

Germany and the EU with Chancellor Merz: Ambition meets Reality

Friedrich Merz's high ambitions on spending and speed have already clashed with harsh realities. Political Scientist **Valentin Kreilinger** (SIEPS) sheds light on the difficult tasks facing the soon-to-be German Chancellor when balancing election promises with responsibilities towards Germany and Europe.

Since the federal election on 23 February 2025, the mode for decision-making in Germany has switched to high speed. On the day after the election, Friedrich Merz, the leader of the Christian Democrats (CDU) and most likely Germany's next Chancellor, mulled over a relaxation of the debt brake that restricts the deficit in the federal budget since 2009. Negotiations with the Social Democrats (SPD) started soon afterwards and led to an agreement on a massive debt package: all defence spending above 1% of GDP would be exempted from the debt brake and a new special fund of €500 billion, also debt-financed, would be created for infrastructure. But the high ambitions of the prospective coalition partners, for which [Friedrich Merz used Mario Draghi's famous phrase "whatever it takes"](#), were immediately confronted with the realities of decision-making and financial markets. So the question is to what extent does the real world with its pressing challenges provide limitations to the objectives and aspirations that were formulated in recent weeks? And is Germany's next government sufficiently aware of its responsibility for Europe?

Constitutional change needs a two-thirds majority

Above all, time was money because the combined strength of the far-right Alternative für Deutschland (AfD) and the Left Party in the newly elected parliament meant that they could soon have

blocked the package that they opposed for different reasons. At the Federal Constitutional Court these two parties and the Free Democrats (FDP) subsequently failed in their attempts to stop the fast-tracked decision-making by the old parliament before the first session of the new Bundestag on 25 March.

Moreover, the prospective coalition partners seemed to have forgotten that the support of the Greens for their package could not be taken for granted. The Greens obtained significant concessions on what the money can be spent on ("additional expenditure"), increased the amount for climate transition to €100 billion and they also managed to add the objective of climate neutrality by 2045 to the Constitution. Just before moving to the opposition benches, the party's influence was as high as never before.

Ready for an unprecedented fiscal stimulus?

Beyond politics, the yields for the benchmark 10-year bonds [rose by 0.31 points, their biggest one-day move since 1997](#), sending borrowing costs higher, not only for Germany but also for its more indebted European partners. Stocks of listed companies in sectors such as defence, construction, infrastructure and banking rose by double-digit percentages within a few days. And economists struggled to predict where the German debt-to-GDP ratio would stand in 2035

or 2040, partly because of varying assumptions about how much growth can be generated by the package.

The package was ultimately ratified by the German Bundestag and the Bundesrat on 18 and 21 March with the two-thirds majorities necessary to amend the Constitution. The country now faces the challenges of funnelling this huge amount of money – about €1000 billion over 12 years – into infrastructure and climate transition projects, tanks, air defence, ammunition, civil protection and much more. Shortages of skilled workers on the labour market, lengthy administrative procedures, and severely limited digitalisation throughout the public administration, do not make this an easy task: Instead of growing the personnel of the armed forces, its number [declined by about 1000 to 180 900 in 2024](#), a voluntary military service following the Swedish model will first require setting up the necessary structure again, and the construction workers needed for tackling the housing problem would have to be redirected to infrastructure.

“Responsibility for Germany” – and also for Europe

In the coalition negotiations, Friedrich Merz – elected on an election programme to bring down irregular migration, to lower taxes and also promised to cut expenditure – became squeezed between his sister party, the Christian Social Union (CSU), and the prospective coalition partner SPD: A minimum wage of €15 per hour, higher pensions for mothers, a higher commuter allowance that reduces the tax bill and a lower VAT rate at restaurants are just a few promises that will respectively increase costs for companies, rise social security expenditure and lead to lower revenues into the federal budget.

Most of the announcements in the [146-page coalition agreement](#) are, however, not set in stone but depend on sufficient resources in the ordinary budget, as the coalition partners have stressed. The document does not contain a programme to further

develop the EU in a powerful way. The Europe chapter of the coalition agreement, which is not very concrete in nature and only located towards the end of the document, does not adequately address the numerous global crises that are a cause for concern.

Friedrich Merz will soon have to further follow up on the pledge by his European political family, the European People's Party (EPP)¹ in its [statement on European defence of 20 March](#):

[...] that developing a credible and less dependent European defence industry requires additional financial tools. Given the existential nature of Europe's defence challenges, this can be achieved, for instance, through joint debt instruments if needed, as long as they are clearly focused on strengthening European defence, particularly in the areas where the threat is currently most acute.

The €150 billion Security action for Europe (SAFE) instrument by fellow Christian Democrat and Commission President Ursula von der Leyen is unlikely to be the last and the only joint debt instrument. During the pandemic, a similar unemployment benefits scheme was followed by Next Generation EU, the €800 billion package, a few weeks later.

If Friedrich Merz wants to embark into this direction in order to deliver a [European Defence Community](#) and [make Europe independent from the United States](#), he will face the daunting task of having to convince fellow EU Heads of State or Government some of whom are reluctant, the German public which views him rather unfavourably,² his own backbenchers, and the Federal Constitutional Court. Good luck with that. The next Chancellor's government bears not only “Responsibility for Germany”, as the title of its coalition agreement puts it, but also a huge responsibility for Europe which is not fully recognised in the Europe chapter of the document.

¹ The EPP is the dominant political force in the EU at the moment: 11 out of 27 Heads of State or Government in the European Council come from its own ranks.

² In April 2025, only 25% of voters view him favourably, according to [ARD Deutschlandtrend](#).