

Flash Note 18/12/2017

Alex Fusté

@AlexfusteAlex

alex.fuste@andbank.com

A new obstacle to form a government in Germany or a victory of the French version of Europe?

Merkel, who lost many supporters to the far-right in the last elections (Sept. 24) is looking for support from the SPD to form a stable government after attempts to form a three-way alliance with liberals and greens failed last month. The SPD leaders agreed on Friday to open exploratory talks on forming a government with Merkel's centre-right bloc, in what represents the last chance to avoid a political deadlock in Europe's economic powerhouse after an inconclusive federal election. However, Germany's Social Democrats (SPD) leader Martin Schulz wants Chancellor Angela Merkel's conservatives to leave the powerful finance ministry in the hands of the SPD in order to prevent the collapse of the coalition talks (Schulz at Handelsblatt: "The goal is to get the Federal Finance Ministry," "past years had shown how important the finance department had become").

If the SPD were to agree to another "grand coalition" and take control of the finance ministry, it would likely result in changes to Germany's European policy, and more focus on spending and investment rather than austerity, in what many observers already consider a victory of the French version of the EU.

No new government in place before March.

The agenda of exploratory talks which will not start in serious before early January. Then another SPD party convention will have to give green light to kick off official coalition negotiations, scheduled for mid-January. Any agreement would finally be subject for approval by SPD members afterwards. That could mean that Germany most probably will not have a new government in place before March.

Schaeuble, considered the true architect of the (better) situation in Europe today, became unpopular among struggling euro zone states during his eight years in office due to his focus on fiscal restraint and structural reforms. Schulz has repeatedly said

Europe could not afford to undergo another four years of the kind of European policy that Schaeuble had practiced.

We will have to wait and see if Merkel gives in and transfers the powerful Ministry of Economy and Finance to the Socialists in order to form the government, or if on the contrary, these negotiations also collapse and we are at a point of political paralysis in the main motor of Europe.

Regards