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New German “Traffic Light” Coalition Launches Climate and Economic Programme During Difficult Phase

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Germany's first federal government coalition of the Social Democratic Party (SPD), the Free Democratic Party (FDP) and the Green Party – called the “traffic light” coalition for the parties' traditional colours – has now been in office for just under two weeks and is starting its planned renewal programme at the most difficult time imaginable: In addition to the Corona pandemic and extensive climate targets the difficult economic situation presents numerous challenges. A possible further Corona wave and ongoing supply chain problems could put a damper on Germany's recovery.

Against this backdrop, the German ifo Institute recently revised its growth forecast from 5.1 to 3.7 per cent for 2022. The Kiel Institute for the World Economy (IfW) recently lowered its forecast from 5.1 to 4.0 per cent. Growth concerns are compounded by fears regarding inflation and interest rates. Inflation, for example, fueled by soaring energy prices, jumped to 5.2 per cent in November, its highest level since 1992.

“Traffic Light” Coalition Opens up a new Chapter for Germany



SPD Green Party FDP CDU/CSU AfD The Left Others

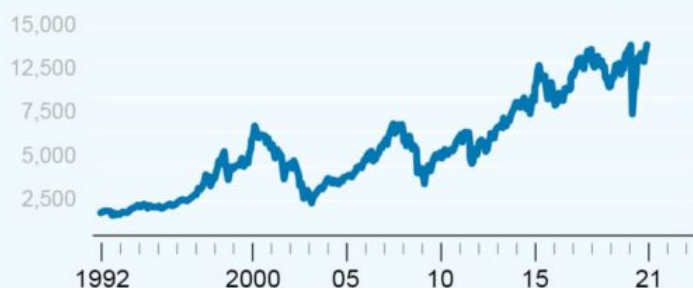
Government Coalitions



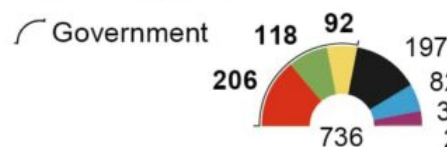
Real GDP, year-on-year in %



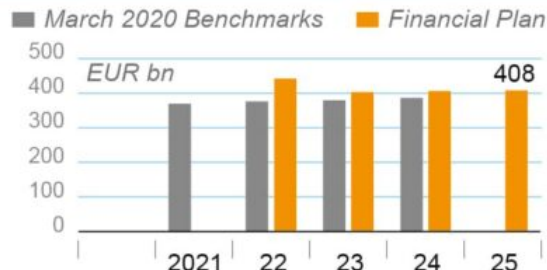
DAX Price Development



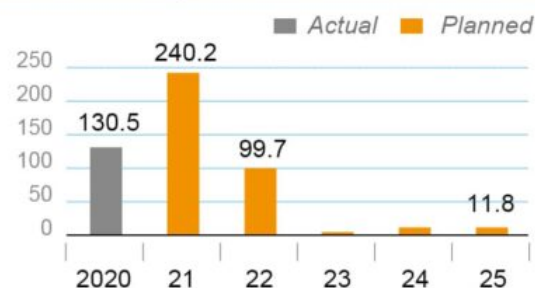
Bundestag Seats



Federal budget – Planned Spendings



Federal Budget Deficits



Commissioned by: Erste Asset Management, source: APA/destatis.de/Handelsblatt

APA-Chart on Demand

Accelerated Switch to Green Energy and Expansion of Power Grids

However, the economy is hoping for positive stimuli from the coalition's agreed environmental and economic policy goals in the coalition agreement. The top priority for the new government is climate protection and limiting global warming to 1.5 degrees as set forth in the Paris Agreement. To this end, Germany is to become climate-neutral by 2045. An important cornerstone of this plan is an energy transition: 80 per cent of energy demand is to be supplied using renewable sources by 2030. The switch to environmentally friendly forms of energy, as well as the expansion of the power grids required for this, is to be accelerated.

Specifically, for example, the coalition aims to accelerate approval procedures for power grids and wind turbines. In their initial reactions, the major power companies welcomed the “traffic light” government's plans. Naturally, the country's largest network operator, E.ON, is expected to benefit from this. The power grid business is the energy provider's biggest source of income. The planned faster approval of wind turbines is likely to play into the hands of green energy company RWE, as is the expansion of sustainable energy. This should also benefit the builders of such turbines, such as Nordex or Siemens Energy. On the other hand, the planned accelerated coal phase-out by 2030 instead of 2038 as previously planned could have a negative impact on RWE's business.

Planned Acceleration of Automotive Industry Transformation

The new government also wants to actively support the transformation of the automotive industry toward electromobility. “Our goal is at least 15 million fully electric passenger cars by 2030,” the coalition agreement states. Germany's major automotive groups have already commented positively on the government's plans. BMW, for example, emphasised its commitment to expanding the charging infrastructure for EVs. The automotive sector has traditionally played a particularly important role in Germany's economy, but has recently suffered badly from supply chain problems and in particular the ongoing semiconductor shortage.

Other sectors and companies could also benefit from the new government's plans: The coalition wants to create a fair framework for effective climate protection in international air traffic. This is good news for Lufthansa, as a purely German kerosene tax would have put it at a competitive disadvantage. The German Federal Association of German Housing and Real Estate Enterprise Registered Associations welcomed the coalition's plans to build 400,000 homes a year and simplify building permit and planning processes. However, there is criticism of the plan to extend rent control until 2029. The state's cultural and creative industries are also hoping for positive stimuli, for example regarding copyright regulations.

Criticism of Planned Supplementary Budget

In contrast, there was criticism from several quarters of the new government's spending and financing plans. The coalition parties have agreed on the “most expensive common denominator,” said Markus Jerger, managing director of the German Bundesverband mittelständische Wirtschaft. “The price for this will be paid by businesses and citizens.” Without tax increases, the various projects, such as the expansion of renewable energies, can only be financed through new debt, Jerger said.

The plans for climate change and pandemic control require extensive spending, but the traffic light coalition government also wants to keep within the debt limit and forego tax increases, planning to achieve this through a series of politically controversial measures in the short term: on Monday, for example, the government plans to have a supplementary budget of EUR 60bn passed.

Owing to the Corona crisis, the budget for 2021 includes a record-high new federal debt of EUR 240bn. However, EUR 60bn of this was not needed and therefore not borrowed. Instead of incurring less debt, this sum is now intended to be made available to the Energy and Climate Fund for investment in the coming years so that it does not lapse. Several opposition politicians now see the transaction as an unconstitutional ploy to circumvent the debt ceiling. German Finance Minister Christian Lindner, on the other hand, has defended the supplementary budget as a necessary way to make up for important cancelled investments.

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