



Macroeconomic
Comment

FTSE-100
7587,85
+0,14%

CAC-40
6037,11
-0,09%

Stoxx-Europe-50
3436,34
+0,02%

OMX Schweden
OMXC 20 Dänemark
PX Tschechien
RSE Sensex

Global Economy-Growth has Probably Passed the Zenith

September 15, 2021, Peter von Elten

Global economic development continues to be influenced by the effects of the pandemic and government intervention. Globally, we are in the third wave of the pandemic, which is still virulent with currently between 500'000 to 600'000 new cases per day, but less disruptive thanks to vaccination progress and reduced mortality risk.

The global purchasing managers' indices and the leading indicators they contain show a downward trend for the third month in succession; while the USA and Europe continue to display high momentum. The picture in Asia is becoming gloomier, not least due to slower progress on vaccinations with increased case numbers. There is still considerable pent-up demand for consumer spending, but this is being slowed at least temporarily increased inflation and supply-side bottlenecks.

Directional Elections in Germany – Impetus for Europe?

Chancellor Merkel's resignation after a 16-year rule could lead to a political pause in Germany. This might translate into a significant shift to the left, higher tax burdens for high-income earners and the wealthy, and growing state influence, as we know it from France. The uninspired government policies of recent years, the failure to build a convincing successor from within the party's own ranks, the late and controversial appointment of the candidate for chancellor, and the blurred program have so weakened the CDU/CSU, once the largest party of the people, that the next coalition government may be formed without CDU/CSU participation. The party, which largely shaped German post-war politics with Adenauer, Kohl and Merkel, will be punished by voters not least because of bad decisions in energy and refugee policy, neglect of infrastructure, and administrative blockades. Germany's reputation as a reliable partner has also suffered internationally, for example as a result of years of delays in the construction of connections for the major north-south transversal routes for freight traffic through Switzerland and Austria. The tax breaks for high-income earners planned by the CDU/CSU and chancellor candidate Laschet, with a simultaneous return to the debt brake, seem out of time in view of rising social inequality, the high level of new debt and the costly reforms that all parties consider necessary.

According to forecasts, the greatest changes of succeeding Mrs. Merkel in the elections on September 26th of this year are currently given to Olaf Scholz, the incumbent finance minister and candidate for chancellor of the Social Democrats. He is considered the architect of massive bailout programs during the Corona crisis, which, at €540 billion over three years (about 15% of 2020 GDP), saved many voters from severe economic damage. Annalena Baerbock, the pugnacious candidate for chancellor of the Green Party, has lost credibility due to a series of mistakes in her self-promotion, but can claim a leading role for herself and her party on the issue of climate protection, which is of such importance important in Germany. Both Parties are looking for ways to ease the debt brake anchored in the Basic Law so that they can invest up to €50 billion per year over 10 years in modernization and the climate-friendly restructuring of the economy outside the current budget. Both parties consider higher taxation of high-income earners and the wealthy to be essential to finance rising costs and preserve social peace in times of growing inequality.

All leading parties are clearly committed to the European Union, in which Mrs. Merkel was a formative force for many years. With her resignation and in view of the less high-profile potential successors, there are great opportunities for France and Italy in particular to set the course for a long-sought deepening of the European Union in the direction of a fiscal union and community liability. Emmanuel Macron has often been thwarted by Mrs. Merkel in recent years with his far-reaching plans for Europe and his etatist understanding of politics. He can be expected to assume a stronger European leadership role, possibly with the support of Mario Draghi.

The major challenges for the next government in Germany largely coincide with those of all the major industrial powers of our time:

- **Government debt** – the pandemic has cost growth, destroyed assets and led to massive new debt. The revival and transformation to a climate-neutral economy will drive up government debt further. Debt sustainability now only appears secure in a sustained low interest rate environment. Rising inflation, to the extent that it cannot be justified by distortions caused by the pandemic and can therefore be regarded as temporary, could force central banks to adopt a more restrictive monetary policy.
- **Inequality** – the gap between the vast majority of the population, who have to cope with real losses of their financial assets due to inflation and negative interest rates compared with the wealthy, who have been able to benefit greatly from the massive material asset inflation of recent years, has grown further in the pandemic, weakening growth and endangering social peace. The next government in Germany will have to face up to this problem and will very likely impose a heavier burden on high incomes and wealth. In doing so, it would follow the intentions of other countries such as the USA. China, likewise, is taking action against inequality by calling on the rich as well as companies to pay wealth levies as part of its “shared prosperity” campaign.

- **Costs of the welfare state** – the cost of old-age and health care will continue to rise sharply due to demographic developments and additional expenditures to curb inequality, while at the same time there is a considerable underfunding of social welfare systems in many cases. The shortage of personnel in social professions will only be remedied by a significant improvement in working conditions and higher pay.
- **Climate protection** – Renouncing nuclear power and phasing out coal-fired power generation by 2038 at the latest is forcing Germany to make enormous investments in renewable energies and technological quantum leaps to optimize energy efficiency. The particularly ambitious government targets for decarbonizing the economy, combined with the particularly high tax burdens and energy costs in a global comparison, are jeopardizing Germany's attractiveness as a business location. A study by McKinsey forecasts the total expenditure for environmental protection in Germany to be around €6 trillion by 2045, of which €5 trillion is seen as replacement investment and €1 trillion as additional expenditure. The additional expenditure alone would require investments of around €40 billion per year, a large part of which will have to be borne by the state.

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Mr. von Elten has decades of experience in the banking industry. Since 2008 he has been a member of the advisory board of BSZ AG, which took over IFP AG in 2014 and thus became Belvoir Capital AG. He enjoyed an international career at JP Morgan for close to 30 years. He returned to Switzerland as General Manager of Schroder & Co Bank AG from 1995 to 2003. Furthermore, Mr. von Elten's passion is art; he is a co-founder of the gallery Elten & Elten.

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