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 Scholf 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 neverending 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.

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