

## Germany: Setback for euro federalists

The release of the CDU's election manifesto suggests that the next German government is unlikely to push for radical reforms or a deepening of eurozone integration



Armin Laschet, leader of the Christian Democratic Union of Germany, left, and Annalena Baerbock, co-leader of Alliance 90/The Greens.

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In Germany, an election manifesto or specific policy proposal have hardly ever been decisive for an election outcome. German voters normally opt for the total package of (perceived) policy proposals, the candidate and the party, and sometimes simply the political craze of the moment. The latest shift in the polls, which has seen the CDU regaining ground without an official manifesto and the Greens losing ground, supports this argument. Now that the CDU has presented its manifesto - the last of the parties to do so - the election campaign can finally begin.

### CDU's return to fiscal conservatism in eurozone

The ideas and proposals that the CDU presented yesterday were nothing really shocking. Regarding economic policies and the eurozone, we found the following interesting details:

- A general backing of the constitutional debt brake but less explicit than in 2017 when a promise was made to stick to the debt brake in each of the next four years
- A paragraph on EMU which is longer than in '17 with a clear return to austerity and a reinstallation of the fiscal rules. The CDU is open to a revision of these rule but not a softening. It in fact argues for a stricter implementation of fiscal rules in the future
- the European Recovery Fund (or NextGenerationEU) should remain a one-off
- (again) a proposal for orderly sovereign defaults within the EMU

- The completion of a banking union only on German terms, emphasising the particularities of the German banking system.

Summarising the above suggests that the CDU gives an opening for more fiscal flexibility and hence stimulus at the national level but hardly any at the eurozone level.

## Germany first, euro second?

A lot is at stake in the German elections. Climate change, demographic change, energy transition and the structural change from manufacturing to services, just to mention a few hot topics. For the economy, the rest of the eurozone and financial markets, the main focus, in our view, will be whether or not Germany continues with accommodative fiscal policies and what the plans are for a further deepening of the monetary union. As regards fiscal stimulus, there seems to be a broad consensus on the need for more investment and fiscal stimulus, obviously with widely differing views on the size and how to finance it. Regarding the eurozone level, however, views and proposals diverge much more. The Greens have the most 'federal' approach, while yesterday's CDU manifesto clearly puts a brake on dreams of a fiscal union.

Developments over recent months have shown that German politics or at least voters' support has become more fluid. Larger swings in the polls have become normal. Therefore, with some three months to go, no one should jump to early conclusions about the outcome of the September elections. Still, judging from the latest developments, we've expanded our base case scenario and see a CDU/Green and a CDU/FDP coalition as the most likely outcome (or possibly even another attempt to get the three parties into a coalition, as in 2017). In our view, any of these outcomes bodes well for more fiscal stimulus in Germany but don't expect any major changes regarding fiscal policy at the eurozone level. Given the CDU's very explicit views, a coalition with the Greens is unlikely to advance ideas for making the European Recovery Fund more permanent and for closer fiscal integration. While in other countries, political divisions may centre around europhiles and eurosceptics, in Germany, it is only the level of eurozone integration that separates parties. It currently looks as if the big German push for more eurozone fiscal stimulus will come with a "Germany first" investment agenda and some trickling through effects for the rest of the eurozone, rather than with a "euro first" push. While this is bad news for euro federalists, it is good news for analysts and commentators, as the never-ending discussion on what should and what will (or is politically acceptable to) happen is set to continue.

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