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GERMAN FEDERAL ELECTION 2025

WILL GERMANY FIND A WAY OUT OF ITS GROWTH CRISIS?

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CONTENT

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BACKGROUND: STABLE GOVERNMENT COALITIONS HARDLY POSSIBLE ANYMORE

On February 23, 2025, Germany will hold an early Federal election after the previous federal government collapsed in November. The coalition government, consisting of the Social Democratic SPD, the eco-socialist Greens, and the liberal FDP, ostensibly fell apart due to disagreements over Germany's debt brake. However, the deeper reason for the failure of the so-called "traffic light" coalition was severe differences in most key policy areas. From the outset, the government was composed of partners with diametrically opposed views on economic, financial, social, and climate policies. After nearly three years in office – during which Germany slipped into an economic crisis – the ideological rifts within the three-party coalition ultimately became insurmountable.

Major parties suffer loss of importance

The fragility of the failed government did not as a surprise. Given today's fragmented party landscape, it has become increasingly difficult to form stable government coalitions made up of parties with similar ideological orientations. Instead, coalition formations now often require significant compromises from all partners.

The decline in significance of the major parties, the SPD and CDU/CSU, is measurable in numbers. After the political landscape sta-

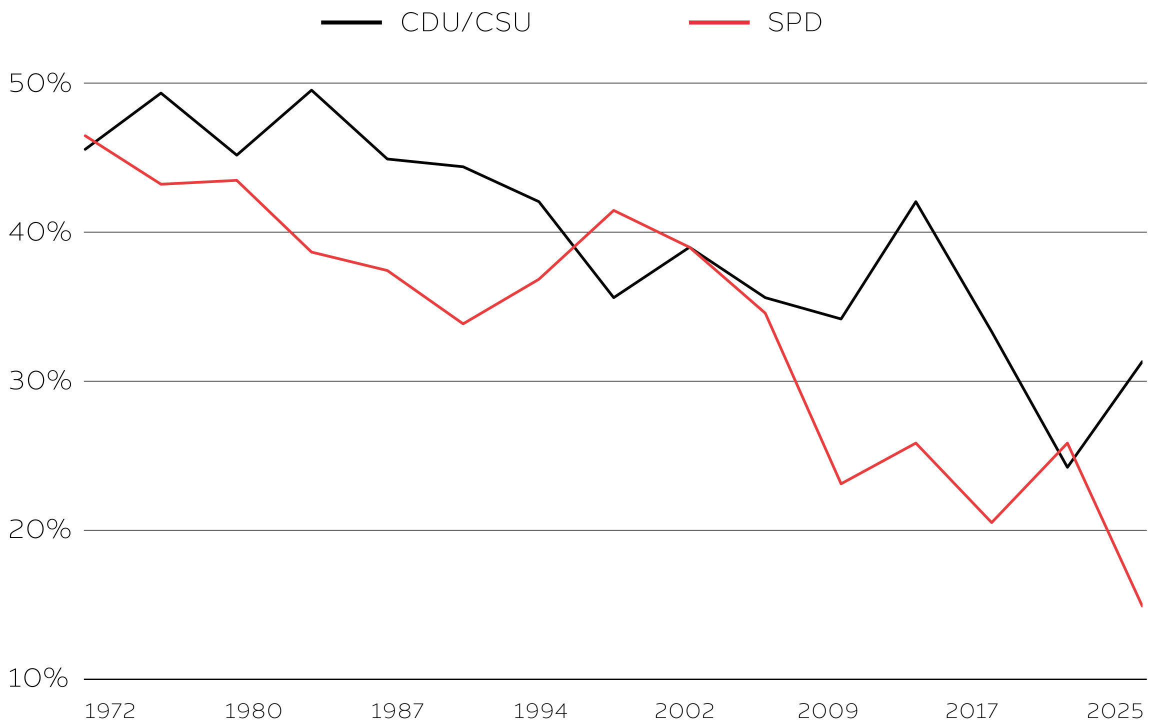

Fig. 1: Vote Shares of the Major Parties 1972–2024
Source: Bundestag, Bundeswahlleiter; Poll for 2025: Infratest dimap, 06.02.2025

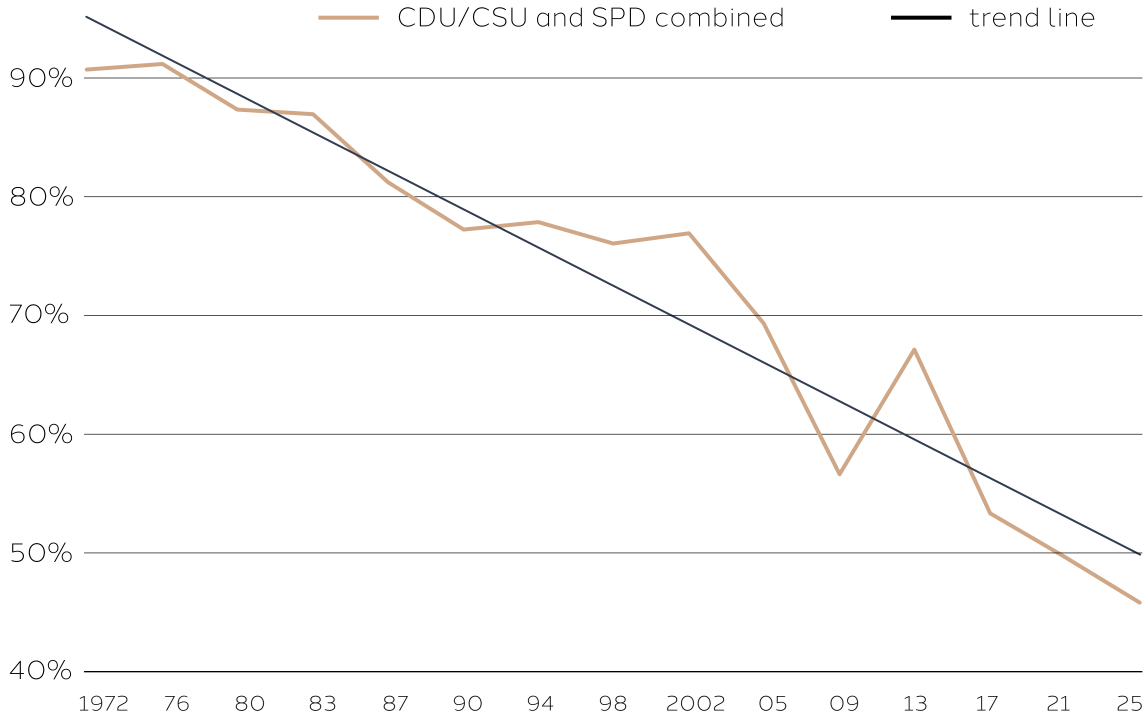

Fig. 2: Vote Shares of the Major Parties 1972–2024
Source: Bundestag, Bundeswahlleiter; Poll for 2025: Infratest dimap, 06.02.2025

bilized in the post-war years, the Social Democratic SPD and the conservative CDU/CSU together had more than 90% of the vote in Bundestag elections during the 1970s. Since then, both major parties have gradually – but in the end dramatically – lost importance **(see Fig. 1 and 2)**. According to the latest polls, the SPD and CDU/CSU would now only receive around 46% of the vote combined.

While the FDP was once often the only other party in the Bundestag – and thus the only possible coalition partner for the major parties – there are now seven parties represented. Even after the upcoming Bundestag election, up to seven parties could surpass the 5% threshold and enter parliament **(see Fig. 3)**. Negatively phrased, the party landscape has become fragmented. Positively phrased, there is now greater political diversity, providing voters with more choices and thus a broader political offering.

The decline of the major parties occurred during a time when society underwent a significant process of individualization: values, lifestyles, and attitudes became more diverse, as did the media landscape. Moreover, pluralism and diversity have long been guiding principles for social life – so it is almost a logical consequence that this trend extends to political preferences as well. Consequently, the gradual decline in voter support for the major parties can simply be seen as a political reflection of broader developments in society.

Political dilemma: The state can only offer one-size-fits-all

However, there is a fundamental problem. Despite the increasingly diverse party landscape and the resulting broader range of electoral choices, citizens do not necessarily receive better outcomes. This is inherent to the nature of politics, as the state can only offer uniform solutions. While in the private sector, goods

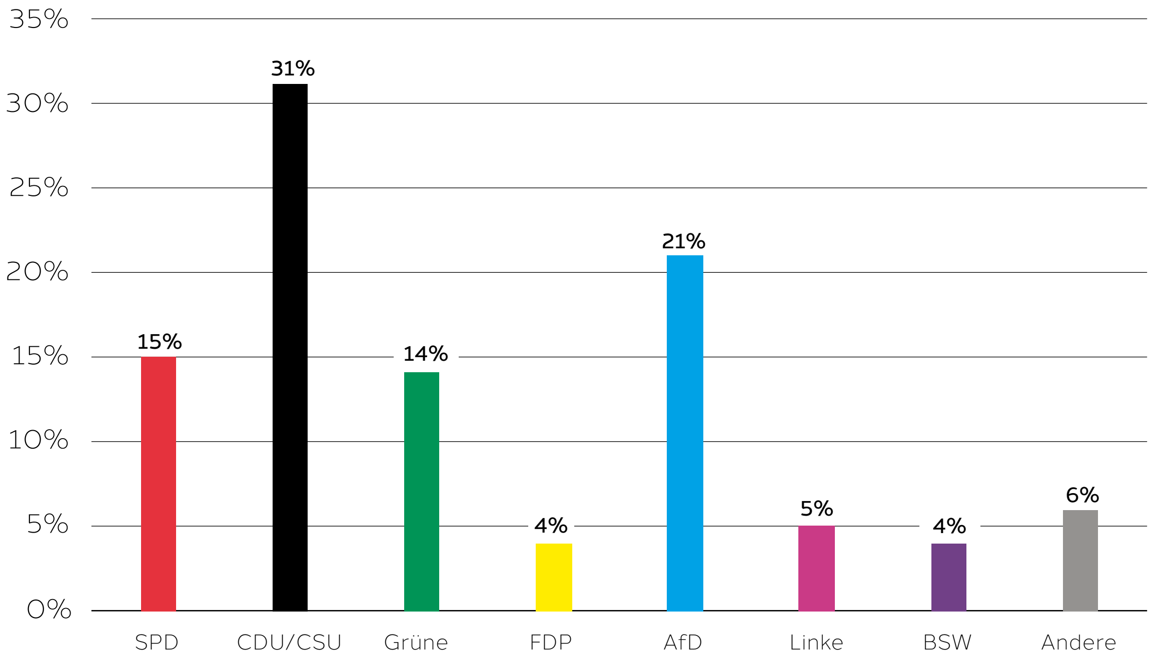

Fig. 3: Forecast for the 2025 Bundestag Election
Source: Infratest dimap, 06.02.2025

and services cater to even the most unique tastes and preferences – often tailor-made – political solutions are generally one-size-fits-all. In most cases, all citizens must accept the same political decisions, even if their individual preferences differ significantly. For some, climate policy is not ambitious enough, while for others, it is too rigid. Some citizens demand stricter law enforcement, whereas others fear an overly authoritarian state. The government cannot individually accommodate these differing preferences; instead, all citizens must accept the uniform policies that are implemented. In politics, citizens are therefore required to make compromises – something that is becoming increasingly rare in the private sector.

The ability to compromise is sometimes stretched to its limits. Unlike in Switzerland, where citizens can vote directly on specific measures via referendums, voters in Germany can only choose a party whose platform they most identify with. However, this means they must accept an entire policy package, with which they are rarely in full agreement. Thus, voters must already make compromises when selecting the party that best aligns with their views. Once a government coalition is formed, the coalition parties must also make compromises. When three parties form a coalition, the need for compromise increases even further. If the coalition partners do not come from similar ideological backgrounds but instead hold vastly different political and philosophical views, even the voters of the governing parties may end up with policies that differ significantly from what they were promised during the election campaign.

In its final weeks, the traffic light coalition found itself at this very juncture before ultimately collapsing. Voters had grown largely weary of the coalition – regardless of whether they had voted for one of the governing parties or the opposition in the last Bundestag election. Given the latest election polls, another three-party coalition comprising ideologically diverse parties could once again emerge. This would be a worrying sign for the urgently needed reform policies and political stability.

GERMANY'S ECONOMIC WEAKNESS

Germany experienced a remarkable economic recovery following the global financial crisis. Thanks to a booming labor market and robust economic growth, the country was seen as a key stabilizer during the subsequent Euro crisis, which threatened to tear apart the European Monetary Union. After many years of above-average growth, the economy began to slow down toward the end of the 2010s (**see Fig. 4**). Although growth rates remained positive, the term "industrial recession" started making the rounds. As the industrial sector – the core of the German economy – faced increasing difficulties, economic conditions worsened. The turbulence of the COVID-19 pandemic, with its sharp economic downturn followed by a rapid recovery, obscured the persistent and growing structural problems in the German economy. Ultimately, over the past two years, Germany's economic output has declined.

Germany's economic weakness can no longer be dismissed as a temporary phenomenon. Potential growth – the future possible economic growth under normal business cycle conditions – has declined from over one percent to just around 0.5 percent per year. Mini-growth has become the new normal for Germany.

Germany is also making negative headlines internationally. In the World Economic

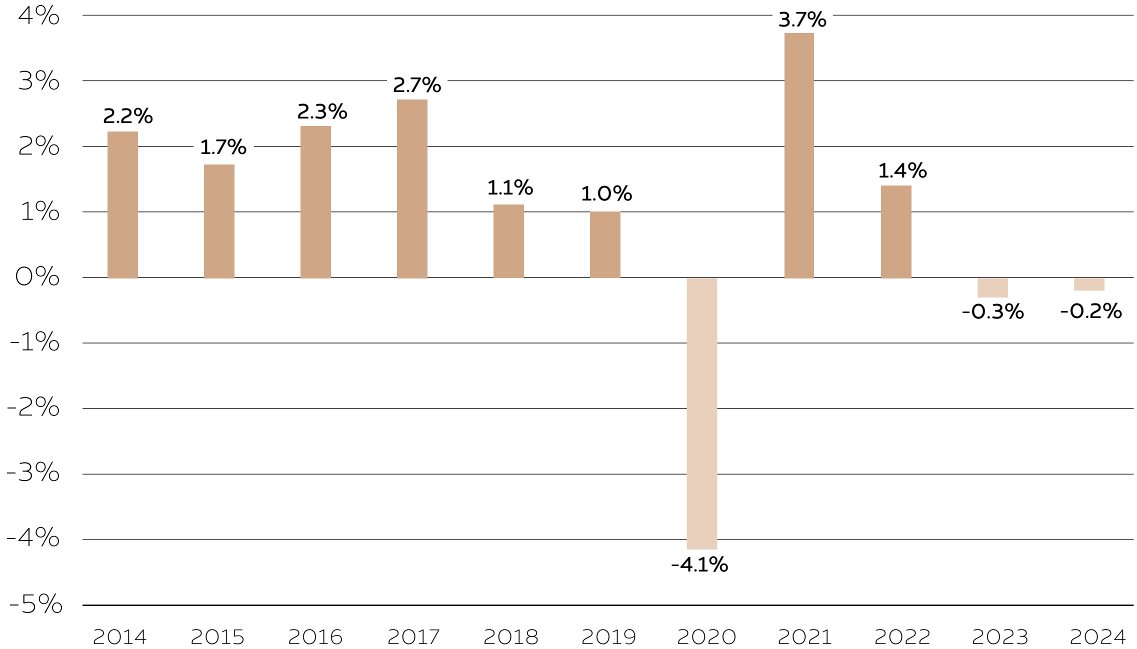

Fig. 4: German GDP Growth 2014–2024
Source: Destatis

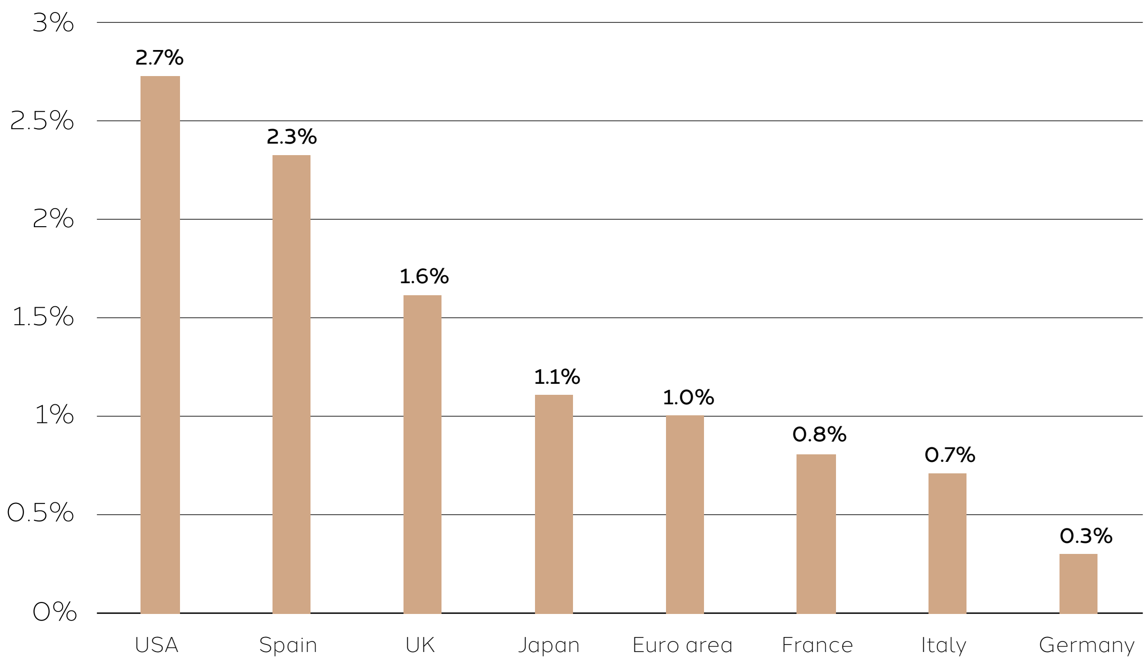

Fig. 5: IMF Growth Forecast for 2025
Source: International Monetary Fund

Outlook of the International Monetary Fund (IMF), Germany is projected to fall to the bottom of the growth ranking for major economies in 2025 (**see Fig. 5**). The former growth engine of Europe has now become an international cause for concern.

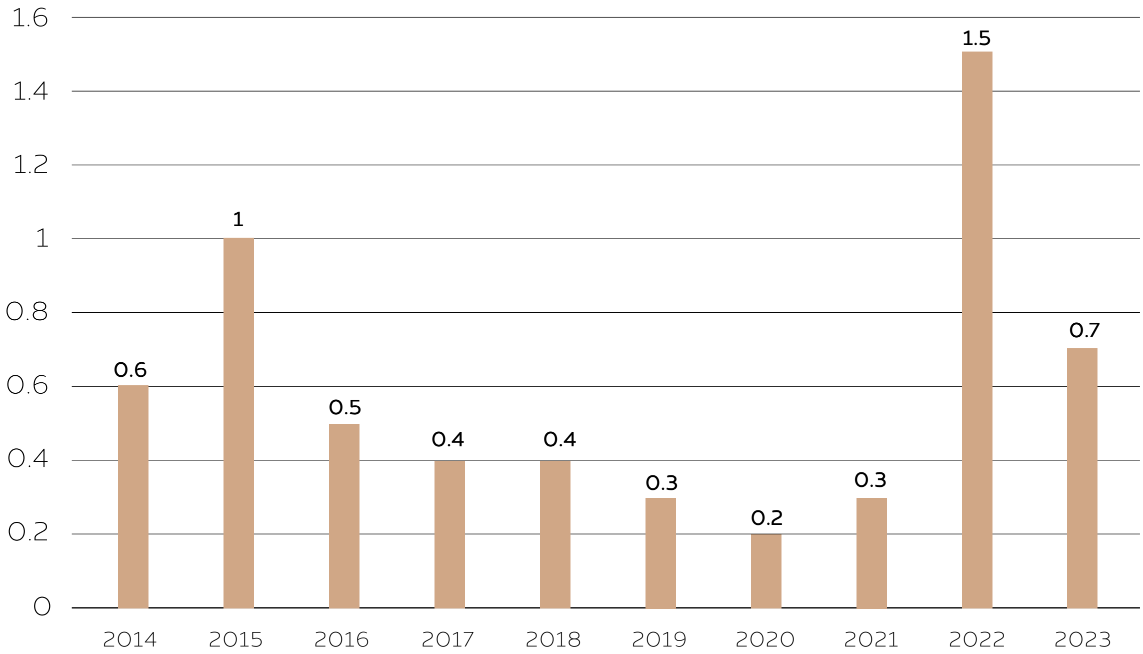

Fig. 6: Net Immigration in Millions
Source: Destatis

The full extent of Germany's economic weakness is not yet apparent in the raw growth figures. In recent years, particularly in 2022 and 2023, Germany experienced massive net immigration **(see Fig. 6)**. As a result, significantly more people are consuming and working than would have been the case without this influx. This demographic effect has softened the decline in gross domestic product (GDP), making it appear less severe than it otherwise would have. However, the slightly negative growth figures for 2023 and 2024 indicate the underlying economic downturn.

THE NEW SICK MAN: WHAT ARE THE REASONS FOR GERMANY'S ECONOMIC WEAKNESS?

The reasons for Germany's economic problems are diverse. First, it is important to distinguish between two categories: Which problems stem from external factors (and can therefore only marginally influenced by German policy)? And which problems are homegrown (and thus correctable by German policymakers)?

Deglobalization
Among the external influences (exogenous factors) are geo-economic and geopolitical tensions. The German economy, with its many small global market leaders (hidden champions), had adapted exceptionally well to the conditions of peaceful globalization. Germany was a clear winner of globalization. However, during his first term, Donald Trump dealt a severe blow to the idea of free trade. Shortly afterward, international supply chains began to fracture – first due to the COVID-19 pandemic, then as a result of the Russia-Ukraine war. Fragile supply chains threaten supply security. In this context, the realignment of globalization through nearshoring and friendshoring, as well as its partial rollback, is understandable. The German government has little ability to counteract these developments. However, it could at least advocate for more trade agreements at the EU level.

Many of Germany's economic challenges, however, are self-inflicted, as past economic policy decisions set the wrong course. Before outlining specific economic policy reforms in Section 4, we will first examine some of the fundamental issues affecting the German economy.

Illusion of invulnerability
Germany weathered economic crises surprisingly well after 2010. The labor market was barely affected in the long term, and employment numbers even increased. As crisis after crisis was successfully managed, a sense of complacency emerged – the belief that politics could take any course without harming Germany's economy. In the end, economic policy became overconfident. This culminated in the conviction that an economy could be shut down for a long time during a health crisis while largely ignoring economic cost-benefit considerations. Such an illusion would have been nearly impossible without the emergency liquidity provided by the ECB. Some German policymakers also embraced the Modern Monetary Theory (MMT) from the United States, which suggests that a state with its own central bank can spend unlimited amounts of money. According to this theory, a genuine budget constraint does not exist as long as inflation remains under control. MMT had always been questionable, and with the sharp rise in inflation from 2021 onward, its foundation was effectively dismantled. Nevertheless, it proved disastrous that the European Central Bank had repeatedly been used as a "clean-up crew" for policy failures since the Euro crisis. This allowed necessary corrections to misguided economic policies to be continuously postponed.

The cleansing effect of recessions was ignored
As the German economy quickly rebounded from one setback after another, it was forgotten that recessions also serve a cleansing function. During downturns, businesses and the economy as a whole are forced to adapt to changing conditions and improve efficiency. This pressure to adjust was weakened by large-scale stimulus programs. Additionally, the prolonged period of artificially low interest rates and a euro exchange rate that was too weak for the German economy also played a role. These special factors provided the German economy with short-term successes and fueled the illusion that economic policy was on the right track.

Focus on the Production of Public Goods
While Germany's potential growth rate is declining to 0.5%, the United States growth potential is at around 2%. This stark difference in growth potentials is largely due to a difference in mentality. The US strongly focuses on producing marketable, commercially viable goods and services. Under US President Donald Trump, this trend is expected to intensify ("Drill, baby, drill"). The primary goal of US economic policy is clear: more growth – possibly even at the cost of significant side effects. In contrast, Germany and Europe have, for several years, embraced an attitude that treats economic growth as just one of many economic and societal objectives ("Beyond GDP"). As a result, there is a much stronger push in Germany and the EU to produce public goods, such as climate protection and social justice. Public goods, by definition, can be used by individuals who do not contribute to their production or financing. Because these so-called free riders cannot be excluded from consumption, public goods are difficult to commercialize. If Germany and the EU pursue highly ambitious climate policies and enforce social justice measures such as the Supply Chain Act, the associated costs will primarily be borne domestically – while the (non-financial) benefits are distributed globally. Such an approach may be noble, but no one should be surprised if key economic indicators continue to disappoint.

Economic Policy Volatility
The misdirection of economic policy did not begin with the traffic light coalition. Previous governments also contributed to today's problems. However, the traffic light coalition created significant uncertainty. The attempt to implement more climate protection by force and transform the economy accordingly unsettled both businesses and consumers alike. For energy-intensive industries, Germany became an increasingly unattractive location due to the energy transition and high energy prices. This led to a spiral of government intervention, with subsidies being used to keep businesses from relocating. The uncertainty surrounding the government's economic policy was further amplified by growing internal disagreements within the coalition about the overall direction of economic policy. As a result, businesses and consumers lost a significant degree of confidence in economic stability.

ECONOMIC POLICY REFORM APPROACHES: THE TOP 10

Germany's economic problems are complex. Unless the increased use of artificial intelligence leads to a massive surge in productivity, the next federal government will face a Herculean task. The following ten measures outline potential pathways to steer Germany back onto a path of success.

1. "Back to basics"

The experiment with "transformative supply-side economics" by the Federal Ministry for Economic Affairs and Climate Action must be considered a failure. The attempt to transform the economy and society through detailed state regulations aimed at climate neutrality has primarily created uncertainty. Chancellor Olaf Scholz's belief that Germany would experience a new economic miracle through a state-organized ecological transformation quickly proved to be a misconception. Instead of "transformative supply-side policy," a return to classical supply-side economics is now needed – one that promotes entrepreneurial spirit, ingenuity, and the willingness of private actors to perform, while the state takes a step back as an economic player.

2. Restoring reliability

Structural reforms take time to unfold their positive effects. Even with a supply-side economic policy, Germany's economic recovery will not happen overnight. However, a short-term boost could be achieved if the new federal government provides businesses with a clear and consistent perspective. This includes a firm commitment to private entrepreneurship, with politics acting as a partner and service provider for the economy. Economic policy should be guided by more realism and less utopian thinking. Realism in this context means taking into account the behavioral effects of economic policy measures, particularly second-round effects. Businesses and consumers typically respond opportunistically rather than idealistically to changing conditions. They generally seek to maximize their own benefit rather than acting in the best interest of the national economy, which can include relocating operations abroad. An economic policy based on an idealistic view of human behavior leads to constant policy adjustments. Instead of economic incentives, moral suasion is used in an attempt to influence economic actors – usually without success. In the worst case, this results in intervention spirals and stop-and-go policies. All of this characterized the tenure of the traffic light coalition. In contrast, an economic policy based on a realistic view of human behavior is far more reliable.

3. EU Emissions Trading System (EU ETS) as key instrument of climate policy

Climate policy goals can be achieved cost-effectively – that is, with the lowest possible economic burden – through the use of tradable emissions certificates. The European Union Emissions Trading System (EU ETS) was introduced in 2005 to reduce greenhouse gas emissions. The EU ETS has proven to be a success, as emissions in the sectors covered by emissions trading have decreased by over 40% in Germany and across Europe since 2005. Thanks to the design and efficiency of the EU ETS, additional national climate targets and detailed regulatory interventions are unnecessary. The next federal government could resolve one of the most contentious issues of the traffic light coalition by making the European trading system the primary instrument of climate policy. This would allow European climate targets to be met with significantly less economic and social strain.

4. Streamlining bureaucracy, unleashing entrepreneurial spirit

The growing bureaucracy is considered a major burden for economic growth. Both large and small businesses overwhelmingly complain about high and increasing bureaucratic burdens. The compliance costs for companies are substantial – both financially and in terms of personnel. According to a study by the ifo Institute, direct bureaucratic costs amount to EUR 65 billion per year. In addition, indirect costs due to lost economic output are estimated at EUR 146 billion. Given the ongoing labor shortage, it would be beneficial to minimize the number of employees tied up in bureaucratic and regulatory tasks. The bureaucratic jungle could be thinned out through sunset clauses, moratoriums, "one in, two out" rules, and the elimination of "gold-plating" (the practice of unnecessarily enhancing EU regulations at the national level). Cutting bureaucracy would stimulate growth – without requiring large financial expenditures.

5. Making Fiscal Policy Sustainable

Higher economic growth is the key to sound public finances, as increased growth rates automatically lead to higher government revenues. While Germany's national debt – at around 60% of GDP – is moderate by international standards, the outlook for future public finances remains bleak. Rising bond yields are once again increasing the government's debt burden. Additionally, hidden liabilities in the social security system far exceed officially recorded government debt. Without prior countermeasures, these hidden debts will gradually become official liabilities as the baby boomer generation retires (see Point 9). For this reason, the debt brake, which has faced criticism, serves an essential function: it prevents excessive spending from being easily financed through additional borrowing and forces policymakers to prioritize government expenditures. A moderate reform of the debt brake could provide some fiscal flexibility. The current structural deficit limit (0.35% of GDP) could be adjusted so that the debt-to-GDP ratio does not fall below the European Stability and Growth Pact threshold of 60%. However, any reform of the debt brake should only take place after a comprehensive growth package has been adopted.

6. Cutting subsidies across the board

The next federal government could free up additional funds for future investments by reducing subsidies. Between 2014 and 2023, federal financial aid increased from EUR 44 billion to approximately EUR 155 billion (according to the Kiel Subsidy Report). This financial support has grown significantly faster than GDP (factor 3.5 vs. factor 1.4). The ideal solution would be to eliminate those subsidies that are the least justifiable from an economic standpoint. However, such a targeted approach often fails due to resistance from the beneficiaries of these subsidies. From a political-economic perspective, a broad-based reduction – a percentage-based cut to all subsidies – would be more promising. To provide planning security and sufficient time for necessary adjustments, these reductions should be implemented gradually.

7. Lowering corporate taxes

The cost burden for businesses in Germany is high. For energy-intensive industries, high energy prices and uncertainty about energy security pose significant challenges. The corporate sector as a whole suffers from a heavy tax burden. With a statutory tax rate of 29.9%, German corporations pay some of the highest corporate taxes in the world (base year: 2023). Among the major economies, only Japan has a slightly higher corporate tax rate (30.4%). In contrast, neighboring countries offer significantly more attractive tax conditions. For example, corporate tax rates in Switzerland (Zurich) are 19.2%, in Denmark 22%, and in Poland and the Czech Republic 19% each. To improve Germany's competitiveness in the global investment landscape, a corporate tax reform is urgently needed.

8. Increase labour force potential

Germany is suffering from a severe labor shortage. The problem is worsening as the baby boomer generation (born between 1955 and 1969) gradually reaches retirement age. This group accounts for nearly 30% of the workforce that was available to the labor market at the beginning of this decade. The goal must be to delay retirement as much as possible to retain the potential of the baby boomers for the labor market. Instead of offering incentives for early retirement, flexible working time models should provide incentives for people to remain professionally active even beyond the statutory retirement age.

9. Pension system: Ensuring generational fairness

The demographic shift is also becoming a major challenge for the social security system. This development has been foreseeable for decades, but now, as the baby boomer generation gradually enters retirement, the pressure for action is growing. The number of beneficiaries (pensioners and retirees) is increasing, while the number of workers financing the social security system is decreasing. At current contribution rates, the social security system (pension, healthcare, and long-term care) cannot be sustainably financed. According to calculations by the Forschungszentrum Generationenverträge (Research Center for Intergenerational Contracts), the funding gap amounts to around 300% of GDP. This represents implicit or hidden government debt. Without reforms, these hidden debts would gradually turn into official, legally recognized government liabilities, jeopardizing Germany's creditworthiness. There are four levers to stabilize the system: reducing benefits, increasing contributions, extending working life, and attracting more workforce migration. However, each of these options presents challenges. Benefit cuts, higher contributions, and longer working lives are unpopular. Immigration into the labor market provides only a short-term relief, as immigrants themselves acquire future entitlements to social security benefits. Realistically, a longer working life and a later retirement age are unavoidable. Since very few people are willing to work until the age of 70, it may help the debate to acknowledge a simple fact: people will have to continue working in some form in old age – either in their profession or increasingly at home with DIY solutions. The reason is simple: due to the labor shortage, affordable craftsmen, gardeners, and other service providers will become increasingly difficult to find.

10. Aligning migration policy primarily with the need of the labor market

The two preceding points lead to the conclusion that Germany must once again become more attractive as a country and an economic location—both to appeal to willing immigrants and to prevent the emigration of domestic workers. The so-called generational contract, on which Germany's social security system is based, can be unilaterally terminated by young workers at any time through emigration. The best safeguards against this are a strong economy, positive future prospects, and social conditions that make people want to stay. The next federal government must therefore not only revive economic growth but also restore the state's role as a reliable service provider for its citizens.

WHAT DO THE PARTIES WANT?

How are the parties positioned in terms of their political programs? The key economic policy positions of all parties that could potentially form a government coalition are summarized below in bullet points. The program of the party expected to be the second-largest faction is not included, as all other parties have ruled out a coalition with the AfD (Alternative für Deutschland).

CDU/CSU (Conservatives)

- Fundamental policy change with the "principle of encouragement".
- Social security contributions are to fall towards 40 percent.
- The residual solidarity surcharge is to be abolished.
- Tax exemption for overtime bonuses.
- Increase in the commuter allowance.
- Taxes on corporate income to be gradually reduced to 25 percent. Improvement in depreciation and loss offsetting.
- Reduction in electricity tax and grid fees; expansion of grids, storage and renewables.
- Heating law of the traffic light coalition to be abolished. Nuclear energy option to be retained.
- Emissions trading as a climate protection instrument.
- Retirement age remains at 67. Those who wish to continue working after this age are to benefit in the form of an active pension (additional tax exempted income of 2,000 euros per month).
- Abolition of the national supply chain law. German overfulfilment of European law should be avoided in future.
- Reduction in bureaucracy.
- Introduction of a federal digital ministry.
- Replacement of the "Bürgergeld" (citizen's income) with new basic social benefits.
- Minimum wage remains in place, wage setting is a matter for the social partners.

SPD (Social democrats)

- New German fund ("Deutschlandfonds") to mobilize state and private capital (initially 100 billion euros) to enable investments in important future fields (electricity and heating grids, housing construction, e-charging stations).
- Tax bonus: "Made in Germany" bonus for investments in future technologies.
- Debt brake to be fundamentally reformed to enable more investment in the future.
- Reduction in bureaucracy.
- Electricity costs are to be stabilized through subsidies for grid expansion and even more renewable energies.
- Purchase premiums for e-cars produced in Germany.
- Income tax cut for 95% of taxpayers (lower and middle incomes).
- Increase the minimum wage to 15 euros per hour.
- Rent freeze (Mietpreisbremse") to be extended indefinitely.
- Transportation ticket ("Deutschlandticket") to remain cheap in the long term.
- Personal contribution to care costs to be capped at 1,000 euro.
- An increase in the retirement age is rejected.
- Retention of the status quo in pension insurance.
- More growth through (debt-financed) investments and higher mass purchasing power.

Grüne (Greens)

- Introduction of a German fund ("Deutschlandfonds") for urgently needed future investments.
- Fundamental renovation of infrastructure towards climate neutrality.
- Investment program for education.
- Reform of the debt brake.
- Rent freeze to be extended and loopholes closed.
- Transportation ticket ("Deutschlandticket") to be retained (at a price of 49 euros).
- Grid expansion, reduction in electricity tax and extensive assumption of grid fees for supra-regional power lines.
- Continuation of the path towards a climate-neutral economy.
- Further expansion of solar and wind energy.
- Introduction of a non-bureaucratic investment premium of 10% for a limited period of five years for all companies and all investments (with the exception of investments in buildings).
- Uniform taxation of capital and labor income. This would mean an end to the flat-rate withholding tax.
- Campaign for a global tax on billionaires.
- Raising the minimum wage to 15 euros (also for under-18s).
- Climate money for small and medium incomes.

FDP

- Fundamental policy change ("Everything can be changed").
- Reducing bureaucracy ("End bureaucracy burnout"). Less bureaucracy from Brussels.
- For a fairer tax system including an increase in the basic tax-free allowance. The top tax rate should only apply from an annual income of 96,600 euros (previously 68,000).
- Abolition of "cold progression".
- Strict rejection of wealth taxes and wealth levies.
- Reduction of the corporate tax burden to below 25 percent. Complete abolition of the solidarity surcharge.
- Strengthening the equity culture, including through appropriate financial education.
- The electricity tax should be reduced to the European minimum.
- Climate protection primarily through CO_2 pricing.
- Strengthening work incentives, e.g. through a wage gap requirement.
- Flexible retirement based on the Swedish model.
- Social security contributions should not be allowed to rise above the level of 40% so as not to place too great a burden on the younger generation.

Linke (Left)

- Socio-ecological investment program (creation of a public investment fund) for industrial restructuring with a volume of 200 billion euros. In addition, the Climate and Transformation Fund (KTF) is to be expanded and endowed with 65 billion euros annually.
- Climate policy: reintroduction of sector targets. Emissions trading for the heating and transport sectors is rejected.
- The debt brake is to be abolished.
- Higher taxes for the wealthy.
- Increase in the minimum wage to 15 euros.
- Pension level of 53% and minimum pension of 1,310 euros.
- VAT exemption for basic foodstuffs, hygiene products, buses and trains (regional and long-distance transport).
- Transportation ticket ("Deutschland-ticket") for 9 euros. Free for pupils, trainees, students and pensioners.
- Socially differentiated energy prices; energy tax for the rich as a surcharge on income and capital gains tax.
- Price controls to prevent price explosions.
- Introduction of an excess profits tax to tax the extra profits of corporations at a rate of 90 percent.

BSW

- Deindustrialization should be stopped and the current energy policy should not be pursued any further.
- Reduce energy prices, also by resuming supplies from Russia.
- Withdrawal of the heating law and the ban on combustion engines.
- Climate change is recognized as a serious problem. However, climate policy should be more pragmatic and less rigid.
- European emissions trading should either be globalized or Germany should campaign for its abolition at EU level, as Europe going it alone will not benefit the climate.
- Reform of the debt brake.
- Positive stance on free trade, but US interests should not play a role. Turning away from China is rejected.
- The BSW advocates a cabinet of experts to restore the lost trust in the state and democracy.

OUTLOOK: IS A KICKSTART POSSIBLE?

Two weeks before the federal election, many questions remain open. Three parties – the FDP, the Left, and the BSW – are fighting for entry into the Bundestag, which requires surpassing the 5% threshold. The success or failure of these parties could determine whether a two-party coalition will be sufficient for a parliamentary majority or whether another three-party coalition will be necessary. Since no other party is willing to form a coalition with the AfD, which is expected to become the second-largest faction in the Bundestag, a significant portion of parliamentary seats will be unavailable for coalition-building. As a result, forming a government is likely to be challenging.

A look at the party platforms reveals clear commonalities between some parties. Natural political partners with strong alignment across many policy areas include a CDU/CSU-FDP coalition and an SPD-Green alliance. In both cases, their shared policy priorities would likely result in a stable governing coalition. A CDU/CSU-FDP coalition, in particular, would signal a fresh economic revival. However, it is highly unlikely that either of these coalitions will secure a majority. In the FDP's case, it remains uncertain whether the party will even pass the threshold to enter the Bundestag.

A "grand coalition" between CDU/CSU and SPD would be a return to past power-sharing arrangements. While such a coalition would be politically feasible, it is doubtful whether it would provide a meaningful boost to economic growth. The economic policy direction would also depend on the SPD's leadership. According to the current polls, the SPD would very likely be the junior partner, which would mean that the incumbent Federal Chancellor Olaf Scholz would withdraw from active politics.

Overall, there are chances of a moderate improvement in political sentiment and a slight economic and growth boost following the election. However, given the increasingly fragmented party landscape, a major breakthrough remains unlikely.

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