Germany's historic fiscal package looks like a done deal

A political deal in Berlin suggests a key fiscal package and changes to the debt brake will receive the needed two-thirds majority at next week's vote. The risk of failure has clearly come down to close to, but not entirely yet, zero

After long negotiations between the CDU/CSU, SPD and the Greens, a deal appears to have been reached to secure a two-thirds majority for the announced fiscal package at the official vote in the German parliament next Tuesday. The parties agreed to some changes to the original proposals; of the €500bn infrastructure fund, €100bn will immediately be channelled into the Climate Transition Fund. The remainder of the fund remains dedicated to additional infrastructure investments, with €300 billion designated for the federal government and €100 billion for the state governments. The planned changes to the debt brake remain basically unchanged, with only a small addition that costs for intelligence agencies should also be included in total defence spending. The overall plan to exempt defence spending of more than 1% GDP from the debt brake as well as allowing state governments to run small deficits remained intact.

Today's deal should have ensured the needed two-thirds majority for next week's vote

Today's political deal should have ensured a two-thirds majority in the German parliament at next Tuesday's vote. Nevertheless, the chance of a surprise failure is still not zero. There are many MPs from the SPD, Greens and CDU/CSU who will not return to the next parliament. It is far from guaranteed that these 'leavers' will show up at the vote next week or stick to 'party discipline'. We might even see Friedrich Merz, Germany's likely chancellor-to-be, travelling across the country to gather all of the MPs and ensure they arrive in Berlin to vote.

For now, it looks as if Merz has successfully navigated his first major political challenge, ensuring the much-needed support for an impressive fiscal package and historical change to the fiscal debt brake. The caveat to all of this remains that these measures alone, impressive as their size might be, will do very little to improve the economy's competitiveness. Modern infrastructure is essential for one of the world's largest economies, but it doesn't inherently drive innovation, sector transformation, or new growth opportunities. Regardless, the chances of a cyclical rebound in the German economy on the back of positive sentiment effects and later actual spending, have clearly increased. How long this cyclical rebound will last and whether it could become a structural recovery will highly depend on the official coalition talks that are now underway.

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