BERLIN—Germany's biggest parties agreed in the wee hours of Wednesday on a deal to forge a coalition government led by Chancellor Angela Merkel, which will do without higher taxes and debt.

After a 17-hour marathon of negotiations, Ms. Merkel's conservative Christian Democratic Union, its Bavarian Christian Social Union sister party and the Social Democrats agreed to introduce a national minimum wage and toughen labor market rules as well as boost spending on pensions, education and infrastructure.

The deal comes after one month of negotiations to form Chancellor Merkel's third government, which will have a two-third majority in the lower house of parliament. The coalition treaty is expected to be presented later Wednesday.

"Our country stays on track, starting with a stable euro over to a solid level of sovereign debt," Hermann Groehe, general secretary of Ms. Merkel's Christian Democratic Union, told reporters.

Prior to the deal, critics said the planned national minimum wage, the option for early retirement at age 63 and making temporary work more difficult will roll back some of the country's most successful labor-market overhauls of recent years which helped turn Germany into Europe's growth engine. Ms. Merkel's previous grand coalition had raised the retirement age to 67.

A go-ahead for the coalition agreement is however still uncertain because the Social Democrats, or SPD, will put the treaty for a binding vote to its over 470,000 party members over the next two weeks.

The grassroots fear a reprise of the 2005-2009 grand coalition, which left the SPD badly bruised in the 2009 elections. At the time, the SPD scored its lowest result since the end of World War II.

Andrea Nahles, general secretary of the Social Democrats, said her party can recommend the coalition deal because it includes a national minimum wage of EUR8.50 from 2015, the option of early retirement, more money for education and the possibility to have dual citizenship.

"This is a package that I believe we can put to our members," Ms. Nahles told reporters. "We jointly recommend them to back it."
The ballot result will be announced on Dec. 14 or Dec. 15 and Ms. Merkel could be confirmed as chancellor in a lower house vote on Dec. 17. If the SPD members reject the deal, Ms. Merkel can either try to win the environmentalist Greens party as her coalition partner or head for snap elections in early 2014.

"A negative vote would probably force its leadership to resign and leave the party in disarray ahead of new elections that could be triggered in that event," said Thomas Harjes, economist with Barclays in a research note. "Therefore, a rejection would be a highly irrational choice but cannot be excluded at this stage."

During their negotiations, the two sides overcame deep divisions in key areas and agreed to introduce a national minimum wage of EUR8.50 euros ($11.72) an hour, although with exceptions.

Germany's Bundesbank central bank, many employers and also Ms. Merkel have warned that a minimum wage puts jobs particularly in poorer eastern Germany at risk, but the chancellor gave in because the SPD had made it a non-negotiable issue during the talks.

The parties also pledged continuity on European policy and agreed that banks can only directly recapitalize from funds of the European bailout-fund, the European Stability Mechanism, once the bail-in of creditors and of governments fail to rescue banks on their own, according to Martin Schulz, president of the European parliament and a negotiators for the SPD.

As part of Germany's energy transformation, the parties agreed to cut subsidies for renewable energies as costs related to the switch from fossil and nuclear fuels to "green" energy are threatening to get out of control. Subsidies for onshore wind farms will fall, while expansion plans for offshore wind will be scaled back.

In a bid to raise extra money for infrastructure project, the parties plan to pass a legislation in 2014 to introduce a highway toll for foreign-registered cars, which has been a key request from the Bavarian CSU and which Ms. Merkel had ruled out during the election campaign.

The parties also agreed that the next government will force German companies listed on the stock exchange to have at least 30% of its supervisory board members to be female from 2016.

The state-pension income of mothers with children born before 1992 will be raised as of July next year, Mr. Groehe said.

During the negotiations, the parties had already agreed plans to cut national debt and toughen regulation of financial markets, such as curbing speculation and boosting market resilience. The coalition supports the introduction of a financial transaction tax in Europe covering stocks, bonds, currency trading and derivatives transactions.

In one of the most controversial issues, the parties decided Wednesday to introduce dual citizenships to children of non-EU residents who were born and raised in Germany. Many young people, in particularly thousands of Turkish heritage, are currently forced to give up their Turkish nationality if they want to receive German citizenship. Ms. Merkel's conservative parties had great reservations about it.

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