voters who would otherwise be opposed to changes.

Catalyst for mainstream politics – and support for banker-bashing

The Greens' policies from the 1980s onwards, particularly on nuclear energy, have catalysed

mainstream German politics. By next year, Germany will have switched off all nuclear power plants, even though most of the rest of the world see nuclear generation as an important way to lower emissions.

Germany has decided to tighten its emission targets and become carbon neutral by 2045 rather than 2050. The Merkel government's decision, responding to the German constitutional court's ruling that climate protection measures placed an unlawful burden on younger people, was a bid to forestall Greens' campaigning on this issue.

The Greens' proposals on banking and finance in their provisional manifesto, due to be confirmed at a congress on 11-13 June, may appear superficial. But they will appeal to a German public sympathetic to banker-bashing. German banks have already been cut down to size in the past 25 years by mistaken policies, post-financial crisis regulation and competition. In a move on which the Greens should focus more attention, worrisome risk-taking has moved to non-banks and cryptoassets.

The Greens' proposals contain sensible ideas about rotating auditors, green finance and sharpening the teeth of Germany's financial regulator. Suggestions about banking regulation, on the other hand, seem out of date. Ambitions to deepen Europe's economic and

2. Greens' progress over 40 years

1980	Greens founded
1983	First seats in Bundestag as the party won 5.7% of the vote and 27 seats
1993	Merged with Alliance 90, an East German coalition of political groups
1998	Became junior partner in a coalition government with Gerhard Schröder's SPD
2005	Re-entered opposition
2009	Best Bundestag election result winning 10.7% of the vote and 68 seats
2019	Finished second in Germany's European parliament election with 20.5% of the vote
2021	Annalena Baerbock selected as chancellor-candidate for September's election

monetary union – going well beyond promises in the Greens’ 2017 manifesto – show considerable overlap with plans advocated by Macron. They are more extensive than proposals from Olaf Scholz, the SPD’s finance minister in Merkel’s coalition, fighting an uphill election battle as his party’s chancellor-candidate.

The Greens’ media honeymoon has inevitably come to an end, as the CDU/CSU recovers in the polls and more attention has focused on Baerbock’s lack of

‘The Greens favour tightening managers’ personal liability rules, strengthening supervisory boards and tying board members’ remuneration to long- rather than short-term success.’

experience. Schröder, Germany’s sole living former chancellor, who led an SPD coalition with the Greens in 1998–2005, is playing a muted role in the campaign, although he backs his old ally Scholz. In April, Schröder launched a strong attack on Baerbock’s lack of experience and

the party’s China policies. The surge of interest in the Greens as a potential party of European government will kindle debate about the validity of its economic policies.

There are 10 key points to examine.

1. Towards a ‘grüne Finanzwende’ – greening financial markets

The party advocates a ‘grüne Finanzwende’ (green financial revolution) with a complete withdrawal of public funds from the fossil fuel industry and a leading role for public banks and state pension funds. Making climate risks transparent and adopting capital weightings against these risks for banks and insurance companies, with corresponding implications for their credit ratings, matches the pattern of EU policies.

For sustainable investments incorporating certain human rights, working conditions and development goals, as well as environmental considerations, a special ‘EU label’ should be established. This is aligned with existing plans for a European taxonomy covering environmental, social and governance factors. Part of the Greens’ proposals for diverting funding from coal mining will find resonance with Laschet. The prime minister of the leading mining state of North Rhine Westphalia has played a prominent role in government programmes to phase out coal extraction.

It’s not clear if the Greens are thinking systematically of German or EU-scale regulation. To Europeanise the rules, they would need to become part of the EU’s

post-pandemic green deal and be incorporated into the criteria for the €750bn recovery fund. How will European Central Bank regulation tackle these aims? Will the ECB take up these goals in its corporate bond purchases, as hinted on 5 May in an OMFIF briefing by Philip Lane, ECB board member for economics? How will the party ensure private and public banks adhere to this political aim? How will Germany exert further influence on the country’s car-makers, especially Volkswagen (20% of which is owned by the state of Lower Saxony)?

2. ‘Clean balance sheets’ on German capital markets

Prompted by the collapse of Wirecard, the once high-flying Munich payments company brought down by massive fraud and the alleged failure of auditors EY to act on suspicion of irregularities, the Greens plan far-reaching changes. Companies would have to change their auditors every six years. Auditors would not be allowed to advise their audit clients, in line with persistent regulatory effort around the world. Independent outsiders would choose auditors. Audit firms would come under state supervision. Detecting balance sheet malfeasance would be a legal obligation. The Greens favour tightening managers’ personal liability rules, strengthening supervisory boards and tying board members’ remuneration to long- rather than short-term success.

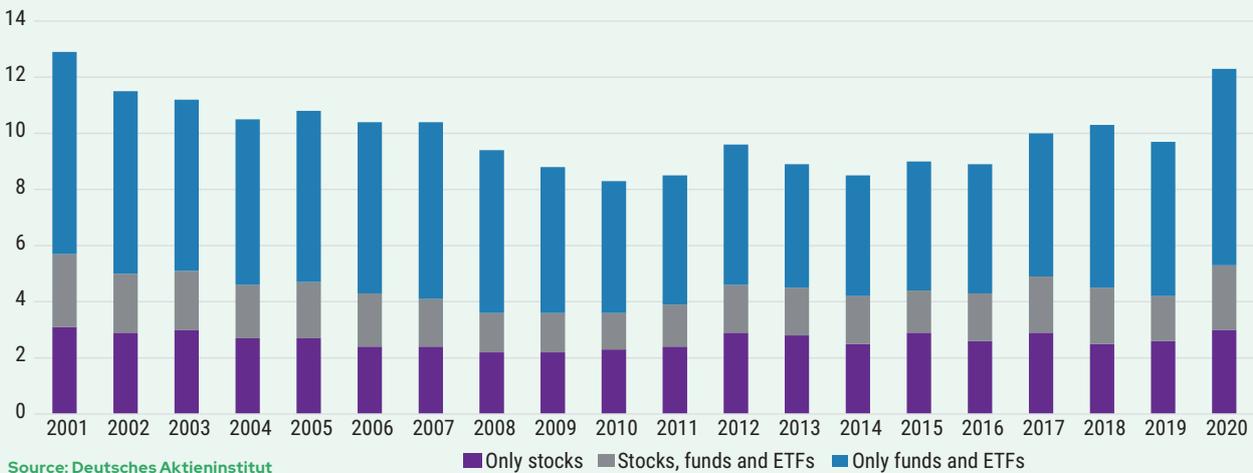
While some of these ideas seem sensible, the main questions will be on implementation. How would audit appointments be decided and controlled? How can new supervision, remuneration and whistleblowing regimes be made effective? Would a new German framework be legally binding for foreign-owned companies? Some of these ideas have been developed during the parliamentary investigation into Wirecard, where Danyal Bayaz, a high-flying 37-year-old Green Bundestag deputy, has played a leading role. Underlining the Greens’ progress, on 10 May Bayaz was asked to take over as finance minister in the industrial state of Baden-Württemberg. This could be a rehearsal for a bigger job at the federal level.

3. ‘A financial watchdog with teeth’

The Greens wish to give Bafin, Germany’s financial supervisor, stronger powers to check and control companies and banks, plugging loopholes exposed by the Wirecard scandal. The Greens’ programme complains of how Bafin reacted to criticism of Wirecard by protecting rather than pursuing the

3. Germans falling back in love with the stock market

Number of German investors, by year (m)



company - banning short-selling in Wirecard stock and threatening legal action against Financial Times journalists who published damaging yet accurate articles. The Greens want a 'financial police force' with greater powers of investigation and stepped-up exchanges of information with German and foreign authorities.

The proposals would need backing not just in Germany but also from the European Commission and European parliament. They provide useful reflections for Mark Branson, the British-Swiss financial specialist who formerly headed Swiss regulator Finma, taking over as Bafin chief. They are also relevant for Jörg Kukies, the German finance ministry state secretary who is presiding over Bafin's planned reinforcement. Kukies himself has been criticised by Bundestag deputies for closeness to Wirecard's former chief executive, charges he denied in an inquiry hearing.

The Greens' manifesto claims German investors have 'lost confidence in the financial centre of Germany and in its supervisors'. In fact, Bundesbank officials like to highlight how last year the number of shareholders in Germany rose by 2.7m to 12.4m, the biggest increase in 20 years (Figure 3). A large part of this growth reflected younger investors purchasing shares, induced by booming stock markets and the ECB's easy money policies which otherwise face criticism in Germany.

4. 'Banking should become boring again'

The Greens' programme, calling for a return to 'boring' banking, says banks are still 'a danger for the economy' more than 10 years after the financial crisis, since taxpayers might have to rescue collapsed institutions. To lower risks, banks should be separated into

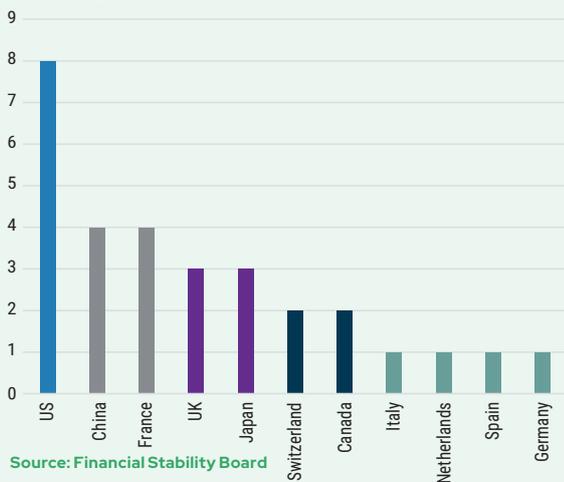
investment banks and deposit-taking/credit businesses. 'Banks should not speculate, rather they should support the real economy.' Control of mergers is needed, while big banks should be dismantled. The leverage ratio needs to be tightened. 'Untransparent regulation' needs to be replaced by 'simple and hard' rules. A European financial transaction tax is planned to make speculation unattractive.

This section of the manifesto seems ill-informed and out of date. A financial transaction tax has been rejected by most EU member states, despite years of negotiation. The authors appear not to have taken account of significant reregulation since the banking crisis. Reinstating the US Glass-Steagall system, separating investment banking and 'utility banking', would go beyond the international consensus and would not address the main sources of risks. Germany is notoriously over-banked with a fragmented system but, despite its economic size, has only one globally systemically important bank, Deutsche Bank, against eight in the US, four each in China and France and three in Japan and the UK (Figures 4 and 8). There is no mention of the all-important state-owned KfW development bank, which provides ample credit to the real economy via the commercial banking system, but is also a significant competitor to private banks.

An efficient European financial market, which the Greens otherwise support, would require cross-border banking mergers. The once dominant Deutsche Bank has been eclipsed in global importance over the past 25 years. Its market capitalisation is 6% of JP Morgan Chase's, 20% of HSBC's and 35% of BNP Paribas'. Commerzbank, the second biggest German stock market-quoted bank, has only 30% of Deutsche's equity capitalisation, making it 50 times smaller than

4. Germany's banks outstripped by international rivals

Number of global systemically important banks, by country



US leaders. Faced with this reality, a go-it-alone approach would weaken Germany's banking sector further.

5. Confiscating illicit funds acquired through money laundering

The Greens say Germany is a 'paradise' for money laundering, which may be a reference to the propensity for criminals to use cash in large transactions, made legal by much higher limits in Germany than in many other EU countries. The party wants more transparency for economic actors in companies, foundations and other entities, together with tightened federal supervision and confiscation of illegally acquired funds.

The party is tapping into an EU-wide desire to crack down on money laundering and confiscate illicit funds, a prime goal for several years for European and international police. It seems questionable that Germany can succeed alone without a concerted European effort. German action to restrain the use of cash for large transactions has been held back by lobbying groups defending Germans' traditional desire to use banknotes even for relatively large monetary transfers. But increased use of digital technology for payments during the pandemic may help overcome these obstacles.

6. Introducing a digital euro

The Greens support the introduction of a digital euro through the ECB, avoiding competition to the central banking system from private cryptocurrencies. The aim is to reduce costs while maintaining coexistence with cash transactions and upholding data and legal safety for consumers and companies. Anonymity for digital payments and cryptocurrency use would be lifted

above a certain transaction amount.

The Greens wish to 'mitigate against unjustified costs of oligopolies', a reference to private cryptoasset providers and technology companies. However, European banks, which make much of their profits from payments, are the entities which would suffer most from state-backed digital currencies. Unless digital currencies are introduced as a deliberate ploy to weaken banks, the Greens' strategy would need to prevent this process from ruining many European banks' business models.

Under pressure from European politicians and others wishing to uphold Europe's 'sovereignty' on the world stage – particularly against a fast-emerging digital renminbi and an eventual digital dollar – the ECB is preparing various models for a digital euro. In Germany, the move is backed by the finance ministry, while both the chancellor's office and the Bundesbank are hesitant. Germans habitually value cash as securing privacy in financial transactions. The German public will be reticent about giving up this characteristic with a digital euro. Moreover, the ECB's potential ability to deploy a digital currency to enact unconventional monetary policies, maintain negative interest rates and even devalue the euro might encourage German scepticism.

7. Investing in Europe's future

The Greens wish to raise EU investment in climate, digitalisation, research and education, as well as in public infrastructure and technologies such as battery development. This will necessitate expanding the EU budget significantly and raising funds via taxation. The implementation of the €750bn Next Generation fund, agreed by EU heads of government in July, has been delayed, but the EU's borrowing under the programme is due to start this summer. The Greens want NGEU to become permanently part of the EU budget, allowing European parliamentary control of its allocation.

'Under pressure from European politicians and other actors wishing to uphold Europe's "sovereignty" on the world stage the ECB is preparing various models for a digital euro.'

The NGEU fund is the subject of three German constitutional court lawsuits. The latest one has been launched by seven CDU Bundestag members, led by Dusseldorf deputy Sylvia Pantel, claiming that the fund will lead to a 'debt union' which undercuts Germany's budgetary autonomy and will saddle it with burdens from highly indebted states like Italy. There are likely to

be further constitutional obstacles to direct EU taxation of German citizens and the introduction of permanent emergency funding for mechanisms that were supposed to counter only the immediate effects of the coronavirus crisis.

8. 'Complete monetary union, make Europe less vulnerable to crisis'

The Greens wish to overcome years of efforts by those they call 'conservatives' to prevent Europe adopting its own fiscal policy – part of the Greens' ambition to turn the EU into a 'Federal European Republic'. They say: 'Banking union will be completed with universal deposit insurance, so that a euro is worth the same everywhere. Through a common fiscal policy, we will relieve the need for the ECB to solve future problems alone.' As part of an EU fiscal policy, the European Stability Mechanism would be changed into a European monetary fund, with a non-conditional credit line for all euro members.

Completing the banking union would be a step forward, but it will lead to banking mergers the Greens otherwise wish to prevent.

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Germany's co-operative and savings banks, often dominant regional players in a fragmented banking system, continue to lobby against deposit insurance, rejecting claims on the country's own well-

funded deposit insurance, yet these banks will be vital allies for enacting the Greens' credit policies. Persuading the German public to agree to a fundamental change that could hit Germans' own savings will be a great challenge.

9. Euro as a main international reserve currency

The Greens want to solidify the euro as one of the main international reserve currencies 'so that Europe can maintain and reinforce its sovereignty'. There is a new strategic emphasis – mirroring policies from the European Commission and the French government – on transferring European 'values' into global markets and making the euro the main currency for 'green' transactions and investments.

Some of this appears to be exaggerated grandstanding. European 'values' are unlikely to be transferred via currency movements. The euro is already by a large margin the second most important international reserve currency, although the renminbi

(which currently has only a tenth of the euro's international reserve currency importance) may close some of the gap in coming years. The euro is not a policy tool of the German government. Moreover, the ECB would rather not see the euro's value rise unduly while the EU economy is under pressure.

Turning Frankfurt, Luxembourg and Paris into centres of excellence for climate transactions could indirectly boost the share of the euro in such investments. The NGEU bond issuance programme will help boost the euro's international role and will make Europe's green bond taxonomy an important benchmark. Latest statistics from the International Monetary Fund show the share of dollar reserves held by central banks fell to 59% in 2020's fourth quarter, its lowest in 25 years, from 71% when the euro was established in 1999. The euro's share has fluctuated around 20%, with the dollar's decline largely accounted for by increases in holdings of less conventional reserve currencies, such as the Australian and Canadian dollars and the renminbi.

10. Higher taxes on middle incomes

The Greens' programme specifies tax increases (to 45% of remuneration) for earners above €100,000, and to 48% for those earning above €250,000. It would increase the basic untaxed threshold by an unspecified amount. In addition, wages over €500,000 would no longer be deductible as corporate expenses. The Greens wish to tax Germans by nationality, not only by their primary residence, a strong disincentive to Germans moving to third countries for tax avoidance reasons. They have also floated the idea of a wealth tax on holdings over €2m – a relatively low threshold which would alienate many voters who would not regard themselves as rich but have moved heavily into property and shares in recent years.

The party believes the tax system is unbalanced and the better-off pay too little. They imply that corporate pay over €500,000 is unjustly high. This is a popular claim, especially for supporters of the far-left party, Die Linke, and may also resonate with SPD voters. The limit on deductions for corporate expenditure will be difficult to regulate, beset by legal hurdles. Further, there are doubts on the legality of plans to tax by nationality. The EU has never agreed a joint taxation policy but has wished to maintain tax competition between its different members. Most other countries tax by main resident status. If Germany wished to go it alone, it would have to renegotiate many foreign tax treaties, just one of the many hurdles that the Greens' programme would have to surmount.



Complex future

Eight election questions and 12 possible new team members for Laschet

1. What will happen after 26 September?

A CDU/CSU-Greens coalition, with Armin Laschet as chancellor and Annalena Baerbock as vice-chancellor and foreign minister, is the most probable outcome – if the CDU/CSU can overcome its disastrous showing in 2021's opinion polls. If the Greens finish top, Chancellor Baerbock could rule with the CDU/CSU as junior partner, although the conservatives might prefer to go into opposition than submit to such perceived humiliation.

The challenge for Laschet is to avoid antagonising the Greens unduly during the campaign while delineating the CDU/CSU from the far-right Alternative for Germany (AfD), currently the largest opposition in the Bundestag. The AfD is expected to get 10% of the vote in September.

A junior role would be difficult for the CDU/CSU. It has spent 52 years in government since 1949 and only 20 in opposition. Coalition-building will take months.

Merkel could still be chancellor (as caretaker) at the

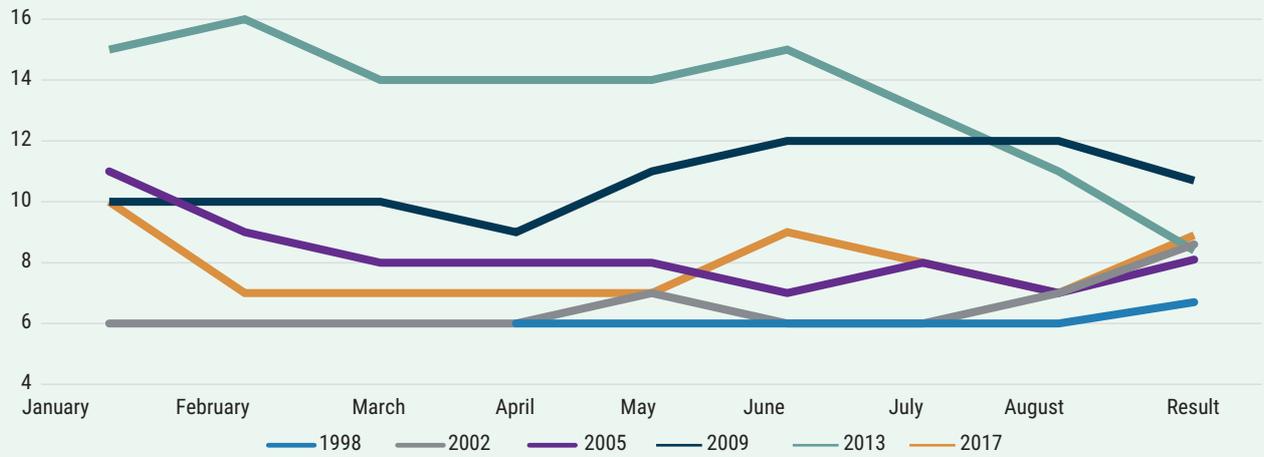
end of the year, as she hinted at in a 31 December 2020 TV broadcast.

2. How many coalitions are possible?

Merkel's uneasy legacy opens the way for a record eight possible coalitions, involving all seven Bundestag parties apart from the AfD. If CDU/CSU-Greens differences prove unbridgeable and the liberal Free Democratic party (much improved in polling) does well, the Greens, Social Democratic party (SPD) and FDP could rule in a 'traffic light' coalition. The Greens don't need to be the strongest party to lead Germany's government. Laschet is on better terms with the FDP than the Greens but won't need the FDP to govern. The FDP is more useful to the Greens and SPD than to the CDU/CSU. If the CDU/CSU falls out badly with the Greens, and the SPD does better than expected, an anti-Green CDU/CSU, SPD and FDP alliance is possible. Further possibilities exist with a Greens, SPD and Die Linke ('red-red-green') coalition. This could be problematic but the SPD would

5. Fight to the finish - the Greens' polling figures during previous election campaigns

% of sampled voters intending to vote for the Greens, by month



Source: Forsa

see distancing themselves from the CDU/CSU after three lacklustre 'grand coalitions' as a major achievement. CDU/CSU, Greens and FDP ('Jamaica'); CDU/CSU & FDP (classic 1980s/1990s-style – unlikely); or continued CDU/CSU and SPD (least likely) coalitions are also possibilities.

3. Will the Greens suffer the same fate as former SPD leader Martin Schulz in 2017?

Baerbock has already fallen back from her spring 2021 highs as scrutiny intensifies. A Schulz-like collapse seems unlikely. However, the Greens also faltered badly in the run-up to the 2017 election (Figure 5). New SPD chairman Martin Schulz powered his party to a high of 30%–32% in opinion polls in the spring of 2017, but this lead soon dissipated. 2017's election brought a vote share

of 32.9% for the CDU/CSU and only 20.5% for the SPD. SPD polling deteriorated from April 2017 onwards. The CDU/CSU won three state elections, antipathy towards

'The Greens' rise to 28% looks remarkable, but they held this position for several months in summer 2019, profiting particularly from SPD disarray.'

of 32.9% for the CDU/CSU and only 20.5% for the SPD. SPD polling deteriorated from April 2017 onwards. The CDU/CSU won three state elections, antipathy towards

Merkel over the 2015 immigration crisis faded, Schulz failed to build on early enthusiasm and was ousted as leader post-election. The Greens' 2021 poll score is much more broadly based and longer-term than the SPD's 2017 ascent. The Greens' rise

6. Changes in chancellorship preferences (%) in previous pre-election periods

Source: Forsa

		April	September	Change
1998	Kohl	21	27	+6
	Schröder	44	40	-4
2002	Stoiber	32	30	-2
	Schröder	40	43	+3
2005	Merkel	31	32	+1
	Schröder	41	40	-1
2009	Merkel	51	52	+1
	Steinmeier	23	23	0
2013	Merkel	55	55	0
	Steinbrück	20	23	+3
2017	Merkel	44	49	+5
	Schulz	30	22	-8

from SPD disarray. This time the Greens have been winning support from traditional CDU/CSU voters too.

4. Will the CDU/CSU recover as the pandemic fades and German growth picks up?

The CDU/CSU has been recovering in polls, but this may not be enough. The CDU/CSU is 4-6 percentage points below 2020's pre-pandemic low. Even if their score rises to around 30%, it would still remain well below the long-term trend. Conservatives have been undermined by a slow vaccination programme (now overcome), leadership disarray and scandals involving CDU/CSU parliamentarians. Laschet's low popularity is also a big impediment. Previous chancellor contests demonstrate that candidates' personal scores are a decisive factor (Figure 6). However, post-war Germany has never held an election in which the incumbent chancellor is not standing and where a medical emergency is a dominant theme.

5. What is effect of Merkel not standing?

Lack of information about Germany's future chancellor is a major factor overhanging financial markets. Neither leading candidate – Baerbock and Laschet – has experience of working in central government. However,

Laschet, a former Catholic newspaper editor and European parliament deputy, espousing middle-of-the-road pro-European views, has been prime minister of North Rhine Westphalia, Germany's most populous state, for four years. The CDU/CSU is bedeviled not only by the lack of a 'chancellor bonus', but also by the chosen candidate's lack of charisma. He is seeking to assemble an election team seen to make up for his own deficiencies. So far, he hasn't revealed any new faces (Figure 7 shows some possible candidates).

6. Will the Greens gain or lose from progressive perception of 'business as usual'?

This could work in two different directions. German gross domestic product is expected to accelerate sharply from the end of May as lockdowns ease. Government economists say the country is three months behind those

with stronger vaccination programmes, such as the US and UK, but will catch up. Scotching a late March Bundesbank prediction that growth in 2021 might be below 3%, the finance

'Normalisation could help the Greens: Germans may feel, post-crisis, they can experiment with new leaders.'

7. Revitalising Germany's conservatives: 12 new possible Laschet team members

Serap Güler, NRW state secretary for integration. Until 2017, Güler was member of the NRW state parliament. Outspoken, on the party's left and favours German-Turkish integration.

Diana Kinnert, CDU climate union.

Tilman Kuban, CDU youth union. Outspoken, stands for CDU renewal, favoured Söder.

Carsten Linnemann, CDU Bundestag deputy, chairman, CDU/CSU medium-sized business and economics wing, and deputy chairman, CDU/CSU parliamentary grouping.

Bianca Praetorius, CDU climate union.

Aygül Özkan, CDU Lower Saxony. Former state minister for social affairs, women, families, health and integration.



Christoph Roth, CDU Saarland. EU representative, energetic, youthful.

Antje Tillmann, Bundestag deputy, spokesperson of the finance committee. Favours housing initiatives.

Anja Wagner-Scheid, CDU Saarland.

Nina Warken, CDU Bundestag deputy, Baden-Württemberg.

Annette Widmann-Mauz, head of CDU women's union. Supports Laschet's candidature.

Wiebke Winter, CDU climate union, Bremen. Youngest CDU board member at 24 years of age.

ministry expects it to be around 3.5%. GDP will return to pre-pandemic levels by the end of 2021, earlier than most of the euro area. Normalisation could help the Greens: Germans may feel, post-crisis, they can experiment with new leaders. But the CDU/CSU could benefit from the perception that the Greens don't have economically viable answers for the recovery.

7. What role will social, environmental, European, as well as economic and financial issues play?

Baerbock will emphasise social issues, families and climate change. The CDU/CSU needs to regain momentum in economic and financial policies but are

'Conservatives have been undermined by a slow vaccination programme (now overcome), leadership disarray and scandals involving CDU/CSU parliamentarians.'

struggling to make these the dominant talking points. Europe will not be a major issue unless questions are asked about the cost of pro-EU green programmes. The SPD, in third place, led in the election by the solid but uninspiring Olaf Scholz,

finance minister and deputy chancellor, is unlikely to make up much lost ground. Housing will play a dual economic and social role, with shortcomings in housebuilding and apartment provisions exposed by Germany's immigration and pandemic upsets. All parties are likely to support housing initiatives with higher investment support for crisis-hit lower-income families. The Greens have retreated from the radical idea to prohibit single-family detached homes.

8. Can Laschet recover from low standing?

With a mediocre public image and low public standing, Laschet must improve his team. The CDU/CSU chose him over Markus Söder, the mercurial CSU leader and Bavarian prime minister, because party leaders were upset by Söder's opportunism and arrogance. By choosing an uncharismatic but loyal integrationist figure, the CDU/CSU took the risk of going into opposition. To stay in the running, Laschet needs to energise the party's programme, to be decided on 21 June, and bring dynamic, younger figures into his election team.

So far, he has chosen only Friedrich Merz, the conservative economic expert valued by the right but held to be brusque and antipathetic by female voters. Figure 7 indicates 12 possible additions, including 10 women, with progressive ideas on economic, social and environmental issues.

8. Systemically important banks



Citigroup (US)
HSBC (UK)
JP Morgan Chase (US)
Bank of America (US)
Bank of China (CN)
Barclays (UK)
BNP Paribas (FR)
China Construction Bank (CN)
Deutsche Bank (DE)
Industrial and Commercial Bank of China (CN)
Mitsubishi UFJ FG (JP)
Agricultural Bank of China (CN)
Bank of New York Mellon (US)
Credit Suisse (CH)
Goldman Sachs (US)
Groupe BPCE (FR)
Groupe Cr dit Agricole (FR)
ING Bank (ND)
Mizuho FG (JP)
Morgan Stanley (US)
Royal Bank of Canada (CA)
Santander (ES)
Soci t  G n rale (FR)
Standard Chartered (UK)
State Street (US)
Sumitomo Mitsui FG (JP)
Toronto Dominion (CA)
UBS (CH)
UniCredit (IT)
Wells Fargo (US)

