

German government collapses and snap elections loom in March

Chancellor Scholz has sacked his finance minister and ended the coalition. Snap elections loom at the end of March next year



German Chancellor Scholz has dismissed Finance Minister Christian Lindner

As if an already dramatic day for the global economy needed any more excitement, Germany has delivered a significant political upset of its own. German Chancellor Olaf Scholz announced tonight that he has fired his finance minister Christian Lindner. Lindner's party, the FDP, left the government.

In a short speech explaining the decision, Olaf Scholz was on fire, at least for someone from Hamburg, accusing Lindner of breach of trust and clientelism. Scholz positioned himself as a well-balanced leader who didn't want to choose between social welfare and investment or support for Ukraine. Scholz also mentioned that he had proposed triggering the national escape clause of the national debt brake for 2025 but Lindner had refused to agree. Notably, Scholz explicitly stated that Germany's public finances were healthy and government debt was among the lowest in Europe, clearly distancing himself from Lindner who last week described a picture of worrying public finances. Let's not forget that this announcement marked the beginning of the next election campaign. The official reaction by Christian Lindner shows that a mud fight or blame game between Scholz and Lindner was playing out.

Tonight's decision was not surprising but rather the climax of a long series of growing tensions within the government. The latest episode was a [paper issued by Lindner](#) last week.

Vote of confidence on 15 January, snap elections probably end March

Looking ahead, Scholz announced he would bring a vote of confidence to the German parliament on 15 January. If he loses this vote, which is highly likely, the federal president would have to call snap elections within two months. Scholz himself already mentioned the end of March as a possible moment for the snap elections. Based on Scholz's comments, a minority government doesn't seem to be an option. Until then, the budget for 2025 still needs to be agreed. Tonight's comments suggested that the SPD and Greens will be trying to get the opposition CDU on board in the coming days to support another year of pausing the constitutional debt brake. The next few days will show whether this strategy succeeds. Otherwise, Germany could enter the new year with only a rudimentary budget.

Given the never-ending tensions within the government and clear disagreement on how to get the German economy out of its current state of stagnation and structural weakness, the collapse of the government could also be a blessing. Elections and a new government could and should end the current paralysis of an entire country and offer new and clear policy guidance and certainty.

Consequently, the election campaign will probably focus mainly on the economy and less on immigration, potentially weakening support for the AfD, and therefore offering a clear strategy to restore growth and competitiveness. This is an election campaign that will push the political parties to show their hands on where they stand on the debt brake or better, on the question of debt-financed investments. Whether this debate will really make it into the living rooms of German voters, is a different question. On the day Donald Trump won a second term in the White House, Germany is preparing for the first snap elections in almost 20 years, with politicians set to offer their own answers on how to make the German Economy Great Again.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person

for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.