

## Germany: Near the finish line

After another period of overtime, the CDU, CSU and SPD finally agreed on a coalition agreement. It will now be up to the SPD party members to give the final say



Source: istock

Finally, the three parties and current coalition partners (CDU, CSU and SPD) have concluded their talks on a coalition agreement. Exploratory talks ended with a detailed document but this coalition agreement is even more detailed, covering almost 190 pages.

On first glance, another grand coalition would clearly tick all the right boxes for structural reforms, more investment and more European integration. However, the big question remains whether these steps are big enough to make a significant impact.

### Impact on Germany and beyond

Focusing on the potential impact of the agreement on the German economy and Europe and the Eurozone, the strong focus on more and better education, digitalisation and infrastructure clearly paves the way for a small fiscal stimulus. Here, the coalition agreement hardly differs from the paper after the exploratory talks. Whether this will be enough to close the gap between Germany and other countries when it comes to digitalisation remains to be seen.

As regards Europe, the coalition agreement underlines the pro-European stance of a new grand coalition and even allows room for more investment as well as the option of “money-for-reforms” in the Eurozone. The latter not as a new Eurozone budget but as part of the EU budget. As in the previous paper, the grand coalition is in favour of morphing the European Stability Mechanism into a European Monetary Fund. However, contrary to the previous paper, the fact that an EMF should be embedded in EU law is now supplemented by the remark that the rights of national parliaments should not be altered. We believe that the Bundestag’s current say in ESM programmes will not be changed.

The most interesting part of the agreement’s chapter on Europe is the intention to have a stronger Franco-German cooperation. In this regard, any real tax or economic harmonisation between Germany and France would probably help further Eurozone integration much more than a pure institutional improvement as it would signal a willingness to lead by example.

In short, the economic and European chapters of the coalition agreement are a pro-European continuation of the well-known German stance and policies. It's a gentle step towards further integration, but no drastic change.

## You think it's all over?

If you thought that this was it, you are wrong. Now, the SPD party members will have to vote on the agreement. This will take another three to four weeks. Interestingly, the SPD has counted almost 25,000 new party members in recent months, coming both from the camp in favour and the camp against another grand coalition. In our view, the result of this party members’ vote will be extremely close.

In this context, the SPD party leaders negotiated two interesting trophies this morning. The SPD would get the finance ministry and the ministry of foreign affairs in a new government. This should give the SPD ministers more weight in the next grand coalition than in the current one. Whether these two trophies are enough to tip the balance in favour of party support for the coalition agreement remains to be seen. In our view, the outcome is too close to call and there still is the risk that another grand coalition could but be stopped at the finish line.

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