The Investment Institute
by UniCredit

Coffee Break

Coffee Break is our daily publication, offering topical insights as an intellectual ingot to start the day.

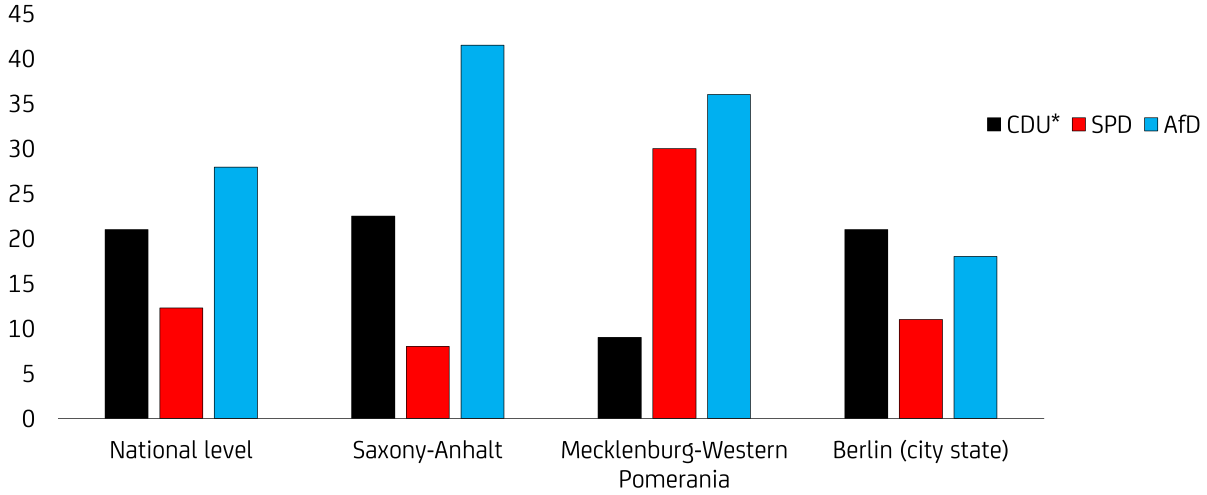
Germany: election sprint, reform marathon

4 September 2026

Three state elections in just 14 days will test Germany's government coalition and its reform plans. While political noise is likely to increase, we expect the push for structural reform to remain on track.

CONSERVATIVES AND SOCIAL DEMOCRATS UNDER PRESSURE

VOTE SHARE IN OPINION POLLS, IN % (AVERAGE OF POLLS, IF AVAILABLE)



Source: Wahlrecht.de, The Investment Institute by UniCredit
Note: *CDU in federal states; CDU/CSU on a national level

THE CONTEXT

On Sunday, voters in Saxony-Anhalt will head to the polls; two weeks later, Mecklenburg-Western Pomerania and the city state of Berlin will follow. Formally, these are state elections with regional specifics and differences. Politically, however, three elections within 14 days will probably be viewed as a report card for Chancellor Friedrich Merz's CDU/CSU-SPD coalition – at a time when the government is trying to move from fiscal firepower towards structural reforms of the pension system, the labour market and bureaucracy (see our *Coffee Break* – Can Germany also fire a reform bazooka?, 1 July).

THE DATA

The starting point is uncomfortable for the conservative CDU/CSU alliance and the Social Democratic Party (SPD). In the latest nationwide opinion polls, the right-wing AfD stood at about 28%, ahead of the CDU/CSU with around 21%, while the SPD came in at just 12%. Recent polls for the state of Saxony-Anhalt, the election federal policymakers may watch most nervously, even put the AfD at around 41%, far ahead of the CDU, which is polling at 23%. The SPD is currently only at around 8%. In Mecklenburg-Western Pomerania, the AfD also leads clearly, while the SPD is holding up considerably better. In Berlin, the race is highly fragmented, according to opinion polls.

OUR VIEW

Sunday's election outcome in Saxony-Anhalt could grab most of the headlines. At current polling levels, the AfD does not have an outright majority. But with several parties, including the SPD, hovering around the 5% threshold, relatively small shifts in votes could translate into larger changes in seats – and potentially open the path to an AfD-led government, the first one in a federal state. However, from an investor perspective, there is one question that matters more: what does this all mean for the federal government in Berlin?

1. **The CDU/CSU-SPD coalition will continue.** Even poor results would give neither the conservatives nor the Social Democrats a good reason to leave the government. A weak CDU performance could strengthen demands within the Union for a tougher profile on migration, security and economic competitiveness. A poor SPD result in Mecklenburg-Western-Pomerania, where the prime minister is a Social Democrat, however, would intensify pressure on the party to defend its social-policy priorities.
2. **The structural reform agenda remains (largely) intact.** At the beginning of July, the CDU/CSU and the SPD agreed on a 34-measure reform package spanning pensions, labour-market rules, competitiveness, taxation and bureaucracy reduction, with key measures intended to pass the Bundestag by the end of this year. Politically, abandoning these reforms after strong AfD results would be difficult for either party to defend. Mr. Merz could argue that voters are punishing weak growth and insufficient change, while the SPD needs to demonstrate that reforms can be combined with social protection.
3. **A more-fragmented Bundesrat could not block large parts of the reforms.** Saxony-Anhalt, Mecklenburg-Western Pomerania and Berlin together hold 11 of the Bundesrat's 69 votes. However, the federal states' leverage differs substantially across individual reforms. For instance, the envisaged tax cuts for low and middle-income households (financed through tax hikes for top-income earners) require Bundesrat consent. Core pension and labour-market reforms, meanwhile, are generally not dependent on Bundesrat approval.

Overall, we expect more political noise in the next few weeks, but not political paralysis in Berlin. A few reform measures may be diluted or delayed (beyond year-end 2026) but the broader reform push is likely to remain on track.

OTHER THINGS TO NOTE

US payrolls likely reaccelerated in August

Following two weak months, we expect August to show some recovery in job creation and have pencilled in a moderate rebound by 80k, with the unemployment rate picking up to 4.2% if some of the recent substantial (and suspicious) weakness in participation is reversed.

TODAY'S DATA RELEASES

Time (CET)	Country	Data	Period	UniCredit	Consensus	Previous
14:30	US	Average hourly earnings (% yoy)	Aug	-	3.1	3.2
14:30	US	Unemployment rate (%)	Aug	4.2	4.1	4.1
14:30	US	Non-farm payrolls (change thousands mom)	Aug	80	55	-23

Source: Bloomberg, The Investment Institute by UniCredit

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