

## Olaf Scholz set to be next German Chancellor after coalition agreement

The SPD's Olaf Scholz is set to replace Angela Merkel following a coalition agreement just announced by his party, the Greens and the FDP. It's the result of professional and focused negotiations. It shows a clear commitment to deliver on election promises and remains sufficiently vague on critical issues



Olaf Scholz is set to replace Angela Merkel as German Chancellor

Germany could have a new Chancellor by Christmas and it's likely to be Olaf Scholz (pictured). Against some more pessimistic predictions on election day about long dragging negotiations, the three parties and their negotiators have shown a very professional and focused approach to bringing the three blocs together. It took less than two months to get to today's agreement and there was hardly any noise, any leaked documents or rumours, during the entire process.

If this professional approach continues once the government is actually in office, the country could finally get the reforms and investments it really needs. To be clear, now the Greens will first hold a membership referendum and SPD and FDP will seek to get approval from a party convention to get the final 'go' for the next government. Once those last formal hurdles are taken, Olaf Scholz can be elected by the German parliament as the next chancellor, probably in the first week of December.

## Coalition agreement shows commitment to deliver on promises

Coalition agreements in Germany have grown significantly in size over the last fifty years. The last, in 2018, had some 60,000 words and 175 pages. Today's coalition agreement even exceeds this length: it has 177 pages. It is a long piece, obviously trying to bring together sometimes very diverging views.

In general, the coalition agreement delivers what we had expected: a strong commitment to deliver on digitalisation, sustainability and the fight against climate change, as well as social equality and education; and exactly in that order. Fiscal policy and Europe are only chapters seven and eight out of a total of nine.

## Something for everyone on fiscal policy

As in so many other European countries, coalition agreements often don't have a long shelf life. They are rather written to convince their own grassroots (party members) to agree on rather than to serve as a long term plan for actual government policies. Too often have crises or actual developments shaped government policies. Gerhard Schröder didn't have a reform agenda in the coalition agreement, neither did Angela Merkel have endless crisis management in any of her four coalition agreements. With this caveat in mind, the presented agreement should be sufficient to get all three parties' grassroots to agree to the start of the first "Ampel" (traffic light) coalition.

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*On fiscal policy, the agreement remains vague and has something for everyone*

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On fiscal policy for both Germany and the eurozone, the agreement remains vague and has something for everyone. This confirms our view that Germany will conduct a mildly accommodative fiscal policy in 2022 and 2023 and will not be a fiscal hardliner with red lines at the European level, without starting a fiscal spending spree.

Germany looks set to get a new government in the first week of December. This coalition agreement shows both a clear commitment to deliver on election promises but also still has diverging views on some issues. Only time will tell whether the willingness to govern and to deliver can overcome potential conflicts between the coalition partners. In any case, all the plans and promises will not be tested immediately. The first thing the new government will have to show is its crisis management skills, dealing with the escalating fourth wave of the pandemic.

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