

## Elections in Germany: it will be difficult to lift the debt brake

60 million Germans will vote to elect their members of parliament. According to opinion polls, the conservative CDU-CSU party (and its leader Friedrich Merz) is likely to win, with the need to form a coalition, probably with the Social Democrats of the SPD. However, parliamentary arithmetic and budgetary rules could prevent a much-needed sharp turnaround in economic policy.

**Towards a new grand coalition.** With two weeks to go before the elections, voting intentions are still subject to change. What's more, the distribution of seats is difficult to predict because of the electoral system (mixed first-past-the-post and proportional representation).

Nevertheless, according to polls, the CDU-CSU would come out on top with around 30% of the vote, ahead of the far-right AfD (20%), the SPD (16%) and the Greens (13%). As an agreement with the AfD seemingly out of the question, a new CDU-CSU + SPD Grand Coalition would be the most likely outcome; a CDU-CSU + Greens coalition is also possible. Nevertheless, it seems likely that a new government will be led by Merz, although it will certainly not be in place before spring at the earliest.

**A difficult compromise.** Finding a government agreement will not be an easy task, between the spending and social protection cuts promised by the CDU-CSU and the tax rises on high incomes promised by the SPD or the Greens.

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A government agreement could therefore include only moderate measures (a few tax cuts, a gradual increase in the minimum wage and a limited reduction in public spending).

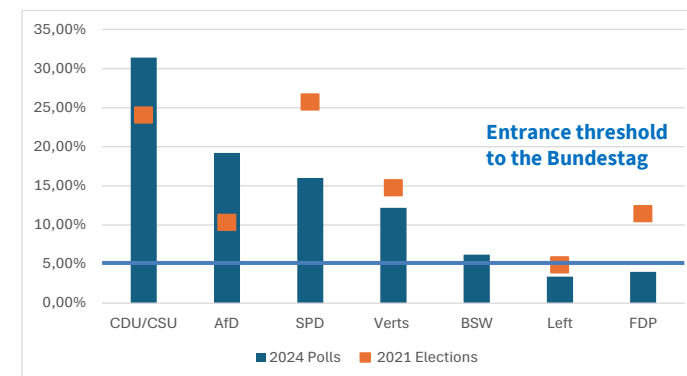
**Numerous economic challenges.** Despite having narrowly avoided a technical recession (i.e. two consecutive quarters of falling activity), the German economy has remained sluggish since 2022, with the level of GDP remaining quasi-stable since then. This is because the German economic model - based on exports of high-quality, low-cost products - has been undermined by 1) post-Covid tensions in the labour market, 2) rising energy costs following Russia's invasion of Ukraine, 3) falling demand from German companies (Chinese slowdown and energy transition) and 4) increased competition from China in the automotive sector, for example. Trump's return to the White House adds to this list the possibility of higher US customs duties and military disengagement.

**The change in the debt brake decisive.** Against this backdrop, the state of public finances and the external position remain in good shape. However, restrictive budgetary rules (the debt brake) are in place, hampering the future government's ability to boost demand and revitalise the economic model. The three main governing parties appear to be in favour of reforming the debt brake, although their objectives differ. However, such a reform requires a two-thirds majority in Parliament, which is not guaranteed according to the polls - while most of the other parties (AfD and the liberals FDP in particular) are opposed to it.

If an agreement is reached and passed by the new parliament, this could provide fiscal breathing space and fund public investment and military spending. It should be noted that the debate on this front could extend well beyond 2025.

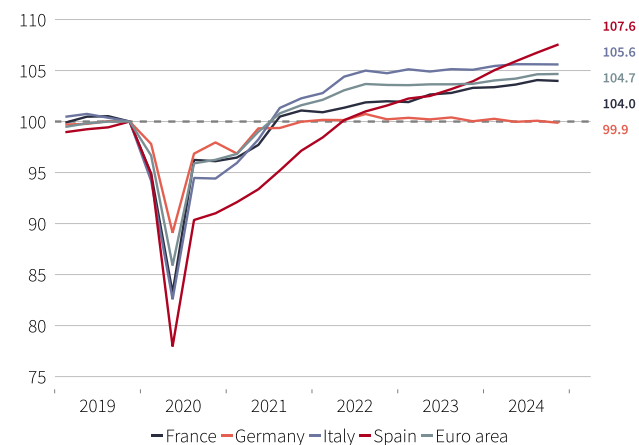
## POLLS BY POLITICAL PARTIES

(%, average since October)



## REAL GDP GROWTH

(100=31/12/2019)



Sources: Société Générale Investment Solutions, Macrobond, INSEE, DESTATIS, Eurostat, Istat, CAO, INE, ONS, BEA 2024 Q4

# OUR MACRO COMMENTS

## Events of the week

### United States: a still resilient job market

The employment report still shows a robust labour market that should support growth in the coming months. Indeed, net job creations amounted to 143 thousand while the creations for the month of December were significantly revised upwards (237K on average over the past three months). These figures are also reflected in an unemployment rate that remains low, at 4%, and wages that show a growth of 4,1% over one year. The labour market figures are expected to lead the Federal Reserve to maintain a cautious tone and its key rate at 4.50% over the coming months.

### THE WEEK IN DATA

Country	Data	Actual	Last	Forecast
United States	ISM Services PMI January	52,8	49,2	54,3
	Non Farm Payrolls January	143k	256k	170k
	JOLT Job Openings December	7,6M	8,156M	8M
Zone euro	Inflation Rate January	2,50%	2,40%	2,40%
	Retail Sales YoY December	1,90%	1,60%	1,90%
Royaume-Uni	Boe Monetary Policy Decision	4,50%	4,75%	4,50%

Source: Macrobond, February 7, 2025. The colors in the 'Actual' column correspond to the difference from the forecast

### United Kingdom: interest rates cut by 25 basis points as expected

As expected by the markets, the Bank of England (BoE) decided to cut its key rates by 25 basis points to 4.50%. The decision to cut rates was unanimous, but 2 out of 9 members voted for a deeper cut (of 50 bp). The disinflation cycle is well underway (2.5% in December 2024) and economic activity is slowing. Nevertheless, given the uncertainties over inflation (which could rise to 3.5% year-over-year by June due to higher utility prices) and growth (recent fall in confidence indices), the BoE insists that it will take a gradual and cautious approach - suggesting one cut per quarter. Against this backdrop, sterling has fallen by 0.7% against the dollar, and markets are expecting between 2 and 3 additional cuts in 2025.

### KEY EVENTS NEXT WEEK



#### Wednesday

**United States** - Inflation rate January  
- Core inflation rate January

#### Thursday

**United Kingdom** GDP Growth Q4  
**United States** PPI January  
**Euro area** Industrial production December

#### Friday

**United States** Retail sales January

# MARKET PERFORMANCES

## Interbank rates

%	05/02/2025	07/01/2025	07/11/2024	01/01/2024	07/02/2024
US SOFR	4,324	4,47	4,84	5,34	5,32
Euro area €ster	2,666	2,92	3,16	3,88	3,91
UK SONIA	4,705	4,70	4,70	5,19	5,19
Switzerland SARON	0,416	0,43	0,95	1,70	1,69
Japan TONAR	0,479	0,23	0,23	-0,04	-0,01

## 10Y Government rates

%	06/02/2025	07/01/2025	07/11/2024	01/01/2024	07/02/2024
US Treasuries	4,45	4,67	4,31	3,88	4,09
France OAT	3,08	3,30	3,18	2,55	2,80
Germany Bund	2,37	2,48	2,42	2,02	2,29
Italy BTP	3,43	3,62	3,72	3,70	3,86
Spain Bonos	3,02	3,15	3,16	2,98	3,27
Switzerland	0,37	0,38	0,41	0,66	0,88
UK Gilts	4,45	4,65	4,49	3,60	4,03
Japan JGB	1,28	1,14	0,98	0,62	0,71

## Credit

%	06/02/2025	07/01/2025	07/11/2024	01/01/2024	07/02/2024
United States IG	5,25	5,43	5,11	5,06	5,24
United States HY	7,17	7,40	7,20	7,59	7,79
Europe IG	3,33	3,56	3,53	3,72	3,94
Europe HY	5,57	5,75	5,89	6,80	6,70
Emerging FX	6,23	6,42	6,24	6,77	6,93

## Equity indices

06/02/2025 vs	-1w	-1m	-3m	01/01/2024	-1y
World	0,59	3,12	2,419	24,30	21,78
United States	0,69	3,21	2,177	28,54	24,96
Euro area	0,93	6,02	8,944	18,37	16,57
France	0,69	6,70	7,810	9,42	8,73
Germany	0,85	7,44	11,867	27,10	26,83
United Kingdom	0,55	5,57	6,822	15,93	17,96
Japan	-1,33	-1,30	0,473	18,91	10,22
Emerging	0,92	1,63	-1,355	15,60	18,01
China USD	3,48	8,28	-2,087	24,01	39,34
India USD	-0,51	-5,37	-8,476	8,26	4,68
Latin America USD	2,13	8,66	-2,981	-17,64	-12,82

## Foreign exchange rates

	06/02/2025	07/01/2025	07/11/2024	01/01/2024	07/02/2024
EUR/USD	1,04	1,04	1,08	1,11	1,08
GBP/USD	1,24	1,25	1,30	1,27	1,26
EUR/CHF	0,94	0,94	0,94	0,93	0,94
USD/JPY	151,72	157,96	153,00	141,03	147,90
USD/CNY	7,29	7,33	7,14	7,08	7,11

## Commodity prices

	06/02/2025	07/01/2025	07/11/2024	01/01/2024	07/02/2024
Brent, USD/BL	74	77	76	77	79
Copper, USD/Metric ton	9 165	8 886	9 386	8 476	8 281
Gold, USD/Troy oz	2 857	2 649	2 707	2 063	2 035
Silver, USD/Troy oz	32	30	31	24	22
Palladium, USD/Troy oz	983	928	1 032	1 136	934
Platinum, USD/Troy oz	995	953	988	1 000	890

Source : Bloomberg on 7 February 2025, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change, Equities; total return in local currency. Government bonds = 10 year returns. Figures are rounded.



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