

Germany in Crisis: Coalition Breakup and Economic Challenges Reshape the Future

Chancellor Olaf Scholz's decisive move to dismiss Finance Minister Christian Lindner has ended Germany's coalition government between Scholz's SPD, the Greens, and Lindner's pro-business FDP. Scholz's bold address, announcing Lindner's firing, signaled an intensified crisis for Europe's largest yet recession-stricken economy.

Germany's economic troubles fuel this political upheaval. For years, Germany relied on cheap Russian gas, affordable Chinese imports, strong automotive exports, and U.S. security. But that model faces collapse. Russian energy is off the table, global dynamics are shifting, and Donald Trump's return to the White House threatens new obstacles.

Germany's automotive industry, a pillar of its economy, struggles under these pressures. Inexpensive Chinese EVs now compete fiercely with German stalwarts like Volkswagen, which recently announced layoffs and plant closures due to shrinking profit margins. News of Trump's planned tariffs of 10-20% on EU imports caused a 4-7% drop in shares for major German brands, including Volkswagen, BMW, Mercedes-Benz, and Porsche.

The CDU/CSU currently attracts about 32% support in polls, indicating it may only need one other party to form a government, possibly a coalition with the SPD. However, weaker polling for the SPD, FDP, and Greens, along with growing support for the AfD and BSW, suggests that a snap election could result in a fragmented parliament, leading to prolonged coalition negotiations or a contentious multiparty alliance.

The coalition fracture stemmed from an intense debate over Germany's debt brake rule. SPD and Greens pushed to ease borrowing limits, hoping to bridge a funding gap in the 2025 budget. Lindner's FDP opposed this, triggering the coalition's collapse. Centre-left leaders now seek debt reform, although altering this rule requires a two-thirds parliamentary majority.

Since 2022, Germany's economy has stagnated. Structural challenges in key sectors, rising energy costs, and an aging population weigh on growth. With heavy reliance on exports, Germany faces added risks from U.S. trade policy, especially as it may suffer the sharpest GDP reduction among Europe's economies under Trump's anticipated tariffs.

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