

Snap | 4 March 2018 Germany

## Germany: It's a 'GroKo'

More than five months after the elections, Germany will finally get a new government. It will be the old one. A grand coalition, in Germany also known as the 'GroKo'



The SPD party members voted for another grand coalition with Angela Merkel's Christian Democrats, allowing her to stay on as chancellor for a fourth term. In the end, 66% of SPD member votes were in favour of the grand coalition; this was much bigger in numbers than expected.

On 14 March, the German parliament will vote on the next chancellor. With the SPD vote, 14 March will only be a formality. After more than five months, Germany will get a new government - one that basically will deliver more of the same as in the last four years. The government is expected to bring fiscal stimulus, investment in education and digitalisation, some tax relief and steps to tackle social inequality. This new government will, in our view, also cautiously and slowly push forward with European and Eurozone integration; no bold steps. For us, the most exciting project is in the intended economic and tax harmonisation between France and Germany.

## Everyone wins, but not necessarily the SPD

At least in the short run, the SPD vote should bring some stability to Germany and Europe. Even though we are very hesitant to call this an upcoming breakthrough for Europe and the Eurozone, the new government will clearly be supportive of further integration. The question will obviously be how far this integration will go. Chances are high that it will remain an integration process of very small steps.

For German politics, Angela Merkel and the CDU will now have time to restructure the party and to build up a new generation for the post-Merkel era. At the same time, one exciting question will be whether the AfD - as populist parties in so many other European countries - can benefit from its role as the biggest opposition party. Earlier experiences in other countries have shown that grand coalitions over a longer time period can strengthen populist parties, both on the left and right wing

Snap | 4 March 2018

of the political spectrum. The biggest challenge, however, will come for the SPD. The party vote and the preceding discussion have shown that it is a party under severe stress and conflicting views. Party renewal while being part of government is a very challenging task, to say the least. Germany and Europe now look somewhat reassured in the near-term future. The SPD, not necessarily so.

## **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.

Snap | 4 March 2018 2