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Bereit für Neues

To the point!

Cross-Asset- and Strategy-Research

New government, new hope

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Chancellor Merz is doomed to succeed, and it might actually work!

For now, everything is secured. After the members of the German Social Democrats (SPD) voted with a solid turnout and an almost Soviet-like majority of 85% in favor of the coalition agreement, the new Chancellor Friedrich Merz from the conservative Union-party CDU and his cabinet of the conservative-left coalition were sworn in this week, albeit somewhat shakily. The task now is to rapidly overcome the political stagnation that has set in since the collapse of the former coalition of SPD, Greens, and the liberal party FDP. The unprecedented and embarrassing glitch during the chancellor election as well as the recent classification of the right-wing AfD as "confirmed right-wing extremist" by the domestic intelligence agency bind the two coalition partners even more inextricably to one another than before. The last fantasies of a minority government led by the Union and tolerated by the AfD should thus – thankfully! – be off the table.

Germany needs a psychological fresh start

Of course, maintaining a healthy distance from extremists is no guarantee for a successful governance. Far from it. For this, the Merz team would need to turn the tide in many policy areas. Otherwise, the German economy will continue to drift along in stagnation in which it has been stuck for more than two years now: sometimes Germany grows a little, then the economy shrinks again. Fundamentally, the German economy is lying flat on its back. And it won't mend itself. The minimum required now is a psychological fresh start that gives companies, as well as consumers, greater confidence. Since the [tariff freak](#) in the White House has been wreaking havoc, this task has not exactly become easier.

Kick-off for Team Merz

Wanted: Cause for Optimism

How LBBW Research assesses the coalition's plans

Immediately after the conclusion of the coalition negotiations, I commented on the government program [in this column](#). My conclusion then: "Better than feared, but not as good as secretly hoped." Now, LBBW Research has subjected the coalition agreement to a [more intensive analysis](#) according to its [proven pattern](#) and examined its growth effects.

Even after having it given a more profound scrubbing, the assessment of the agreement remains decidedly mixed. On a scale from 0 (abysmal) to 4 (Nirvana), our analysts arrive at an average overall result of 2.5. The coalition partners have correctly diagnosed the growth-inhibiting factors for Germany, but too often lack plausible measures to overcome them. That is why the text often says "we want" and "we examine." Sounds like many compromises still have to be forged in the months ahead.

Why the glass is half full

Yet, there are reasons to look to the future with hope. On the one hand, the negotiation result with a pro-growth value of 2.5 is a healthier result than one might have expected: it is better than the respective assessments of the election programs (Union 2.4 and SPD 1.8, see figure). Especially in the policy areas "infrastructure" and "government action" (i.e., tax and regulation policy as well as strengthening work incentives), the whole of the agreement is greater than the sum of its parts. A similar assessment could be made for measures to overcome the risk-averse German mindset. But here, the overperformance is mainly due to very low expectations. Overall, I see a picture that, along with shadows, also shows a lot of light. The Merz government started with a stumble. It still deserves a chance to prove its skeptics wrong. We should all wish them luck. There is no alternative.

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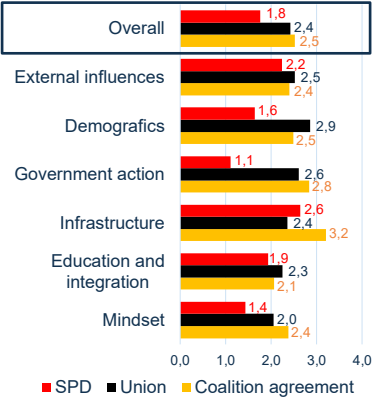
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Government program: better than expected

Evaluation of the coalition program and the election programs with regard to growth impacts by policy areas



Source: LBBW Research (score from 0 = topic gets no mention or measures are even negative to 4 = a central policy supported by plausible measures)

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