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and Technology



Overall Economic Policy

Annual Economic Report 2007

Utilising the Upswing for Reforms

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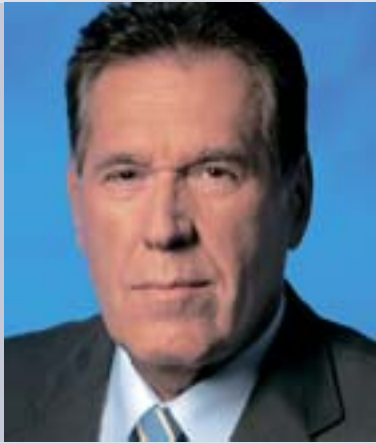
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Preface



We have returned to a clear and robust course of growth, thanks to the efforts of many: by holding back on demands at the collective bargaining table, representatives of workers and employers have made the economy stronger; companies have consolidated their balance sheets and are again investing vigorously; and not least of all the federal government, with its economic policy strategy, has opened up new prospects for investors and consumers. We now have to make good use of the upswing's dynamic. For global and demographic challenges continue to face us. We thus cannot afford to slacken our reform efforts but must make sure that in the long term we are again moving along a higher path of growth and reducing unemployment on a sustainable basis.

We have consciously given this year's Annual Economic Report the title "Utilising the Upswing for Reforms." I invite all of society's groupings to support us in carrying out this task in the interest of our country, even though the road to finding political solutions might be long and full of compromises. The visible successes that have been achieved show that it is worthwhile embarking on such a path. The title, by the way, also applies to the format of the 2007 Annual Economic Report, which we are presenting this year in a new structure and with a significantly shorter text, hopefully making it considerably more readable.

My wish is that, at the end of the year, all of us will be able to say that our work has once again been successful – in the interest of the economy and in the interest of people.

A handwritten signature in black ink, appearing to read "Michael Glos". The signature is fluid and cursive, with a large initial "M" and "G".

Michael Glos

Federal Minister of Economics and Technology

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The Federal Government's Annual Economic Report 2007

The Federal Government herewith presents to the German Parliament and the Upper House (Bundesrat) the Annual Economic Report 2007, in accordance with § 2 of the Act to Promote the Stability and Growth of the Economy.

The form and content of the Report have been restructured. The account of the economic and fiscal policy pursued by the Federal Government (Part I) and the comments by the Federal Government on the Annual Report 2006/2007 by the German Council of Economic Experts, which are integrated in this section, have been focussed on a few but major economic policy themes; in the interests of readability the former full consideration of all the individual issues has been discontinued. A detailed "balance sheet" of the measures by the Federal Government since the start of the current legislative period and the measures planned for 2007 and beyond are given in this Report for the first time as an annex in tabular form. As usual, and in accordance with the Stability and

Growth Act, the Federal Government's projection for the macroeconomic development during the current year is given in Part II.

The Federal Government thanks the Council of Economic Experts for their detailed and comprehensive analysis of the economic development in the past year, the outlook for 2007 and their expert analysis of the basic lines of economic policy. With the Annual Economic Report the Federal Government presents macroeconomic orientation data for 2007 in accordance with § 3 of the Stability and Growth Act.

In the preparation of the Annual Economic Report the growth and employment policy strategy of the Federal Government was discussed with the Governments of the Federal States and the Municipalities in the Economic Council for the Public Sector. It was also discussed with representatives of the trade unions and the Joint Committee of the German Manufacturing Industry.

Annual Economic Report 2007: Utilising the Upswing for Reforms

Summary

2006 was an excellent year for Germany. Our economy has been on a powerful upswing since the start of last year and, alongside the stimulus from foreign trade, domestic demand is now making increasingly positive contributions to growth. The economy now stands on two strong pillars, making it more robust in facing challenges from the world economy. According to estimates by international organisations the growth in the world economy will actually be slightly lower this year than last, but it will remain high. World trade will also remain dynamic, and this should continue to benefit the German export industry. The high competitiveness of German firms should bring gains in markets shares of world trade.

The good business conditions Germany offers are increasingly bearing fruit. This is evident in a clear improvement in the competitiveness of German firms. Companies are investing briskly and creating new jobs. There are good signs that the upswing will continue this year as well.

The gross domestic product (GDP) will grow by around 1¼ %, or 1.7 % arithmetically, on average for the year, after 2.5 % last year. The number of people unemployed is expected to fall by around 480,000 from last year's average. Employment will continue to grow, rising by 300,000 on average for the year. Private households' disposable income will rise, due

to the employment effect as well as the expected increases in earnings, and this will create an essential condition for growth in private consumption. The Federal Government's Growth and Stimulus Programme decided in the Cabinet Conference in Genshagen last year will help the upswing to continue this year as well. The growth forecast by the Council of Economic Experts largely corresponds to the Federal Government's annual projection, with some deviations in the details.

However, it would be a mistake, in the view of the Federal Government, to conclude from this welcome development that the upswing alone could solve all the economic problems that still exist. That is why this year's Annual Economic Report bears the title "Utilising the Upswing for Reforms". Further structural reforms are essential, in view of the rapid rate of economic change and the many challenges which Germany faces. The Federal Government sees the high growth rate last year as confirmation of the economic strategy decided a year ago at the Cabinet Conference in Genshagen and entitled "Invest – Restructure - Reform". The strategy combined targeted stimuli to strengthen the emerging upswing with at the same time improvement of the long-term bases for growth and continuance of budget consolidation. The Federal Government will keep to its reform course in economic policy.

Table 1: Key Data on the Macroeconomic Development in Germany¹

| | 2005 | 2006 | Annual projection 2007 |
|---|--------------------------|------|------------------------|
| | Year-on-year change in % | | |
| GDP (price adjusted) | 0.9 | 2.5 | 1.7 |
| Persons employed (in Germany) | -0.1 | 0.7 | 0.8 |
| <i>Unemployment rate in % (as defined by the Federal Labour Agency)²</i> | 11.7 | 10.8 | 9.6 |
| Use of GDP, price adjusted | | | |
| Private households and private non-profit organisations | 0.1 | 0.6 | 0.3 |
| Investment in equipment | 6.1 | 7.3 | 5.0 |
| Investment in construction | -3.6 | 3.6 | 1.6 |
| Domestic demand | 0.5 | 1.8 | 0.9 |
| Exports | 6.9 | 12.4 | 7.9 |
| Imports | 6.5 | 12.1 | 6.8 |
| <i>Foreign trade and payments contribution to GDP growth rate³</i> | 0.4 | 0.7 | 0.8 |
| Gross wages and salaries per person employed | 0.3 | 0.7 | 1.2 |

¹ Up to 2006 preliminary figures from the Federal Statistical Office, 11 January 2007.

² In relation to all persons in employment.

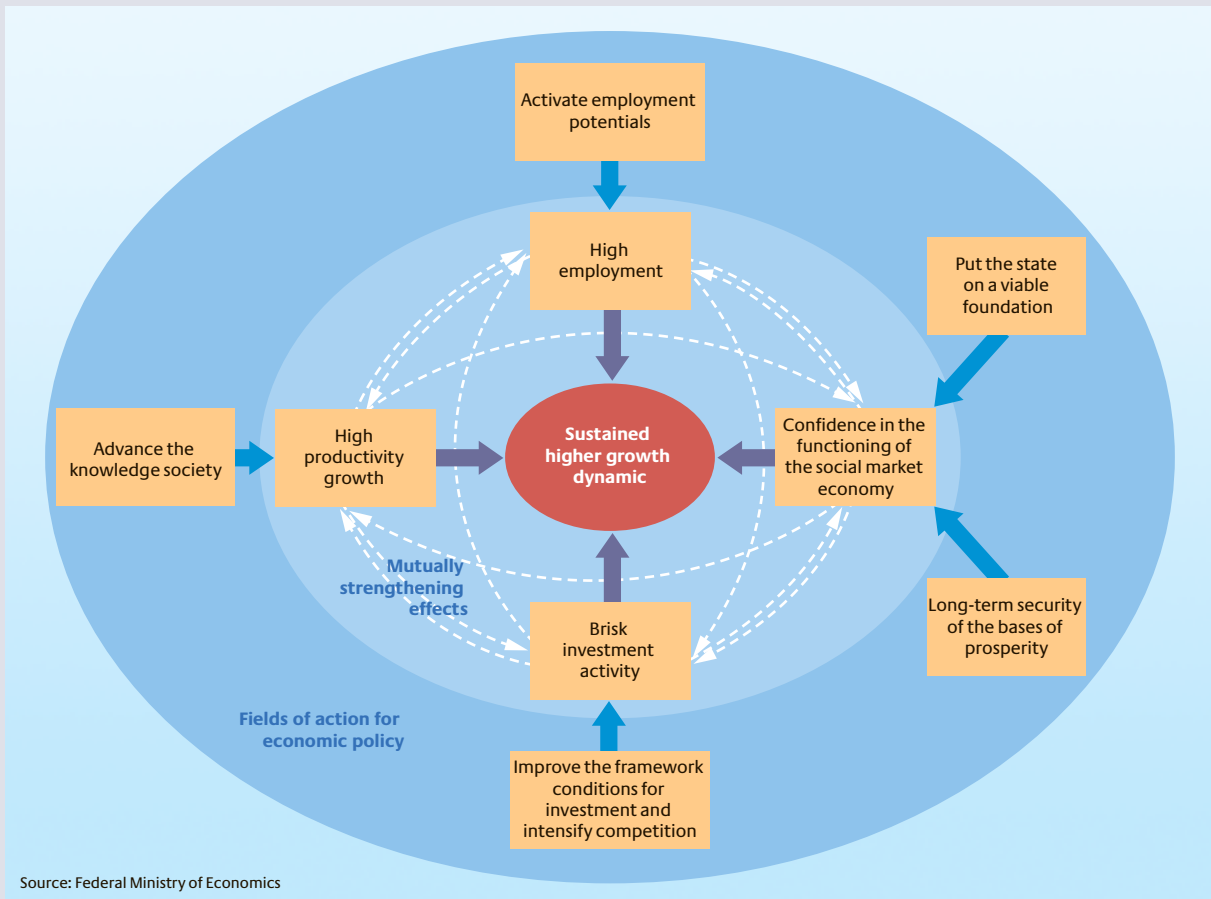
³ Contribution to GDP growth rate.

The need this year is to firm the upswing that has started, continue the consolidation of the budgets and release further internal forces of growth in the economy. In an economic upswing the prospects for further success with this strategy are particularly good. Structural reforms have a more rapid effect in a favourable macroeconomic climate, and above all it is easier to cope with them then. Against the background of the demographic change in society, the increasing worldwide competition, the possible shortage of many conventional raw materials and energy sources, and the growing need to produce in an environmentally-friendly way, there is no alternative to this approach. The Federal Government will therefore work nationally and on all international levels, especially during its EU and G8 presidencies, to ensure that the conditions for a policy to promote growth and employment are further improved. This year it will work for this in the following, mutually strengthening fields of action (see Diagram 1).

► **Sustained Consolidation of Public Finances (for more detail see Chapter I.A)**

Putting the state on a viable foundation through quantitative and qualitative consolidation is one of the central aims of the Federal Government. The public deficit of around 2 % of GDP last year was already clearly below the Maastricht threshold of 3 %. The general limit in Art. 115 of the Grundgesetz (Basic Law) is being observed and the level of borrowing reduced. In the 2007 Federal budget the Federal Government will consolidate mainly on the expenditure side and through tax subsidies. Experience in other countries shows that this is most likely to achieve success. Cutbacks, especially those that do not affect growth, chiefly in subsidies and tax concessions, have put the highly indebted state budget back on a sustained structural basis, and will continue to do so. Along with the necessary increase in the standard rate of value added tax, there will thus be a guarantee that sound public finances and investment-

Diagram 1: The Federal Government's Economic Reform Strategy



Source: Federal Ministry of Economics

friendly conditions will interact in a time-coordinated and mutually reinforcing manner.

With the second stage of federalism reform the Federal Government intends to adjust fiscal relations between the central and Länder governments to the changes in the economy policy framework conditions, and increase the autonomy of the territorial authorities with a view to the aim of achieving sustainable budgets. In addition, the bases are to be created for more efficient execution of tasks in the administration. In order to be able to prevent budget crises more effectively the Federal Government has commissioned the Council of Economic Experts to present a study on an “early warning system” by March this year. The results are to form part of the coming consultations.

► **Strengthening Competition and Investment Dynamic (for more detail see Chapter I.B)**

Transparent and investment-friendly conditions make it easier to calculate the opportunities and risks of long-term investment decisions, and they also make Germany more attractive for domestic and foreign investors. The Federal Government will therefore i. a. reduce the administrative burden on companies and strengthen investment incentives by clearly lowering the rates of corporate taxation and facilitating corporate succession through inheritance tax reform. It will lay down binding targets for reducing the weight of administrative burden this year on the basis of the standard costs model introduced in 2006. The European Commission has proposed reducing companies’ administration expenditure by 25 % throughout Europe by 2012. To implement this target it has announced a plan of action for January 2007. The Federal Government will make reducing administrative burden a major theme of the German Presidency of the European Council.

In addition, it will work nationally and during its EU and G8 presidencies to open markets and improve the conditions for more equal opportunities in competition. Nationally and on the European scale the concern is especially to increase the efficiency of markets based on networks, like energy and telecommunications, in order to lower costs and prices for busi-

nesses and consumers. The Federal Government is therefore preparing a package of measures for the energy sector, for example, with the aim of achieving better structural conditions for more competition on the supply side of the markets in the long term. In the short term this is to be flanked by strengthening supervision to prevent abuse of pricing.

The Federal Government will also further improve the framework conditions on the financial markets, especially for the small and midsize sector, for example by strengthening the system of guarantee banks and by standardising loans to the sector by the KfW Banking Group. It will also encourage new businesses and increase innovative ability. The Federal Government combined all the main measures for the SME sector into an SME Initiative last year. This will be continued this year and developed further. Not least, it will continue to support companies in their foreign trade activities, develop the instruments of foreign trade promotion and financing further, and restructure the advertising for Germany as a business location.

► **Advancing the Knowledge Society (for more detail see Chapter I.C)**

Technological efficiency is one of Germany’s great advantages as a business location. For years it has been among the leaders on the world ranking list of patents with world market relevance. Particularly in a high-tech country like Germany research and development are the keys to long-term progress on a higher growth path. However, German companies will only be able to maintain their high international competitiveness in the long term if they continually invest in research and development, advance new technologies and rapidly transform innovations into marketable products. This is primarily a task for industry.

The Federal Government supports the efforts by companies and by the year 2009 it will invest an additional € 6 billion in research, technology and innovation. If the federal states and companies increase their R&D expenditure in accordance with this the target of the EU Lisbon Strategy, to invest 3 % of GDP in research and development by 2010, will be

achieved. For this purpose the Federal Government has combined its innovation policy in a “High-Tech Strategy”. A central concern is to network science and industry in order to build bridges from research into markets. Improvements to framework conditions will be combined with promoting research and development. In particular, the Federal Government has increased the financing of the SME-oriented technology-neutral support programmes, that can be used for any field of technology, overproportionally by about 10 % a year from 2006 to 2009. In the specifically technology-oriented promotion of “lighthouse projects” (e. g. in air traffic, transport and energy research) small and midsize firms will receive more promotion than hitherto.

In the knowledge society the efficient protection of companies’ intellectual capital in the form of patents, trademarks, copyrights and so on is a necessary basis for success in business. The Federal Government will therefore continue to combat infringements of intellectual property rights. The main emphasis will be on cooperation in partnership with the source or transit countries for pirated goods, e. g. by cooperating with customs or patent authorities and political dialogue. The private sector is to be involved in these activities as closely as possible. The Federal Government will also utilise the opportunity to start a dialogue between the G8 and the major countries with emerging economies on subjects like the protection of intellectual property rights and reliable framework conditions for worldwide investment. The aim is to reach new agreements.

Expanding the knowledge society requires also and above all participation by broad sections of the general public. The aim is as high a level of education as possible. In a constantly changing working world with an ageing working population learning will in future be a task accompanying people for all their lives. Especially the need for university graduates on the German labour market will grow further in future. The Federal States are responsible for education policy. The Federal Government supports their activities, particularly in the university sector. Hence, the central and state governments have agreed a uni-

versity pact, that will secure training and educational opportunities for the next academic generation and ensure efficient research performance. The Federal Government alone will provide up to € 1.3 billion for this by 2010.

► **Securing the Bases of Prosperity in the Long Term (for more details see Chapter I.D)**

In order to secure the bases of prosperity in the long term it is important to coordinate high growth to promote employment with the protection of the environment, sustainable treatment of resources and social security. That is the core of the Federal Government’s sustainability strategy. The main aspects of this strategy are supplies of energy and raw materials that are secure, at favourable cost and environmentally friendly, and a social policy that will be viable in future, and will guarantee social security and justice between the generations. The Federal Government has taken important steps to achieve this. The health reform, for example, will come into force in stages from 1 April 2007. It will make the statutory health insurance system more efficient by increasing transparency and intensifying competition while reducing administrative costs. To ensure that persons needing care receive the necessary services of an adequate and appropriate standard in future as well at a price they can afford, the Federal Government will tackle reform of care insurance as its next project.

The signals were set to stabilise the financial position of the statutory pensions insurance system with the reforms carried out in recent years. At the same time comprehensive state promotion of private and occupational supplementary pension plans was created. The guideline for all further decisions in this legislative period is the targets for securing the contribution rate and the level of pensions laid down in law. That means on the one side that the contribution rate may not exceed 20 % by 2020 and 22 % by 2030. On the other side it means that the level of pensions (level of security before tax) may not be less than 46 % by 2020 and 43 % by 2030. In combination with an overall strategy to improve the employment situation for older people the Federal Government will

raise the statutory retirement age in stages between 2012 and 2029 to 67.

A family-friendly policy is also necessary to cope with the demographic challenge. A good infrastructure of full-day schools and child care facilities is an important measure, not only to assist the combination of a family and a career but also to ensure that all children receive promotional care as early as possible, starting in kindergarten. To support families financially the Federal Government extended the scope for offsetting child care costs against income tax last year, and at the start of this year a new parents allowance was also introduced.

Germany's energy policy ensures a high degree of security in supply, competitiveness and climate compatibility. In view of the worldwide rising demand for raw materials the Federal Government is relying on a balanced and diverse energy mix, which also includes hard coal and a growing share of renewable energies; it is also relying on further improving energy efficiency. The Federal Government will present an overall energy policy concept in the second half of 2007, with an outlook to 2020. It will integrate security of supply, acceptable energy costs and effective climate protection. The Federal Government is in dialogue with German industry on raw materials supplies. A national raw materials summit in the first half of 2007 is to identify and coordinate possible measures by industry to be flanked by policy. Finally energy and raw materials policy are also to be central elements in the German presidencies of the EU and the G8.

► **Activating Employment Potentials (for more detail see chapter I.E)**

The Federal Government will continue on the path of labour market reforms already started, in order to make more employment and more growth possible and so achieve a sustained reduction in unemployment. It has set itself the aim of bringing the social insurance contribution rate, of which employers and employees each pay half, down permanently below 40 % and so reducing a major obstacle to the creation

of jobs on which social insurance is payable. That aim can be achieved this year, because the contribution rate to unemployment insurance was reduced from 6.5 % to 4.2 %. This is financed with one value added tax point from the increase in value added tax from 16 % to 19 % at the beginning of this year and by gains in efficiency and increases in the effectiveness of the work of the Federal Labour Agency. That the Federal Labour Agency is in a position to make that contribution shows yet again that the reforms to reorient the labour administration are beginning to work. Despite the increase in the statutory pensions contribution rate from 19.5 % to 19.9 % and in the statutory health insurance rate by 0.6 percentage points the net reduction in rates is 1.3 percentage points. As a result the total contribution rate paid by employers and employees can be 39.7 % in 2007, which is below 40 %.

Reforms on the labour market itself are crucial to increase employment. A flexible labour market strengthens dynamic and opens up prospects of employment for the long-term unemployed. The Federal Government will examine how the effectiveness and efficiency of labour market policy can be further improved and the employment chances of problem groups increased. It will utilise every chance to make it easier for the unemployed to return to working life through flexible regulations.

In a strategy to reduce unemployment the low wage sector is of especial importance. A working group set up by the Federal Government is currently developing concepts especially to bring the low skilled back into jobs. Other important subjects are minimum wages and combi-wages, the third labour market and the possibility of employment for a few hours a week in the form of mini and midi jobs.

A macroeconomic wage policy that is responsible and will promote employment remains essential for further successes in economic and employment policy. The Federal Government expressly urges employers and unions to extend further the course now embarked upon of securing employment through agreements concluded at company level. Successful companies should be able to pay individual employees higher wages where they have the scope.

Profit sharing is a possibility here as a flexible supplement to wage agreements. To enable flexible agreements to be made for specific situations in a firm, however, more consideration should be given to the greater use of models that allow employees to participate in the company's success through equity investment.

I. Key Elements in Economic Policy in 2007

1. Cyclical dynamic continues in 2007

The German economy is back on a clear growth course and the domestic price climate is favourable. It is particularly welcome that the impetus to growth is coming increasingly from the domestic side.

Companies are investing vigorously, unemployment is falling and for the first time for years considerable numbers of jobs on which social insurance must be paid - and so in principle long-term jobs – are being created.

The Federal Government's policy has contributed to this. With far-reaching and indepth reforms it has given investors and consumers courage and confidence in the future, so releasing economic forces. The gross domestic product (GDP), for example, grew last year at 2.5 % in real terms, clearly more strongly than most national and international experts and institutes still regarded as possible at the start of 2006. For this year the Council of Economic Experts is expecting real growth of 1.8 % (JG Item 137), so they take a more optimistic view than the Federal Government, whose projection is based on growth of around 1¼ %, arithmetically 1.7 %. Like the Council of Economic Experts the Federal Government is expecting a further reduction in unemployment and an increase in employment (JG Items 3 and 87ff.). All in all: the motor in the economy is running well and it will not falter this year either (for more detail see Chapter II).

2. Continuing the reforms

However, it would be wrong to conclude from this welcome economic development that the upswing alone will solve all our problems. The Council of Economic Experts also warns against making this mistake (JG Items 18ff.).

In the past reforms were often only started when the neglect of earlier periods became evident in serious economic crises. Crisis-oriented reform policy has the disadvantage that additional burdens have to be placed on people when the unfavourable economic situation is in any case creating real problems and every individual is worried about the future.

The Federal Government is determined to utilise the good economic data and the optimism generated

by the employment prospects to continue its reform course. Even when competitiveness is increasing earning must precede distribution. Germany's competitiveness by international comparison must be increased and the dynamic of the domestic market strengthened to increase the chances of work and prosperity for each and every individual. The Federal Government will therefore

- ▶ Fight for business locations in Germany by constantly improving the production and employment conditions here
- ▶ Strengthen the innovative ability of German firms and expand Germany's position as a high-tech location
- ▶ Accelerate integration in the labour market through challenge and support
- ▶ Check all its measures for their economic, financial and social effects
- ▶ Improve environmental and living conditions, taking into account the national and international economic situation
- ▶ Improve the conditions for the future stability of the social security systems, and
- ▶ Work in the global environment to open markets and for fair competition in the interests of companies and consumers, as these are necessary if prosperity is to increase in the longer term in every trading region

All this requires the various areas of policy to bear joint responsibility for more jobs in Germany. This applies from economic policy through fiscal and tax, social and labour market, research and technology policy to policy on energy, the environment and consumers. Priority for more jobs, of as high a quality as possible – that is the centrepiece of the Federal Government's policy.

3. Economic policy strategy

The current development confirms that the economic policy strategy decided in the Cabinet Conference in Genshagen when this Government took office, a policy under the heading “Invest - Restructure - Reform”, is proving successful. Three challenges had to be tackled simultaneously with a unified, financially sustainable overall concept that would render these areas mutually strengthening. Firstly, in the extremely fragile economic situation which still persisted at the start of last year the readiness to invest, the forces of growth and confidence in the future all needed to be directly strengthened and encouraged, and the Federal Government’s stimulus programme set a rapid and immediately effective signal here. Together with the Federal States a total of € 38 billion will be used between 2006 and 2009 to stimulate urgently needed investment and improve the bases for growth for the private sector on a broad front (see Annual Economic Report 2006, Box 3). At the same time a far-reaching and indepth consolidation programme was started for the public budget, concentrated mainly from 2007. With cutbacks that will not affect growth, and will be mainly in subsidies and tax concessions, the highly indebted public budget was and is being put back on to a structurally sustainable basis. Together with the necessary increase in value added tax this will ensure that sound public finances and framework conditions favourable to investment are coordinated in time and interact to strengthen each other. Maintaining the course of structural reforms is the third element in the overall strategy decided in Genshagen. It is not intended to secure the functioning of the highly developed German social security and labour market systems in the long term alone. More cost efficiency, greater adaptability and incentive structures to strengthen individual responsibility are essential to enable greater and sustained dynamic in growth and employment to be created with sound public finances and lower subsidiary wage costs.

Important stages on this path are raising the statutory retirement age to 67, the first part of federalism reform and developing a high-tech strategy. Further important stages to come this year are the reform of corporate and inheritance tax, health system reform, reorganisation of the low wage sector

and the urgently needed reform of fiscal relations between the Federal Government and the Federal States (Federalism Reform II); the future of care insurance also needs to be secured. Altogether this is one of the most ambitious reform agendas ever tackled in Germany. It is also receiving growing attention abroad. Germany is back among the favoured locations for international investors.

Moreover, the measures on the economic policy reform agenda are transparent and foreseeable, as their sequence and the deadlines for implementation have been announced. This makes political measures more calculable and credible for investors and consumers. It was, for example, intended right from the start to allow the improvements in depreciation allowances for companies only until the corporation tax reform comes into force in 2008 (see Chapter B and Table Serial Nos. 54-55). It was also planned right from the start not to increase value added and insurance tax in 2006 but to wait until 2007, in order not to jeopardise the upswing that was starting.

In the meantime it is evident, not only from the unexpected and welcome high growth rate last year, but also from the development in the public budget, that combining deliberate stimulus to strengthen the upswing while at the same time improving the long term bases for growth and continuing the budget consolidation was the right course. In 2005, for example, the overall public budget deficit was above the 3 % threshold in the Maastricht Treaty for the fourth time in succession. But last year it was possible to bring the deficit down clearly below that threshold. The structural budget situation, according to the Council of Economic Experts, has improved again over previous years (JG Item 380). The funds from the increase in value added and insurance tax will be used by the Federal Government to reduce annual new borrowing further. Part of these funds will also be used to bring down the contribution rate to unemployment insurance.

The growth in the economy is robust enough to overcome the hurdle of higher value added tax. The Federal Government shares the view of the Council of Economic Experts that a sudden break in the upswing

is not to be expected this year, on the contrary, the conditions are right for continuance, if at a slightly lower rate (JG Item 12). The successful restructuring of companies and the moderate wage trend in past years are now paying dividends. The reforms on the labour market introduced since 2003 are also beginning to work. Altogether the dynamic economy, the reduction in new public borrowing and the Federal Government's consistent reform policy will further strengthen the confidence of investors and consumers, encourage their economic activity and help to sustain the dynamic growth on a higher level.

The Federal Government is building here on Germany's strengths as a business location: its nationally efficient and internationally extraordinarily competitive companies - Germany was world champion in exports in 2006 as well -, its well trained workers, the high level of social peace, and an infrastructure that is modern and efficient by international comparison. These potentials needed and still need to be consistently utilised and expanded.

Against this background the Federal Government rejects the criticism by the Council of Economic Experts that economic policy is not following a recognisable concept (JG Item 19). The direction and objective are clear in all the Federal Government's economic policy measures: the conditions for sustained economic growth and more employment, for stable and sustainable social security systems, for sound public finances and for a cleaner environment are being improved (see Diagram 1).

4. Accepting challenges

Further structural reforms are essential in view of the rapid economic change and the many challenges Germany is facing. Since the early 1990s the pressure to adjust on companies and employees in Germany has increased enormously. Immense efforts were needed initially to cope with the structural adjustments required by German reunification, which were without parallel throughout history.

A large part of this has now been successfully completed. However, in 2007 as well the living and economic conditions in the old and new Federal States are still very different for the most part. Un-

employment is still clearly higher in eastern Germany, where labour productivity is also still clearly lower than in the old Federal States. The Federal Government will therefore continue to make great efforts in the next few years as well to make the new Federal States more attractive for businesses.

Beyond this, Germany has to face international challenges. It lies in the middle of a unified Europe of 27 member states. The framework conditions for economic activity are increasingly being fixed on EU level. They now form the basis for the biggest internal market - measured by economic output - and one of the most important economic areas in the world (see Diagram 2). This offers immense opportunities to all. Companies can open up new scope for investment and expansion, employees have better chances of employment, and consumers are profiting from a wider range of goods and services at lower prices.

The single European currency is bringing further advantages. Foreign exchange and exchange rate hedging costs are no longer incurred on transactions within the Eurozone. The European Central Bank (ECB) ensures a high degree of price stability for the entire Eurozone. The resultant favourable and stable financing conditions in the banking sector and on the financial markets are making an essential contribution to dynamic growth. But competition is becoming more intense on the single internal market and this is also demanding greater adaptability from companies and employees. If positions are to be maintained successfully permanent efforts will be needed to sustain and increase competitiveness on every market.

That applies even more to the ever denser network of relations between the German economy and the rest of the world. China, India and other emerging economies are successfully penetrating international markets. They are increasingly offering higher quality goods at attractive prices, and they have developed into major participants in the world economy and in international trade and capital transactions. International competition has become more intense and fierce. But at the same time it opens up big opportunities, particularly for a country like

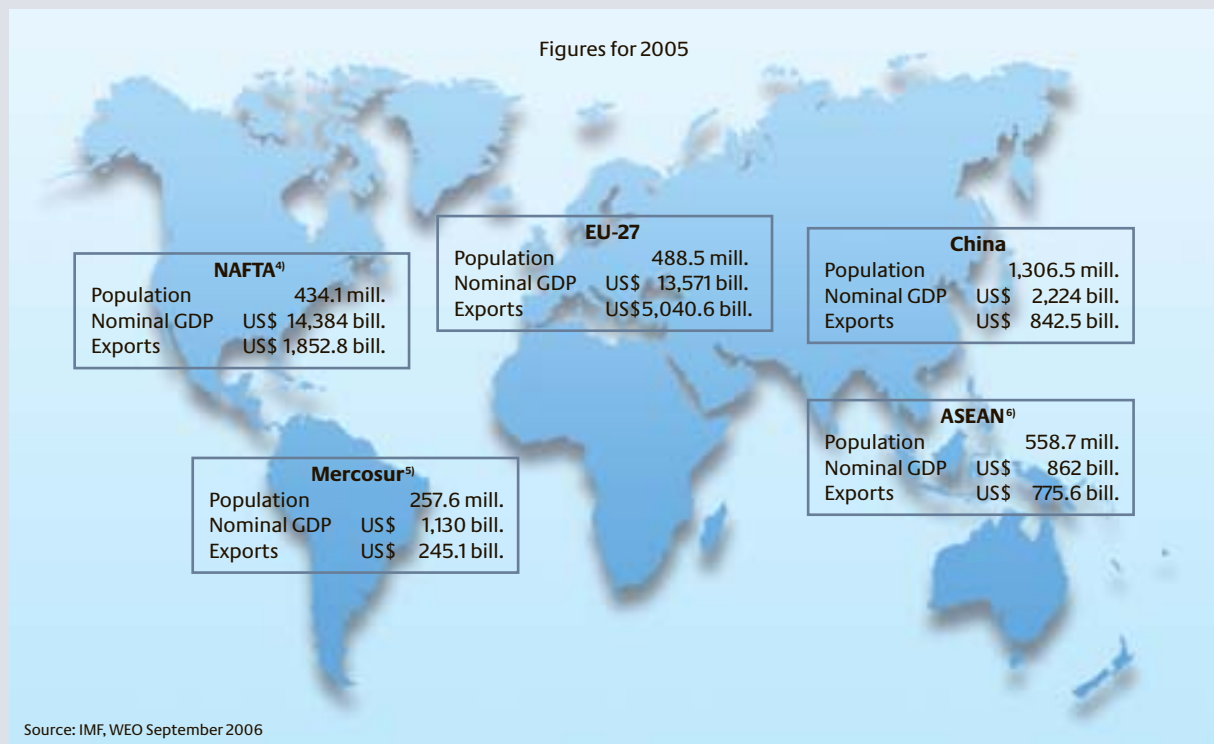
Germany which is strong in exports. To enable all countries to profit from the growing world trade efficient rules of the game and powerful institutions are needed on international level. During its presidencies of the EU and the G8 this year the Federal Government will therefore work to improve the conditions for fair international competition further and strengthen the EU as an economic area.

The greater integration in the world economy is accelerating the structural change to the knowledge and services society. Product cycles are shortening, and modern technology is becoming available globally at an ever faster rate through “information super highways”. This is lowering information and transaction costs, and technological progress through modern information and communications systems is opening sheer unlimited possibilities for companies and consumers. But it is also making many once highly prized activities and products superfluous and requiring enormous efforts from those who have to reorient. Owing to the many opportunities which the

development to a modern knowledge and services society offers the Federal Government will on the one side actively support this change and on the other offer help where it is needed.

Finally, Germany, like many other industrial countries is facing particular challenges from demographic development. For decades the birth rate has been below the threshold needed to keep the number of inhabitants constant. At the same time life expectancy is, happily, rising ever further. This has been increasing the share of older people in the population for a long time and this trend will continue. The development will start to cause problems from the middle of the next decade, for then the share of persons of working age will fall, as will the total number of inhabitants. Against that background growth and prosperity in Germany can only be secured with extensive reforms in a large number of areas to create the best possible framework conditions for more employment and permit a high growth level in productivity to be maintained.

Diagram 2: World Map Showing the Largest Economic Areas



⁴⁾ USA, Canada and Mexico

⁵⁾ Argentina, Brazil, Paraguay, Uruguay, Venezuela

⁶⁾ Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam

5. Remove weaknesses in growth

In the past reaction in Germany to these urgent challenges has often not come with the necessary speed and determination. Opportunities seized by other countries with success have remained in part unutilised here. Indeed, with every cyclical downswing unemployment has become more fixed and the number of long-term unemployed has risen. Corporate investment declined (see Diagram 3), and state indebtedness grew. The German economy lost flexibility and so resilience. This is partly the reason why it has been a good four years before the powerful stimulus from foreign trade ignited the domestic economy as well.

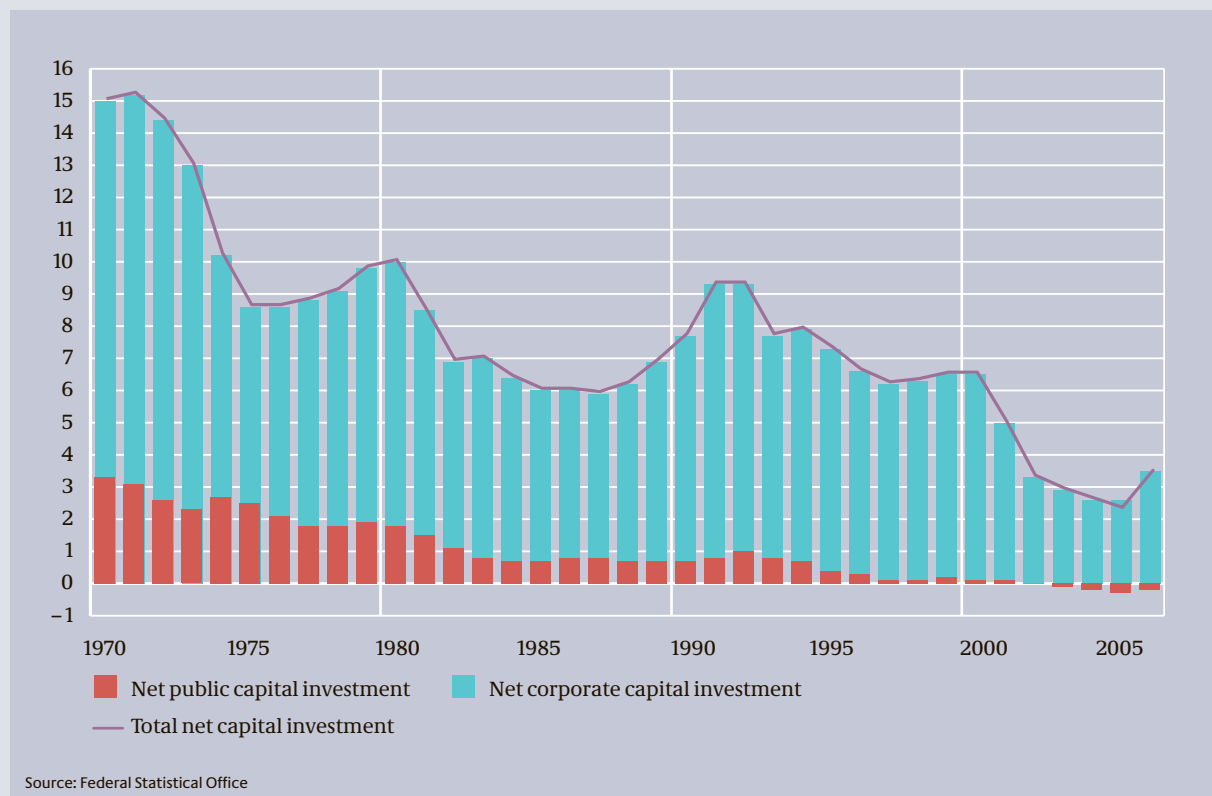
As a result the growth in per capita income in Germany has been low by international comparison since 1991. Purely arithmetically every individual could be earning nearly 20 % more in 2007 if the dynamic in the German growth rate had been as high as it was in other advanced industrial countries (see Diagram 4). That comparison reveals in a very im-

pressive way not only the economic but above all the social importance of sustained dynamic in growth. The Federal Government will therefore make every effort to ensure that Germany can cope with the present and future challenges more successfully than in recent years.

6. Steadying the Upswing

The concern this year is to steady the upswing that has started, continue the consolidation of the public budgets and release more forces of domestic growth. Companies and employees need incentives and scope to expand the production and sales potentials in the economy. Now that the dynamic inherent in the upswing is gathering strength the prospects are particularly good for further success with this strategy. In a favourable macroeconomic environment structural reforms take effect more rapidly. Against the background of demographic change in society, the possible shortage of many conventional raw materials and energy forms, and the growing need to produce in an environmentally-friendly way there is no alternative

Diagram 3: Net Capital Investment in Relation to GDP for Germany since 1970⁷ in Percent



⁷ Up to 1990 West Germany, from 1991 all Germany

to this approach. The policy areas named below will be the main focus.

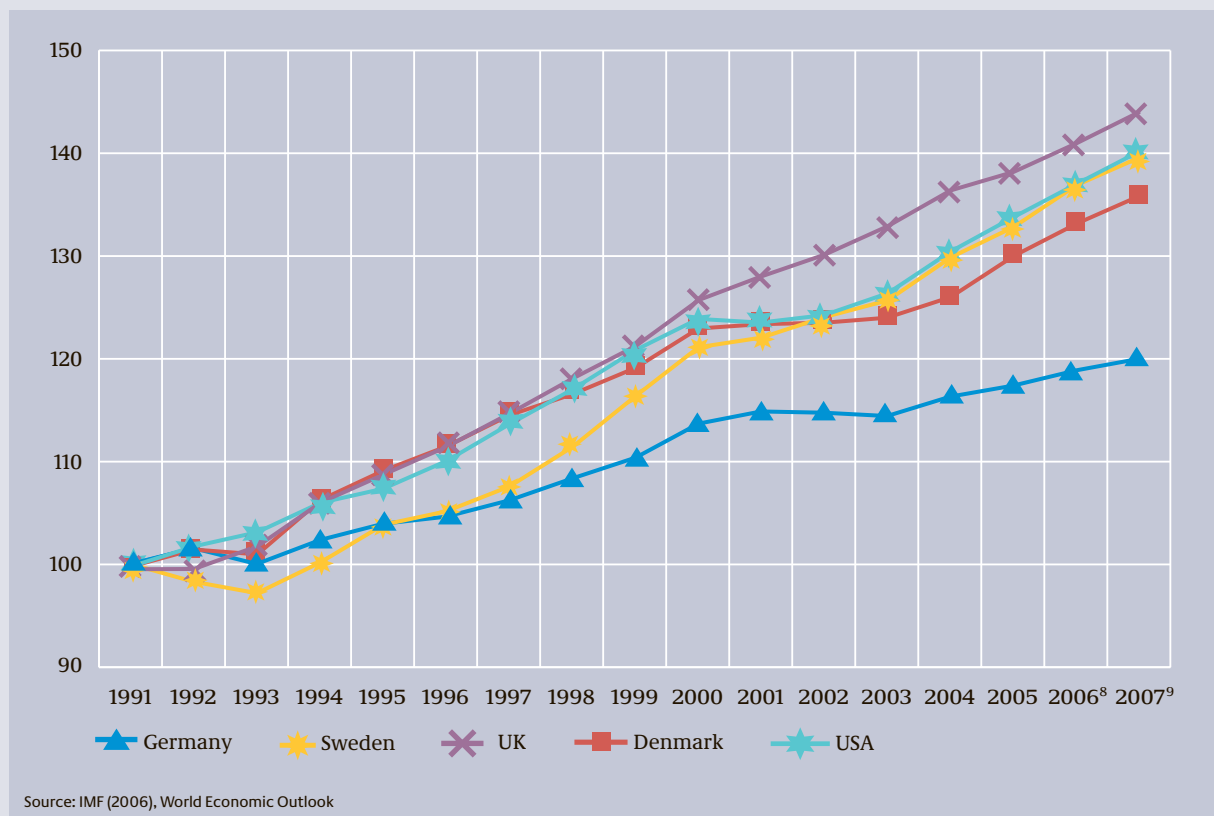
7. Sustained consolidation of public finances

Altogether the Federal Government will direct its fiscal and economic policy to put the state successfully back on to a sound and viable foundation (for more detail see Chapter A). It will concentrate funds even more on necessary expenditure, which must be financed in a way that is sustainable and as neutral as possible in its effect on growth. Any potentials for savings in administrative burden must be utilised. Owing to the difficult public budget situation and the pressure on expenditure due to the ageing of the population careful apportionment of public funds remains essential. The Federal Government will therefore continue to lay great stress on providing public services as cost-efficiently as possible.

8. More competition

Companies are all the more willing to invest and venture to develop new technologies the greater their chances of profits and the lower their costs and charges. It is therefore above all important for companies to have easy access to national and international sales markets, pre-products and funds. Nor must they be overburdened with taxation and administrative burden. These competition conditions provide favourable stimulus to more rapid innovation processes. The dynamic in productivity and growth which is thereby released will in turn open up new opportunities for employment. Creating framework conditions that are favourable to investment and innovation and ensuring functioning competition is thus the second key task for an economic policy oriented to growth and employment (for more detail see Chapter B).

Diagram 4: The Development in Per Capita Income in National Currency and by International Comparison



^{8,9} The 2006 and 2007 figures are forecasts

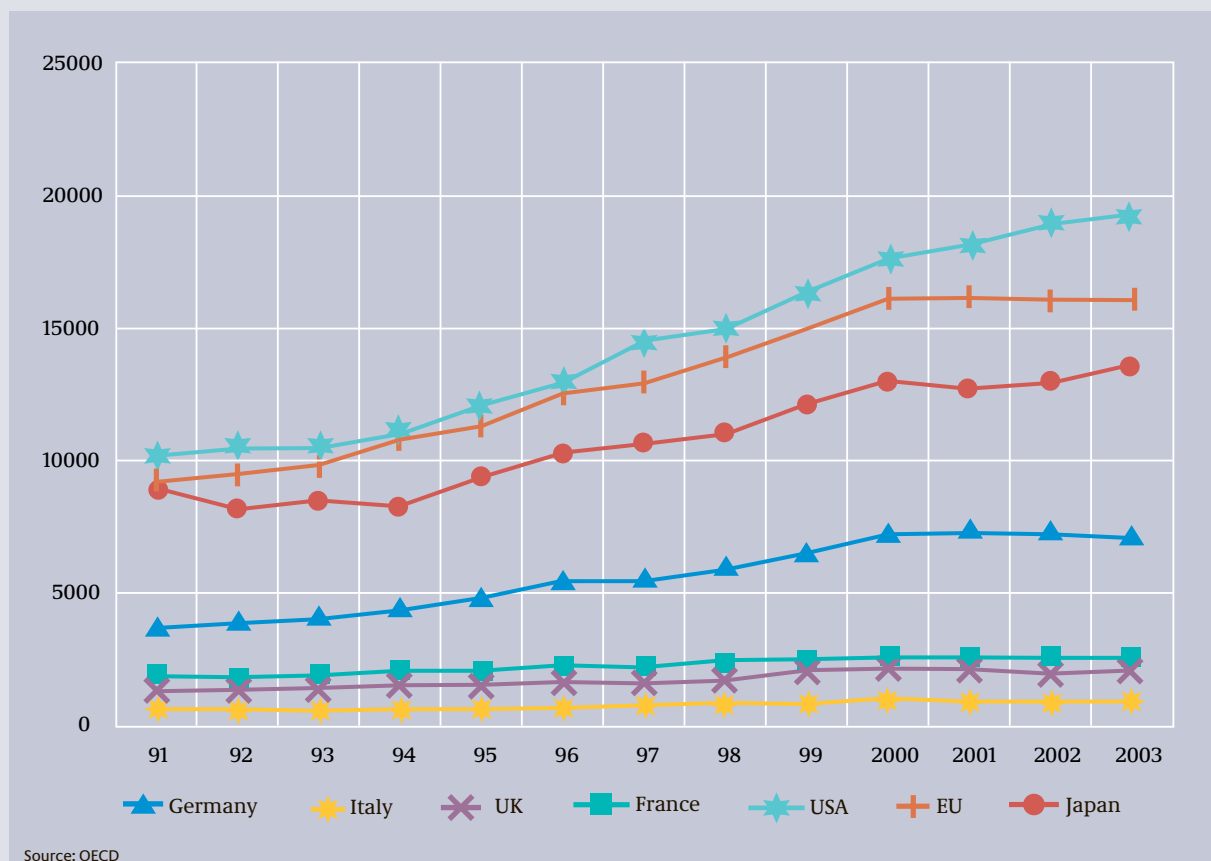
9. More innovation

Over the long term the ability of companies to innovate is a decisive determinant of growth in a developed economy. Successful innovation creates the scope for high growth rates in productivity and wages. As an efficient innovation and knowledge society Germany has the best chances of coping successfully with structural change and the demographic challenges. Happily, German companies are among the world leaders in technological inventiveness (see Diagram 5). To sustain this position, beside favourable labour market and competition conditions additional efforts are needed in research and development policy and education policy. Inventions and patents must also be adequately protected internationally. The Federal Government therefore sees a further important task for its economic policy in actively advancing the knowledge society and supporting the innovation strategy of companies (for more detail see Chapter C).

10. Making the market economy socially and environmentally compatible

In a social market economy growth, innovation and employment are interrelated with social and environmental policy aims. On the one side economic success provides the financial basis for environmental protection and social security. On the other secure supplies of existential goods - like energy, raw materials and a clean environment - contributes to social security and individual commitment, helping people to identify with the economic and social system. They are at the same time important factors in sustained economic growth. Flexibility and competition, subsidiarity, solidarity and sustainability are for the Federal Government the pillars of a modern social economy. If the Federal Government succeeds in securing the bases of prosperity for all the people in Germany over the long term confidence in the social market economy will also be strengthened (for more detail see Chapter D).

Diagram 5: Patents relevant for the World Market



The demographic development and a global thrust in industrialisation and growth are causing rising demand for resources and rising raw materials prices. German firms must adjust to this. For a country poor in raw materials like Germany that is an opportunity. Production using fewer resources will help to increase industrial competitiveness. Moreover, German industry is best placed to strengthen its traditional lead in environmental technology even further. The Federal Government intends to use its policy to help ensure that German firms not only adjust to new shortages and challenges but can also profit economically from them.

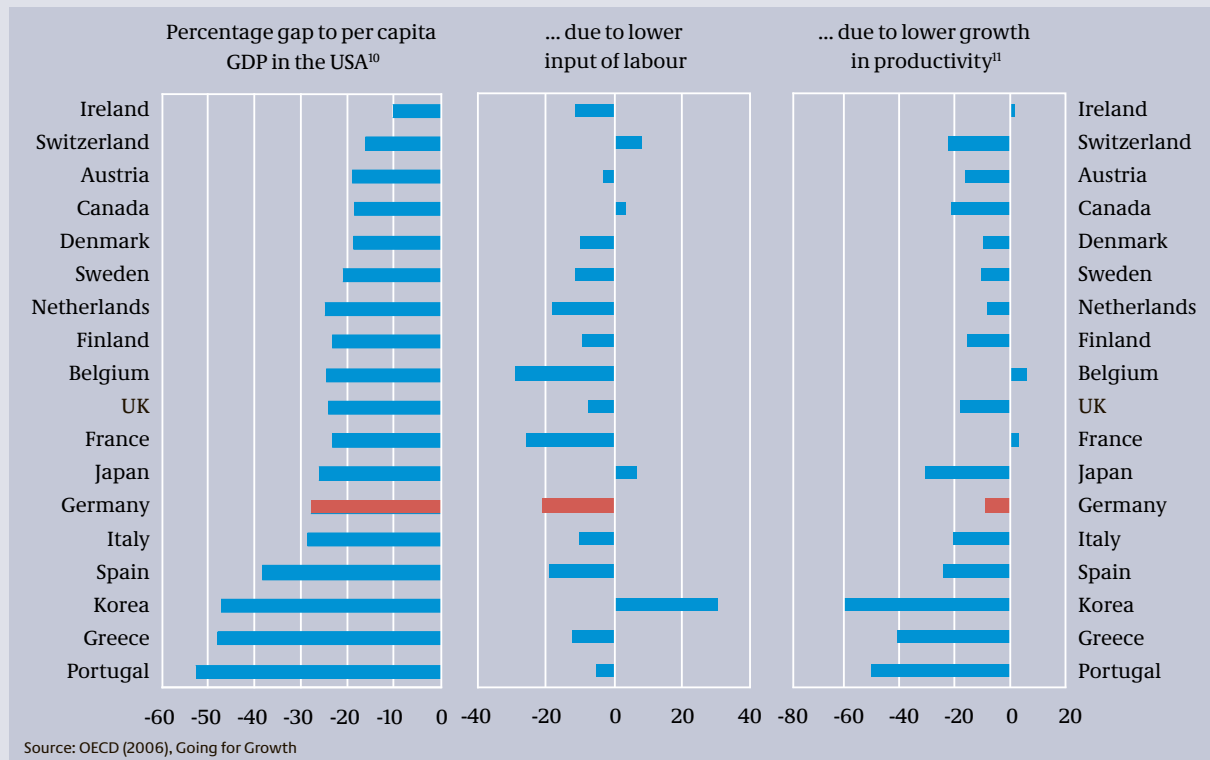
11. More employment

The main reason for the lower growth in per capita income in Germany compared with many industrial countries is that the available labour force is insufficiently integrated in the economic process. Growth results from a combination of labour, capital and technical progress. The more work is performed, and the more efficiently it is done, the greater will be the result. In Germany the total number of hours worked

since 1991 has fallen continuously. Too few people are integrated in working life. Too many of those who are looking for work remain unemployed for a long time or even permanently. The prosperity gap to other industrial countries in past years is mainly due to this lower input of labour (see Diagram 6).

The positive economic development and the reforms on the labour market are now also reflected in higher employment. The number out of work is clearly lower than last year. The number of vacancies is continuing to rise. However, the number of long-term unemployed and low skilled is far too high; especially the number of older people in employment is still far too low, although it has risen slightly in recent years. The number of women in employment could also be higher. It is therefore the aim of economic and employment policy to improve the framework conditions for more employment further. For this the settings must be readjusted. That also applies to subsidiary wage costs (for more details see Chapter E).

Diagram 6: Analysis of the Prosperity Gap by Labour Input and Productivity



¹⁰ 2004 based on purchase power parities in 2000; ¹¹ Measured by GDP per hour worked

12. Strengthening Resilience

Flexible goods, capital and labour markets, favourable macroeconomic framework conditions, intensive competition and a high innovative ability are mutually strengthening elements in a strategy designed to sustain stronger dynamic in growth. They are also a good insurance against challenges to be faced in the future. They make the necessary adjustment processes easier and make the economy as a whole more resilient. In such a flexible environment companies will be in a better position to re-direct their production in weak phases of the cycle. Employees will be able to reorient more quickly on the labour market. Under these conditions it will not take so long in future for positive cyclical developments abroad to stimulate our economy. The degree of utilisation of the means of production and employment in the economy will grow. All this will further increase the confidence of national and international investors in Germany's attractiveness as a location for business.

13. Coordinating national and European policy

Many of our European neighbouring states are facing similar challenges to Germany. Hence structural reforms are needed throughout Europe to improve the conditions for high and sustained economic growth. That is the core of the EU's Lisbon strategy. It is of particular importance in the Eurozone, where structural problems and misguided action by those responsible for economic policy can no longer be cushioned in the short term by changing exchange rates. Considerable differences are still evident in economic growth, inflation rates and competitiveness within the Eurozone. These persistent divergences are not exclusively due to catching up processes in member states or cyclical effects. Rather, they too are due to lack of productivity and innovation, and to insufficient wage discipline. This is still a task for the national policy areas. But the European internal market also needs to be developed further and competition within Europe intensified. That will improve the basic conditions for stable economic development in all member states and for a high degree of coherence in the European Economic and Monetary Union (EMU).

EMU is a significant success in European integration. The European Central Bank (ECB) has succeeded in firmly anchoring confidence in stable prices within the Eurozone, and in this way it has also contributed to favourable lending conditions for companies and consumers and created an important condition for growth and employment friendly development. To ensure steady growth free of inflation within the currency union responsible action by all those relevant to economic policy is needed in Germany and Europe.

For the parties to wage negotiations in all the EU member states the task is to direct their wage policy so that it will primarily contribute to stability of the price level and more employment. The Federal Government will contribute its share to more growth, employment and price stability in Europe with further structural reforms and continued budget consolidation. That is not only in accordance with the Lisbon Strategy, the Federal Government will also fulfil the Maastricht criteria. It is a success for German fiscal policy to have created the conditions that have enabled the deficit procedure against Germany to be lifted this year. In doing so the Federal Government has strengthened the credibility of the European Stability and Growth Pact. In regard to progress in consolidation within the EU it is also clear that the reformed pact is an effective instrument of budget discipline.

14. Utilising the EU and G8 presidencies

During its presidency of the European Council this year the Federal Government will lay the main emphasis on strengthening innovative forces, improving the competitiveness of European industry (see Table Serial No. 38), improving the framework conditions in taxation and the quality of the public budget, reducing administrative burden, further integration of the financial markets and energy supplies. The aim is to achieve synergy effects for the whole of Europe through the various national approaches to reform. The same applies to the external opportunities for Europe in competing on world markets, and which the Federal Government intends to improve in cooperation with European

partners. The European Union has a particular responsibility to the developing countries, especially the poorest of these. Hence the Federal Government will take care to ensure that development policy aspects are taken into account in trade policy.

It remains the primary economic policy aim of the German EU presidency to successfully conclude the Doha Round of the World Trade negotiations, which covers all the areas of negotiation. The Federal Government also supports opening negotiations on regional and bilateral free trade agreements with strongly growing newly industrialised countries in Asia, like India (see Box 1). It will work for negotiating mandates to be given and concrete negotiations started, if possible during its presidency.

To improve transatlantic economic relations the Federal Government also desires to strengthen regulatory cooperation - for example in norms and standards - between the EU and the USA. Economic cooperation with China will also be extended further and deepened (cf. Item 41). Negotiations on the follow-up agreement for the Partnership and Cooperation Agreement between the EU and Russia, which expires in 2007, will also be commenced.

The Federal Government will utilise its presidency of the G8 this year to require the major trading nations to take global responsibility for a growth-oriented policy. It will give new impetus to develop the international framework of regulations for trade, financial markets and cross-frontier investment. The social dimension of globalisation also remains an important task, and here the Federal Government continues to rely on the outstanding cooperation with international organisations. It supports the current reform processes in the IMF, the World Bank and the OECD, which serve the aim of increasing the efficiency and effectiveness of these institutions with the view to a stable, environmentally compatible and socially balanced development in the world economy (see Box 2). With its policy the Federal Government is helping to combat poverty worldwide, secure peace and realise democracy, make globalisation just and protect the environment. It is endeavouring to implement Germany's obligation to increase development cooperation as part of the EU multi-stage plan, and is thus making a contribution to meeting the millennium targets set by the United Nations and to strengthening international economic cooperation.

Box 1: Foreign Trade Policy in 2007

- ▶ Ensure open world markets and settle trade disputes in the WTO.
- ▶ Structure globalisation with new liberal trade rules and by reducing customs dues, obstacles to trade and bureaucracy through the Doha Round.
- ▶ Reduce the threat of terrorism and armed conflicts with export controls and financial sanctions and through embargoes on goods and services.
- ▶ Counter the illegal transfer of technology, product piracy and trade in stolen copies by protecting intellectual property, especially in newly industrialised countries.
- ▶ Open up new market chances for German firms with strategic economic agreements (especially a no-barriers transatlantic economic area).
- ▶ Secure a worldwide raw materials basis for German industry with customised loans to open up extraction sites abroad.
- ▶ Support German firms on foreign markets with Hermes guarantees, investment guarantees, and consultancy and information.
- ▶ Attract foreign investment to Germany by redirecting advertising for business investment.

Box 2: Central German Economic Policy Fields of Action in the EU and on International Level

EU Council Presidency:



- ▶ Further developing the European internal market, with progress towards an integrated financial services market
- ▶ Strengthening the competitiveness of companies, i.a. through industrial policy initiatives (e.g. CARS 21, see Table Serial No. 39)
- ▶ Reducing administrative burden and improving legislation
- ▶ Ensuring secure, competitive and environmentally sustainable energy supplies and concretising an “Energy Policy for Europe”
- ▶ Better tax conditions on the internal market and combatting fraud
- ▶ Improving the quality of public finances
- ▶ Slimmer and more appropriate fiscal and economic policy coordination procedures in the EU after enlargement to 27 member states

G8 Presidency:



The German Presidency of the G8 will make “The World Economy” and “Africa” its main themes, under the heading “Growth and Responsibility”. Stimulus to further develop and strengthen the framework conditions in the world economy in dialogue between the G8 countries and with the major newly industrialised countries is to be given i.a. in the following areas:

- ▶ Reducing global disequilibria, ensuring stability and transparency on the international financial markets, encouraging investment and improving investment conditions
- ▶ Promoting innovation - protecting innovations (protecting intellectual property rights)
- ▶ Energy efficiency, climate protection, responsibility with raw materials
- ▶ Africa: sustained investment, “good governance”, peace and security, developing health systems and combatting HIV/AIDS

A. Putting the State on a Sustainable Foundation

15. Making public finances sustainable

An efficient and well functioning public sector combined with sound public finances is essential for growth, innovation and employment. Germany is one of the most highly developed communities in the world. The organisational structure of our state and the processes in the public administration need to be made more flexible to be able to react in time to changes. In a rapidly changing internationalised economy that is increasingly becoming the decisive location factor in business decisions.

After the clear assignment of tasks in the first stage of federalism reform the Federal Government aims in the second stage to make fiscal relations between the central and state governments more efficient. In addition, the bases are to be created for better performance of public tasks on every level of the administration. At the same time the Federal Government will ensure that the public sector can perform its tasks as cost efficiently as possible, and that its financing is sustained permanently in a way that is as growth and employment friendly as possible.

16. Implementing the National Stability Pact

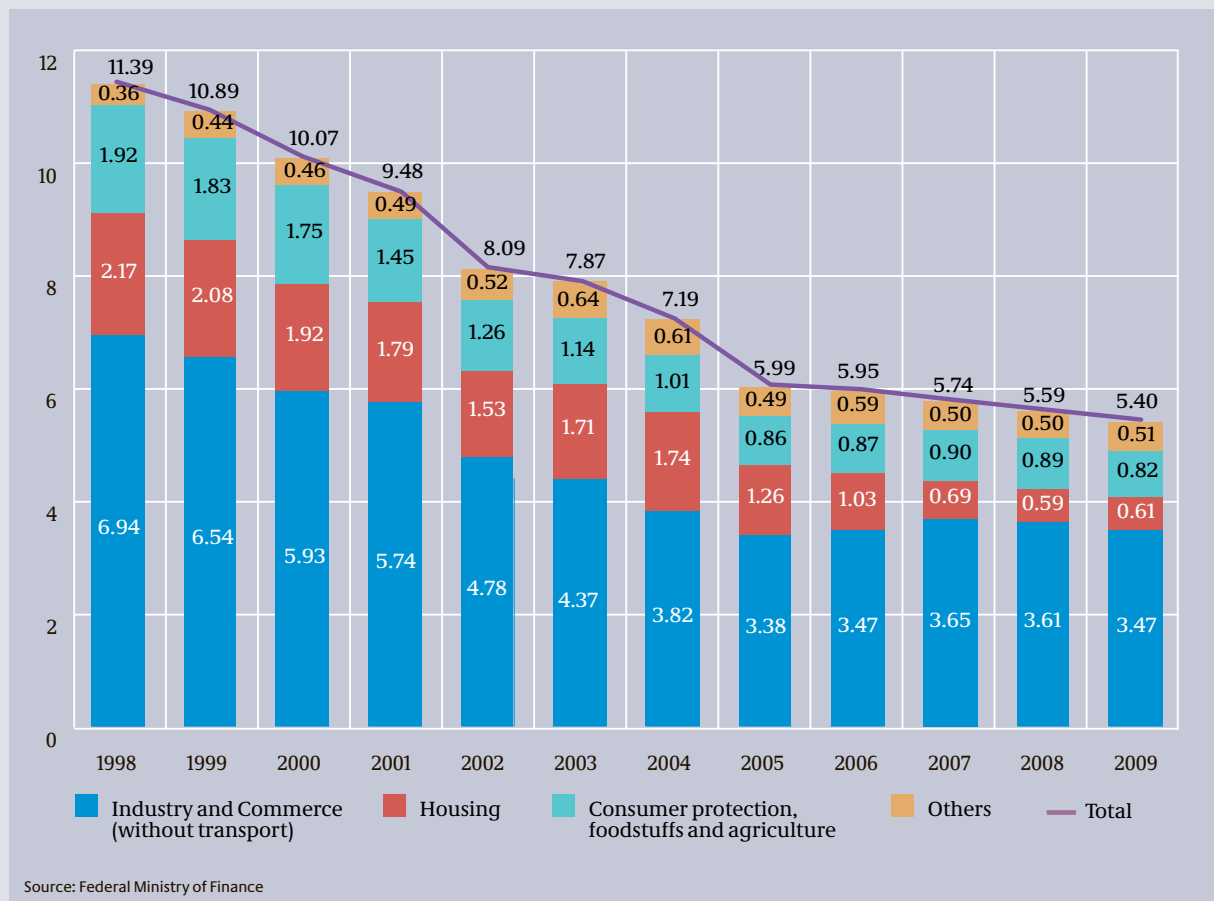
Ensuring viable public finances is not solely a task for the Federal Government, it is also a task for the Federal States. The National Stability Pact that was decided during the first stage of federalism reform will decisively strengthen expenditure discipline on all public levels. The new Article 109, Para. 5 of the Grundgesetz (Basic Law) lays down that in future 65 % of any payments due under sanctions for infringement of the European pact will be borne by the Federal Government and 35 % by the Federal States. This division of the burden between the central and state governments will create incentives, right from the start, to maintain discipline, on state level as well. Despite the doubts expressed by the Council of Economic Experts regarding the economic justification of the vertical and horizontal distribution criteria for the financial penalties (JG Item 462), the Federal Government regards the compromise – which was

reached with the Federal States – as an important incentive to maintain solidarity throughout the public sector in meeting the European deficit criteria.

17. Reforming the rules on the national debt

Discipline in public expenditure can also be strengthened by developing the national debt rules further. The Council of Economic Experts has put forward several proposals on this (JG Items 390-408). They are in favour of limiting the concept of investment in the Grundgesetz (Basic Law) to those tasks that have positive effects on assets and growth. They suggest that earnings from reductions in assets should not be taken into account, and the current erosion of value in public property (depreciation) should be included. Finally, the Council of Economic Experts is in favour of defining and limiting the scope of borrowing in the exceptional case of disruption to macroeconomic equilibrium precisely. They propose a regulation to

Diagram 7: Federal Government Financial Aids¹² 1998–2009 in Euro billions



¹² as defined in the 19th Subsidisation Report

be laid down in the constitution and oriented to the Swiss model of the “brake on indebtedness” (JG Item 404). The Federal Government will include these proposals and other suggestions from economists in its considerations.

18. Continuing the successful consolidation

The Federal Government is well on the way to restoring the viability of public finances. The general limit in Article 115 of the Grundgesetz (Basic Law) will be observed from 2007, and the debt ratio reduced. The Maastricht deficit criterion has been observed since last year. The concern is now not to take any new decisions that will place a burden on future generations, even in a cyclically good revenue situation.

In the 2007 Federal budget the Federal Government will set the main consolidation on the expenditure side. If it is taken into account that tax subsidies and tax exemptions are economically the equivalent of expenditure, the greater part of the efforts at consolidation in 2007 will be on the expenditure side (see Table Serial No. 9). Experience in other countries has shown that this is most likely to bring success. Expenditure-side consolidation is generally felt to be more credible, by the general public and by the capital markets, than increasing revenue.

19. Improving the quality of budget structures

Parallel to consolidation the structure of expenditure must be improved qualitatively - to put more weight on areas that will promote growth. The Federal Government is already spending around two thirds of its total expenditure on interest payments, social security and labour market policy. The aim is not to increase social expenditure relative to economic performance but and especially to increase the efficiency of the use of the funds.

20. Reducing subsidies further, improving result orientation

The reduction in outmoded subsidies will help to improve the quality of public finance (see Diagram 7 and Table Serial Nos. 5-9). The guidelines for subsidisation policy decided by the Federal Government (see Box 3 and Table Serial No. 4) will increase the transparency, pressure to justify and scope for steering in subsidisation measures. The Federal Government will make subsidies degressive and limit them in time on principle. The Council of Economic Experts's scepticism regarding the effectiveness of these measures in view of financial aids for investment by the Federal States and the municipalities (JG Item 460) is not shared by the Federal Government.

Box 3: The Federal Cabinet Decision on Subsidisation Policy

In March 2006 the Federal Cabinet decided that

- ▶ New subsidies are only to be given if they are the most suitable instrument compared with other measures and efficient in regard for cost-benefit aspects,
- ▶ New subsidies should be given primarily as financial aids and financed with savings elsewhere,
- ▶ It should be examined in how far tax concessions could be changed to financial aids or other measures that burden the public budget less,
- ▶ New financial aids should only be given for limited periods of time and on principle should be degressive,
- ▶ The objectives of financial aids should be laid down in a way that enables success control,
- ▶ The Federal Government's subsidisation policy should be oriented to growth, distribution, competition and environmental policy effects, and
- ▶ A time limit and degression on principle should be introduced even for current financial aids and those that have not so far been limited in time or degressive.

Box 4: Developing Promotional Policy Further – Key Areas

- ▶ Targeted use of investment and SME promotion to widen the commercial base in the new Federal States and create jobs
- ▶ Even stronger orientation of research and innovation promotion to networking research and industry, shortening the way from the innovative idea to the marketable product and building up and expanding research and innovation cores
- ▶ Specific profiling of certain strengths and regional growth motors on the basis of flexible and broadly based promotion
- ▶ Continuing the sectoral conferences in the new Federal States (Conference on the Future of Mechanical Engineering in Leipzig in March 2007, Chemicals Conference in Saxony-Anhalt and a Conference on Corporate Financing in Berlin in autumn 2007).
- ▶ Orienting rural development to opportunities for earning and employment outside agriculture as well through professional regional management, and working out integrated development concepts.

21. Continuing reconstruction of eastern Germany

The Federal Government continues to regard the reconstruction of eastern Germany as a macroeconomic task. A self-sustaining catching up process has still not been achieved, despite many positive developments. In the 2006 Annual Report on the State of German Unity (BT-Drucksache 16/2870) the Federal Government discussed the situation and outlook for the new Federal States in detail. Stimulus from the Federal Government's reform measures to increase the dynamic of growth throughout Germany is essential for the catching up process. To create an efficient location for economic activity subsidies and targeted promotional measures will still be necessary in some areas in future, too.

Against the background of a differentiated development and degressive Federal aids the present promotional policy will be carefully developed further in cooperation with the Federal States (see Box 4).

The new Federal States themselves bear the primary responsibility for the efficient use of the funds. The Federal Government will provide considerable funds for the reconstruction of eastern Germany by 2019 under the Solidarity Pact II. These include supplementary Federal grants for special needs (Basket 1) to a total of € 105 billion, which, as decided, will be degressive. A further € 51.1 billion has been commit-

ted in the form of overproportional funds (Basket 2). At the end of last year the Federal Government reached agreement with the new Federal States on the policy fields relevant to Basket 2. These funds will be designated for overproportional payments in the policy fields industry and commerce (e.g. the Joint Task "For the Improvement of the Regional Economic Structure" and the investment grant that has been extended to 2009), transport, housing and urban planning, the promotion of innovations and research and development, EU Structural Funds, clearing old ecological pollution and sports. With the agreement on Basket 2 the new Federal States will have certainty for planning for the entire duration of the Solidarity Pact. On the basis of the agreement reached the Federal Government will report in the Financial Planning Council each year up to 2020 on the Basket 2 payments it made in the preceding year.

22. Regional policy as growth policy

The Federal Government also holds to specific regional promotion to strengthen innovation, growth and employment in Germany. Important signals were set for this for the period from 2007 (see Table Serial Nos. 13-19). The Joint Task "For the Improvement of the Regional Economic Structure" remains the central instrument of regional policy. This Joint Task was subject of intense discussion between the Federal Government and the Federal States as part of federalism

reform, and its continuance was confirmed. To secure the financing for the Joint Task on the Federal Government's side a volume of around € 650 million was earmarked in the 2007 Federal budget for the new Federal States and selected structurally weak regions in the old states. Within the framework of this Joint Task the Federal Government and the Federal States have also reached agreement on the new regional promotional area for 2007 to 2013. In addition around € 25.5 billion is available from the European Structural Funds to support the German regions during that period. Cofinancing by the Federal States is necessary both for the input of Federal Government funds within the Joint Task and funds from the European Structural Funds.

23. Expanding Public-Private Partnerships

Public-private partnerships (PPPs) can help to relieve public budgets. Private sector structures can be of advantage in project management and cost control for major infrastructure projects (see Table Serial Nos. 20-21). They make competition possible, which limits costs, causes innovations to be more rapidly implemented and enables quality to be increased.

Legislation to simplify PPPs is to be passed in this legislative period. It will advance the framework conditions for PPPs, especially in transport and the hospital sector, and in the social infrastructures (see Table Serial No. 11). The aim is also to improve the framework conditions in tax and promotion legislation. The possibilities for capital and financial investment in projects will also be improved for national and foreign investors, principally through amendments to the investment legislation as part of the coming revision. That will create more competition and open up the possibility of allowing foreign know-how to flow into PPP projects.

24. Investing in the future

Expenditure on research, development, education and innovation in particular decides the future efficiency of business and society. Just like classical investment in buildings, machines and plants "investment in brains" can have a positive effect over long periods. The Federal Government therefore takes the

task of supporting the change to the knowledge society very seriously. It will accelerate cooperation to this end between the state, business and research (for more detail see Chapter C). In this legislative period alone the Federal Government will therefore invest an additional € 6 billion in research and development. That is also its contribution to achieving the objective of the EU Lisbon Strategy to invest 3 % of GDP in R&D by 2010. The Federal States and business also need to increase their investment. With its High-Tech Strategy the Federal Government has also presented a conceptual framework for the promotion of top technological achievement from a single source. Altogether it will invest around € 15 billion in strategically important future technologies by 2009. In addition it will provide special funds for basic research, to promote excellent university research and expand the universities.

25. Making the revenue side supportive of growth

Simply continuing the restrictive expenditure policy of past years and reducing tax exemptions would not enable the constitutional general limit for new borrowing to be observed in 2007. Increasing insurance tax and the standard rate of value added tax was therefore unavoidable (see Diagram 8 and Table Serial No. 1). The tax ratio will thus be increased slightly, but it will remain low by international comparison. Despite the tax increases the level of charges will remain on the previous year's level this year at around 40 %. The increase in value added tax is also part of an overall strategy to improve the taxation structure. In this context the Federal Government also intends to improve the tax conditions for entrepreneurial activity with reform of corporation and inheritance tax, making them more competitive; it will also reduce subsidies. With the reduction in subsidiary wage costs the tax and charges system can be made noticeably more growth-friendly. Investment and new employment will be made more attractive, as will Germany altogether as a business location (for more details see Chapter B).

26. Advancing Federalism Reform

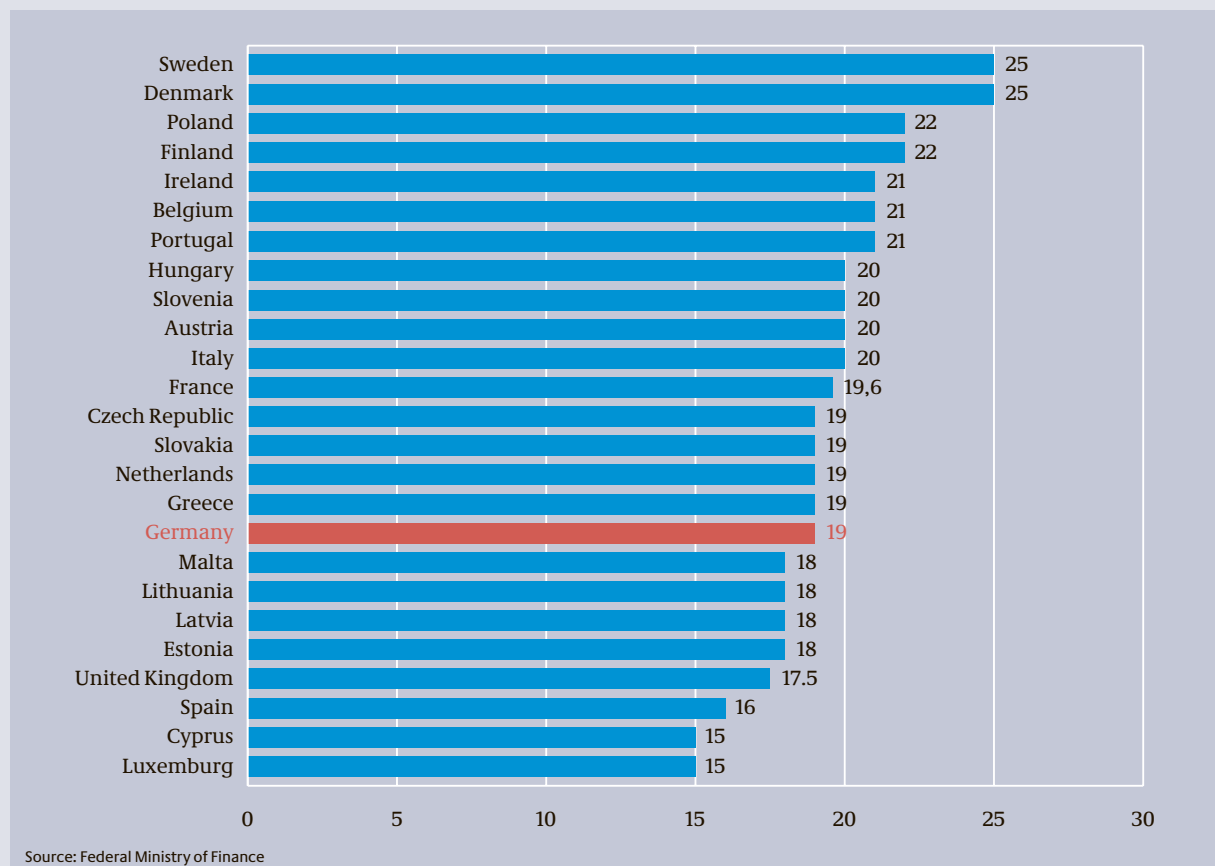
An important step towards an efficient federal state structure that is capable of action has already been taken with Federalism Reform I (see Table Serial No. 10). The reorganisation of the legislative competences will open up more scope for autonomous action for both the Federal Government and the Federal States. The reduction of mixed financing in the financial field will lead to a better targeted use of public funds. Another aim was to reduce the number of laws requiring approval by redrafting. This has more clearly separated the areas of responsibility of the central and state governments and insofar accelerated the legislative procedures.

The Council of Economic Experts points to possible disadvantageous effects from decentralised competences in the education field (JG Item 458). In this connection the Federal Government will use the possibility for cooperation between the two tiers of government opened by the Joint Task “Establishing

the Efficiency of the Education System by International Comparison” (Art. 91 b, Para. 2 Grundgesetz [Basic Law]). when it is a question of evaluating the efficiency of the education system for the country as a whole.

With the second stage of Federalism Reform the Federal Government intends to take a further step and adjust financial relations between the central and state governments to the changing economic policy conditions, and increase the autonomy of the territorial authorities in view of the aim to achieve viable budgets. The bases for a more efficient performance of tasks in the administration are also to be created. The proposals by the Council of Economic Experts for a further reduction in mixed financing and more far-reaching increase in the autonomy in taxation for the Federal States (JG Items 461 f.) will be examined by the Federal Government in the coming consultation process. In the view of the Federal Government and the Federal States an important sub-

Diagram 8: Standard Rates of Value Added Tax in the European Union in 2007 in Percent



ject is to avoid budgetary crises more effectively. The verdict by the Federal Constitutional Court in the proceedings on the emergency budget situation in Berlin clearly shows the need to develop a range of instruments that will ensure budget discipline on all state levels and counter the development of budget emergencies at an early stage. Increasing the autonomy of the Federal States to prevent and cope with budget crises through more stringent constitutional rules will give the legislature more support. The Federal Government has therefore asked the Council of Economic Experts to present a study on an early warning system by March this year. The results will form part of the coming consultations.

B. Strengthening Competition and Investment Dynamic

27. Increasing the potential for growth

Economic growth requires investment, competition and open markets. It is the aim of the Federal Government to make the opportunities and risks of long-term investment decisions more calculable through transparent and investment-friendly framework conditions, and so make Germany more attractive to national and foreign investors. The Federal Government will therefore reduce administrative burden and taxation on companies. Above all, it will increase investment incentives through reform of corporation and inheritance tax. It will open markets in order to reveal reserves of efficiency and scope for lowering prices. It will also improve the framework conditions on the financial markets. In addition, it will promote the establishment of new businesses and increase the ability to innovate - for example with more funds for technology-oriented programmes for the small and midsize sector. Not least, the Federal Government will continue to support companies in their activities abroad, develop the instruments of foreign trade promotion and financing further and restructure the advertising for Germany as a business location. The SME sector will benefit particularly from this policy. The Federal Government combined all the main measures for the SME sector into an SME Initiative in 2006 (see Annual Economic Report 2006, Box 9), which will be continued this year and developed further (see Box 7 and Table Serial No. 40).

28. Reducing administrative burden

The obligation to provide information for public offices involves considerable costs for companies. In April 2006 the Federal Government therefore decided a programme to reduce administrative burden and improve law-making (see Table Serials Nos. 30-37). One of the central measures in the programme is the introduction of administrative costs measurement based on the internationally proven standard costs model used systematically to calculate the administrative burden resulting from obligatory reporting. The corresponding measurements were started in January this year. On this basis binding reduction targets are to be set in the course of 2007.

The European Commission has also proposed reducing the expenditure on administration for companies throughout Europe. In its communication of 14 November 2006 it sets a reduction target of 25 % to be achieved by 2012. To achieve this target the European Commission has announced a plan of action. The Federal Government will make reducing administrative burden a major theme of its presidency of the European Council.

On national level the First Act to Ease the Burden on SMEs came into force in 2006. The advance calculation of the social insurance contributions bill, which had to be made by 800,000 companies, was simplified. The Act on Statistics on Earnings, that was already passed, will take 40,500 firms out of the annual survey on earnings. The Federal Government will continue the reduction of administrative burden in a Second Act to Ease the Burden on SMEs.

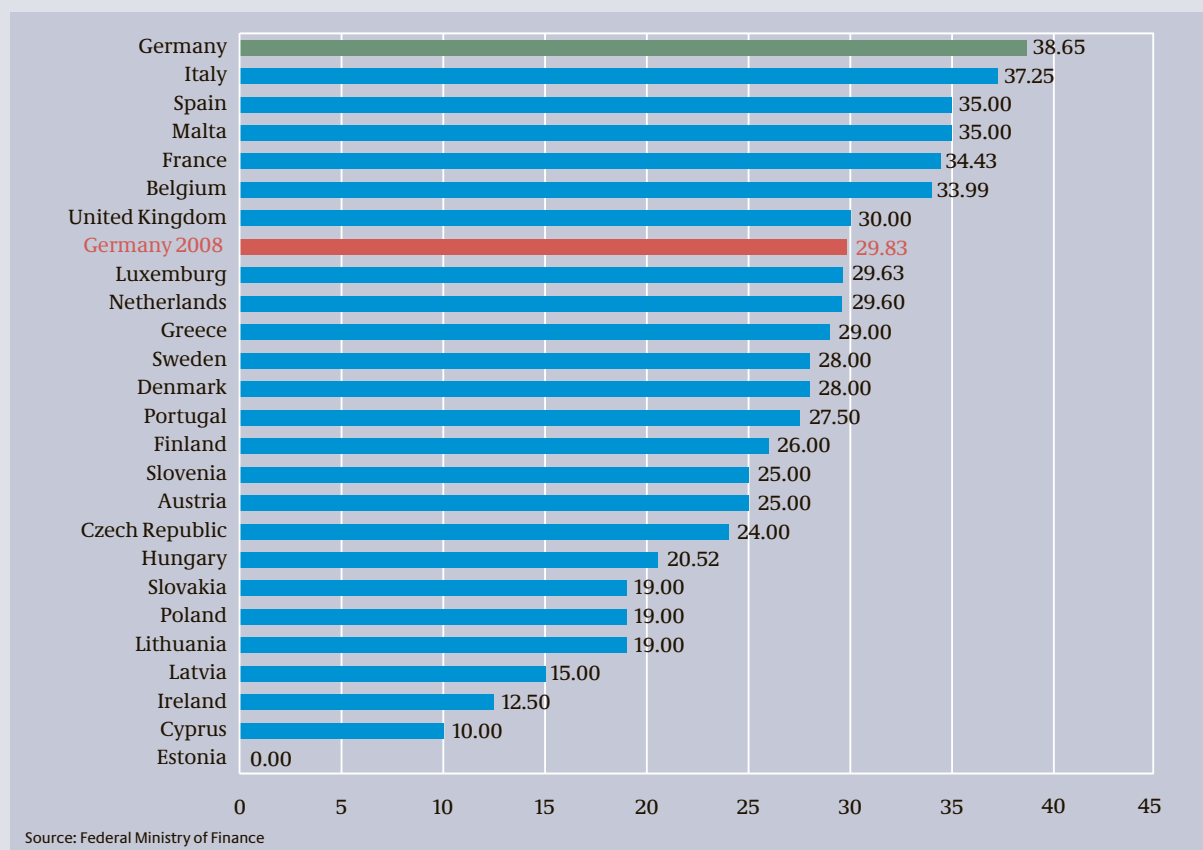
It is, for example, intended to exempt new entrepreneurs from the obligation to provide information for statistics for the first three years of their operation and - as far as possible - introduce a limit of at most three random samples a year in small firms (employing fewer than 50 people). The Federal Government is also planning to raise the profit threshold at which a balance sheet must be published as laid down in the Ordinance on Charges from € 30,000 to € 50,000 and amend the law on the Joint Task "For the Improvement of the Regional Economic Structure" to reduce administrative expenditure. A plan of action has been decided to reduce bureaucratic obstacles in the agricultural sector (see Table Serial No. 31).

With the standard costs model the bureaucracy costs caused by obligatory reporting will not only be measured, they will also be supervised and reduced to meet targets. Within its legal mandate the independent National Norms Control Council (see Annual Economic Report 2006, Item 54) will, for example, support the Federal Government in reducing the bureaucracy costs resulting from obligatory reporting. The efficiency of the public administration will also be increased through greater use of innovative communication and information technologies, and through greater incentives to performance and economy. Constant dialogue with the public and businesses may reveal further important potentials for reducing costs, and so meet changing needs. Savings in bureaucracy costs are not least also an important building block for permanently viable public finances (see Chapter A).

29. Facilitating the establishment of new businesses

The Federal Government will support investment in new businesses and in venture capital by reducing bureaucratic barriers and through the range of promotion (see Table Serial Nos. 42-47). The promotion offered by the Federal Government and the Federal States as consultancy for new businesses will be combined and so made more transparent and efficient for the men and women embarking on entrepreneurship. In addition, the length of time taken to register a company, particularly a new business, is a major factor in location competition. The Federal Government has therefore accelerated the registration procedure by converting it to electronic operation with an amendment to the legislation which came into force on 1 January 2007.

Diagram 9: Tax Rates on Earnings paid by Incorporated Companies¹³ in the EU in 2006 in Percent



¹³Corporation taxes, trade earnings taxes and other comparable taxes paid to the central state and the territorial authorities

The Federal Government also promotes new businesses set up by persons who were unemployed, and it is continuing the programme “New Businesses from Research” in modified form in order permanently to increase the number of hive-offs from universities and research establishments. Knowledge-intensive services will in future be included in the “EXIST Seed” measure to promote individual projects for new businesses. In addition, the need for research and development for technologically very ambitious projects will be covered better, partly through specific technology programmes (see Table Serial Nos. 67 ff.). The Federal Government has set up funds to support new businesses and firms in their start-up phase by making capital available. Chief among these is the New High-Tech Business Fund. Up to 200 new technology-based firms are to be provided with equity capital in the next three years.

30. Lowering corporate taxes

On global markets with mobile production factors the tax burden on an investment is increasingly also determining the attractiveness of a location and the competitiveness of companies. Germany is not a high tax country as a whole. According to OECD calculations the ratio of taxation and social charges here is clearly below the European average. However, that does not apply to the rates of taxes on incorporated companies, which at 38.65 % were the highest in the EU in 2006 (see Diagram 9).

The Federal Government will carry out reform of corporate taxation to improve Germany’s competitiveness as a business location (see Box 5 and Table Serial No. 55). The rate of taxation on incorporated companies will be brought down below 30 %. Germany will then be placed in the midfield of EU mem-

Box 5: Key Elements in Corporate Tax Reform on 1 January 2008

The Federal Government is pursuing the following aims:

- ▶ *A fairer tax system:* Companies paying taxes in Germany will pay less. At the same time the scope for tax accounting will be limited.
- ▶ *Neutrality in regard to legal form:* On shareholder level incorporated and unincorporated firms are to be treated equally for tax purposes as far as possible.
- ▶ *Securing the municipalities’ revenue and finance for investment in the long term:* Measures are also being considered to prevent inappropriate shifting of earnings by borrowing and to steady municipal finances.
- ▶ *Budget compatibility:* A financing threshold of € 5 billion (full year effect) is not to be exceeded.

Elements in the reform:

- ▶ The rate of corporation tax will be lowered from 25 % to 15 %.
- ▶ The trade tax assessment figure will be lowered from 5 % to 3.5 %.
- ▶ This will lower the total tax burden on companies to below 30 %.
- ▶ Trade tax will be offset against income tax at 3.8 times the trade tax assessment figure instead of 1.8 times. In return operating expenditure can no longer be deducted from trade tax.
- ▶ Unincorporated firms will also benefit from the reform. The rate of tax on their earnings will also fall to just under 30 %, where these earnings are retained in the firm.
- ▶ In addition, depreciation funding will be converted to an amount deductible for investment for small and midsize firms under § 7g of the Income Tax Law, in order to promote investment more specifically.
- ▶ A tax of 25 % will be introduced on earnings on capital from 1 January 2009. It will be charged only on interest and dividend payments received on private capital investment and earnings on private sales (see Table Serial No. 53).
- ▶ Altogether companies should pay € 5 billion less (over the full year).

ber states (see Diagram 9). It is also important for unincorporated firms to profit from the reform, and here too the level of taxation on retained earnings will be brought down below 30 %. In addition, depreciation funding will be improved for small and mid-size firms. Planned investment will be taken into account as reducing earnings at an early stage and the liquidity of companies will be strengthened. The inclusion of financing costs for trade tax assessment will be changed to a neutral effect on charges and simplified. The claw back factor will be lowered from 50 % to 25 %, but claw back will be extended to all financing charges. For the first time a free allowance of € 100,000 will be given for financing costs and this will particularly relieve SMEs from trading tax on additional earnings. Corporate taxation reform is a clear signal for national and foreign investors. Germany is becoming even more attractive as a business location.

The Council of Economic Experts (JG Items 409 ff.) also welcomes the aim of the reform to reduce the tax level to below 30%. This will make Germany internationally competitive. However, they criticise the fact that it has not proved possible to revise the tax system fundamentally and simplify it. For this reason among others they reject the retained earnings solution for unincorporated firms. Nevertheless the Federal Government regards its approach to reform as an appropriate way to tax both incorporated and unincorporated firms equally as far as possible, independent of their legal form.

The Council of Economic Experts also takes a critical view of the plan to finance all the reform from other sources. These measures include the equal treatment of all interest payments and shares of financing in assessing trade tax or restricting excessive borrowing to the detriment of earnings by German consolidated companies (the interest barrier). In the view of the Federal Government it would not be justifiable in regard to the budget not to use other sources at all to finance the reform. Moreover, most of the intended measures will also serve to prevent creative accounting and shifting earnings. So these are appropriate measures that will help to ensure that profits made in Germany are also taxed in Germany. What

matters in the legislative procedure is to make these measures as investment-friendly and practicable as possible.

If companies are only to be relieved of € 5 billion in tax the Council of Economic Experts believes that only the rate of corporation tax should be lowered and no measures taken to finance this. The Federal Government does not accept that proposal. The reduction in the rate of corporation tax would be very much less; companies would try, as they do now, to shift earnings abroad and expenditure into Germany. It would no longer be possible to reduce the tax burden for the many small and midsize unincorporated firms. The Council of Economic Experts' proposal does not take account of these significant structural aspects and the decisive international signal effect of a very much lower rate of corporation tax.

31. New regulations on inheritance tax

In the next few years many small and midsize companies will experience a change in the generations in their management. Not only the owners have an interest in the continuance of the business, the employees are affected as well. The Federal Government will therefore improve the tax conditions for corporate succession (see Box 6 and Table Serial No. 56). The new regulations planned are to have a more precise effect than the present legislation and prevent abuse in the form of creative accounting and free riding.

On the question of inheritance tax reform the Council of Economic Experts repeat the standpoint they explained in detail last year (JG 2005/06, Items 401 ff.), arguing that the intended measures will not yield the desired result (JG Item 409). The Federal Government, on the other hand, sees facilitating the handover in firms as an important signal to the unincorporated firms in Germany, most of which are SMEs. Above all, it is acknowledging with this measure the need to keep assets and equity capital within small and midsize firms.

The aim of the reform, to secure investment and employment, justifies lowering the tax on entrepreneurs' assets used for production. Hence the tax relief

Box 6: Key Elements in Inheritance Tax Reform

- ▶ From 1 January 2007 the inheritance tax and donation tax payable on assets used for production will be postponed for a period of ten years free of interest charges.
- ▶ One tenth of the tax payable will be deducted for each year the firm continues to operate.
- ▶ The criterion for postponement or exemption from inheritance and donation tax is that after the handover the firm is still comparable with its former state, particularly in turnover, volume of orders, assets and liabilities and number employed.
- ▶ The new concession will not apply only to assets held within Germany, it will also apply to preferential assets held in the other EU member states and in the states of the European economic area.

is also conditional on the continuance of the firm. The approach the Federal Government has chosen here, namely imposing the condition that the firm must be continued in a comparable way measured by the overall financial position (see Box 6) offers sufficient flexibility for corporate decision-making.

32. Utilising potentials for liberalisation

Easing the administrative burden and burden of taxation is only one aspect which may induce national and international investors to choose Germany as a location for their business. Access to markets must also be more open. More competition leads to greater efficiency and lower prices. That also applies to network markets. Networked industries were opened up to competition at a relatively early stage in Germany but further liberalisation would be possible, and it is needed in these areas, as in the post sector, parts of the crafts and the independent professions (see Table Serial Nos. 26, 48-49). The Federal Government will amend the Act on Chimney Sweeps, for example, while observing the public interest (safety of operation, emission thresholds), while the Act to Reform Occupational Supervision this year will not only create a system of supervision for accountants that is of international standard but also liberalise the legislation on their profession.

The Federal Government will also continue its competition-oriented policy in telecommunications and work on European level for less bureaucracy in regulatory procedures (see Table Serial Nos. 24-25). A balance must be found here between opening the market on the one side and investment incentives on the other. On European level the Federal Government

supports i.a. the efforts by the European Commission to achieve a noticeable reduction in the clearly excessive charges for using mobile phones abroad (roaming) as quickly as possible. Competition also needs to be promoted and at the same time market transparency increased. The amendment to the Telecommunications Law which came into force on 1 January 2007 takes account of the interests of businesses and consumers in more information and protection from abuse. In the post sector, when the German monopoly on letter post expires on 31 December 2007, altogether about 60% of the European market volume will be open to competition from 2008, (including Great Britain, the Netherlands, Sweden and Finland). The Federal Government will work intensively on European level in this sector as well, and especially during the German presidency in the first half of 2007, for full liberalisation of the internal market from 2009.

The new EU directive on services will make an important contribution to largely open services markets. The Federal Government, in conjunction with the Federal States, will implement this directive within the next three years. The first big step is the planned introduction of "Points of single contacts", through which a service provider can handle all the procedures and formalities necessary to operate his business.

33. Improving the efficiency of the energy markets

The markets for electricity and gas were opened more than eight years ago now, but fully functioning competition has not yet developed on the markets upstream and downstream from the networks. Prices

for electricity and gas have risen to a level that does not appear to be due solely to the development in costs; they are jeopardising the competitiveness of industrial customers and putting a heavy burden on end-users. Energy-intensive firms must not be driven out of Germany. The Federal Government sees potential for price reductions in both electricity and gas. It is therefore preparing a package of measures aimed to achieve better structural conditions for more competition on the supply side of the energy markets in the longer term. At short term supervision will be strengthened as a flanking measure to prevent pricing abuse (see Table Serial Nos. 27-28 and 22).

Among other things obstacles to market access for new suppliers in the electricity sector are to be removed with a new Ordinance on Network Connections for power stations. In addition, the present system of approval of prices to use the energy networks (network charges) is to be replaced by an incentive regulation intended to stimulate competition. This will be done by identifying the best network operators through benchmarking and so deriving requirements for an increase in efficiency by individual network operators. At the same time this will create an incentive for all network operators to increase their efficiency beyond the official requirement, for these additional cost reductions will remain to the network operators within a regulatory period as additional profits. Regulation of network charges does on principle have the effect of lowering prices – this is already apparent in the present system of approval for charges. The Federal Network Agency has obliged a number of network operators to lower their charges. Altogether it remains to be seen to what extent prices can fall. Safe and reliable networks cost money, and more investment in the network infrastructure is urgently needed.

As a short-term measure the Federal Government intends to amend the Act against Restraints of Competition and concretise the general prohibition on abusive conduct in the energy price sector. I.a. the Federal Cartel Office is to be empowered to forbid suppliers with a dominant market position from setting charges that exceed their costs to an inappropriate extent (control of abusive conduct). The provision

is conceived as a transitional ruling and it will expire in 2012. By then new suppliers are expected to enter the market and competition to intensify accordingly. Moreover, all abuse proceedings are to be accelerated by making decisions by the cartel authorities immediately enforceable.

In addition, the Federal Government intends to strengthen the position of household customers vis-à-vis their electricity and gas suppliers. In this connection it is examining how the interests of private consumers can be taken into account better in proceedings with the regulatory authorities, possibly by setting up a special consumer ombudsman.

34. Completing the European internal electricity and gas market

The Federal Government will use its presidency of the European Council in the first half of 2007 to advance free and unhindered competition on the European energy markets and improve cooperation between the national regulatory authorities. Networks must become a neutral market place. Effective deconcentration of the network operations is needed in all member states. Further measures need to be thoroughly examined for their suitability and adequacy, on the basis of all the options, including the proposals by the European Commission, and discussed with the other member states. The right to non-discriminatory network connection must be guaranteed for new power station operators in every EU member state, and an integrated and simple system of network access must be advanced for cross-frontier trade in electricity. Similarly, measures to increase the number of suppliers within regions must be discussed. The aim is a network infrastructure that will both facilitate cross-frontier competition and ensure secure supplies. The concern is to create a fully functioning internal market with rapid and visible successes for businesses and private consumers (see Table Serial No. 29).

35. Continue the privatisation of the railways

In November 2006 the German Federal Parliament decided on key points for part-privatisation of Deutsche Bahn AG (DB AG, the German Railways). The railway infrastructure enterprises run by DB AG are to remain the property of the Federal Govern-

ment but DB AG is also to continue to control and operate the railway network for the present and draw up the financial accounts. The Federal Government plans to present a privatisation law based on the key points decided by the end of March this year. Its aim is part-privatisation during this legislative period. For this the enterprise must be suitable for capital market flotation.

The decision by the Federal Parliament takes account of the special interests of the Federal Government in regard to the exercise of its responsibility for infrastructure under the Grundgesetz (Basic Law). This is to be met chiefly through a performance and financing agreement with DB AG and the railway infrastructure enterprises. Additional debts and risks to the Federal budget will be excluded in accordance with the aim of railway reform, namely to relieve the Federal budget of expenditure. A particular objective of railway policy is to strengthen competition on the railways. The decisive conditions have been created for this with non-discriminatory access to the public rail network in Germany laid down in law and its supervision by the Federal Network Agency. In addition, how control by the Federal Network Agency can be improved even further will be examined as part of the part-privatisation of DB AG.

36. Making the financial markets competitive

To enable potentials for growth to be better exploited the framework conditions for the provision of capital must be right (see Table Serial Nos. 57-61). The confidence of investors must be strengthened by ensuring market integrity and an appropriate level of consumer protection. The Federal Government will therefore further improve the means of obtaining financing for small and midsize firms. It will take account of the banks' more stringent requirements for security for loans to SMEs and the disproportionate costs of handling small loans, for example by strengthening the system of guarantee banks and by standardising SME loans given by the KfW Banking Group (see Box 7). Particularly young and innovative companies often find it difficult to obtain venture capital investors for their projects. To bring more equity capital to Germany, particularly for these

investments, the Federal Government will strengthen Germany's position as a location for equity capital funds. It will therefore develop the present law on equity investment companies into a law on equity financing which will come into force together with reform of corporation tax.

With the regulation in law of real estate companies in Germany that are traded on the stock exchange (REITs or Real Estate Investment Trusts) the Federal Government will introduce a new instrument to professionalise the real estate sector. It will also improve Germany's competitiveness as a location for financial services and real estate business. On international level it will take up the subject of hedge funds during its presidency of the G8 and discuss the opportunities and risks entailed, particularly for the stability of the international financial market. Of particular concern will be how much transparency should be required of hedge funds in order better to counter the systemic risks to the financial market that could come from this sector.

37. Opportunities for German firms worldwide

In its promotion of foreign trade, its foreign trade financing and political flanking measures the Federal Government supports German firms in their operations worldwide. This includes their participation in important trade fairs abroad (see Table Serial No. 41). The Federal Government also supports the foreign commitments of domestic services firms with specific projects in order to make them more competitive and help them exploit the potential on foreign markets. It is constantly developing its range of export credit and investment guarantees further in dialogue with companies. During the coming year it will also conclude new investment protection agreements with developing and newly industrialised countries; above all, existing agreements will be renegotiated with the aim of achieving modern and improved legal protection for investment.

In addition, the Federal Government is restructuring its foreign trade promotion and its location advertising. On globalised markets it is increasingly rare for companies to operate solely as exporters,

importers or investors, they are active in all three areas. The Federal Government is responding to that development. It has merged the advertising for investors (Industrial Investment Council) with location advertising (Invest in Germany) into a new company for location marketing, which will commence

operating on 1 January 2007 (see Table Serial No. 18) and by the end of 2008 it will merge this company in a second step with the Federal Agency for Foreign Trade. The restructuring will give customers more transparency and help to make the system as a whole more efficient.

Box 7: Measures in the Federal Government's SME Initiative 2007

Framework conditions to help SMEs

- ▶ Reform of inheritance tax to facilitate succession
- ▶ Prolongation and extension of the investment grant in the new Federal States
- ▶ Improvement of regional economic promotion for small and midsize firms as part of the Federal and State joint tasks

Reducing administrative burden

A further reduction of regulations that hamper growth and burdensome bureaucracy through the Second Act to Ease the Burden on the SME Sector

New Businesses Campaign

- ▶ Accelerating entry in the commercial register, the cooperative register and the partnerships register, creation of a company register
- ▶ Facilitating the establishment of limited liability companies (GmbH)
- ▶ Combining and reorienting training and consultancy promotion for new entrepreneurs and smaller firms
- ▶ Introducing protection against pledging to provide better security for pensions for the self-employed
- ▶ Restructuring the promotion of new businesses from research

Making SMEs more innovative

- ▶ Clear increase in the funds for SME-oriented technology-based promotion
- ▶ Extending the possibilities for promotion within Community industrial research to bigger associative projects and for international projects
- ▶ Preparing SMEs for cooperation in research with other firms and research establishments (start-up promotion)
- ▶ Improving access for SMEs to specific federal technology programmes for key industrial technologies

Modernising vocational training and ensuring new generations of skilled workers

- ▶ Continuing and developing the National Pact for Training and Skilled Recruits in Germany
- ▶ Extending the range of occupations, partly through graded training orders
- ▶ Better integration of basic and advanced training
- ▶ Supporting the employability of older and experienced employees

Improving the financial situation of SMEs

- ▶ Developing a new small loan programme for entrepreneurs setting up a business with sole risk assessment by KfW and full release from liability for the banks
- ▶ KfW will develop a simple standardised small loan for established firms
- ▶ New KfW mezzanine programme to finance the broad SME sector
- ▶ Maintaining and strengthening the system of guarantee banks

Mobilising venture capital for innovations

- ▶ Creating attractive framework conditions for venture capital
- ▶ Expanding the funds for new businesses and young technology-based firms (the High-Tech New Businesses Fund, the ERP Start-Up Fund, ERP/EIF Umbrella Fund) with partners from business

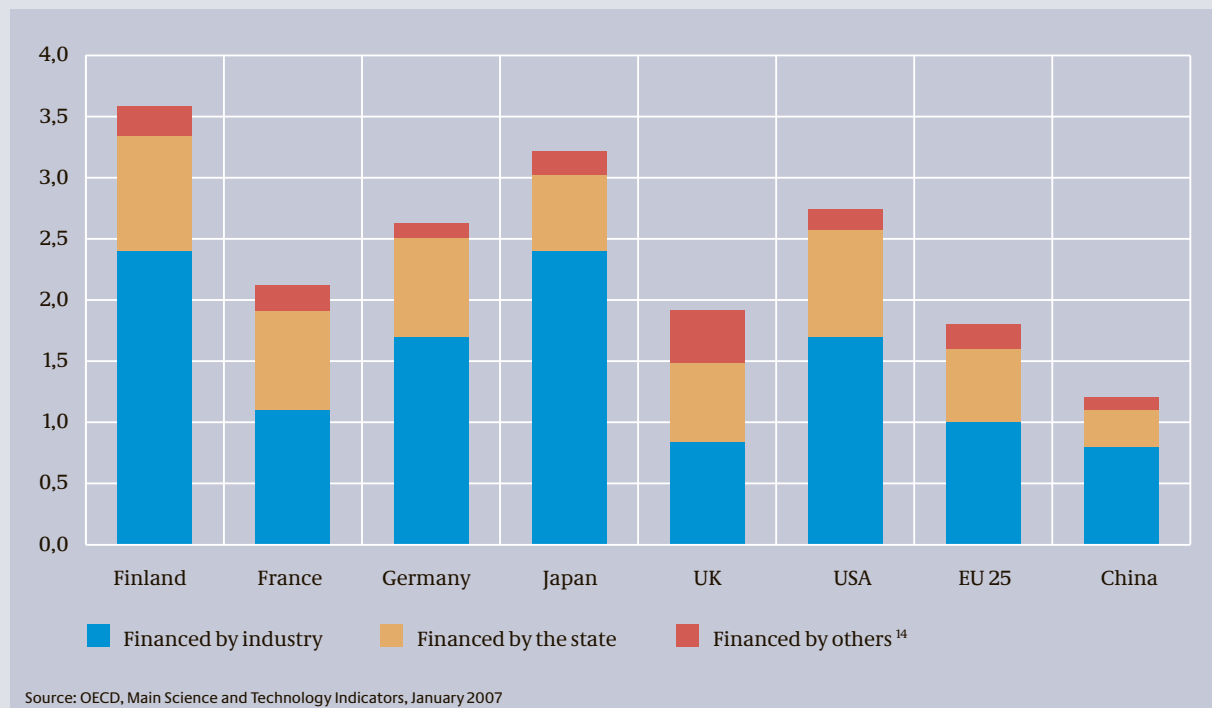
C. Advancing the Knowledge Society

38. Building Up Germany as an Innovation Location

Germany is a central location for research and development with a high level of knowledge and skills. German business and industry live on their technological products and innovative services. The Federal Government therefore sees an important task for its economic policy actively to advance the knowledge society and support companies' efforts to be innovative. It is advancing the expansion of the knowledge society particularly in two fields: research and development and raising the standard of education in the population.

All this requires a high level of private and public investment. The Federal Government will contribute its share with additional investment totalling € 6 billion by 2009 to ensure that the state and the private sector are jointly investing at least 3 % of GDP in research and development by 2010, in keeping with the Lisbon target (see Diagram 10). To serve that aim it has combined its innovation policy in a High-Tech Strategy that transcends ministerial departments. Participation by the private sector is essential to ensure and maintain the high market orientation of research in Germany, without which the leading position worldwide in exports could not have been achieved. The dialogue with the Federal States on how they could make their contribution to achieving the 3 % target is being conducted intensively.

Diagram 10: R&D Intensity in 2004 – R&D Expenditure in Percent of GDP by International Comparison



¹⁴ Financed from other national sources and abroad

Box 8: A High-Tech Strategy for Germany

A new approach in innovation policy

- ▶ A stronger role for the Federal Government's innovation policy
- ▶ For the first time all the measures and framework conditions relevant to innovation will be combined in one coherent strategy that transcends ministerial departments

Cross-section activities for better cooperation between research and industry, and to strengthen Germany's international position

The main idea is to set the right incentives for cooperation between research and industry and give new impetus for the rapid and direct implementation of research results in products, services and processes.

This will be served i.a. by the following (see Table Serial Nos. 62-64):

- ▶ Promoting cooperation and network projects (clusters) and introducing a research premium for universities and research establishments
- ▶ Expanding the promotion of new high-tech businesses and innovative small and midsize companies (see Box 7)
- ▶ Further developing norms and standards, the systems of protecting intellectual property and patent utilisation
- ▶ Making Germany more attractive to international partners as a location for research to obtain investment in research and highly qualified personnel; increase cooperation with countries engaged in dynamic research in growth markets
- ▶ Use the German EU presidency in the 1st half of 2007 to make research and innovation policy a major focus of EU activities
- ▶ Invest in brains

Specific strategies in individual innovation fields

- ▶ Define clear targets and fields of action for 17 promising areas of outstanding national interest (i.a. medical, defence and energy research)
- ▶ An overall strategy of promotional and regulatory measures with a concrete timetable and initiatives (see Table Serial Nos. 67-83)

Further development with the Research Union and progress reports

- ▶ The High-Tech strategy can only be further developed and implemented in cooperation with research and industry. For this purpose the Research Union of Industry and Science was established, in which experts from both areas and politics discuss the appropriate form for the High-Tech strategy and work out the appropriate recommendations.
- ▶ The first assessment of the High-Tech strategy will be made in September 2007; from 2008 the progress will be documented in the Federal Government Report on Research and Innovation.

The dialogue between research, business and politics will be further strengthened by the Council for Innovation and Growth. It supports the Federal Government with advice to enable the framework conditions for innovations in Germany to be further improved.

39. Implementing the High-Tech Strategy

The rapid and marketable implementation of scientific progress into economic performance is in the centre of the Federal Government's research and technology policy. Hence it is aiming to conduct a coherent and integrated innovation policy with the High-Tech Strategy. Innovation competence and

excellence are to be further increased and bridges built from research into future markets in 17 selected fields and with cross-section measures (see Box 8). This means not least making the framework conditions innovation-friendly, even in the early phases of technological development, and making the general public more open to innovations.

The Federal Government has increased the funding of the SME-oriented promotional programmes that can be used for all technology fields overproportionally by about 10 % a year from 2006 to 2009. Small and midsize firms become noticeably more innovative if their research and development budget is subsidised. Each euro in promotion mobilises on average two more euros in private funds; the leverage effect of promotion through equity capital and loans is even higher. Innovative SMEs will receive promotion totalling around € 3 billion in this legislative period, so that in the next three years the Federal Government will stimulate a volume of innovation of more than € 10 billion.

Small and midsize companies will also be included more than hitherto in the promotion of specific technology lighthouse projects (e.g. in the air traffic, transport and energy research fields, see Table Serial Nos. 87-89). The main focus includes the networking of science, research and business and strengthening the growth motors in the new Federal States.

40. iD2010 and the IT Summit - The Main Focus of ICT Policy

Information and communications technologies (ICT) are now making a greater contribution to value creation than the classical “heavy” technology sectors, automotive construction and mechanical engineering. With a strategic programme on the information society (iD2010 – Germany the Information Society 2010) the Federal Government has completed its innovation strategy for Germany as a location for business and laid down the main focal points of ICT policy for the current legislative period (see Box 9). At the first national IT summit on 18 December 2006 a political signal was set in discussions with business and research in a 12-point programme (known as the Potsdam Initiative) to put Germany in the international lead as an ICT location. The first assessment is to be made at a second IT summit at the end of this year.

41. Protecting intellectual property

In the knowledge society the efficient protection of knowledge capital held by companies in the form of patents, trademarks, copyrights etc. is one of the bases of business success. On principle there is public interest in the widespread use of knowledge, but at the same time sufficient incentive must be available – through yields on innovations - to invest in new knowledge. Hence an appropriate level of protection of intellectual property must be guaranteed and product piracy combatted. While a relatively high stan-

Box 9: iD2010 – The Information Society in Germany 2010

iD2010 deals with the central questions of the promotion of the information society and the whole range of ICT, from consultation and promotional measures in education and research to improving the economic and technical framework conditions (see Table Serial Nos. 84-85)

- ▶ **Legislation:** The Telecommunications Amendment Act and TC regulation, the Telemedia Act, digital copyrights, the EU legislative framework for the information society
- ▶ **Promoting technology:** Grouping ICT promotion, especially multi-media promotion and ICT research activities by ministerial departments in the High-Tech strategy and the ICT 2020 research programme announced for spring 2007
- ▶ **Promoting ICT applications and IT security in business, the state and society:** Initiatives to promote broadband, digitalise the media and strengthen e-business in SMEs; a new e-Government strategy 2.0 to provide nationwide electronic administration services and improve communication between business and the administration; introduction of the electronic identity card and electronic patient card; increase IT security.

dard of protection has been achieved in Germany and Europe there are still serious shortcomings in the protection of intellectual property rights in the advancing newly industrialised countries. That is evident for example in the massive rise in international trade in forged trademarked products in recent years.

The Federal Government will therefore continue to combat infringements of intellectual property. The main emphasis will be on partnership and cooperation with the source or transit countries for pirated goods, e.g. through cooperation with customs or patent authorities, and political dialogue, which is already intense, with China, among other countries. The private sector is to be incorporated as closely as possible in these activities (see Table Serial No. 63). In addition, the Federal Government will utilise the opportunity to start a dialogue between the G8 and the major newly industrialised countries on subjects like protecting intellectual property and reliable framework conditions for worldwide investment. The aim is to reach new agreements.

42. Strengthening the universities

Expanding the knowledge society also and above all requires broad participation by the general public. The aim is as high a level of education as possible. Especially the need of the German labour market for university graduates will grow further in future. The Federal States are responsible for education policy. The Federal Government supports their activities particularly in the university sector. More autonomy, independent organisation, cooperation and competition are the key elements in research policy. Universities and research establishments should be able to profile themselves more strongly as top research centres in the international environment. The German universities are facing great challenges. Firstly, university education must be modernised as part of the Bologna Reform programme - to create a uniform university sector throughout Europe. Secondly, the number entitled to enter university will rise clearly by 2020. The Federal Government and the Federal States have therefore agreed on key points for a University Pact 2020 to secure educational opportunities for the next academic generation and ensure the efficient research performance. It will be based on two pillars: a programme to enable a growing number of young

persons qualified to enter university to receive a high quality university education, and a general programme for successful research projects that can win German Research Society funding (see Table Serial No. 91).

43. Excellence Initiative to 2011 - Promoting Top University Research

Top university research in Germany will be promoted under the Excellence Initiative, and for this € 1.9 billion will be made available for universities. 75 % will be provided by the Federal Government and 25 % by the Federal States. The Initiative will especially promote excellence in scientific research in order to position German universities better in international competition and increase the chances for the coming generation of academics. The German Research Society and the Research Council are also monitoring the current second competition round.

D. Securing the Bases for Prosperity in the Long Term

44. The social and environmentally compatible market economy

To secure the bases of prosperity in the long term and successfully cope with structural change it is important to ensure sustained growth. That means harmonising a high level of growth to promote employment with protection of the environment, a careful and economical handling of resources and a policy that will guarantee viable social security. Maintaining the life expectancy of present and future generations is the core of the Federal Government's sustainability strategy.

45. Efficient health care

Reform of the health system will come into force in stages from 1 April 2007. It will make the statutory health insurance system more economical by increasing transparency and intensifying competition, and it will reduce bureaucratic expenditure (see Box 10 and Table Serial No. 94). This will be achieved i. a. by reforming the scale of fees for registered medical practitioners, opening the hospitals more for ambulatory care and allowing the health insurance institutes clearly more autonomy in drawing up contracts and

greater scope for merging. The Council of Economic Experts also sees these as steps in the right direction (JG Items 307 ff.). When the Health Fund is set up it will from 2009 collect the contributions and payments from tax revenue due to the statutory health insurance institutes and hand these on to the institutes. This will increase competition between the institutes, and increase their incentives to be more economical with their revenue and to make more innovative offers. It will also create more transparency in the flows of revenue and expenditure in health insurance.

The reform will organise health care at lower cost and give the health insurance institutes the possibility of offering those insured with them cost-saving rates. If an institute cannot cover its outlay with the allocations from the Fund it can charge its members a supplement, either calculated as a percentage or a standard rate. The supplementary charge will be limited to 1% of the income on which contributions must be paid. If institutes earn surpluses they can pay these

out to their members. The scope for personal choice and changes in private health insurance will be extended by the creation of a base rate for private health insurance and allowing most of the provisions for ageing in the population to be transferable in this tariff range. That has started a further development to an alternative form of financing that is better than the status quo, as it allows greater comparability between health insurance institutes and insurance policies and more autonomy for the benefit of the insured and patients. The Council of Economic Experts has put forward far-reaching ideas on this (JG Items 280 ff. and 315 ff.). The Federal Government has taken due note of these and points out that clear steps towards greater efficiency have already been taken.

46. Reform of care insurance

In view of the financial situation in statutory care insurance the Council of Economic Experts insists that reform is urgently needed in this branch of the social security system as well (JG Item 359). The Federal Government agrees. Care insurance is a great help

Box 10: Key Elements in Health Reform

- ▶ The Health Fund is to increase competition between the health insurance institutes and make the financing of the system more transparent. The contribution rate will be uniform in future and determined by the Federal Government. The health insurance institutes will receive from the Fund a uniform amount per person insured and supplements to compensate for differences in age, sex and mortality structures. All the institutes must initially meet 100% of their expenditure, and later at least 95%, out of the money received from the Fund. If they cannot cover their expenditure with this allocation they must improve their cost management or obtain the additional funds they need by charging their members a supplement, the level of which will be limited.
- ▶ As the statutory health insurance institutes perform an essential task for society as a whole a share of their financing will be contributed from the Federal budget. This is intended to put the financing on to a more viable basis that will promote employment.
- ▶ The health system is also to be made more efficient and transparent with optional rates, greater freedom to draw up contracts for the institutes, a new system of doctors' fees, cost-benefit analyses for new drugs, better integration of ambulatory and hospital care and tighter association structures.
- ▶ The private health insurance institutes must in future offer a base rate with benefits comparable with those of the statutory institutes. They will be legally obliged to offer the base rate to any applicant without risk premiums or the exclusion of any benefits. Provisions for ageing will be largely transferable on this rate, so extending the range of choice and possibilities for changing for the persons insured.
- ▶ New regulations in private and statutory health insurance will give persons who have no health insurance access to the system (private or statutory) in which they were last insured or to which they belong in the system. The introduction of an obligation to accept applicants, in private health insurance as well, is also intended to ensure that in future no-one is without insurance cover when they fall ill.

and support for those needing care and their carers. In scarcely any other branch of social security are the consequences of the demographic development as serious as here.

To ensure that persons needing care can receive the services they need at a price they can afford in future, too, the Federal Government will tackle the revision of care insurance as its next reform project (see Table Serial No. 96). In view of the demographic development, and taking into account the form of care which most people needing care prefer, the coming reforms will be directed to supporting and promoting domestic care structures on the principle of ambulatory before inpatient care. At the same time the reform will aim to secure the financial bases at long term. The load is to be distributed fairly within society and between the generations.

47. Confidence in provision for old age

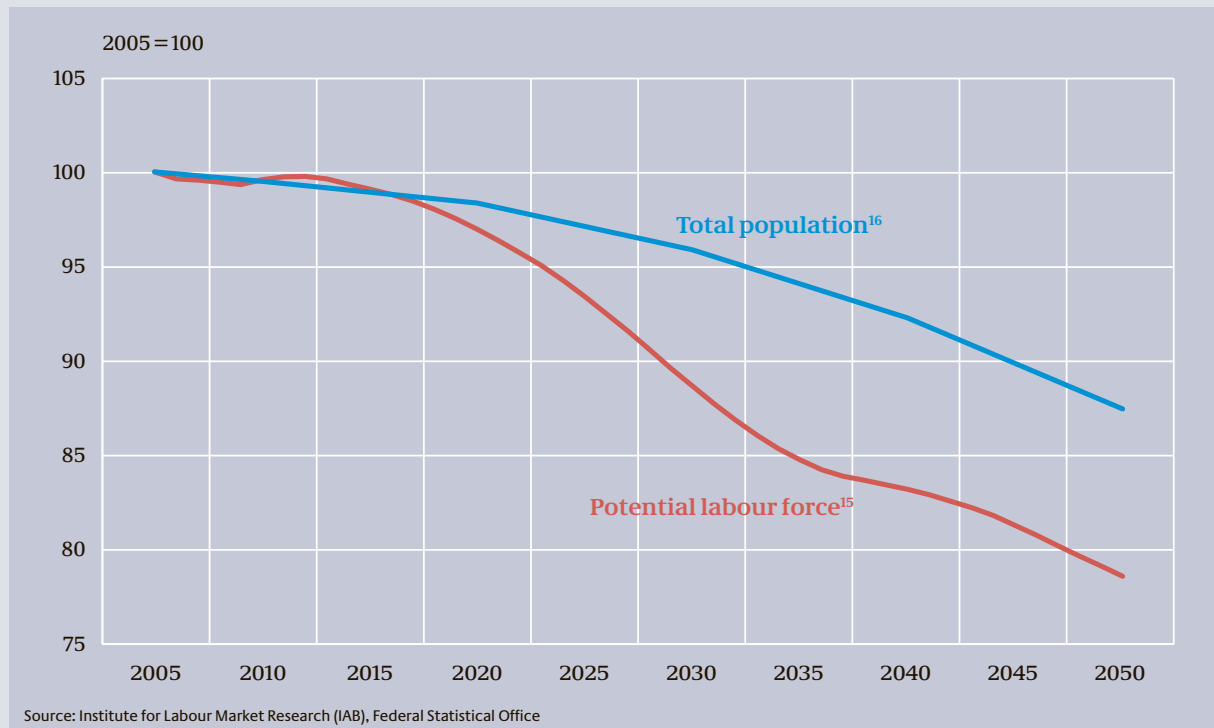
The aim of the Federal Government's policy on the statutory pensions insurance system is a fair balance between the generations. Provision for old age entails

long-term decisions and it directly affects people's plans for their lives. Hence the statutory pensions insurance system needs special reform measures to restore the confidence of all that the system will function in the long term. The signals were set to stabilise the financing of the statutory pensions insurance system with the reforms already carried out in recent years. At the same time comprehensive state promotion of supplementary private and occupational pension provision was introduced. The targets for the statutory contribution rates and the level of pensions to be secured are the guideline for all further decisions in this legislative period. That means on the one side that the contribution rate is not to exceed 20 % by 2020 and 22 % by 2030. On the other hand it also means that the level of pensions (level secured before tax) is not to be below 46 % up to 2020 and 43 % up to 2030; the aim is to maintain a level of 46 % beyond 2020 as well.

48. Raising the standard retirement age

In connection with an overall strategy to improve the employment situation for older people (for more

Diagram 11: Long-Term Projection of the Population and Potential Labour Force



¹⁵ Population of working age (15-64) with 200,000 immigrants on balance of migration in and outflows

¹⁶ Estimate of future population using Variant 5-W2 with the following assumptions: birthrate falling slightly (to 1.2 children per woman by 2050). Basic assumption on life expectancy and a migration balance of 200,000 foreigners

detail see Chapter E) the Federal Government will raise the standard statutory retirement threshold to 67 in stages between 2012 and 2029 (see Table Serial No. 93). This measure will help to secure the financial basis and the efficiency of the statutory pensions insurance system in the long term in a balanced relation between the generations. The sustainability factor in the pensions adjustment formula takes due account of the development in the arithmetical relation between pensioners and those in employment and paying obligatory contributions when pensions are being adjusted. Postponing the statutory retirement age will also help to damp down the rise in contribution rates, which is being caused by the demographic development (see Diagram 11). The measure will be transferred to the legislation on pensions for officials with the same effect.

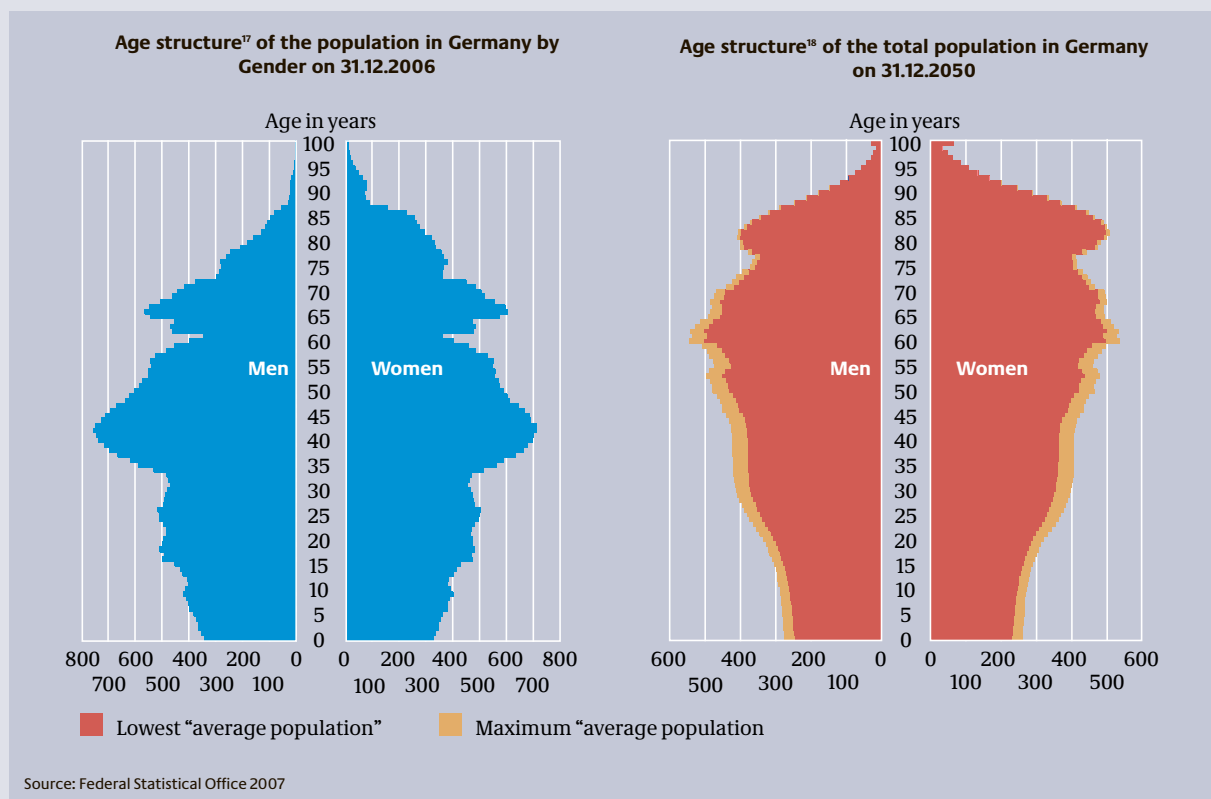
If the desired long-term targets for contribution rates are to be met it is also necessary to realise the

cutbacks in the adjustment of pensions that have not been made since 2005 at a later date. Hence from 2011 increases in pensions will be halved until the need for compensation is met.

49. The longest stretch of the reform route in the statutory pensions insurance traversed

In the view of the Council of Economic Experts the Federal Government's policy has introduced the measures needed to secure the statutory pensions insurance system against the problems on the expenditure side resulting from the demographic development (see Diagram 12). "There are still things to be done in this branch of the social security system, but the longest stretch of the reform route has already been traversed" (JG Items 26, 275 and 318). The Federal Government sees this as confirming the reliability and sustainability of its pensions policy.

Diagram 12: The Age Structure of the Population



^{17,18} Average population, upper threshold (Variant 1-W2); lower threshold (Variant 1-W1)

1. The birthrate is put at an average of 1.4 children per woman throughout the entire period of the calculation and assumed to be nearly constant.

2. Life expectancy at birth will rise to 88.0 for girls and to 83.5 for boys by 2050; in 2050 women aged 60 can expect to live a further 29.1 years and men aged 60 25.3 years.

3. The migration balance will be 200 000 a year (Variant 1-W2) or 100 000 (Variant 1-W1)

Owing to the effect of the growing number of occasional (one-euro) jobs in dampening the gross wages and salaries bill per person employed the Council of Economic Experts recommends accepting a proposal made by the European Commission in 2003 to maintain sustainability of social security financing. It proposed no longer orienting pensions adjustment to the gross wages and salaries bill but only to the per capita remuneration on which statutory contributions are paid (JG Item 334). This is to overlook that the Federal Government has already taken up the basic idea in the European Commission's proposal. Wages on which statutory contributions are paid have been included in the calculation of the wage development relevant for pensions adjustment since 2006.

In addition, the Council of Economic Experts regards the self-employed on low incomes as in need of protection, and feels that obligatory insurance for this group should be discussed. The Federal Government will examine in how far there is need for action in future towards extending the group of persons for whom pensions insurance is obligatory.

50. Expanding the child care infrastructure

To cope with the demographic development a family-friendly policy is also needed. Children are the future. A policy for families must make it easier to combine a family and a job. That is a main focus of the Federal Government's policy (see Table Serial Nos. 114-120). A good infrastructure of full-day schools and child care facilities makes it easier to combine a family and a job and ensures that all children receive educational care at an early age. Good education for all starts with good child care.

51. A parents allowance introduced

As well as a better infrastructure families also need financial support, like the possibility introduced in 2006 to offset more child care costs from tax and the introduction of a parents allowance this year. The parents allowance marks a change in the paradigm in family policy. Independent of need it gives young parents relief for up to 14 months. Relating the parents allowance to the previous income is also an incentive to change the traditional division of tasks between

men and women. More women in employment can help to reduce the shortage of skilled personnel, which is foreseeable as a consequence of the demographic development.

52. Drawing up an integration plan

The immigration of skilled labour from abroad can also help to ease the shortage of skilled workers in certain areas and reduce the decline in the number in employment due to demographic causes. Immigrant highly qualified personnel can stimulate economic growth. At the same time the wide range of experience and talents of immigrants already living in Germany need to be specifically encouraged and utilised. The share of people in the population as a whole with an immigrant background is growing. An active integration policy is essential. It serves both to increase social cohesion and strengthen Germany economically, and it will find expression in the first National Integration Plan, which is being worked out under the chairmanship of the Federal Government with the Federal States, the municipalities and social groups (see Table Serial No. 121). It will be presented in mid-2007. Integration through commitment to citizenship is also playing a part here. In the view of the Federal Government the state cannot and should not cope with all these issues alone. Migrants, too, can best be integrated through the voluntary commitment of everyone, including the employers and trade unions and migrants organisations.

53. Securing energy and raw materials supplies

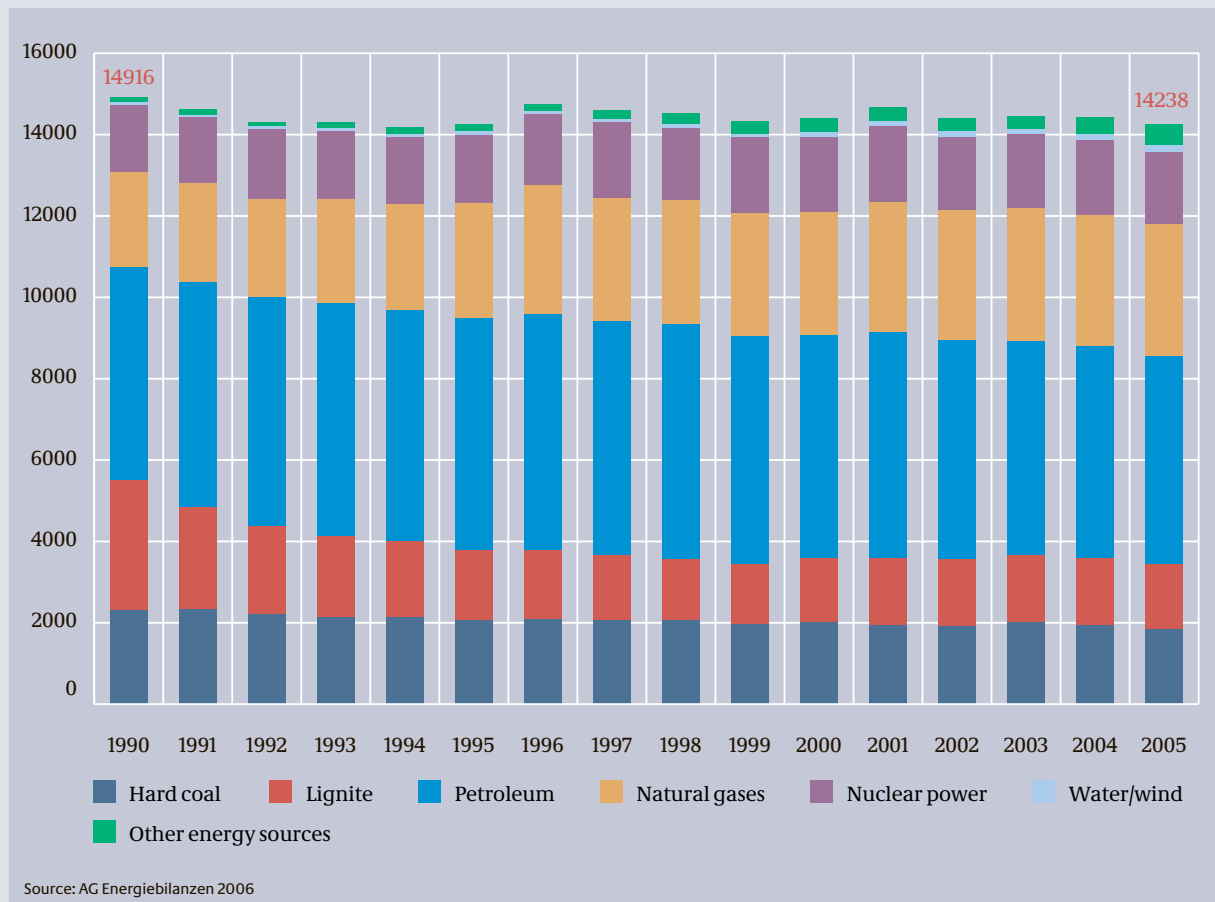
Germany's energy policy ensures a high degree of security of supply, competitiveness and climate compatibility. According to studies by the International Energy Agency (IEA) the worldwide demand for energy will rise by more than 50 % by 2030, if governments do not take action. With Germany's net dependence on imports that will create growing price risks. Moreover, the climate policy challenges will grow. This will require a policy that will lead to clearly lower energy consumption and so clearly lower CO₂ emissions.

In view of the rising demand for raw materials worldwide, the Federal Government is relying on a balanced and diversified energy mix, which also includes coal and a growing share of renewable energies. It is also relying on increasing energy and material efficiency. Unlike many other industrial states Germany's energy consumption has been stable for years (see Diagram 13).

Energy consumption and economic growth are largely decoupled in our country (see Diagram 14). The Federal Government is aiming for further improvement of energy efficiency in future, too, both on the demand side and in energy production and conversion. Efficient use of resources and opening up new markets will also make an important contribution to maintaining the competitiveness of German industry in innovative energy technologies.

The Federal Government will present an overall energy policy concept in the second half of 2007, with an outlook to 2020. Securing supplies, acceptable energy costs and effective climate protection are to be integrated (see Box 11 and Table Serial No. 108). The national energy summits provide an important base. The last will be held in the first half of 2007. The Federal Government is also in dialogue with German industry on raw materials supplies. A national raw materials summit in spring 2007 is to identify and coordinate possible measures for industry and flanking policy measures. Finally, energy and raw materials policy will also be central elements in the German G8 and EU presidencies. During its G8 presidency the Federal Government will urge observance of the World Trade Organisation guidelines on raw materials. The G8 should set a signal with tangible measures to improve energy efficiency and increas-

Diagram 13: The Development in Primary Energy Consumption in Germany since 1990¹⁹



¹⁹ Measured in petajoules (PJ)

Box 11: Energy Summits

The need of consumers and industry for secure and environmentally compatible energy supplies at competitive prices was the theme of the two energy summits which were held in 2006 in the Federal Chancellor's Office.

Representatives from politics, industry and the associations met to discuss the future of energy supplies. The electricity industry has promised investment in new power stations and transmission totalling around € 30 billion by 2012, and the renewable energies representatives have announced expenditure of up to € 40 billion for new plants.

The third and last energy summit in the first half of 2007 will discuss various energy policy scenarios up to 2020, and this will help in the preparation of an overall national energy policy concept that is to be presented in the second half of 2007. Energy mix, competition and energy prices as well as energy technologies will be the main subjects, as investment in the energy sector is long term.

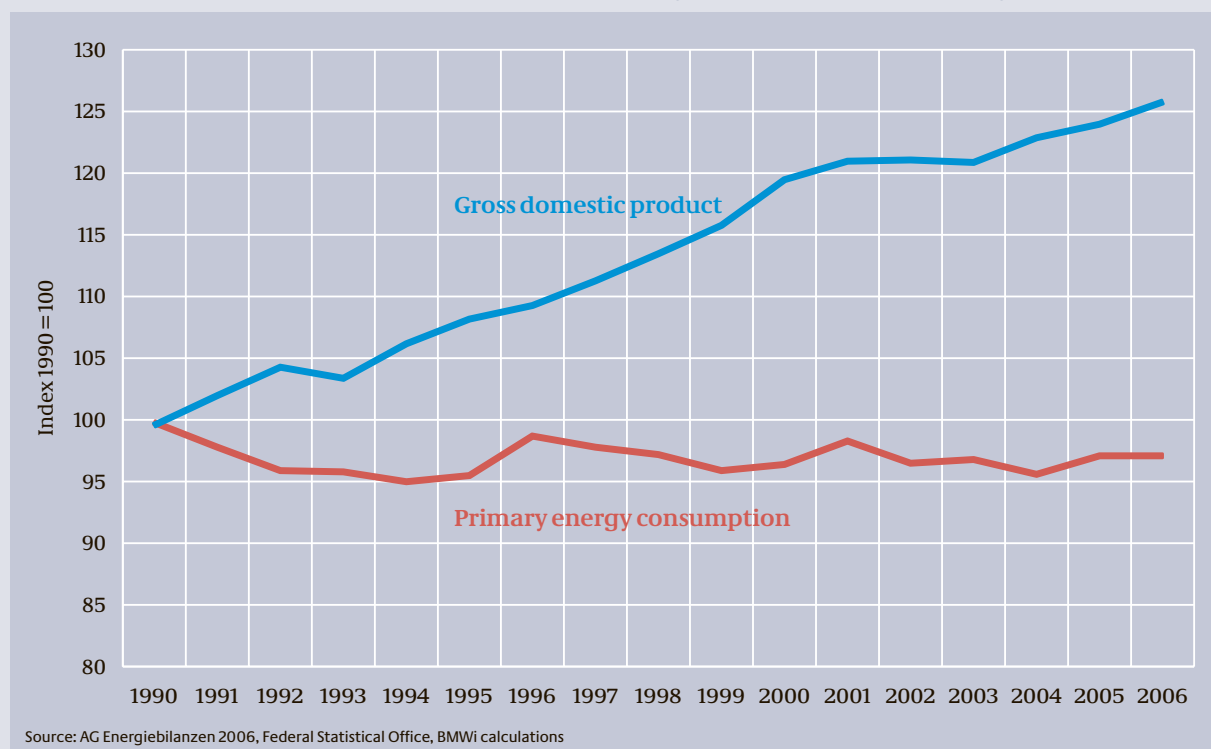
ingly include the developing and newly industrialised countries.

54. Increasing the share of renewable energies

In future renewable energies are to account for a bigger share of the energy mix. Their share in total primary energy consumption is to be increased to at least 10 % by 2020 (2005: 4.6 %) and rise continuously

thereafter in keeping with the National Sustainability Strategy. To enable the targets set for the individual sectors of renewable energy to be reached these energy sources are promoted through various measures (see Table Serial Nos. 104-107) - in the electricity sector especially through the Renewable Energies Law, in the fuels sector largely through the regulations on ratios in force since the start of this year and in the heating sector through the market incentives pro-

Diagram 14: Decoupling Economic Growth and Energy Consumption in Germany



grammes, which is to be continued under the Coalition Agreement and supplemented by more instruments, like a regenerative thermal utilisation law. This has led to the development of new branches of industry and to a considerable extent to securing and creating new jobs in this sector and its suppliers. The Renewable Energies Law has in principle proved valuable and the Federal Government will continue the basic structure, that is, as a system of payments for input. The report on experience with this legislation, which is to be presented before the end of 2007, will among other issues assess the economic efficiency of the individual feed-in-tariffs. If necessary the results of the assessment will be implemented in an amendment to the law (see Table Serial No. 104, 3). The first amendment to the law, which came into force on 1 December 2006, relieved electricity-intensive companies and rail transport from even more of the costs of electricity from renewable sources. At the same time better regulations on transparency will ensure that energy consumers are in future only charged with the actual costs of the feed-in of renewable energies (see Table Serial No. 104, 1).

55. Setting targets for saving energy

Energy saving noticeably reduces the cost to consumers, lessens the dependency on suppliers of oil and gas and helps to protect the climate. The European Commission estimates that energy costs in the EU can be lowered by more than €100 billion by 2020 (potential for saving throughout EU is 20 %). To exploit that savings potential the European Commission has presented an action plan on energy efficiency. The Federal Government will present a national action plan by 30 June 2007 that will take up the parts of the European Commission's action plan that are appropriate for Germany and augment the contents. It is the Federal Government's aim to double energy productivity on national level by 2020 from the 1990 level. In 2020 only half the 1990 energy input is to be needed for the same economic performance as in 1990. The Federal Government regards reducing stand-by consumption by electrical and electronic products as an important focal point.

56. Energy efficiency in buildings

A major part of energy consumption in the highly developed industrial countries occurs in buildings. Hence the Federal Government has increased the funding for the programme to reduce energy consumption in buildings and augmented the contents. Altogether € 5.6 billion will be made available for this in promotional funds by 2009 (Table Serial No. 99). It is also the aim of this programme to make people more aware of how much energy the individual consumes and how much more efficiently energy can be used. More incentives will be set with the future energy certificate for the sale and renting of buildings, which will be introduced and made compulsory on 1 January 2008 (see Table Serial No. 100).

57. Advancing climate protection

The EU has a leading role to play in combatting climate change. It is a major concern of the Federal Government to advance the international negotiations on a climate protection regime for the time after 2010. The international climate protection regime for the period after 2012 should be such that the rise in global temperatures is limited to two degrees Celsius from the pre-industrial level. The Federal Government will urge the EU to develop a comprehensive negotiating package with proposals on emissions reduction targets and options to incorporate more major emitters of greenhouse gases. The EU should undertake to reduce its emissions of greenhouse gases by 30 percent by 2020, if other major emitters in turn also undertake appropriate obligations.

Emissions by newly industrialised countries like China, India, Mexico, Brazil, Korea and South Africa will increase further in the next few years and account for an ever greater share of worldwide greenhouse gases. An international climate protection agreement is needed in which all countries commit to making effective efforts that can be appraised, in accordance with their various responsibilities and economic capabilities (see Box 12). The developing countries must also uncouple their economic growth from growth in emissions, so that the rise in their greenhouse gases is lower than expected today. For

Box 12: The Climate Balance Sheet

The industrial countries have undertaken in the Kyoto Protocol to reduce their emissions of the six most important greenhouse gases by altogether 5 % from the 1990 level between 2008 and 2012.

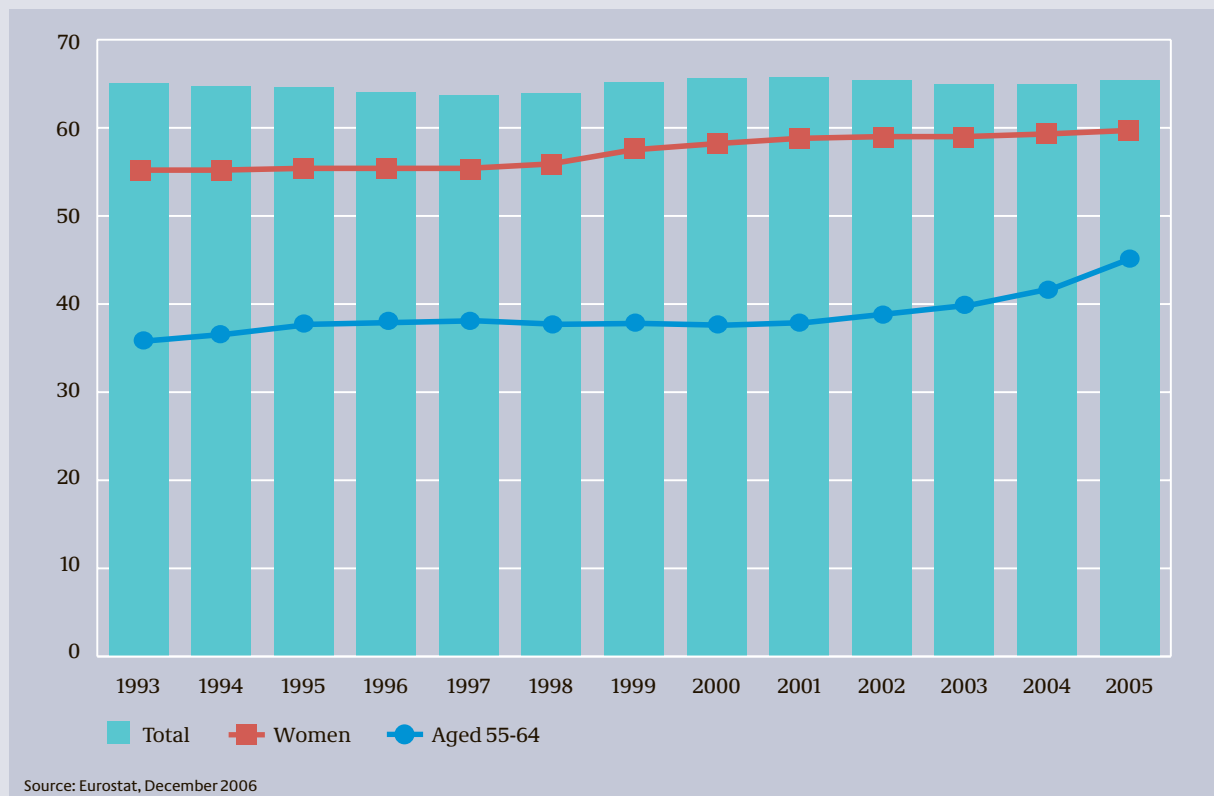
- ▶ Germany's Kyoto reduction obligation is 21 %. From 1990 to 2005 German greenhouse gas emissions fell by more than 18 %.
- ▶ The Kyoto industrial countries - except the United States and Australia - are now responsible for 31 % of worldwide CO₂ emissions; in 1990 they accounted for 44 %.
- ▶ The EU 25's share fell during the same period from 19.3 % to 15 %. Germany's share is now only 3.2 %.

this it is particularly important to increase energy efficiency and the share of renewable energies as well as the use of technologies low in CO₂ further. Germany will propose a plan of action on energy efficiency to the G8. The German G8 presidency is also a chance to give the UN climate process the necessary political impetus.

An important objective for European and international climate protection policy is also to develop the global CO₂ market further, the core of which is

currently the European emissions trading system combined with the Kyoto project mechanisms (joint implementation and the clean development mechanism). The Federal Government has made the allocation rules more transparent in its national allocation plan 2008-2012 and increased the incentives to invest in environmentally friendly and efficient technologies. On European level consistent further development of the instrument is the aim, with the objective of making emissions trading more economically and ecologically efficient. During its presidency of the EU

Diagram 15: The Employment Ratio of Older Workers, Women and Total over Time 1993–2005 in Percent



Council the Federal Government will start negotiations on the European Commission's draft directive to include air traffic. It also supports the objective of linking European emissions trading with other countries and regions.

E. Activating Employment Potentials

58. Raising the level of employment

In view of the Lisbon target of 70 % of the potential labour force in employment Germany, with a percentage of 65 %, still has potential for growth unutilised (see Diagram 15). The Federal Government will therefore continue on the path of labour market reforms already started to enable more employment and more growth.

Lower subsidiary wage costs make labour more competitive. In particular, they help the low skilled to find a job. Hence it is an important aim of the Federal Government to bring the social insurance contribution rates, of which the employers and employees each pay half, down permanently below 40 % of the gross wage or salary on which they are paid (see Diagram 16 and Table Serial No. 128). That will bring the employer's share down below 20 %. It can already be achieved this year. The reduction in the unemployment insurance rate from 6.5 % to 4.2 % will help. Despite the increase in the contribution rates to the statutory pensions insurance from 19.5 % to 19.9 % and in the average general health insurance rate from 13.3 % to an expected 13.9 %, there will be an overall reduction in contribution rates of 1.3 percentage points net. (Payments to some health insurance institutes include premiums to pay off old debts; this will only have an effect on contribution rates once, ceasing when the debts have been redeemed.)

As a result in 2007 the total contribute rate paid by employers and employees can be 39.7 %, so below 40 %. The Federal Labour Agency will make an essential contribution here, and that it is in a position to do so shows yet again that the reforms to redirect the labour administration are beginning to work. In addition, the Federal Government will use one percentage point from the increase in value added tax from 16 %

to 19 % to reduce the contribution rate to unemployment insurance. The Council of Economic Experts expressly acknowledges that the Federal Government is utilising all the scope for reducing contribution rates that is available (JG Item 364).

The Federal Government's approach to improving the conditions for growth and employment is partly to uncouple social insurance contributions from wages and increase the financing from tax revenue, in health insurance as well. A higher grant will be paid from tax revenue to balance expenditure on non-insured services or tasks performed by the health insurance institutes for society as a whole.

59. Mobility secures employment

Beside continued economic growth, reforms on the labour market itself are essential to increase employment. A flexible labour market will strengthen dynamic and open up prospects of employment for the long-term unemployed.

The Council of Economic Experts repeat the proposal they put forward last year, to make redundancies for operational reasons generally permissible and grant a claim to redundancy payment dependent on the duration of employment with the firm, in small firms as well. The alternative they propose is that the employee should agree with the employer to renounce his protection against dismissal in return for a higher wage (JG Items 544 ff.). The Federal Government rejects these proposals owing to the greater burden of costs they would involve for firms. Particularly in small firms with not more than ten employees, and which are not covered by the law on protection against dismissal, the additional cost burden would be unacceptable.

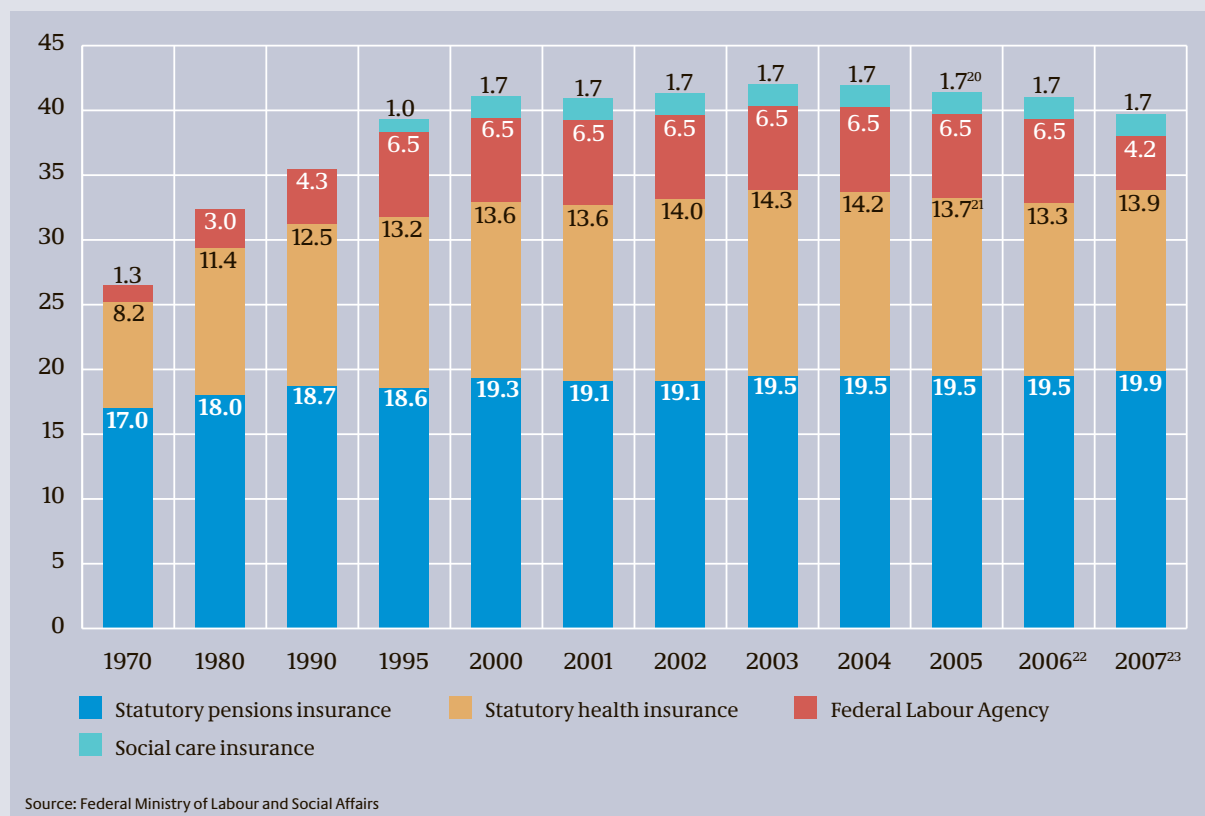
In addition, the Federal Government will further optimise the instruments of active labour market policy. The first to third laws on modern services on the labour market have been subject to fundamental evaluation. The Federal Government will use the results to develop the instruments of active labour market policy further this year to promote employment. This should ensure the efficiency and effectiveness of the labour market instruments.

Reform of the low wage sector is also a major field of action. The aim is to improve the employment prospects of low skilled workers (see Table Serial No. 132). Frequently the low skilled can only earn low wages as they lack specific vocational qualifications or general knowledge. The long-term unemployed are also in many cases classified as low skilled, although they can prove they have formal qualifications, as they have lost important skills and knowledge through protracted unemployment. In its special report of August 2006, "Reforming Unemployment Allowance II. A Targeted Combi-Wage Model" the Council of Economic Experts stated that the labour market situation for the low skilled and long-term unemployed, who now account for nearly two thirds of all the unemployed, has deteriorated continuously over the years. It is now strikingly unfavourable by international comparison as well (see Diagram 17). Hence the low wage sector is of special importance in a strategy to reduce unemployment.

A working group set up by the Federal Government is currently developing concepts to bring the low skilled in particular back into employment. They are also considering the subjects of minimum wages and combi-wages, the third labour market and the scope for mini or midi jobs offering employment for a few hours a week.

There is much to suggest that especially in the household-related services sector the potentials for employment are not yet fully exploited. The Commission on Modern Services on the Labour Market assumed 3 million persons employed in private households. By contrast, in October 2006 around 140,000 persons were registered in mini-jobs in private households. It is therefore being examined whether and through which measures legal employment in private households as a whole can be built up more than to date.

Diagram 16: Social Insurance Contribution Rates in Percent of Gross Wages and Salaries on which these Contributions are Paid



²⁰ Rate increased by 0.25 % from 1.1.2005 for persons without children ; ²¹ Annual average general contribution rate without special membership-related contribution of 0.9 % introduced on 1.7.2005; ²² Expected result; ²³ Estimate

60. Individual responsibility and independence

The social market economy relies on people who can express their views, take their own decisions and are willing to take responsibility for themselves and others within their scope. Freedom and self-determination release the creative forces in human beings. Hence the necessary modernisation of the economy and society involves setting incentives for individual behaviour on the labour market so that readiness to perform and take responsibility are rewarded and consistently encouraged. Labour market policy services are therefore being provided on the principle “Challenge and Support”.

Merging unemployment assistance with social assistance into one basic benefit for jobseekers (Social Code II) has given all persons capable of working the same access to comprehensive support during integration in the labour market. To improve the performance of their tasks by the labour associations and the registered municipal offices and counter undesirable de-

velopments the Federal Government has amended two acts of legislation with the aim of optimising benefits law, improving the administration and increasing the integration of the unemployed; it also hopes to prevent benefits fraud (see Table Serial Nos. 129, 131).

61. Flexicurity: A Major Focus during the EU Presidency

In 2006 the European Council required the European Commission to examine, with the member states and the employers and trade unions, the possibility of jointly laying down principles on the subject of “flexicurity”. This will also be a major focus of the German EU Council presidency. Flexicurity means approaches that will help to improve transitions, e.g. from part-time to full-time employment and from unemployment to a job. However, there is not a uniform model that suits every member state in the European Union, for the institutional, economic and cultural conditions differ. An evaluation of the present approaches can help states to explore their own scope better and learn from each other.

Diagram 17: Unemployment and Employment Ratios of the Low Skilled and Long-Term Unemployed by International Comparison (2004) in Percent

| Country | Low skilled (aged 25 to 64) | | Total population (aged 15 to 64) | | |
|----------------|--------------------------------|--------------------------------|--|----------------------------------|--------------------------------|
| | Unemployment ratio | Employment ratio ²⁴ | Long-term unemployed ratio ²⁵ | Unemployment ratio ²⁶ | Employment ratio ²⁷ |
| Germany | 20.5 | 48.6 | 51.8 | 9.5 | 72.6 |
| Belgium | 11.7 | 49.4 | 49.6 | 8.4 | 65.3 |
| France | 12.1 | 59.6 | 41.6 | 9.6 | 69.3 |
| Italy | 7.8 | 51.6 | 49.7 | 8.0 | 62.5 |
| Spain | 7.3 | 57.5 | 37.7 | 10.6 | 69.7 |
| Japan | 6.7 | 66.7 | 33.7 | 4.7 | 72.2 |
| Ireland | 6.4 | 57.2 | 34.3 | 4.5 | 68.6 |
| Netherlands | 5.7 | 59.0 | 32.5 | 4.6 | 75.1 |
| Austria | 7.8 | 52.2 | 27.6 | 4.9 | 71.3 |
| Denmark | 7.8 | 62.0 | 22.6 | 5.5 | 80.2 |
| United Kingdom | 6.6 | 53.0 | 21.4 | 4.7 | 76.2 |
| Sweden | 6.5 | 67.0 | 18.9 | 6.4 | 78.7 |
| United States | 10.5 | 56.5 | 12.7 | 5.5 | 75.4 |

Source: OECD, calculations by the Council of Economic Experts

²⁴ Share of unemployed/low skilled capable of working in total low skilled labour force (aged 25 to 64); ²⁵ Share of long-term unemployed in total number unemployed; ²⁶ Share of unemployed in total workforce; ²⁷ Share of employed in total population (aged 15 to 64).

Box 13: A Policy for More Employment

The Federal Government aims in particular

- ▶ To bring subsidiary wage costs, which are too high, down below 40% permanently, despite the higher costs to the social insurance systems of the demographic development,
- ▶ To give the labour force the best possible qualifications through efficient education systems; a good vocational training and continuous further education markedly reduce the risk to jobs,
- ▶ To further reduce regulations that hamper employment,
- ▶ To introduce an appropriate regulation for the low wage sector that will promote employment,
- ▶ To integrate more women and older workers (back) into working life, and
- ▶ To further differentiate wage formation. The Federal Government expressly encourages the employers and trade unions to advance rapidly along the path they have taken and make greater use of profit-sharing models in order to allow employees to participate in the company's success

62. Training Pact prolonged

It is important for young people to have a chance of entering an occupation or profession. That gives them the possibility of making themselves financially independent, and it is at the same time the best protection against social exclusion (see Table Serial Nos. 143-150). In its dual vocational training system Germany has one of the best training systems in the world. That location advantage must be utilised. Hence the Federal Government will prolong the National Pact for Training and Skilled Recruits, which was originally due to expire in 2007, and develop it further. In 2006 around 580,000 training contracts and so 4.8 % more than in the previous year, were signed. Companies have more than fulfilled their commitments under the pact by offering about 65,000 new training places. Small and midsize firms have made the biggest contribution.

The Federal Government shares the view of the Council of Economic Experts that the situation on the market for training places requires further efforts (JG Items 477 ff.). The qualifications of applicants also need to be improved. Not all applicants meet the companies' requirements in times when pressure of competition is rising. Surveys suggest that companies see the inadequate qualifications of some school leavers as a serious obstacle to training them. Economic policy cannot solve that problem, it is rather a task for education and family policy, and labour market policy.

Young people's qualification to enter training needs particular attention and this is a major theme in the Training Pact. The Federal Government is responding, e.g. by increasing the supply of full-day schools, trying out concepts to improve young people's occupational orientation, with training places outside companies in the new Federal States and with its special programme to qualify young people to enter training (see Table Serial Nos. 129 - 150). The six to twelve months practical experience in a company as preliminary qualification for training helps particularly applicants with low prospects of obtaining a training place. Most of the companies and young people say their experience with this additional offer has been positive. For this reason, and as the situation on the training market is still difficult, the Federal Government has decided to prolong the programme for a year, and increase the number of places from 25,000 to 40,000. Around 62 % of the participants then do manage to move into vocational training in a company.

In addition, the Federal States have undertaken to make a clear improvement in general schooling. The Federal Labour Agency intends to concentrate more of its measures to increase occupational orientation and prepare young people for working life in schools, and companies will increase their close cooperation with schools in their locality, using concrete models to improve the ability of young people to embark on training in a company.

63. Advanced training

Basic and advanced training in a company and in a vocational school is an essential building block to maintain and increase companies' competitiveness and integrate people returning to the labour market. Education must not be limited to the first third of life, in a constantly changing working world, and with an ageing working population, learning will in future be a task accompanying people for all their lives. This requires a change in attitudes, especially in companies. The Federal Government is supporting this process, e.g. with a competition for companies (see Table Serial No. 136). Its aim is further development of follow-up qualifications for employees and advanced vocational and in-company training (see Table Serial No. 151). The appropriate wage agreements are essential for more and better advanced training.

64. Improving the employment chances for older workers

The impetus to employ more older workers is important, as this group is particularly strongly affected by unemployment in Germany – by European comparison as well - and employment potentials are not being fully utilised. The 50plus Initiative will introduce a number of measures to improve the employ-

ment situation for older workers. They will flank the gradual increase in the statutory retirement threshold to 67 (see Box 14 and Table Serial Nos. 137 - 141).

The Council of Economic Experts supports the view taken by the Federal Government that this redirection is important. They expressly point out that the lower employment ratios of older workers and their low attendance ratio in advanced training courses are primarily the result of the massive incentive to take early retirement. They warn against prolonging the length of time unemployment allowance will be paid, as this would lead to a further rise in long-term unemployment (JG Items 331 ff.). In this connection they criticise the intention to allow persons who have paid at least 45 contribution years into the statutory pensions insurance to retire at 65 with no loss of benefits. However, the Federal Government believes that this regulation has played a decisive part in the acceptance of prolonging working life to 67.

The Council of Economic Experts also point out that raising the retirement age to 67 must not be seen exclusively as a way of ensuring that the statutory pensions system can always be financed (JG Item 333).

Box 14: Key Elements of the 50Plus Initiative

- ▶ **Advanced training:** The Federal Labour Agency will in future reimburse the costs of advanced vocational training for employees aged at least 45 (formerly 50) in companies employing up to 250 (formerly 100) by issuing training vouchers.
- ▶ **The combi-wage:** Workers aged at least 50 who take a lower paid job when they still have a claim to unemployment allowance for at least 120 days will have 50 % of the difference between their old and new net earnings made up in the first year and 30 % in the second. Their contributions to pensions insurance will also be made up to 90 % of the former level. They will have a legal claim to these benefits.
- ▶ **Integration grant:** Employers who appoint a person aged at least 50 who was unemployed for the previous six months, has attended integration measures or can show personal obstacles to placement will receive a grant for one to three years of 30 % to 50 % of the wage costs, on condition that the worker stays in the job for at least one year.
- ▶ **Short-term employment contracts:** The regulation on short-term employment contracts with older workers will be made to conform with Community law. From the age of 52 workers may be appointed for up to five years without any material reason for terminating the employment, if they were without employment for at least four months previously, if they were receiving a transfer short-time allowance or had attended a state-promoted employment measure.

Another reason for raising the retirement age is to counter the expected fall in the number of qualified personnel due to demographic causes. The Federal Government certainly agrees.

It still remains a task for the employers and trade unions to develop the framework conditions in wage and plant agreements to make a longer working life advantageous to both companies and workers. In discussions with business associations and the trade unions the Federal Government will point out the necessity of training and qualification, in view of the foreseeable shortage of skilled labour as well.

65. Differentiation in wage policy

The Federal Government, like the Council of Economic Experts, believes that it is not solely a task for federal policy to achieve higher economic growth and sustained reduction in unemployment (JG Item 490). It is also a task for the employers and trade unions. The will to joint action is an essential condition for success in employment policy. Germany owes the employers and trade unions much. They played a huge part in the economic recovery after the Second World War; the social peace in Germany is to a great extent their achievement, too. A wage policy that bears responsibility to the economy as a whole and will promote employment remains essential for

further success with economic and employment policy. The Federal Government supports autonomy in wage bargaining. It expressly encourages the parties to these negotiations to continue on the path now taken, of securing employment through alliances within plants.

The rise in collectively agreed wages has been moderate in recent years, and working times have been lengthened in some cases. Both have helped to change the situation on the labour market. If this is to be sustained the concerns of the unemployed must be taken into account in times of economic upswing as well with differentiated wage agreements, and the scope for distribution must be observed.

Successful companies should be able to pay higher wages in individual plants if they have the means. In the past the employers and trade unions have developed successful models for this. Profit-sharing as a flexible supplement to agreed wage levels is particularly suitable for many companies in the SME sector, where direct shareholding is hardly possible. However, to enable flexible agreements to be made, adjusted to the specific situation in a company, more attention should be given to the greater use of models that enable employees to participate in the company's success with equity capital.

II. The Annual Projection by the Federal Government

66. Framework conditions for foreign trade remain robust

The development in the world economy was clearly upward last year, but some momentum was lost during the year. A tighter monetary policy in major currency zones, and the strong rise in energy and raw materials prices in the first half of the year, had a dampening effect. There was a shift in the dynamic of growth between the major economic areas. While the upward drive in the United States and Japan slackened it firmed in Europe. In the newly industrialised and developing countries, particularly Asia, the upswing continued robust.

These tendencies will continue this year. In the United States the cyclical dynamic should slacken, partly as building activity slows, but the trend will continue upward as a whole. In western Europe the economic upswing will continue in 2007. The brisker domestic demand will broaden the base for growth. That also applies to the Eurozone. In the central and eastern European countries, particularly the new EU

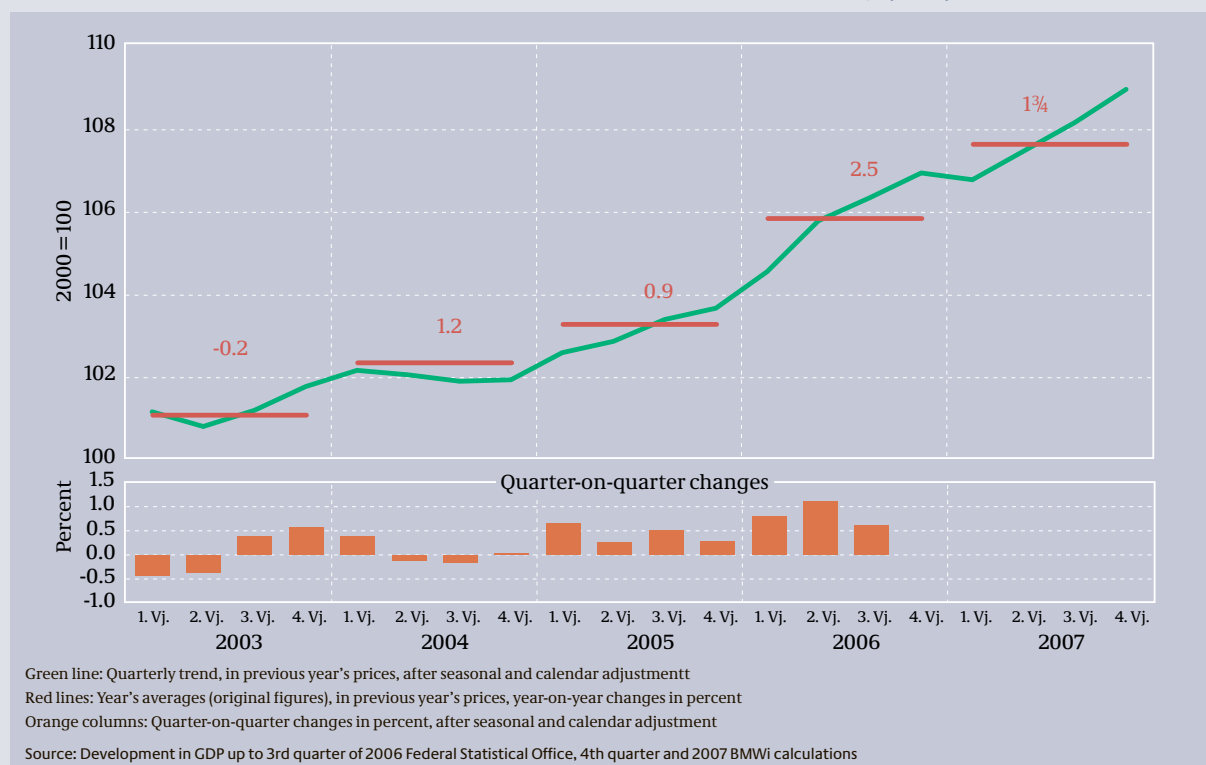
member states, the macroeconomic dynamic will continue at a strong pace. That is mainly due to the catching-up process and the growing integration with western European industrial states.

International organisations are expecting slightly weaker but still powerful growth in the world economy this year, at a real rate of 4 ½ % to 5 %, after 5 % in 2006. World trade should grow at a slightly less dynamic rate than last year, around 7 ½ % (around 9 %). Against that background, and thanks to the continued increase in the competitiveness of German suppliers on world markets - both in their range of products and their regional focus as well as price relations – major stimulus to growth will again come from foreign demand this year.

67. After a long pause domestic demand supports economic growth

As well as the expansive environment in foreign trade the revival in the domestic economy is making an increasingly strong contribution to growth. Above

Diagram 18: The Cyclical Trend: Annual Projection 2007 – The Development in Gross Domestic Product in Germany (real)



all, the brisk investment activity is having a positive effect on the labour market. The upswing is increasingly self-sustaining. The burden of the fiscal policy consolidation measures is therefore being well absorbed. For the year as a whole the Federal Government is expecting growth in the gross domestic product (GDP) of around 1 ¾ % in real terms, arithmetically 1.7 % (see Diagram 18); after adjustment for calendar effects that is a rise of 1.8 %.

Current indicators, like industrial production, show that the cyclical upswing continued to the end of the year. However, a temporary slowdown in production in the economy as a whole is to be expected at the start of 2007, owing to the increase in the rate of value added tax. Purchases by private households brought forward last year and special factors in construction investment that have provided impetus so far will be lacking.

Investment in equipment should prove to be a motor of growth this year as well. Construction investment appears to have moved off the downward path it has held for many years, while private consumption will benefit from the expansion in employment and the development in actual earnings.

The situation on the labour market has relaxed markedly. The strong rise in employment on which social insurance is paid is causing a noticeable fall in registered unemployment. That is one of the main reasons why self-supporting elements are playing a greater part.

Like any estimate the Federal Government's Annual Projection involves uncertainties. These are mainly in regard to the foreign trade environment. Should the economy in the United States become more turbulent following an abrupt downfall in property prices additional braking effects could not be excluded. There is also the risk of a renewed and permanent rise in raw materials prices, particularly crude oil, possibly causing the dynamic in the world economy to slacken more than expected to date. There could also be a further tightening of monetary policy. The global disequilibria that have been evident for a long time, especially the development in

the deficits in the United States' budget and current account, will most likely persist during the projection period. That could give rise to the risk of a massive movement of capital, with the corresponding exchange rate adjustments.

However, there are also chances of a more favourable development than this. The oil price has now moved clearly away again from its peaks last year. A further fall in oil prices would dampen the upward movement in prices and correspondingly increase the purchasing power of private households. The cost burden on companies would fall. The development in the world economy could also prove more favourable than assumed. Moreover, the cyclical dynamic was so strong last year that the creation of new jobs and the additional incomes have set an upswing in motion that is increasingly self-sustaining.

68. Assumptions

The Annual Projection is based on the following assumptions:

- ▶ Growth in the world economy will expand at a slightly lower rate than last year, at 4 ½ % to 5 % price adjusted, as will world trade, expected to grow at around 7 ½ % in 2007.
- ▶ Technical assumptions on the oil price, exchange rates and interest rates are usually based on the average of the last few weeks before the prognosis. So this projection is based on an average price of around US \$ 60 per barrel for Brent crude last year, a rate for the euro of about US \$ 1.30 and the European Central Bank's key rate of 3.5 %.
- ▶ The development in wages in the economy as a whole is still below the growth in macroeconomic productivity in real terms. Unit wage costs are expected to fall again at - ¼ %.

Table 2: Key Data on the Macroeconomic Development in the Federal Republic of Germany²⁸

| | 2005 | 2006 | Annual projection 2007 |
|--|--------------------------|------------|------------------------|
| | Year-on-year change in % | | |
| Creation of the gross domestic product (GDP) | | | |
| GDP in real terms | 0.9 | 2.5 | 1.7 |
| Persons employed (in Germany) | -0.1 | 0.7 | 0.8 |
| GDP per person employed | 1.0 | 1.8 | 0.9 |
| GDP per hour worked | 1.3 | 1.9 | 0.9 |
| Unemployment rate in % (According to national accounts) ²⁹ | 9.1 | 8.1 | 7.3 |
| Unemployment rate in % (Federal Labour Agency definition) ²⁹ | 11.7 | 10.8 | 9.6 |
| Use of GDP in current prices | | | |
| Consumption expenditures | | | |
| Private households and private non-profit organisations | 1.4 | 2.0 | 2.2 |
| Government | 1.1 | 1.5 | 1.5 |
| Gross fixed capital formation | 0.7 | 6.0 | 5.4 |
| Changes in stocks etc. (€ bill.) | -2.6 | 4.9 | 5.8 |
| Domestic demand | 1.4 | 3.0 | 2.7 |
| Foreign trade and payments (€ bill.) | 116.0 | 114.1 | 127.4 |
| (in % of GDP) | 5.2 | 5.0 | 5.4 |
| Gross domestic product (nominal) | 1.5 | 2.8 | 3.2 |
| Use of GDP, in real terms | | | |
| Consumption expenditures | | | |
| Private households and private non-profit organisations | 0.1 | 0.6 | 0.3 |
| Government | 0.6 | 1.7 | 0.5 |
| Gross fixed capital formation | 0.8 | 5.3 | 3.3 |
| Machinery and equipment | 6.1 | 7.3 | 5.0 |
| Construction | -3.6 | 3.6 | 1.6 |
| Other plant and equipment | 4.7 | 5.9 | 6.0 |
| Changes in stocks etc. (contribution to growth in GDP) ³⁰ | 0.2 | 0.1 | 0.0 |
| Domestic demand | 0.5 | 1.8 | 0.9 |
| Exports | 6.9 | 12.4 | 7.9 |
| Imports | 6.5 | 12.1 | 6.8 |
| Foreign trade and payments (contribution to growth in GDP) ³⁰ | 0.4 | 0.7 | 0.8 |
| Gross domestic product (real) | 0.9 | 2.5 | 1.7 |
| Price trend (2000 = 100) | | | |
| Private consumption expenditures ³¹ | 1.3 | 1.4 | 1.9 |
| Domestic demand | 0.9 | 1.2 | 1.7 |
| Gross domestic product ³² | 0.6 | 0.3 | 1.4 |
| Distribution of the gross national income (nationals concept) | | | |
| Wages and salaries | -0.7 | 1.3 | 1.4 |
| Entrepreneurial and property income | 6.2 | 6.9 | 5.0 |
| National income | 1.5 | 3.1 | 2.6 |
| Gross national income | 1.8 | 2.9 | 3.2 |
| Memo item (national concept) | | | |
| Persons employed | -0.6 | 0.7 | 0.7 |
| Gross wages and salaries Total | -0.3 | 1.4 | 1.9 |
| Per person employed | 0.3 | 0.7 | 1.2 |
| Private households' disposable income | 1.7 | 1.7 | 2.1 |
| Savings rate in % ³³ | 10.6 | 10.5 | 10.4 |

²⁸ Up to 2006 preliminary results by the Federal Statistical Office, as per 11 January 2007; ²⁹ In relation to all persons employed; ³⁰ Contribution to growth rate in GDP;

³¹ Consumer price index year-on-year change: 2004 1.6 %, 2005 2.0 %, 2006 1.7 % 2007 2.3 %; ³² Unit wage costs per person employed year-on-year change: 2004 0.4 %, 2005 -1.1 %, 2006 -1.1 %, 2007 -0.3 %; ³³ Savings in % of private households disposable incomes including claims on occupational pension schemes

69. Exporters gain further market shares

Germany exports mainly to regions that are still enjoying an upswing, like the member states of the European Union and China and the oil-exporting countries (see Diagram 19). Moreover, the product structure of German exports consists mainly of high value investment goods, for which there is particularly strong demand in upswing phases and in regions in the catching-up process. Moreover, the price competitiveness of German products will improve again, especially in the Eurozone, as unit wage costs fall further. German exports of goods and services are thus expected to grow again rather more strongly, at around 7.9% in real terms, than the growth in sales markets might suggest.

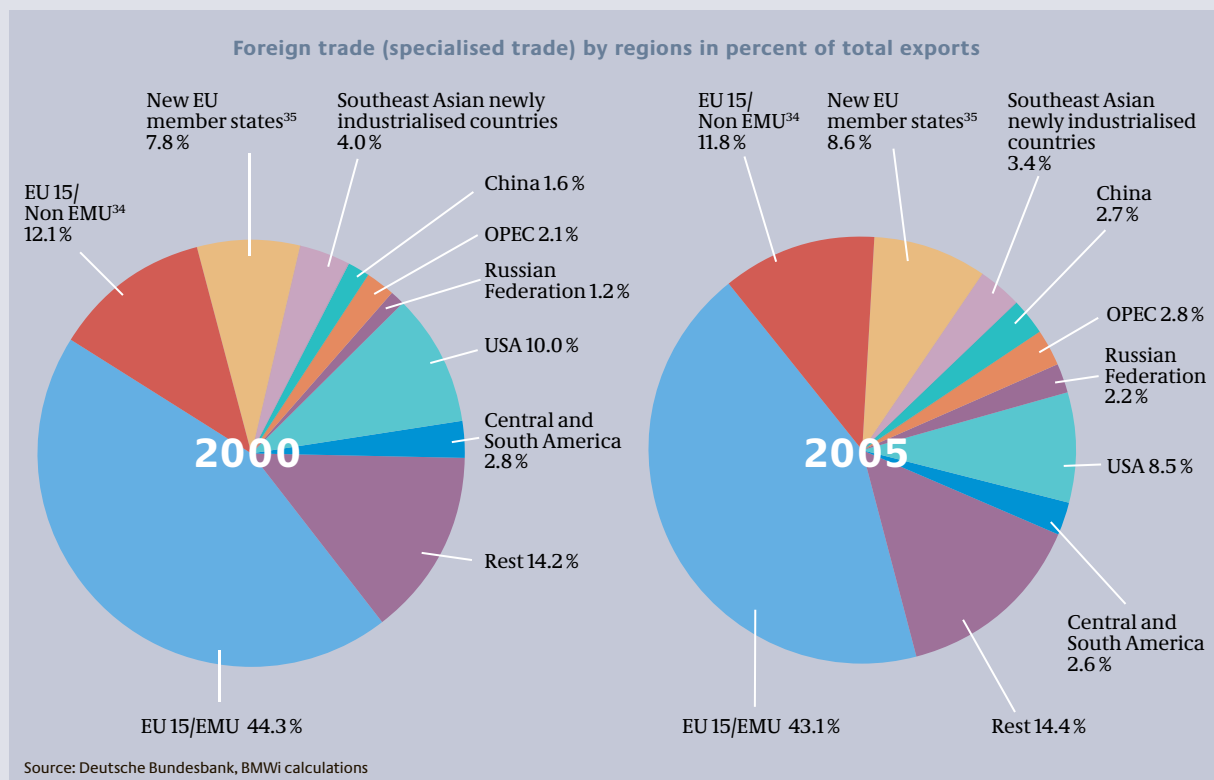
The continued favourable trend in exports will cause an increase in imports, which will also be stimulated this year by the continued dynamic in investment. However, the growth in imports will be lessened slightly by the weaker expansion in private consumption and the improvement in the competitive-

ness of German suppliers in Germany as a result of falling subsidiary wage costs. If the long term elasticity in imports in relation to total demand is taken as the base, and if the change in price competitiveness is taken into account, an increase in imports of goods and services of around 6.8% in real terms is in prospect. Arithmetically, this results in a contribution to growth by net exports (exports minus imports) of around three quarters of a percentage point.

70. Investment activity remains brisk

The upswing in investment in equipment that has lasted for three years (see Diagram 20) will continue this year. Financing conditions have deteriorated, partly following the increases in the key rate last year, but thanks to their extraordinarily good earnings situation companies have extensive funds to finance their investment. Further expansion is also likely as sales prospects are still favourable, capacity utilisation grew strongly last year and investment incentives in taxation are still in force from the improvement in depreciation conditions available until 2007.

Diagram 19: Percentage of German Goods Exports by Regions in 2000 and 2005



³⁴ EMU: Countries in the Eurozone without Slovenia. Non-EMU Countries: United Kingdom, Sweden, Denmark

³⁵ New EU member states without Romania and Bulgaria

Altogether investment in equipment should increase by 5.0 %.

Investment in building grew strongly last year, but this year the prospect is probably slightly less bright. Housing construction profited in 2006 from temporary special effects like the abolition of the home ownership grant and expenditure brought forward to avoid the increase in the rate of value added tax at the start of 2007. Without these special factors private investment in housing construction may be expected to fall slightly. Positive effects on construction for extensions and conversion are still to be expected from the CO₂ Buildings Rehabilitation Programme. On average for the year a fall in housing construction investment of 0.4 % in real terms is therefore likely. Commercial building, on the other hand, may be expected to develop more favourably. The rise in investment in equipment, which is increasingly due to capacity extensions, should stimulate commercial building. Altogether private commercial building should rise by 6 ½ % in real terms over last

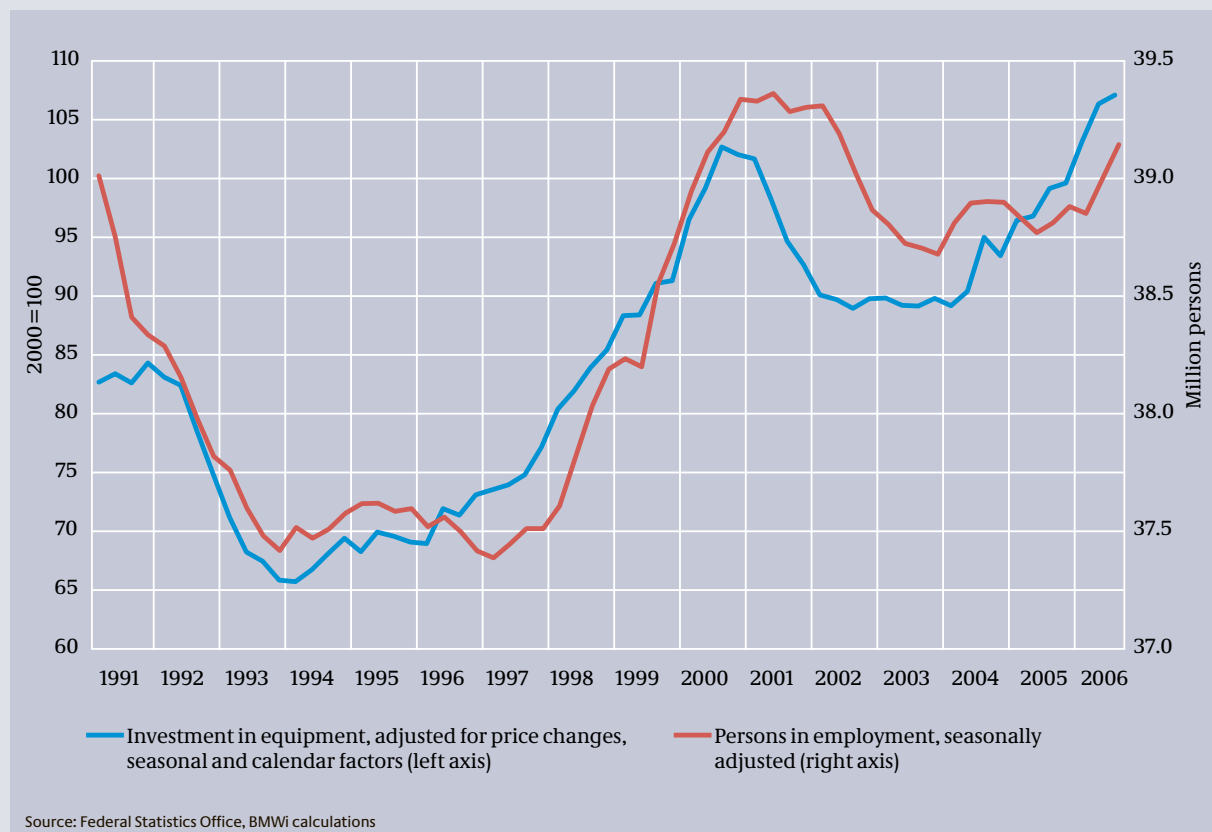
year. Public construction investment should rise again, although it will fall slightly in real terms. Increased investment activity in the public sector had already developed during last year, due to the better financial position of the municipalities, which, as the biggest public customers for building work, were able to profit from the powerful growth in corporate earnings through higher trading tax revenue.

Altogether therefore after the powerful rise last year there will be a slight growth in construction investment of 1.6 % in real terms on average for 2007. All in all we expect a rise of 3.3 % in gross fixed capital formation; the Council of Economic Experts expects a slightly better development.

71. Private consumption in the wake of favourable labour market prospects

Private consumption revived in the course of 2006 after years of a weak trend. The main contributory factors were rising employment and the resumption of slight growth in incomes. Special factors, like the

Diagram 20: Investment and the Labour Market



World Cup Football Championship and purchases brought forward to avoid the rise in the standard rate of value added tax, further fuelled private consumption, which rose by 0.6 % in real terms in 2006. A lower increase is to be expected for the current year. Purchases, particularly of durable consumer goods, will no longer be brought forward this year, and the stronger rise in prices owing to the increase in the rate of value added tax will probably also hold back private consumption at the start of the year. But there will be a rise in net incomes resulting from the net reduction in subsidiary wage costs. That will partly compensate for the reduction in the scope for consumption following the rise in the value added tax rate. The Federal Government is expecting an increase in private consumption of 0.3 % in real terms. This projection hardly differs from that of the Council of Economic Experts.

The main determinants of private consumption are disposable incomes, which consist of private households wages, transfer incomes and entrepreneurial and property income. The gross wages and salaries bill will rise by 1.9 %. That is assuming that the trend in actual earnings per person employed will rise by 1.2 % and employment by 0.7 %. The sum of net wages and salaries will expand this year much more strongly than before, at a good 2 ½ %, as social insurance contribution rates will be lower. Contribution rates to pensions insurance and statutory health insurance will rise by about one percentage point together, but the reduction of the contribution rate to unemployment insurance by 2.3 percentage points more than compensates for this. Employers and employees will each benefit from half of the total reduction, so that net wages and salaries per person employed will rise by around 2 %.

Monetary social benefits paid by the state account for just under one third of disposable incomes. Altogether they will fall by 0.7 %. This is first because of the planned reduction in expenditure on Unemployment Benefit II as a result of better administration and control, and secondly because unemployment will fall further during the year so that transfer payments will be less. Entrepreneurial and property income to private households should

increase again markedly this year, in the view of both the Federal Government and the Council of Economic Experts, so that the considerable expansion of past years will continue. These developments will result in growth in disposable incomes of 2.1 %, which private households can use for consumption or saving.

It is to be expected that private households will respond to the increase in the standard rate of value added tax by reducing their savings ratio in order to maintain their level of consumption. In the first quarter additional payments for subsidiary housing costs will be due owing to the strong rise in energy prices. That will leave less income for consumption. Altogether this will result in a rise in private consumption of 2.2 % in current prices. With the price trend taken into account (see below) this will result in growth in private consumption of real 0.3 %, which roughly corresponds to the growth in real disposable incomes. So again private consumption will have a slightly positive effect in stimulating economic growth in Germany, if less than in 2006.

72. Public consumption

A moderate growth rate in public consumption is also to be expected this year, with a nominal rise of around 1 ½ % over the previous year. The growth in social non-cash benefits will be approximately the same as last year at around 2 ½ %. A clear rise in public prepayments from the previous year is to be expected. Wages and salaries paid in the public sector will fall again this year, as no contractual increases in expenditure on wages and salaries are due while numerical and structural changes will have a reducing effect (-½ %).

73. Temporary rise in prices from the increase in the value added tax rate

The rise in the consumer price level slackened noticeably after the middle of 2006. Falling prices for crude oil and other raw materials clearly held back the rise in prices on consumer level and in September 2006 the rise in the consumer price index over the previous year was the lowest for more than 1 ½ years at 1.0 %. About 53 % of private consumer spending will be affected by the increase in the rate of value added tax, but the reduction in social insurance contribution

rates of around 1½ % on balance at the start of the year will counter this, as will the further fall in unit wage costs. All in all, the rise in consumer prices at the start of the year will be stronger and then weaken again in the further course of the year. On average for 2007 the consumer price index should rise by 2.3 %. A weaker rise of 1.9 % is to be expected in the private consumption deflator, as current consumer habits play a larger part here. Altogether the price climate will remain calm.

74. Good progress in reducing unemployment and building up employment

The positive cyclical development has reached the labour market, making the starting position for 2007 better than in previous years. After nearly five years of decline in the number in work the turnaround came last year. The upswing on the labour market is being supported by a powerful increase in employment on which social insurance contributions have to be paid and this positive development will continue this year. The Federal Government assumes that the number in

employment will grow by 300,000 and so be clearly above 39.3 million on average for the year (see Diagram 23). The increase in the number employed will be concentrated mainly in jobs carrying statutory social insurance.

The trend in unemployment mirrors the development in employment. The number registered unemployed fell strongly last year and for 2007 the Federal Government is expecting a further fall by about 480,000 to around 4 million on average for the year. Partly due to the more favourable starting position in January 2007 the Federal Government’s projection for registered unemployment is lower than that given by the Council of Economic Experts in November (JG Item 137).

The unemployment rate as defined by the Federal Labour Agency had already fallen by 0.9 percentage points in 2006 to 10.8%. For this year the Federal Government is expecting a further fall of 1.2 percentage points to 9.6 %. The internationally comparable figure

Diagram 21: The Development in Wages and Salaries and Entrepreneurial and Property Income



for jobless using the International Labour Organisation standard should fall to around 3.1 million persons, bringing the unemployment rate down by 0.8 percentage points to 7.3 %.

75. Income distribution: favourable earnings prospects

After powerful growth in the national income last year the growth rate is expected to be slightly less this year. The national income consists of wages and salaries and entrepreneurial and property income. As a result of the moderate wage trend and the reduction in employment the share of entrepreneurial and property income in the national income rose considerably (see Diagram 21). This trend should continue this year, if at a rather lower rate. The renewed improvement in companies' earnings situation will further strengthen the conditions for financing corporate investment. That is important in sustaining a high level of investment dynamic. Above all owing to the positive development in employment wages and salaries will increase rather more strongly, at 1.4 %, than in recent years – and that is another important condition for a self-sustaining upswing.

76. Public budgets: Structural consolidation measures improve the viability of public budgets

The overall public deficit can be reduced further in the current year to around 1 ½ % of nominal GDP, due to the implementation of an extensive consolidation package. The reduction in the deficit is entirely for structural reasons, and the consolidation measures are an important step towards this. They will put public finances permanently on to a more viable basis. As in previous years the decisive impetus in consolidation will be on the expenditure side. The ratio of public spending will be reduced again from just under 46 % to around 45 %. Public revenue will remain on the previous year's level at 43 %, of GDP, despite rising tax revenue. This is because the rise in the tax ratio is largely counterbalanced by the fall in the social contributions ratio. Hence the expenditure ratio remains constant from the previous year at around 40 %.

Box 15: Review of the 2006 Annual Projection and the Actual Development

In the Annual Economic Report for 2006 the Federal Government assumed a cyclical recovery with growth in real GDP of 1 ½ %, arithmetically 1.4 %. That was on the lower edge of the prognosis range at the time of 1.4 % to 1.7 %. It was assumed in the Annual Projection that the domestic economy would stimulate growth more than before.

According to the first preliminary figures from the Federal Statistical Office the gross domestic product grew on average for 2006 by 2.5 %. So the Federal Government did rightly judge the direction and the forces of growth that would support the upswing, but we clearly underestimated the extent of the cyclical recovery. One reason for this was the data basis available at the turn of 2005 to 2006. But the cyclical dynamic also proved stronger than initially expected. The contribution to growth from foreign trade was estimated correctly, but **domestic demand** developed at a much more dynamic rate than expected in the 2006 Annual Projection. This was already seen as a chance for a more favourable development in the Annual Report 2006, but the stimulus from the domestic economy, including the measures implemented by the Federal Government, proved stronger than forecast. The assumption in the Annual Projection was for growth in domestic demand of ¾ %; in fact 1.8 % was reached. The more powerful recovery was evident in every component of domestic demand.

Investment in machinery and equipment benefited from the extraordinarily powerful rise in corporate earnings in preceding years and the accumulated need for replacements and modernisation. The more favourable sales prospects also necessitated extensions to capacities. Incentives to investment were also provided by the Federal Government's programme to stimulate growth, like the improvement in depreciation conditions allowed until 2007. These incentives proved stronger than expected. The problem child of the

German economy, **construction investment**, also made a notably positive contribution to macroeconomic growth in 2006, for the first time for more than a decade. Beside the positive development in investment in machinery and equipment commercial building was stimulated chiefly by special effects, like the abolition of the home ownership grant, the Buildings Rehabilitation Programme and the effects of bringing forward building work to avoid the higher standard rate of VAT.

These positive effects stimulated the **labour market** more than expected. Companies were no longer increasing their workforce primarily by taking on occasional or part-time workers, mainly more full-time workers were being appointed. The resultant increase in the volume of labour caused a noticeable increase in gross wages and salaries, which reached more than twice the estimate in the Annual Projection 2006 at 1.4%. As a result of this increase in incomes **real private consumption** also grew, at 0.6% much more strongly than expected a year ago.

The trend in the **price level** for private consumption corresponded approximately to the 2006 Annual Projection at 1.4%, but the GDP deflator rose at a growth rate of 0.3%, clearly less than assumed. This reflects the under-utilisation of production capacities in the economy as a whole in Germany, which still persists, and the resultant lack of scope for passing on prices by companies in Germany. As since 2004, in 2006 as well unit wage costs considerably held back the domestic price trend, that is, the rise in the GDP deflator, so that the effects of higher earnings in raising prices were almost completely absorbed in 2006.

The **public budgets** continued their consolidation in 2006 as well. As a result of the powerful upswing tax revenue increased strongly, while expenditure grew at only a moderate rate. Measures to reduce the structural deficit made an active contribution to consolidation. The number employed in the public service, for example, fell further, and on balance expenditure on labour market policy was cut. The ratio of public expenditure (relation of public expenditure to nominal GDP) fell again in 2006 and was just under 46%. Altogether the deficit ratio fell from 3.2% in 2005 to around 2% and so was below the deficit criterion in the Stability and Growth Pact.

Table 3: Comparison of the Annual Projection for 2006 with the Actual Development³⁶

| | Annual projection 2006 | Actual development 2006 |
|--|------------------------------|-------------------------------|
| Year-on-year change in % | | |
| Creation of the gross domestic product (GDP) | | |
| GDP in real terms | 1.4 | 2.5 |
| Persons employed (in Germany) | 0.0 | 0.7 |
| GDP per person employed | 1.4 | 1.8 |
| GDP per hour worked | 1.6 | 1.9 |
| Unemployment rate in % (according to national accounts) ³⁷ | 9.0 | 8.1 |
| Unemployment rate in % (as defined by the Federal Labour Agency) ³⁷ | 10.9 | 10.8 |
| Use of GDP in current prices | | |
| Consumption expenditures | | |
| Private households and private non-profit organisations | 1.7 | 2.0 |
| Government | 1.2 | 1.5 |
| Gross fixed capital formation | 2.5 | 6.0 |
| Changes in stocks etc. (bill. €) | 2.6 | 4.9 |
| Domestic demand | 1.8 | 3.0 |
| Foreign trade and payments (bill. €) | 122.8 | 114.1 |
| (in % of GDP) | 5.4 | 5.0 |
| Gross domestic product (nominal) | 2.2 | 2.8 |
| Use of GDP in real terms | | |
| Consumption | | |
| Private households and private non-profit organisations | 0.3 | 0.6 |
| Government | 0.3 | 1.7 |
| Gross fixed capital formation | 2.3 | 5.3 |
| Machinery and equipment | 4.8 | 7.3 |
| Construction | 0.5 | 3.6 |
| Other plant and equipment | 2.1 | 5.9 |
| Changes in stocks etc. (contribution to growth in GDP) ³⁸ | 0.1 | 0.1 |
| Domestic demand | 0.7 | 1.8 |
| Exports | 6.5 | 12.4 |
| Imports | 5.5 | 12.1 |
| Foreign trade and payments (contribution to growth in GDP) ³⁸ | 0.7 | 0.7 |
| Gross domestic product (real) | 1.4 | 2.5 |
| Price trend (2000 = 100) | | |
| Private consumption expenditures ³⁹ | 1.5 | 1.4 |
| Domestic demand | 1.1 | 1.2 |
| Gross domestic product ⁴⁰ | 0.8 | 0.3 |
| Distribution of the gross national income | | |
| <i>(nationals concept)</i> | | |
| Wages and salaries | 0.2 | 1.3 |
| Entrepreneurial and property income | 7.2 | 6.9 |
| National income | 2.5 | 3.1 |
| Gross national income | 2.2 | 2.9 |
| <i>Memo item (nationals concept)</i> | | |
| Persons employed | -0.2 | 0.7 |
| Gross wages and salaries Total | 0.5 | 1.4 |
| Per person employed | 0.7 | 0.7 |
| Disposable income of private households | 1.6 | 1.7 |
| Savings rate in % ⁴¹ | 10.5 | 10.5 |

³⁶ Up to 2006 preliminary results from the Federal Statistical Office as per 11 January 2007; ³⁷ Related to all persons employed; ³⁸ Contribution to growth rate in GDP;

³⁹ Consumer price index, year-on-year change: 2005 2.0 %, 2006 1.7 %; ⁴⁰ Unit wage costs, year-on-year change: 2005 -1.1 %, 2006 -1.1 %;

⁴¹ Savings in percent of private households' disposable incomes incl. occupational pension claims

Annex: Federal Government Measures 2006–2007

| Section | Serial Number |
|---|---------------|
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| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|---------|-------------|-----------------|----------------------|------------------|
| | | | | Status and Timetable | Comes into Force |

A. Putting the State on a Viable Foundation

A.1 Sustainable Public Finances

| | | | | | |
|----|--|---|--|---|-------------------------------------|
| 1. | Budget consolidation, lowering tax-wedge on wages | Increase the standard rates of value added and insurance tax by 3 percentage points, of which 1 percentage point is to lower the unemployment insurance contribution rate (the Federal Labour Agency will contribute a further part of the reduction from 6.5 % to 4.2 %) | Budget consolidation, regain scope for action | Act to Accompany the Budget of 29.6.2006 | 1.1.2007 |
| 2. | Budget consolidation | Reduce the bonus for federal officials and pensioners and the Bundesbank bonus | Save personnel costs | Act to Accompany the Budget of 29.6.2006 | 1.7. or 1.8.2006 |
| 3. | Budget consolidation | Fix new level of funds and end their dynamic under the Regionalisation Act for Local Public Transport, alterations to social insurance financing | Budget consolidation | Act to Accompany the Budget of 29.6.2006 | 1.7.2006 |
| 4. | Improve the efficiency and effectiveness of subsidisation policy | New subsidies to be granted primarily as financial aids and financed with savings elsewhere; financial aids to be limited in time and degressive; better monitoring success through suitable formulation of objectives of financial aids | Increase transparency, pressure to justify and scope for steering in subsidisation | Federal Government guidelines for subsidisation policy (Cabinet decision of 15.3.2006); current report on implementation in the Federal Government's Subsidisation Report | |
| 5. | Reduce subsidies and tax exemptions | End the Home Ownership Grant for new cases | Budget consolidation | Act to End the Home Ownership Grant of 22.12.2005 | 1.1.2006 |
| 6. | Reduce subsidies and tax exemptions | Limit scope for offsetting losses | Widen the tax assessment base, budget consolidation | Act to Limit Loss Offsetting in Connection with Tax Postponement Models of 22.12.2005 | Day after announcement (31.12.2005) |
| 7. | Reduce subsidies and tax exemptions | I.a. end the limited tax exemption for settlements and deduction of private accountant's costs as special expenditure; conversion to straight line depreciation for rented housing | Widen the tax assessment base, budget consolidation | Act to Launch an Emergency Tax Programme of 22.12.2005 | 1.1.2006 |
| 8. | Reduce subsidies and tax exemptions | I.a. limit the 1 % rule to vehicles needed for business operations; express requirement to show as separate item in the tax balance sheet | Widen the tax assessment base, budget consolidation | Act to Limit Abuse of Tax Accounting of 28.4.2006 | Day after announcement (6.5.2006) |

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| 9. | Reduce subsidies and tax exemptions | Limit the standard travel allowance to long-distance commuters, increase the top rate of income tax on non-commercial earnings from 42% to 45 %, limit deductibility of home workrooms | Widen the tax assessment base, budget consolidation | Tax Amendment Act 2007 of 19.7.2006 | 1.1.2007 |
| A.2 Efficient Federal Structures | | | | | |
| 10. | Federalism Reform I | Amend the Grundgesetz (Basic Law) and pass an Act to Accompany Federalism Reform to implement the amendments in civil law <ul style="list-style-type: none"> ▶ Reform the participation rights of the Bundesrat (Upper House) by restricting the right of approval and introducing a new state of approval for federal legislation involving heavy costs ▶ Reform of legislative competences by abolishing the framework legislation and redrafting the list of competing laws. Legislation will be made much easier for the Federal Government in many cases in this area (by reducing the area of application of the clause on necessity). In return the Federal States may deviate from federal law in certain areas of legislation with their own regulations ▶ Clearer assignment of financial responsibility | Improve the scope for decision-making and action for the Federal Government and the Federal States; better assignment of political responsibilities with tasks fulfilled more efficiently and to more purpose | Passed by the Federal Parliament on 30.6.2006 and approved by Bundesrat on 7.7.2006 | Act to Amend the Basic Law on 1.9.2007; Act to Accompany Federalism Reform, Arts. 4-9, 11, 13, 20 and 21 on 1.1.2007, otherwise 12.9.2006 |

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| A.3 Efficient Infrastructure and Attractive Regions | | | | | |
| 11. | Act to Simplify PPPs | Improve the framework conditions for PPPs, especially in the transport and hospital sectors and in social infrastructures; in the coming amendment to the Investment Law an infrastructure fund will be set up, which can acquire shares in PPP project companies | <ul style="list-style-type: none"> ▶ Mobilise additional, especially foreign, capital for PPPs by widening the scope for financial and capital investment; ▶ Create framework conditions for PPPs in tax and promotion law | Draft legislation in preparation | |
| 12. | Guide for economic evaluation of PPP projects | The Finance Ministers Conference of the Federal States in cooperation with a Federal working group (Federal ministries of Transport, Building and Urban Affairs, Economics, Defence and Finance) drew up a guide for economic evaluation of PPP projects with the aim of achieving through recommendations in future a minimum standard in economic evaluation of PPP projects carried out by the Federal Government and all 16 states with their municipalities | To standardise and so simplify the decision on the selection of the acquisition variant in individual cases; a more consistent implementation of the principle of economy in the administration (§ 7, Federal Budget Order) for PPP projects in the individual phases from planning through execution to the final success control | The Federal States passed the guide at the Finance Ministers Conference on 7.9.2006; implementation follows in the usual procedure in the responsibility of each territorial authority; agreement is now being reached within the Federal Government on the application of the guide to appropriate Federal measures | |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|---|---|---|---|---|
| | | | | Status and Timetable | Comes into Force |
| 13. | Joint Task "For the Improvement of the Regional Economic Structure" | Redraw the demarcation of German promotion regions for 2007 to 2013, implement the European Commission's new regional guidelines | Strengthen corporate investment specifically to create and secure jobs, expand the business-related infrastructure, initiate cooperation networks and cluster management projects | Decision by Federal-State Planning Committee on 20 February 2006; approved by the European Commission under financial assistance legislation on 8.11.2006 | 1.1.2007 |
| 14. | Investment Grant Law 2007 | Promote initial investment projects in manufacturing firms, production-related services firms and the accommodation branch up to 2009 | Widen the commercial and industrial base in the new Federal States, strengthen the tourist industry | Investment Grant Law of 15.7.2006 | On day approved by European Commission (6.12.2006) |
| 15. | East German preferences in SME promotion | In all the new programmes and those due for revision the Federal Government will incorporate additional promotional preferences which can greatly facilitate growth in the new states and increase their resilience | Strengthening of the east German SME sector, create jobs | Revision of the two ERP programmes "Capital for New Businesses" and "Capital for Growth" has started. Implementation must take account of coming amendments in the legislation on financial aids and is therefore only possible from mid-2007. The current revision of programmes has created additional preferences for the new states in the ERP Regional Programme | New regulation in the ERP Regional Programme in force from 1.1.2007 |
| 16. | Innovation competition "Industry meets Research" in the new states | The regional actors in research establishments and SMEs are called upon to open the present borders between the innovation systems with innovative concepts for new and more effective forms of communication and cooperation, utilise synergies and so in particular improve the transfer of the results of scientific research into marketable products | Identify and promote new and effective forms of communication between the actors in the east German innovation process | Measure incorporated in the Federal Government's budget planning to 2009 and the € 6 billion programme "New Stimulus to Innovation and Growth" with a volume of € 18.4 million. A model project and part of the Federal Government's high-tech strategy | Programme started in January 2007 |
| 17. | Innovation promotion in the new states | <ul style="list-style-type: none"> ▶ € 660 million will be provided between 2004 and 2009 under the market-oriented programmes INNO-WATT and NEMO to increase the innovative ability of growth motors and innovative networks in the new states | <ul style="list-style-type: none"> ▶ Increase east German innovative ability and competitiveness ▶ By strengthening core competences in non-profit external | Measures are being developed further in the high-tech strategy. The Enterprise Region programme | 2006 / 2007 |

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|-----|--|---|--|--|
| | <ul style="list-style-type: none"> ▶ Under the programme "Pre-competition Industrial Research in Disadvantaged Regions" projects in non-profit external industrial research establishments will be promoted ▶ The Federal Government has grouped five different programmes (i.a. "InnoRegio" and "Innovative Regional Growth Cores") together in the initiative "The Enterprise Region", which is oriented to cluster processes. The aim is to identify regional innovation potentials and utilise these in innovation alliances to strengthen the regional competence profile | <p>industrial research establishments better conditions should be created for industrial research and pre-competition development. This should permanently increase the performance of east German industrial research</p> <ul style="list-style-type: none"> ▶ Further modernisation and expansion of the east German education and research structures | <p>"InnoProfile" introduced in 2006; second programme round "Centres for Innovation Competence" launched in 2006</p> | <p>January 2007</p> |
| 18. | <p>Restructure location marketing and foreign trade promotion</p> | <p>Create even more effective attraction of investors</p> | <p>New company expected to start operating in January 2007</p> | |
| 19. | <p>Initiative on Hospitality and Services in Preparation for the World Cup 2006 (National Service and Friendliness Campaign)</p> | <p>Worldwide experience and perception of Germany as an open, likeable and hospitable country, as the basis for even more successful tourist attraction in future</p> | <p>Campaign now finished; follow-up tourism marketing on a high level</p> | |
| 20 | <p>Urban planning promotion</p> <ul style="list-style-type: none"> ▶ In 2007 Federal financial aids under Art. 104b Grundgesetz (Basic Law) totalling around €550 million cofinanced by the states ▶ Programme areas: Renovation and development, historical preservation in the new states, the social city, urban conversion east and west ▶ € 1.1 billion in supplementary assistance with old debts for housing enterprises facing financial difficulties | <p>Support for the cities in coping with demographic and economic structural change, better quality of life in the cities, combating social problems</p> | | |
| 21. | <p>Framework Investment Plan 2006 to 2010 for the Federal Transport Infrastructure</p> | <p>Increase transport performance, adjust to expected rise in volume of transport</p> | <p>Proposal submitted</p> | <p>Final version 1st quarter 2007</p> |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|---|---|---|---|---|--|
| | | | | Status and Timetable | Comes into Force |
| B. Strengthening Competition and Investment Dynamics | | | | | |
| B.1 Open Markets and Competition | | | | | |
| 22. | Modernise competition law | <p>Amend the Law Against Restraints of Competition</p> <ul style="list-style-type: none"> ▶ Create a new (more stringent) definition of abuse in energy supply ▶ Make present ban on sales below cost price more stringent: On principle ban on selling foodstuffs below cost price, even in occasional sales | Hold back rising energy prices, improve competition conditions for SMEs in the foodstuffs trade | Ministerial agreement, possibly present to Parliament in spring 2007 | Still open |
| 23. | Public procurements | Implement the amended EU directives on public orders | Debureaucratise legislation on public orders; increase transparency and so competition in public order system | Passed by the Federal Parliament and approved by the Bundesrat by end 2007 | Aim: 1.1.2008 |
| 24. | Amend the European legal framework for electronic communications services (review 2006) | <p>European Commission will present proposals for amendment; consultations start during German EU presidency</p> <p>Federal Government will</p> <ul style="list-style-type: none"> ▶ Work for continuance of a competition-oriented policy and marked debureaucratism of the market appraisal procedures; ▶ Demand restriction of the specific telecommunications regulation, that is still necessary in large areas, to a necessary level and ▶ Support a frequency policy directed to efficiency and flexibility | Guarantee effective competition that will promote optimal supply of telecommunications services and promote innovation | Consultations to start during German EU presidency (Federal Government expects legislative proposals to be presented by the European Commission at the end of January 2007) | Open |
| 25. | Develop telemedia law further | <p>Telemedia law: Simplify the Ordinance on the Media</p> <ul style="list-style-type: none"> ▶ A general and uniform data protection concept for all electronic media ▶ New impetus to develop telemedia law further based on the evaluation of the E-Commerce Directive ▶ Revision of the European television directive | <p>The draft law takes due account of the growing convergence.</p> <p>The new regulations are to apply independent of how supply is distributed, be open to development and simplify the existing legal framework, as well as creating better protection against misleading information in e-mail advertising</p> | The Federal Parliament will conclude consideration of the draft law (expected in December 06/January 07); second passage through the Upper House planned for 16 February 2007 | Expected on 1.3.2007, together with the 9th State Radio Contract |
| 26. | Master plan for goods transport and logistics | Development of a national master plan with recommendations for action in a transport concept that will help to maintain and increase Germany's competitiveness as a business location | Increase the efficiency of the whole transport system | Ready end 2007 | Ready end 2007 |

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|-----|----------------------------|--|---|--|------------------------------|
| 27. | Electricity and gas market | Supplementary ordinances to the Energy Industry Law | Intensify competition on the electricity and gas market | Further ordinances in preparation (e.g. on connecting power stations and introducing incentive regulation) | Some ordinances in 2006/2007 |
| 28. | Electricity and gas market | Network charges to be approved by the Federal Network Agency | In the current round of approvals there have been - some marked - cost reductions from the volume requested; non-discriminatory network access at officially approved charges | | |
| 29. | Electricity market | Management of cross-frontier bottlenecks under European regional initiatives in the electricity sector | Intensify competition on the electricity market; secure supplies | Current measure | |

B.2 Scope for Investment and Entrepreneurship

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|-----|--------------------|--|---|---|------------------|
| 30. | Reduce bureaucracy | Legislation to reduce bureaucratic obstacles, especially in the SME sector <ul style="list-style-type: none"> ▶ First Act to Relieve SMEs (SME Law): i.a. increase the turnover threshold for compulsory tax accounting in the Ordinance on Charges, and the thresholds for appointing authorised representatives and for obligatory statistical reporting ▶ Second SME Law: i.a. further relief from obligatory statistical reporting, e.g. for new businesses, earnings threshold for obligatory balance sheet publication raised from €30,000 to €50,000 in the Ordinance on Charges | The legislation is intended to provide permanent relief for SMEs, improve their framework conditions and make them more competitive | First SME Law fully implemented in 2007 Second SME Law to be decided in Federal Cabinet in Jan. 2007 | 2006/2007 |
| 31. | Reduce bureaucracy | Plan of action to reduce bureaucratic obstacles in agriculture, forestry and the foodstuffs industry | Relieve farmers and other enterprises in these sectors of superfluous obligatory reporting and recording (27 individual measures) | Implementation of the individual measures started | Passed 23.6.2006 |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|---|---|---|--|------------------|
| | | | | Status and Timetable | Comes into Force |
| 32. | Reduce bureaucracy | Introduce the standard costs model on Federal level | <p>Create better scope for policy steering through cost transparency</p> <p>Enable targeted intervention and control by ministerial departments</p> <p>Improve estimates of costs and consequences of legislation</p> <p>Enable private sector to realise cost savings (estimates are for yearly potential to save billions of euros)</p> | <p>Decision under the Programme to Reduce Bureaucracy and Improve Legislation on 25.4.2006; compilation of the entire stock of Federal norms finished on time end-2006 (total number of obligatory items of information required from businesses by all ministerial departments thereby established: around 9,800). From January 2007: On the spot interviews/ surveys in companies to determine the time and cost parameters; 2007: Reduction target to be set by Federal Cabinet</p> | Comes into Force |
| 33. | Reduce bureaucracy | A National Norms Control Council set up in the Federal Chancellor's Office as an independent organ of control and consultation. It will examine present and especially new norms in regard to the bureaucracy costs entailed without questioning the political decisions on regulations and targets | Reference to potentials for savings | Part of the Programme to Reduce Bureaucracy and Improve Legislation (Cabinet decision on 25.4.2006) | 18.8.2006 |
| 34. | Simplify tax collection | The threshold for cash accounting for value added tax raised from € 125,000 to € 250,000 in the old Federal States from 2006 and the present threshold of € 500,000 in the new Federal States prolonged to 31.12.2009 | Reduce bureaucracy; make SMEs more competitive | | |
| 35. | Act to Accelerate Infrastructure Planning | Accelerate planning procedures for transport routes and energy networks | Increase efficiency in registration procedures, could shorten planning time by up to a total of 2 ½ years, improve location conditions and competitiveness | Legislation announced (BGBl. I, 2833) | 17.12.2006 |

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|-----|--|---|---|---|--|
| 36. | Make the administration efficient and oriented to addressees | <p>A new government programme on an inter-ministerial modernisation strategy for the Federal administration, focussing on personnel, steering, organisation and e-government.</p> <ul style="list-style-type: none"> ▶ Professional, forward-looking and motivating personnel management taking account of coming developments ▶ Steering of personnel and financial resources oriented to results and effects ▶ Reappraisal and change of organisational structures and processes with a critical approach to expenditure <p>"E-Government 2.0" of 13.9.2006 to concretise the government programme "A Forward-looking Administration through Innovations".</p> <p>The measures in E-Government 2.0 are:</p> <ul style="list-style-type: none"> ▶ Portfolio: qualitative and quantitative expansion of the Federal Government's E-Government range oriented to requirements ▶ Process chains: electronic cooperation between business and the administration through joint process chains ▶ Identification: Introduction of an electronic identity card and working out E-identity concepts ▶ Communication: A secure communications infrastructure for individuals, companies and the administration. ▶ Promotion of integrated E-Government services on all levels of the administration through the action plan Germany Online. | Make the administration more innovative, more efficient and oriented to the needs of business and individuals | <p>a. Government programme passed 13.9.2006;</p> <p>b. Implementation plan presented to the Cabinet on 28.2.2007;</p> <p>further annual implementation plans</p> | Action plan Germany Online 22.6.2006 (Government programme "A Forward-Looking Administration through Innovations") |
| 37. | Slim down the administration and orient it to addressees | Federal Government national plan for the protection of the information infrastructures | Maintain and expand a high level of IT security | <ul style="list-style-type: none"> ▶ Cabinet decision on 13.7.2005, first measures started ▶ Implementation plan for Federal administration in preparation; to be decided by Cabinet in autumn 2006 ▶ Implementation plan for the protection of crucial infrastructures in preparation from 2007 | Autumn 2006 |
| 38. | Improve the competitiveness of industry | Implement the horizontal and sectoral initiatives on the basis of the industrial policy programme of work presented by the European Commission | Strengthen the competitive position of major branches of industry | Industrial policy decisions to be passed by the Council for Competitiveness in May 2007, during the German presidency of the EU Council | |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|-----------------------------------|--|---|---|-------------------|
| | | | | Status and Timetable | Comes into Force |
| 39. | Implement CARS 21 | Important elements in CARS 21 (Competitive Automotive Regulatory System for the 21st Century) are principles on "better law-making" in the automotive sector, intended to make European legislation for this branch more calculable and have regard to the total burden on this industry. Priorities in the German view: to implement the integrated approach to CO ₂ reduction, a European strategy on innovative drives, alternative fuels and e-safety. Initiative by the European Commission to improve safety on the roads using modern information technology. | If the recommendations are implemented consistently European manufacturers will be able to offer customers vehicles they can afford in future while maintaining ambitious environmental and safety standards. | Final report by the high-ranking group CARS 21 end-2005; draft European Commission communication to European Parliament and the Council presented recently. High priority to be given to implementing CARS 21 during the German EU presidency in the first half of 2007 | |
| 40. | Federal Government SME Initiative | <p>1.1 Create favourable framework conditions for SMEs (see also Serial Nos. 34/54)</p> <p>1.2 Reduce bureaucracy (see also Serial Nos. 30-34)</p> <p>1.3 New Businesses Campaign to spark off new establishments, i. a. by</p> <ul style="list-style-type: none"> ▶ Introducing protection of pledges to improve the security of provision for old age by the self-employed ▶ Serial Nos. 44/46 <p>1.4 Make the SME sector more innovative, i. a. by</p> <ul style="list-style-type: none"> ▶ Improving access for SMEs to specific Federal Government technology programmes for key industrial technologies ▶ Improving the promotional structure that is open to technology for innovative SMEs ▶ Promoting innovation through norms ▶ Improving financing conditions for innovative SMEs (i. a. redrafting the ERP Innovation Programme) <p>1.5 Modernising occupational training and securing the next generation of skilled personnel, i. a. by</p> <ul style="list-style-type: none"> ▶ Continuing and further developing the National Pact for Training and Skilled Recruits (Serial No. 148) ▶ Continued modernisation of existing and the creation of new training orders and ordinances on advanced vocational training, including ordinances on the master's certificate ▶ Extending the range of not too narrowly specialised occupations, partly with graded training orders ▶ Better integration of basic and advanced training <p>1.6 Improving the financing situation for SMEs, i. a. by</p> <ul style="list-style-type: none"> ▶ Redrafting the ERP Innovation Programme with the aim of | <ul style="list-style-type: none"> ▶ Increase the competitiveness of SMEs ▶ Create a favourable economic environment for new businesses and self-employment ▶ Reduce bureaucratic obstacles ▶ Increase the number of successful new businesses ▶ Expand the innovative achievement of the SME sector, increase the number of successful innovative new businesses ▶ Meet the need for skilled workers better ▶ Improve the financing situation for SMEs ▶ Mobilise more venture capital for innovations | <p>The SME Initiative was decided by the Federal Cabinet on 19.7.2006</p> | In implementation |

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|--|---|--|---|--------------------------|
| <p>41. Support German companies on foreign markets</p> | <p>financing more development risks with funds similar to equity capital</p> <ul style="list-style-type: none"> ▶ Increasing the willingness of the banks to grant more Federal promotional loans by maintaining and strengthening the system of guarantee banks ▶ SME-friendly implementation of the new international rules on equity capital requirements for banks in German law (Basel II, Serial No. 61) ▶ Act to Secure Claims aimed to improve the payments morale of contractors <p>1.7 Mobilising venture capital for innovations, i. a.</p> <ul style="list-style-type: none"> ▶ Continuing the Fund for New Entrepreneurs and Young Technology-Based Firms (New High-Tech Businesses Fund, ERP Start-Up Fund, ERP/EIF Umbrella Fund) with partners in industry <p>1.8. Greater support for SMEs on foreign markets</p> <ul style="list-style-type: none"> ▶ i. a. through Serial No. 41 | <p>Strengthen the forces of growth in the SME sector</p> | <p>SME Initiative decided by the Federal Cabinet on 19.7.2006</p> | <p>In implementation</p> |
| | <p>▶ The Federal Government is working for open goods and services markets worldwide and the further development of the world trade rules in the Doha Round</p> <ul style="list-style-type: none"> ▶ Correcting and slimming down the Foreign Trade Law and the Ordinance on Foreign Trade to make these more manageable and easier to handle ▶ Continue the export credit guarantees and investment guarantees, primarily to support the technology-oriented export industry in opening up difficult markets in developing and newly industrialised countries, and give SMEs rapid access to Federal guarantees ▶ Accelerate and debureaucratise the approvals procedures in exports control and the decision-making procedures on export credit guarantees ▶ Continue the bilateral investment promotion and protection agreements and the Federal guarantees to secure foreign investment ▶ Continue the foreign trade fair programme on a high level and from 2007 add a programme to promote participation by young innovative firms at key international trade fairs in Germany in cooperation with the Federal States, especially in the selection of the trade fairs ▶ Build up the trade chambers abroad in cooperation with German firms ▶ Improve the offers for companies by the Federal Agency for Foreign Trade ▶ Flank foreign projects with a policy oriented to SMEs | | | |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|---|---|---|--|--|
| | | | | Status and Timetable | Comes into Force |
| 42. | Open up the potential of companies, especially SMEs | <p>“Startothek” Internet website with all the requirements for setting up a business, like laws, approvals and ordinances on Federal and state level</p> | Simplify consultancy on setting up a business and create uniform discussion partners for new entrepreneurs | Introduced on 2.1.2006 | |
| 43. | Open up the potential of companies, particularly SMEs | <p>Combine and reorient promotion of training and consultancy for new entrepreneurs with the following key points:</p> <ul style="list-style-type: none"> ▶ Supply through regional offices ▶ Definition of the start-up phase extended to 5 years ▶ The programme conditions may be improved by the Federal States. The successful promotion of information and training events for new entrepreneurs and SMEs would be continued, as would promotion of general consultancy on the business concept for existing companies | Create transparency, uniformity and efficiency in the new businesses sector | Planned to start from 2 nd half of 2007 | |
| 44. | Improve the conditions for new high-tech firms | <ul style="list-style-type: none"> ▶ Continue the promotional programme “New Businesses from Research” (EXIST II) ▶ Modify the EXIST-Seed pre-hive off measure in universities ▶ Continue the New High-Tech Businesses Fund | Strengthen the hive-off culture in the universities; increase the dynamic in setting up businesses based on research, especially in the high-tech field; improve access to financing and new markets, and make SMEs more innovative | From 2006 | <ul style="list-style-type: none"> ▶ EXIST III started with the first 16 newly approved projects ▶ EXIST-Seed reoriented in winter 2006/7 ▶ Circle of investors completed with entry of more industrial investors |
| 45. | Act on an Electronic Commercial Register, Cooperatives Register and a Register of Companies | Accelerate the registration of companies in the Commercial, Cooperative and Partnership registers and create a Register of Companies. All information on companies published will be much more accessible | Fewer bureaucratic obstacles, more companies set up more quickly, companies incur fewer costs for notification and information acquisition | Passed | 1.1.2007 |
| 46. | Act to Modernise the Legislation on Limited Liability Companies (GmbH) and to Combat Abuse | Deregulate and modernise the GmbH legislation, facilitate and accelerate the process of setting up such a company, simplify the enforcement of creditor’s claims | Combat abuse, increase the attractiveness of the German GmbH against rival foreign legal forms. | Ministerial draft of 29.5.2006 | |
| 47. | Grants to promote new businesses established by persons previously unemployed | Combining the present instruments of promotion for unemployed persons who become self-employed into a new business grant. | More accurate and efficient promotion of new businesses | Social Code II Development Law | 1.8.2006 |

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|-----|---|--|---|---|------------------------------------|
| 48. | Amendments to the Order on Auditors | The Act to Reform Professional Supervision (known as the 7 th Auditors Order Amendment) will modernise the legislation on the profession of auditor and implement Directive 2006/43 (8 th Directive on Auditors) | <ul style="list-style-type: none"> ▶ Strengthen competition on national level (e.g. by lifting specific restrictions on advertising for this profession) ▶ Strengthen international competitiveness by creating a system of supervision of international standard ▶ Slim down the regulations by repealing those no longer needed. | This project is currently in the parliamentary procedure | Expected in the first half of 2007 |
| 49. | Legislation on Accountants | Liberalise the legislation on accountants and implement the directive on the recognition of professional qualifications (Directive 2005/36/EC of 7.9.2005) | <ul style="list-style-type: none"> ▶ Extend the powers of self-employed qualified bookkeepers and tax specialists - entitlement to draw up advance VAT reports and set up bookkeeping ▶ Introduce the profession of staff tax accountant ▶ Harmonise with the legislation on lawyers and auditors | Ministerial draft 2.8.2006; present to Cabinet early 2007; end of legislative process summer 2007 | Expected summer 2007 |
| 50. | Reform of the legislation on legal consultancy | The Act on Legal Services is to replace the Act on Legal Consultancy, which is more than 70 years old, and open the market for legal services outside the courts to persons outside the legal profession, in keeping with European requirements on work outside the core area of legal work. | Strengthen competition in the fringe areas of legal services, open the way to professional cooperation between lawyers and members of other professions | The project is now in the parliamentary procedure | End 2007/early 2008 |
| 51. | Implement the EU directive on cross-frontier mergers between incorporated firms | Second Act to Amend the Conversion Law and Act to Implement the Regulation on Codetermination for Employees on Mergers between Incorporated Firms in Different Member States | Reorganisation of companies throughout Europe at favourable cost, legal certainty for creditors, workforce and minority shareholders | In draft form | 2007 |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|---|---|---|--|---|--|
| | | | | Status and Timetable | Comes into Force |
| 52. | Remove obstacles in tax law to cross-frontier restructuring of companies, improve Germany's location attractiveness, secure the tax basis | I. a. implement the merger directive, enable cross-frontier conversions, hidden reserves are to be taxed immediately when assets are shifted abroad | Remove tax obstacles to cross-frontier restructuring of companies, improve Germany's attractiveness as a business location, secure the tax basis | Act on Accompanying Measures in Taxation to Introduce European Legislation and Amend Other Regulations of 7.12.2006 | On day after announcement (13.12.2006) |
| 53. | Introduce a tax on capital earnings | Key points: on principle single rate of tax (25 %) on earnings (interest, dividends, investment yields) and profits on the sale of private capital assets, plus the Solidarity Premium and church tax; assessment optional | Improve competitiveness | Draft legislation in preparation | Planned from 1.1.2009 |
| 54. | More favourable depreciation conditions for companies | Raise declining balance depreciation for investment in mobile commercial assets acquired or produced after 31.12.2005 and before 1.1.2008 from 20 % to 30 % | Increase investment activity | Act on Taxation to Promote Growth and Employment of 26.4.2006 | On day after announced (6.5.2006) |
| 55. | Reform of corporate taxation | In particular, reduce the tax burden on companies, see also Item 53 | Improve competitiveness | Draft legislation in preparation | 1.1.2008 |
| 56. | Facilitate succession in a company | Reduce inheritance tax on succession | Improve competitiveness | Draft law to facilitate succession in companies decided by the Federal Cabinet on 25.10.2006; now being debated in parliament | Backdated 20.1.2007 |
| B.3 Innovative and Efficient Financial Markets | | | | | |
| 57. | Improve capital market transparency | Implement the EU transparency directive (2004/39/EC) in national law <ul style="list-style-type: none"> ▲ Introduce additional reporting thresholds for communications on voting rights by securities issuers ▲ Wider obligatory publication in accounting ▲ Distribute important capital market information throughout Europe with central storage | Improve capital market transparency, distribute capital market information throughout Europe, reduce bureaucracy | Passed by Federal Parliament, approved by Upper House on 15.12.2006 | 20.1.2007 |
| 58. | Amendment to the Investment Law | Improve Germany's competitiveness as a business location | Improved competition conditions on the German funds market, more funds floated in Germany | Cabinet on 14.2.2007 | 1.7.2007 |

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|-----|---|--|--|---|-----------------------|
| 59. | Law on Real Estate Investment Trusts (REIT Law) | Create German REITs - incorporated real estate firms with shares traded on the stock exchange | Improve the framework conditions for real estate firms in Germany | Draft REIT law decided by Cabinet on 2.11.2006; draft currently being debated in Parliament, end of legislative procedure expected in spring 2007 | Backdated to 1.1.2007 |
| 60. | Regulation of the equity capital market | Further development of the legislation on equity capital companies | Create reliable framework conditions for the equity financing branch; guarantee sufficient provision of venture capital for young and innovative firms | Cabinet mid-2007 | 1.1.2008 |
| 61. | Implement Basel II | Adequate equity capital for securities firms and banks, taking account of the risks they enter into on loans and in their other business | Risk-oriented calculation of equity ties less equity as provision | Act to implement the New Bank Directive and the new version of the directive on capital adequacy of 17.11.2006 | 1.1.2007 |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|---------|-------------|-----------------|----------------------|------------------|
| | | | | Status and Timetable | Comes into Force |

C. Advancing the Knowledge Society

C.1 Top Level Research and Top Level Technology

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|-----|---|---|---|--|-----------|
| 62. | High-tech strategy as cross-section measure to combine forces from research and industry | <ul style="list-style-type: none"> ▲ Competition: "Exchange Processes between Research and Industry" ▲ Competition: "Industry meets Research" (see No. 16) ▲ Innovation initiative: "The Enterprise Region" (see No. 17) ▲ Research initiative: "Building for the Future" (see No. 89) ▲ Competition to promote top level clusters ▲ Introduction of a research premium ▲ Promotional concept to validate research results in current specialised programmes | More and better cooperation between research and industry | | 2006/2007 |
| 63. | High-tech strategy as a cross-section measure to improve conditions for new high-tech firms and innovative SMEs (see No. 41) | <ul style="list-style-type: none"> ▲ Joint industrial research; new: extension to European or bigger joint projects ▲ Extension of promotion of innovative networks (InnoNet) ▲ Promotion of innovative competence (PRO INNO II); new: promotion of firms starting research and development ▲ Promotion of innovative growth motors (INNO-WATT); new: promotion of young and rapidly growing firms ▲ Promotional competition "Network Management East" (NEMO); new: two competition rounds each year ▲ Promotion of preliminary industrial research in disadvantaged regions ▲ Promotion of innovation management (INNOMAN) ▲ Increase in promotion of new high-tech firms and better financing conditions (see No. 44) ▲ Better and uniform access for SMEs to specific technology programmes | Increase the innovative strength and competitiveness of SMEs and strengthen cooperation and network activities, and technology transfer from research into industry | | From 2006 |
| 64. | High-tech strategy as a cross-section measure to improve the framework conditions for the more rapid spread of new technologies | <ul style="list-style-type: none"> ▲ Protection and utilisation of intellectual property; a national strategy to be discussed in international bodies (e.g. C8) and research programmes (e.g. production research); norms and standardisation: promotion of the better interlinking of R&D and standardisation as a market-oriented strategic instrument for technology transfer through the DIN (German Industry Number) special project "Innovation with Norms and Standards"; innovative standardisation fields in key technologies like nano, medical and biotechnology are to be identified more quickly to enable research results to be brought to norms and standardisation at an early stage ▲ Innovation oriented public procurement on the basis of current law ▲ Extending e-government | Faster spread of high technologies on world markets and better sales chances for German suppliers of technology | Promotional project "Innovation through Norms and Standards" started in 2006 | From 2006 |

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|-----|--|--|--|---|----------------------|
| 65. | High-tech strategy as a cross-section measure to strengthen Germany's international position | Advertise Germany as a research location and the achievements of German universities and research establishments abroad (Internationalisation initiative) Make research and development a major theme of the German EU presidency | Intensify international R&D cooperation, increase R&D investment and gain skilled personnel in Germany, better integration of national and European research promotion | Concept for internationalisation initiative in preparation; programme for EU presidency fixed | First half of 2007 |
| 66. | High-tech strategy as a cross-section measure to invest in brains | Promotion of highly gifted students and recruits (see No. 90) University Pact 2020 (see No. 91) and Excellence Initiative Further develop systems of basic and advanced vocational training (see Nos. 143-151) | A quantitatively and qualitatively adequate supply of skilled personnel; better employment situation | Measures now in force | 2006/2007ff. |
| 67. | High-tech strategy on innovation fields; health research and medical technology | <ul style="list-style-type: none"> ▶ Prepare new health research programme; promotional initiative to establish clinical study centres in university hospitals ▶ Promote integrated research and treatment centres ▶ Make molecular diagnostics and drug development major promotional areas ▶ A plan of action to promote medical technology ▶ Expand infection research ▶ Expand genetically oriented basic research ▶ Supply-related research ▶ Promotional initiative "High-Tech for Health Research" ▶ Promote transnational research clusters ▶ Increase preventative and geriatric research | Further improvement in patient care, while making this more cost-efficient; better transfer of research results into the development of new diagnostics and therapies; increase Germany's attractiveness as a location for pharmaceutical firms and maintain leading position as a market for medical technology | | 2006/2007 |
| 68. | High-tech strategy; innovation field: security technologies | <ul style="list-style-type: none"> ▶ Consultations by the national contact office on the new European security research programme ▶ Create innovation platforms ▶ Create an independent security research programme | Secure the freedom of individuals and society with technical means as well; open up the economic potential of security technology and position on world market | | From 2006/ from 2007 |
| 69. | High-tech strategy; innovation field: plants | <ul style="list-style-type: none"> ▶ Continue the promotion of research on genetic plant modification ▶ "Raw materials that regrow" for use as materials and energy ▶ Extend cooperation through the ERA network on genetic modification research ▶ Amend the law on genetic technology ▶ Concentrate agricultural and food research and development capacities through a competition | Accelerate the build up of a knowledge-based bio industry in Germany; achieve the leading position in Europe in plant biotechnology and plant cultivation by 2015; increase the share of regenerative raw materials by 2015; increase the use of renewable and regenerative raw materials in the chemical industry | | From 2006/ from 2007 |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|---|---|--|----------------------|----------------------|
| | | | | Status and Timetable | Comes into Force |
| 70. | High-tech strategy: innovation field: energy technologies | <ul style="list-style-type: none"> ▲ New overall concept for energy policy (see No. 86) ▲ “National Innovation Programme: Hydrogen Fuel Cell Technology” ▲ New focal points in future R&D project promotion for renewable energies ▲ Build up the German Biomass Research Centre in East Germany ▲ “Lighthouse COORETEC” project ▲ Promotion of recruits to nuclear safety research ▲ Initiative on reforming energy use in school buildings ▲ “CO₂ Reduction in Buildings” programme ▲ Introduction of energy certificates for the sale and renting of buildings | Advance the transition to sustained energy supply. Achieve a balanced energy mix, increase energy productivity and the share of renewable energies in primary energy consumption and reduce emission of greenhouse gases at favourable cost | | From 2006/ from 2007 |
| 71. | High-tech strategy: innovation field: environment technologies | <ul style="list-style-type: none"> ▲ New focus in research promotion to increase resource productivity ▲ Promote the development of new environmental technologies under the programme “Research for Sustainability” ▲ New measures to make research promotion more effective ▲ Improve the opportunities for German suppliers of hydro technologies, especially in developing and newly industrialised countries ▲ Strengthen Germany’s lead in geo technology on world markets through research promotion and the Geo Tech Market Initiative | Accelerate the use of environmental innovations in Germany and for export; adapt technologies and know-how to the conditions in developing and newly industrialised countries; open up key markets with environmental innovations, for example raw materials and energy productivity; make provision for the future and meet the global challenges with environmental innovations (water, raw materials, natural events) | | 2006/2007 |
| 72. | High-tech strategy: innovation field: information and communications technologies | <ul style="list-style-type: none"> ▲ Action programme “Germany the Information Society in 2010 (see No. 84) ▲ New research promotion programme “ICT 2020” (see No. 85) ▲ New direction for the research focus “Multimedia” ▲ Promotion of modern broadband telecommunications networks ▲ Telemedia law ▲ Act on wider use of information | Build up Germany’s technological lead in ICT, secure Germany’s competitiveness as a location for production and jobs through the use of ICT in more branches; encourage technological developments that have a particular economic leverage effect | | 2006/2007 |

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|---|---|---|-----------|
| 73. High-tech strategy: Innovation field: vehicle and transport technologies | <ul style="list-style-type: none"> ▶ Implement fuel strategy, i. a. "Innovation Programme on Hydrogen and Fuel Cell Technology" and biomass action plan ▶ New research programme for vehicle and transport technologies; secure and expand Germany's position as a logistics turntable ▶ Develop alternative drives and intelligent transport concepts as a focus of current research promotion ▶ Build the Transrapid line from Munich airport to Munich | Develop Germany into Europe's logistics turntable; increase the efficiency of the whole transport system; improve the competitiveness of the German automotive and transport industry; reduce traffic pollution, and ensure an adequate and safe supply of mobility for the public; reduce CO ₂ emissions by new vehicles and increase the use of bio fuels. | 2006/2007 |
| 74. High-tech strategy: Innovation field: air traffic technologies | <ul style="list-style-type: none"> ▶ 4th Air Transport Research Programme (see No. 87) ▶ Franco-German Research on helicopters and transport aircraft ▶ ERA Net European cooperation network | Implement the strategic research agenda "Vision 2020" of the European air transport industry; strengthen the key competences of the German air transport industry; reduce pollution from aircraft and develop air safety further | 2006/2007 |
| 75. High-tech strategy: innovation field: aerospace technologies | <ul style="list-style-type: none"> ▶ Work out a European space programme ▶ Strategic dialogue on German aerospace policy ▶ New missions in the national space programme (see No. 88) ▶ Participate in building up the GMES space component ▶ Present the draft of a law on satellite data security | Expand Germany's lead in space research and technology | 2006/2007 |
| 76. High-tech strategy: innovation field: maritime technologies | <ul style="list-style-type: none"> ▶ Continue the promotional programme "Shipbuilding and Marine Technology for the 21st Century" ▶ Continue the programme "Innovative Shipbuilding to Secure Competitive Jobs" ▶ Implement the results of the 5th Maritime Conference on shipbuilding and marine technology R&D, innovation and education and the exploitation of marine raw materials | Build up Germany's position as a high-tech maritime location; firmly fix position on world market for specialised ships and maintain competitiveness in standard shipbuilding through process innovations | 2006/2007 |
| 77. High-tech strategy: innovation field: services | <ul style="list-style-type: none"> ▶ Develop technologies for services processes; "Multimedia programme" ▶ Research programme "Innovations with Services" | Increase Germany's quality in innovation management in the services sectors; improve investment and development conditions for innovative, technology-based services | 2006/2007 |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|--|--|--|----------------------|------------------|
| | | | | Status and Timetable | Comes into Force |
| 78. | High-tech strategy: innovation field: nanotechnologies | <ul style="list-style-type: none"> ▲ „Nano Initiative 2010“ ▲ Continue the “Nano Opportunity” R&D programme, especially for SMEs ▲ Strengthen research in nano materials and micro-nano systems integration ▲ Dialogue processes on the opportunities and risks of nano technology ▲ Appraise the effects of nano materials on the safety and health of workers | Accelerate the implementation of nano technology research results in innovations | | 2006/2007 |
| 79. | High-tech strategy: innovation field: biotechnology | <ul style="list-style-type: none"> ▲ Promotional initiatives “Bio Industry 2021”, “Nano-bio technology” and “Bio Chance Plus” ▲ Continue the New High-Tech Businesses Fund and the Go Bio measure to promote new businesses in the pre-seed and seed areas ▲ Amend the legislation on genetic technology | Achieve a lead in Europe in the application branches of biotechnologies | | 2006/2007 |
| 80. | High-tech strategy: innovation field: micro-systems technology | <ul style="list-style-type: none"> ▲ Secure the promotional initiatives “Polymer Microsystems” and “Micro-Nano Systems Integration” ▲ “Micro-Systems” programme in logistics and security techniques and medical technology ▲ Promotion of application centres ▲ Participation by Germany in the EU initiative “Ambient Assisted Living” | Increase German industry’s ability as suppliers of systems solutions; utilise Germany’s strength in micro-systems technology in order to facilitate the integration of nano technology into applied products | | 2006/2007 |
| 81. | High-tech strategy: innovation field: optical technology | <ul style="list-style-type: none"> ▲ OLED initiative ▲ New promotional initiatives: “Bio Photonics III”, “Consumer Optics”, “Terahertz Technology” ▲ Awaken interest in children and young people in cooperating with the media | Increased employment in optical technologies; bring back lost mass production to Germany through the use of new technological possibilities | | 2006/2007 |
| 82. | High-tech strategy: materials technologies | <ul style="list-style-type: none"> ▲ Develop materials road maps ▲ Programme “Materials Innovations for Industry and Society” ▲ New focal points in the promotional programme “Regenerative Raw Materials” ▲ Promote and expand “VeriMAT” and “NeMAT” ▲ Develop the EU directive on waste treatment | Increase the competitiveness of important branches of industry with the help of innovative materials technologies; improve the conditions for the environment and health | | 2006/2007 |
| 83. | High-tech strategy: innovation field: production technologies | <ul style="list-style-type: none"> ▲ Expand the programme “Research for Tomorrow’s Production” ▲ Promote research on the possibilities of preventing product piracy ▲ Promote young research groups at universities and technical colleges, promote recruits | Maintain German industry’s world market lead in machines, plant and components; maintain Germany’s position as a key market for innovative production techniques | | 2006/2007 |

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|---|--|--|---|-------------------------------|
| 84. Information and communications technologies (ICT) | Germany the Information Society in 2010 (D2010) Key points: modernise the legal and technological conditions, further integration of the state, industry and individuals in the information society; improve ICT security and targeted promotion of ICT research and marketable developments; concrete measures include: further development of the telecommunications legislation (see No. 24) and telemedia law (see No. 25), digital copyright, expanding broadband networks, targeted promotion of new businesses in the multimedia area, support for SMEs through a national network of IT competence centres, measures to increase media competence and the use of the Internet and market-oriented technology promotion through projects like "Next Generation Media" or "QUAERO"; introduce the electronic identity card and patient card | Strengthen Germany's position as an ICT location | ICT strategy for the current legislative period | Cabinet decision on 8.11.2006 |
| 85. ICT 2020 research programme | In conjunction with industry and research the Federal Government is currently working out a new ICT 2020 programme, which is to be announced at the end of the year. It is to expand joint research in the ICT area, improve the utilisation of research results in Germany and at the same time ensure that project promotion and IT research activities in the institutional research scene interact and harmonise perfectly | <ul style="list-style-type: none"> ▶ Firm and expand Germany's lead in ICT ▶ Secure and increase Germany's competitiveness as a location for production and jobs, both sectorally and across sectors ▶ Strengthen the quality of knowledge, research and technological development and expand the role of German ICT research as an international partner and competitor ▶ Create the bases for sustaining and increasing the number of jobs | In preparation | Expected March 2007 |
| 86. Innovation Campaign "Energy for Germany" | The Federal Government will increase federal funding for energy research and innovation by more than 30 % by 2009 from the 2005 level, and so invest a total of €2 billion in new energy technologies between 2006 and 2009. The main areas are: modern power station technologies run on gas and hard coal (including CO ₂ separation and storage), fuel cells and hydro technologies, energy-optimised building, efficient energy use, renewable energies, nuclear safety and end-storage, fusion research | Securing a safe, economical and environmentally compatible supply of energy | The Innovation Campaign was worked out by Working Group 3 "Research and Energy Efficiency" at the Energy Summit. An interim report on the stage reached in the work was presented to the Second Energy Summit in autumn 2006. | |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|---|---|---|---|---|---------------------|
| | | | | Status and Timetable | Comes into Force |
| 87. | Air transport research programme | Promote technology projects by research associations led by industrial firms | Make the German air transport industry more innovative; form efficient networks of research and industry to shorten innovation cycles | Round of tenders completed in 2006; research associations to start from 1.1.2007 | January 2007 |
| 88. | Promotion of aerospace research and technology under the National Aerospace Programme | By 2009 clear increase in expenditure from 2005 level; altogether the Federal Government will provide around € 4.5 billion for space travel between 2006 and 2009. | Build up Germany's leading position in aerospace research and technology; improve the chances of German aerospace firms in European and global competition for emerging markets | Measures are planned or already running; basic programme decisions on European level made at the ESA Ministers Conference in Berlin in December 2005 | 2006-2009 |
| 89. | Research Initiative "Building for the Future" | I. a. promote research projects on the following themes: <ul style="list-style-type: none"> ▶ The building value creation chain (e.g. organisation, systems direction, life cycle approach, market transparency) ▶ Building quality (i.a. architectural, urban environment, technical) ▶ Framework conditions (technical, legal, European) ▶ Current challenges / new markets (i.a. new materials, adapting new techniques and processes, building safety) Altogether about € 30 million will be available for this purpose in the next four years from grants or orders | The aim of the research initiative is to make the German construction industry more competitive in the European internal market | The necessary funds have been made available in the 2006 budget. The first results of the research into applications and orders will be presented in 2007; the incorporation of the construction industry into research will be strengthened; the Building Research Round Table will coordinate in future | 3.7.2006 |
| C.2 Excellent University Education | | | | | |
| 90. | Promotion of gifted students and recruits | Increase the share of students receiving top performance grants from 0.7 % to 1 % Promote different abilities in vocational training; target to correspond with the desired ratio of gifted university students promoted | <ul style="list-style-type: none"> ▶ Promote excellence, improve promotion of coming generation ▶ Promote will to perform ▶ Promote all abilities ▶ Promote willingness for lifelong learning | <ul style="list-style-type: none"> ▶ Annual increases to 2009 planned: in 2006 by € 7.2 to € 87.7 million and for gifted vocational trainees by € 0.8 million to € 15.2 million | With the Budget Law |
| 91. | University Pact 2020: Secure the quality of university research and teaching | Within the constitutional competences of the Federal Government and the Federal States: <ul style="list-style-type: none"> ▶ Ensure a supply of university places to meet the expected strong rise in numbers and consistently improve the quality of teaching, especially modernisation of university education as part of the Bologna Reforms ▶ Permanently secure and strengthen the efficiency of university research and increase research funding | <ul style="list-style-type: none"> ▶ Absorb the years of high birth-rates into the universities ▶ Strengthen excellence in university research | The Federal Government and the Federal States have already agreed on the key points | From 2007 |

D. Securing the Bases of Prosperity in the Long Term

D.1 Social Security to meet the Demographic Challenge

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|-----|---|--|---|--|------------------|
| 92. | Strengthen supplementary pension provision with capital cover | Integration of the promotion of home ownership into the promotion of pensions provision, increase the child allowance for the state promoted supplementary pension (patchwork pension) for children born on or after 1. January 2008 from € 185 to € 300 a year | Increase the number taking up the state promoted supplementary pension scheme | Appropriate models currently being discussed in the Coalition | Planned for 2007 |
| 93. | Raise the retirement age | Raise the standard retirement age from 65 to 67 | Long-term stabilisation of the level of pensions and the contribution rate to statutory pensions insurance | Cabinet decision on the draft legislation 29.11.2006; 2nd/3rd reading 9.3.2007; complete passage through Upper House 30.3.2007 | 2007 |
| 94. | Reform of the health system | Overall concept for a sustainable health system operated in solidarity and meeting the demographic challenge <ul style="list-style-type: none"> ▶ Insurance for all ▶ Ensure access to all necessary medical care independent of the level of the contribution paid ▶ More sustainable financing, partly co-financing macro social tasks from tax revenue ▶ Intensify competition between health insurance institutes and providers of health care ▶ Improve scope for selection and change of health insurance institutes for persons paying statutory insurance contributions by introducing a base rate and making some pension provisions transferable ▶ More structural reforms to improve quality and efficiency | <ul style="list-style-type: none"> ▶ Greater quality and efficiency in medical care ▶ Sustained stabilisation of the system taking account of the demographic change and medical progress ▶ Reduce the wage dependency of financing and so reduce tax wedge on wages | Draft legislation autumn 2006; comes into force in stages from 1 April 2007 | |
| 95. | Build up prevention to an independent pillar of the health system | Improve cooperation and coordination between the social insurance bodies and branches and the quality of their measures, generally and unbureaucratically; develop preventive targets to which measures are to be directed | Improve the health of the general public; lower the ratio of chronic diseases | Start of the second quarter of 2007 | |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|--|--------------------------------------|--|--|--|------------------|
| | | | | Status and Timetable | Comes into Force |
| 96. | Reform of care insurance | Reform of care insurance in accordance with the Coalition Agreement Social care insurance will be retained as an independent branch of social insurance. It will remain a "core security system" in keeping with the basic idea of introducing it. In view of the demographic development and the preference most persons in need of care express the reform will be directed to supporting and promoting domestic care structures on the principle of ambulatory before inpatient care. Materially, the reform will make changes to benefits law and the structure of the system. | Greater orientation of long-term care structures to the needs of persons in need of care and their relatives, and to securing an appropriate relationship between ambulatory and inpatient care. Clearing and clarification, with adjustments to the legislation on contracts and remuneration in care insurance made necessary by jurisdiction. Sustained financial stability | In preparation | |
| D.2 Secure Supplies of Energy, Raw Materials and Environmental Protection | | | | | |
| 97. | National Allocation Plan 2008 - 2012 | Implement the market economy instruments of emissions trading The National Allocation Plan 2008 - 2012 (NAP II) will lay down the total amount to be allocated and the allocation rules for the trading period 2008 - 2012, and at the same time create conditions for investment that can be calculated for the long term. The NAP II will make the system more transparent and simpler, and strengthen the incentives to invest in environmentally-friendly and efficient technologies. The fierce international competition in some energy-intensive branches will be taken into account in the very moderate fulfilment factor for industrial plant in the NAP II; small emitters will also have special relief. | Cost-efficient reduction of CO ₂ emissions by companies obliged to engage in emissions trading; investment in efficient and environmentally-friendly plant | <ul style="list-style-type: none"> ▶ NAP 2008 - 2012 passed 28.6.2006 ▶ Notified in Brussels on 30.6.2006 ▶ Draft Allocation Law 2012 in preparation ▶ European Commission decision on NAP II given on 29.11.2006 ▶ Federal Government notified amendments to NAP II in communication of 21.12.2006 ▶ Parliament debates Allocation Law 2012 in 2007 ▶ Implementation of the allocation procedure before start of second trading period | |
| 98. | The Wismut cleaning up operations | The Federal Government will provide a total of € 6.2 billion for Wismut to clean up the pollution left by the old uranium mines in Saxony and Thuringia; Wismut's subsidiary WISUTEC markets know-how on cleaning up pollution. | Restoring intact environmental and living conditions and the conditions for attracting investors and creating jobs. | About € 4.8 billion had been invested by the end of 2006; the work is expected to last until 2015 | |

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| 99. | Energy efficiency in buildings | Increase the volume of promotion for improving energy efficiency in buildings in order to reduce energy consumption and CO ₂ emissions. By 2009 a total of € 5.6 billion will have been provided in promotional funds. Part of the promotion under this programme is handled by KfW Förderbank (Promotional Bank), another part comes from tax revenue and a third part comes from the promotional funds to increase energy efficiency in federal buildings. The promotion handled by KfW Förderbank will include loans at reduced interest rates and from 1.1.2007 investment grants as well. | Move closer to the target of increasing the energy efficiency of 5% of the pre-1978 stock of buildings a year. The promotion will stimulate an estimated investment volume of € 28 billion, i.a. to the benefit of small and midsize building firms | Loans: 1.2.2006; grants: 1.1.2007 |
| 100. | Energy efficiency in buildings | Amendment to the Ordinance on Energy Saving with the introduction of the energy certificate for the sale and renting of buildings; the energy needed for lighting and air-conditioning in non-residential buildings taken into account for the first time | Stimulate greater energy efficiency in the building stock | Second half of 2007 |
| 101. | Federal Government Fuels Strategy | A strategy for alternative fuels and innovative drives as part of the Sustainability Strategy for Germany | The Fuels Strategy is intended to create planning certainty and incentives for investment | Continuous project: Bases: Cabinet decision on "The Sustainability Signpost 2005" on 10.8.2005; "The Outlook for Germany: A Sustainability Strategy" published October 2004 |
| 102. | Act on Bio Fuels Ratios | Anyone marketing fuels will be obliged from 2007 to sell a specific minimum share (ratio) laid down in law in the form of bio fuels. Within this ratio the bio fuels are to be taxed at the full rate. | Increase the share of bio fuels to 6.75 % (in relation to the energy content) by 2010 and 8 % by 2015 | 1.1.2007 |
| 103. | New regulations for the taxation of energy products (Energy Taxation Law) and amendment to the Electricity Taxation Law | I. a.: ▶ Ease the tax burden on energy-intensive producing firms ▶ Adjust the promotion of bio fuels through taxation to the changes in cost structures | ▶ Improve the competitiveness of energy-intensive industries ▶ Avoid over-promotion of bio fuels | Announced on 15.7.2006 (BGBl. 1, p. 1534) as part of the Act to Introduce New Regulations for the Taxation of Energy Products and to Amend the Electricity Taxation Law |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|---|---|--|--|---|
| | | | | Status and Timetable | Comes into Force |
| 104. | Renewable Energies Law | <p>1) Amend the Renewable Energies Law to improve the competitive position of electricity-intensive firms and increase the transparency of the mechanisms for passing on costs and invoicing under the Law</p> <p>2) As a clear regulation is urgently needed on generation management on transmission and distribution level in temporarily fully utilised electricity networks it is proposed that in certain cases generation management is possible. At the same time the relation between electricity from renewable energy sources and electricity from combined heating and power plant will be regulated in § 4, Subpara. 3 of the Law.</p> <p>3) The report on experience with the Renewable Energies Law will be drawn up by end-2007, dealing in particular with the state of introduction of plant to generate electricity from renewable energies, the development in the corresponding electricity production costs, rates of pay, degression stages and promotional periods, storage technologies and the ecological effects of the Law.</p> | <p>Ad 1) Ensuring secure, economical and environmentally compatible energy supplies.</p> <p>Ad 2) Improve network stability</p> | <p>Ad 1) Ease the burden on electricity-intensive companies and the railways; transfer new competences in the area covered by the Law to the Federal Network Agency; the legislation came into force on 1.12.2006</p> <p>Ad 2) Cabinet decision on implementation given</p> <p>Ad 3) Report on experience with the Renewable Energies Law 2007; if necessary consequent amendment to the Law</p> | Ad 1) 1.12.2006 |
| 105. | Market incentive programme for renewable energies | Grants to promote solar panels and modern wood-fired heating. Last year a good 166,000 applications for an investment volume of more than € 1.3 billion were approved. This year an increase of investment undertaken is expected. The technologies promoted have now become more economical, enabling the promotional rates to be reduced. | Reduce dependency on energy imports, help to protect the climate and encourage sparing use of raw materials, strengthen regional value creation and create secure permanent jobs | Programme now operating | New promotional directives on 20.1.2007 |
| 106. | Promotion of wind power | Amend the Energy Industry Law, § 17, Para. 2a (new) through the Act to Accelerate Infrastructure Planning. Move the responsibility for building and operating the network connection of offshore wind parks from the wind park operator to the transmission network operator, to enable electricity users to bear the costs in future through network charges; only applies to wind parks on which construction starts by 2011. | Build about five offshore wind power parks in the North Sea and the Baltic by 2011 | Legislation announced (BGBl. I, p. 2833) | 17.12.2006 |

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| 107. | Export Initiative on Renewable Energies | Support SMEs in the renewable energies branch with the instruments of foreign trade promotion in opening up export markets. Measure is based on a parliamentary decision in 2002. (Extension of the Initiative to energy efficiency technologies in preparation) | <ul style="list-style-type: none"> ▶ Increasing the export ratio of renewable energies will strengthen the international competitiveness of the domestic renewable energies industry ▶ Export-induced increases in production can be expected to lower costs for renewable energy products ▶ Strengthen value creation in Germany and create jobs ▶ Spreading German renewable energies technology abroad will help climate protection | Current measure, no time limit. |
| 108. | Overall energy policy concept | Comprehensive overall concept with an outlook to 2020 as the basis of German energy policy In the energy summit process proposals are to be worked out with representatives of the energy industry, industrial and private consumers, the trade unions, research and environmental protection that can serve as building blocks for the overall energy policy concept. Several top level meetings will be held (energy summits on 3.4. and 9.10 2006 and in the first half of 2007), and the above representatives will be supported by three working groups. Equal aims of the concept are securing supplies, economy and environmental/climate compatibility. | Longer term energy policy framework conditions, also as orientation for investment decisions by market participants | Energy summits on 3.4. and 9.10 2006 and in the first half of 2007 Overall energy policy concept 2nd half of 2007. |
| 109. | REACH Regulation (registration, evaluation and authorisation of chemicals) | EU regulation on the registration, evaluation and authorisation of chemicals. The European Commission is accompanying the implementation of REACH with RIPs (REACH Implementation Projects) e.g. by drawing up technical guides on materials evaluation or by developing a central data bank for registration. Each member state will set up an information office. | New regulations on the safe handling of substances | Passed December 2006; a six-months period starts on 1.6.2008 for producers and importers to register their substances 1.6.2007 |
| 110. | Proposals for a directive by the European Parliament and the European Council on the assessment and prevention of flooding | Member states are to undertake an assessment of their exposure to risk of flooding within certain periods, identify their areas at risk and draw up danger and risk maps for these, with risk management plans. | Assessment and prevention of flooding | Joint standpoint second reading European Parliament April 2007; passed by June 2007 at the earliest and implemented 2 years after coming into force January 2008 |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|--|---|---|--|---------------------|
| | | | | Status and Timetable | Comes into Force |
| 111. | Proposals for a directive by the European Parliament and the Council on environmental quality norms in water management policy | Uniform environmental quality norms for certain substances must be observed throughout the EU; member states must draw up a list of the emissions of these substances | Environmental quality norms in water management policy | Joint standpoint expected end-2007; implementation 2 years after comes into force; list for one year between 2007 and 2009 | Second half of 2008 |
| 112. | Proposal for a directive by the European Parliament and the Council to create a legal framework for marine environmental measures by the Community (Marine Strategy Directive) | Programme of measures by 2016, to be operationalised by 2018 | Put the marine environment into good condition by 2021 | Political agreement in the Environment Council on 18.12.2006; second reading in the European Parliament expected autumn 2007; passed 12.07 at the earliest | 2008 |
| 113. | Cost-efficient climate protection: CDM/JI (Clean Development Mechanism/Joint Implementation) Initiative | Implement a CDM/JI Initiative as an element in the partnership between the Federal Government and German industry 1. Agreements on bilateral JI/CDM cooperation (memoranda of understanding) with a large number of host countries are being negotiated or are already signed 2. Other measures planned in the initiative: ▶ Further development of the legal and institutional bases in Germany ▶ Prevent specific project risks ▶ Marketing activities ▶ Support for the use of CDMs and JIs by German companies abroad | Achieve climate protection objectives at favourable cost on corporate level (EU emissions trading); improve competitiveness and open up foreign markets for innovative climate protection technologies on all levels (especially industry and energy supplies/energy efficiency and renewable energies) | Announced December 2005 | |

D.3 Family-Friendly Living and Working Conditions

| | | | | | |
|------|--|--|---|--|--|
| 114. | Promotion of the private household as employer | i. a. allow more child care costs, care and nursing services and workmen's services to be tax-deducted | Employment-effective measures to increase economic growth | Act to Promote Growth and Employment through Taxation of 26.4.2006 | On date announced, backdated to 1.1.2006 |
|------|--|--|---|--|--|

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|------|---|---|---|--|----------|
| 115. | Promote employment for women | <p>Parents allowance: Parents who do not work for more than 30 hours a week on average in the first 14 months of their child's life will now receive a parents allowance. On principle this is to replace 67% of the income from employment they are losing calculated in relation to their income in the year before the birth. The maximum allowance is € 1,800 and the minimum € 300 (paid even if the recipient was not employed before the birth). For persons on low incomes below € 1,000 a month the allowance rises in stages from 67% to 100%. One parent can draw the allowance for a maximum of 12 months, both together for a total of 14 months; single parents may also receive it for 14 months.</p> | Encourage men and women to play equal roles in the family and a career; it is expected that women will now take shorter breaks from employment for family reasons, so reducing the gender-specific differences in employment, unemployment and wage levels. | Approved by the Upper House on 3.11.2006 | 1.1.2007 |
| 116. | Encourage combining a family and a career | <p>Multi-generation homes By 2010 a multi-generation residential house will be built in every district and every independent town and city (439 altogether). These houses will create structures for active cooperation between all the generations and provide a platform for family-related services.</p> | Improve the infrastructure for families and older people | 2006–2010 | |
| 117. | Increase the number of day nurseries | <p>Federal Government report in accordance with § 24a, Para. 3 Social Code VIII on the state of expansion of day nurseries for children under three. The legislation to improve the quality and number of day nurseries to meet demand (Act on the Expansion of Day Nurseries of 27.12.2004, BGBl. I, p. 3852 - TAG) requires the Federal Government to present a report each year to the Federal Parliament, giving a survey of the state of expansion achieved in the past year and describing the municipalities' strategies for further expansion.</p> | Increase the number of day nurseries | The report and proposed decision were considered by the Cabinet on 12.7.2006 | |
| 118. | Improve the quality of day nurseries | <p>Improve the quality of day nurseries and day care for children through the following nationwide projects: <ul style="list-style-type: none"> ▲ Speech tuition in the day nursery ▲ Stories that teach and aid learning ▲ Implementation of the National Quality Initiative in the system of day care facilities for children ▲ Child care exchanges ▲ Internet website www.wissen-und-wachsen.de ▲ Online handbook on day care ▲ Qualification courses for day care personnel <p>The Federal Government is planning to present a national, ESF-financed programme in the new promotional period to promote child care centres in companies. An initial payment is to encourage small and midsize firms especially to make greater commitments to child care in the firm.</p> </p> | Improvement in the quality of educational care for very young children | | |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|---|---|---|---|------------------|
| | | | | Status and Timetable | Comes into Force |
| 119. | Promote combining a family and a career: improve equality of opportunity, encourage companies to make a greater contribution to improving social cohesion, increase the number of women in employment | <p>The "SMEs and the Family" gateway set up in cooperation with the Bertelsmann Foundation offers small and midsize companies information and proposals for practical solutions to the questions of combining a family with a career.</p> <p>Programme for businesses: "The Family: A Success Factor. Winning Companies"</p> <p>Aim: To establish a family-friendly personnel policy as a management instrument for entrepreneurs, managers and personnel officers.</p> <p>New building blocks:</p> <ul style="list-style-type: none"> ▶ A check list for corporate commitment to child care ▶ A family-conscious personnel policy - information for staff councils, management and personnel managers <p>A corporate network with a network office run by the German Chamber of Industry and Commerce (DIHK)</p> <p>An information platform for companies that are family friendly or interested in this commitment, offering exchanges and mutual support. Acting as partner of the Federal Government the DIHK operates a network office and will develop the network into a broad forum for family-friendly firms in cooperation with the 81 regional chambers of industry and commerce in Germany.</p> | "Family-Friendly" will be made a trademark of German industry and commerce | Corporate programme started in January 2006; Guide published in autumn 2006; corporate network started in July 2006 | Comes into Force |
| 120. | Improve combining a family and a career | Local Family Alliances Initiative Local family alliances are groupings of partners from politics, business and society, who link up their activities for families and jointly develop and implement new ideas, especially on combining a family with a career and child care. | Promote the combination of a family and a career and increase the (flexible) supply of child care facilities | Continuous; on 20.20.2006 344 local family alliances operating. | |
| 121. | Work out a National Integration Plan | Work out a National Integration Plan with targets, concrete measures and individual commitments in six fields of action: <ul style="list-style-type: none"> ▶ Developing integration courses further ▶ Promoting the German language right from the start ▶ Ensuring education and training, improving prospects on the labour market ▶ Improve the position of women and girls, realise equal rights ▶ Support integration on the spot ▶ Strengthen citizenship | Increase awareness of mutual social responsibility and of the integration policy measures on state and non-state levels; establish a longer term dialogue between all the relevant political levels and social groups; ensure the future viability of a community that will in future be increasingly characterised by people with a migration background | Start in 2007 | |

D.4 International Stability and Cooperation

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|------|--|--|---|--|
| 122. | Integrate the African, Caribbean and Pacific states in the world economy | Design the Economic Partnership Agreement (EPA) to promote development. The Federal Government supports the EPA negotiations as a major theme on the development policy agenda of the German EU presidency | Integrate the African, Caribbean and Pacific states in the world economy through regional integration, improved market access in the EU and stronger trade regulations that will also benefit German firms. | The EU member states have given the European Commission a mandate to negotiate the EPA; the subject of the negotiations is constantly being discussed by the European Commission and the EU member states |
| 123. | Improve market access for developing countries | After the suspension of the Doha Development Round the Federal Government supports rapid resumption of the World Trade Organisation negotiations to enable the objectives of the round to be reached: expansion and strengthening of the multilateral trade system by further opening of markets, better integration of developing countries in world trade and reform of trade rules | Better integration of developing countries in world trade | Technical resumption of talks since 16.11.2006; "Window of Opportunity" from January to April 2007 substantially to advance negotiations |
| 124. | Improve technical support and trade-related capacity build-up for developing countries | The Federal Government is working for the implementation of the "Aid for Trade" commitments in the Hong Kong development package as part of German development cooperation, independent of the suspension of the Doha Development Round. The EU and its member states will provide a total of € 2 billion for trade-related capacity build-up and technical support as part of their development cooperation | Realise the potential benefit that still exists from the Doha Development Round | A joint "Aid for Trade" strategy for the European Commission and the EU member states will be worked out in 2007. Technical discussions are still in the initial phase. EU Aid for Trade strategy can only be passed in autumn 2007 at the earliest. |
| 125. | Promote renewable energies and energy efficiency in developing countries | <ul style="list-style-type: none"> ▶ "Sustained Energy for Development": This German development cooperation programme was initiated at the World Summit in Johannesburg in 2002 and will provide € 1 billion by 2007, € 500 million for renewable energies and € 500 million to increase energy efficiency. ▶ "Special Facility for Investment in Renewable Energies and Energy Efficiency" in developing countries: A further € 500 million has been available for five years since 2005 in loans at reduced interest rates. | Access to modern and sustainable energy and reduce the effect on the climate and the environment from the use of fossil energy sources in developing countries | The new commitments of € 1bn promised were already utilised after three years, not five. In 2005 € 170 million was committed for five projects in developing countries out of the special facility. |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|---|---|--|--|------------------|
| | | | | Status and Timetable | Comes into Force |
| 126. | Debt Release Initiatives | Debt release by the Federal Government totalling up to € 7 billion under the Cologne Debt Relief Initiative (extension of the HIPC (Highly Indebted Poor Countries) Initiative; up to € 4 billion as part of the Multilateral Debt Release Initiative (MDRI)) Improve the concept of indebtedness viability in cooperation with the World Bank and the IMF, in order to reduce the dangers of renewed excessive borrowing for indebted countries | Increase the scope for expenditure by the poorest developing countries to reduce poverty | LXXVII: Debt release already granted under the HIPC Initiative €3.1 billion LXXVIII: By October 2006 20 states had their debts finally written off under these initiatives LXXIX: Concept of indebtedness viability is being developed from practical experience | |
| 127. | Reform of the International Monetary Fund (IMF) | Support for the current reforms of the IMF, especially in regard for member states' quotas and the resultant allocation of voting rights. Germany supports an allocation of voting rights that will take account of the changes in the economic importance of member states and will also enable the poor developing countries to have adequate representation. | Secure the legitimization and acceptance of the IMF | The first step to reappraise the quotas was decided at the Annual meeting of the IMF and the World Bank in Singapore in 2006 | |

E. Activating Employment Potentials

E.1 Rapid Entry and Re-entry into Working Life

| | | | | | |
|------|--|---|--|--|----------|
| 128. | Reduce subsidiary wage costs paid in parity by employers and employees | The Federal Government aims to achieve the target set in the Coalition Agreement to reduce parity subsidiary wage costs permanently below 40 % (in January 2006 41.0 %). If the unemployment insurance rate is reduced by 2.3 percentage points on 1.2.2007 while the health insurance rate goes up from 19.5 % to 19.9 % and the average general health insurance rate goes up from 13.3 % to an expected 13.9 %, the net reduction in payments will be 1.3 percentage points. As a result of these measures from 2007 the total contribution rate paid in parity by employers and employees will be 39.7 %, so below 40 %. | Improve the incentives to employment on both the supply and the demand side of the labour market | | |
| 129. | Develop the basic allowance for jobseekers (Social Code II) | Changes to the benefits law and to measures to combat benefits fraud, and improve administration practice in order to advance the Social Code II system | Increase the efficiency of the basic allowance for jobseekers, optimise benefits law | Act to Develop the Basic Allowance for Jobseekers announced on 25.7.2006 | 1.8.2006 |

| | | | | | |
|------|--|---|--|--|----------|
| 130. | Divide the costs of Social Code II between the Federal and State governments | Decide the Federal Government's shares of housing and heating benefits in the basic security allowance for jobseekers. After 29.1% in 2005 and 2006, from 2007 31.2% will be contributed in 14 States, 35.2% in Baden-Württemberg and 41.2% in Rhineland-Palatinate. From 2008 the level will be adjusted in accordance with the development in the number of communities in need. | Planning certainty for the Federal States | First Act to Amend the Second Book of the Social Code and the Act on Financial Compensation announced in December 2006 | 1.1.2007 |
| 131. | M: Align standard benefits in east and west Germany and amend the concept of the community in need | <ul style="list-style-type: none"> ▶ Uniform standard benefit payment throughout Germany ▶ Amend the concept of the community in need, so that persons under 25 are included with or remain with their parents in a single community, if they are still living at home and are not married. ▶ Make the regulations on setting up an independent household by persons under 25 in need more stringent | Clarification to avoid undesirable developments from Social Code II | Act to Amend the Second Book of the Social Code and other Laws announced on 24.3.2006 | 1.7.2006 |
| 132. | Measures in the low wage sector | Examine all the existing regulations on supplementary wage payments for persons on low incomes to increase the employment chances of the low skilled | Integrate more low skilled and long-term unemployed persons in the labour market | Cabinet expected to consider key points in spring 2007 | 2007 |

E.2 Increase and Broaden Labour Force

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|------|---|--|---|---|--|
| 133. | Promote the employment of women | Agreement between the Federal Government and the confederations of German industry and commerce to promote equality of opportunity for men and women of 2.7.2001 | Promote equality of opportunity for men and women, increase the share of women in management positions and jobs with good future prospects, reduce wage and salary differentials and improve the scope for combining a career with a family | Second Assessment passed in February 2006 with focus on "Women in Management Positions" | |
| 134. | Promote employment and entrepreneurship for women | <p>Agency for Women in Business and website: The agency will operate throughout Germany, strengthening the framework conditions for women to operate in business (www.gruenderinnenagentur.de).</p> <p>The website www.frauenmachenkarriere.de offers women specific support in planning and shaping their careers</p> | To exploit the professional and business potential of women | Agency website: 2004 - 2007; information website 2004 - 2009 | |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|---|--|---|--|-------------------------------|
| | | | | Status and Timetable | Comes into Force |
| 135. | Reduce gender-specific differentials | <p>Girls' Day Girls' Day is held once a year to give girls an insight into scientific and technical careers, which have played almost no part in their choice of careers in the past.</p> <p>New Ways for Boys This is a national networking project of initiatives on occupational orientation and lifetime planning for boys. The actions carried out during the project will encourage boys to reflect on male role images.</p> | Help to achieve greater equality of opportunity by overcoming the barriers in career choices by boys and girls | 2005–2007 | |
| 136. | Competition for companies "Chances with Experience" | To identify and multiply activities successfully tested in practice and that are worth imitating in the field of demographically sensitive personnel policy or a corporate culture that takes due account of older workers; to identify need for corporate action. Develop promising medium and long term concepts "from practice for practice" to support sustained rethinking processes. | The aim is to use the results and experience gained to stimulate processes with sustained effect for the development of a corporate culture that takes due account of older workers. Effect: Ensure that older workers remain employable, reveal potentials and utilise available skills | Competition ran until 15.12.2006; further strategic work in 2007 and 2008 (assessment, evaluation etc.) | |
| 137. | An employment package for older workers; Federal programme "The 50Plus Outlook" | Promote 62 regional projects for 93 working groups and registered municipal sponsors to reintegrate long term unemployed workers aged over 50 | Help to improve the employment situation of older workers and increase their share in employment; utilise the potentials in the regions to integrate older unemployed workers in the general labour market | Federal Government decision in April 2005 and agreement between the government parties in the Coalition Agreement of 11.11.2005 | October 2005 to December 2007 |
| 138. | Federal programme "30,000 More Jobs for Workers over 58" | Promote up to 30,000 job opportunities for older long-term unemployed workers by reimbursing employers' additional expenditure (additional jobs) for up to three years | Help to maintain and activate skills acquired in employment by older workers for socially acknowledged work | Federal Government decision in April 2005 and understanding between the governing parties in the Coalition Agreement of 11.11.2005 | July 2005 to December 2009 |

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|------|---|---|--|--|-------------------|
| 139. | Improve the employment chances for older workers | Increase the promotion for advanced vocational training for older workers in SMEs and make it more attractive Extend the integration grant for the appointment of older workers Increase wage security for older workers and make this more attractive (the combi-wage) New regulation on short-term employment contracts with workers aged over 52 to conform with EU law | Improve the employment chances of older jobseekers and make older workers more employable; create greater legal and planning certainty | Cabinet decision on the draft law on 29.11.2006; first reading in the Federal Parliament on 14.12.2006 | Expected 1.5.2007 |
| 140. | Special programme on advanced training for the low skilled and older workers in firms | Targeted promotion of older workers employed in SMEs and of employers who enable their workers to obtain a higher qualification | Encourage advanced training for older workers in SMEs and more subsequent qualification in firms | Decision by the Supervisory Board of the Federal Labour Agency on 10.11.2006 | 2007 |
| 141. | New Quality of Working Life Initiative | Develop know-how to create good working conditions with a healthy, highly qualified and motivated workforce up to retirement age | Measure to flank the prolongation of working life; keep German companies competitive in the conditions of demographic change; help to improve the employment situation and increase the share of older workers | Continuance of the Initiative laid down in the Coalition Agreement | |
| 142. | A modern immigration policy - active labour market integration | Build up an information and consultancy network on the occupational integration of persons with a migration background | Improve recourse to labour market policy standard benefits | Limited to 31.12.2007, the period of EQUAL II, with accompanying evaluation | 1.1.2005 |

E.3 Basic and Advanced Training with Good Prospects

| | | | | | |
|------|-------------------------------|---|--|---|-----------|
| 143. | Access to vocational training | Special Federal Government programme to qualify young people to enter training; until end-2008; continuation under review | Build a bridge to vocational training, especially for young people who have limited prospects of placement and who have not found a training place even in the follow-up placement procedure | Federal Cabinet decision on 14.7.2004; directive published in the Federal Gazette on 5.8.2004, No. 145, P.17385; amendment published in the Federal Gazette on 30.9.2006, No. 186, P. 6601; debated, Federal Gazette 31.10.2006, No. 205, P. 6815 | 1.10.2004 |
|------|-------------------------------|---|--|---|-----------|

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|---|---|---|--|----------------------|
| | | | | Status and Timetable | Comes into Force |
| 144. | Improve the situation for young people on the labour market | Competence agencies are being built up in a nation-wide model programme. As recognised specialist services providers they will perform a central placement and pilot function to integrate particularly disadvantaged young people in critical social hot spots and structurally weak rural regions occupationally and socially. Individual development plans will be worked out with young people to whom the existing offers have little or no appeal, to enable their social and occupational integration to be specifically adapted to their family and social environment. | Prevent the social exclusion of particularly disadvantaged young people and increase their integration in the labour market | | |
| 145. | Innovation Group on Vocational Training | The aim of the Innovation Group is to identify the main challenges for innovation in the German vocational training system and work out concrete options for action to achieve structural improvement in vocational training | Increase the supply of training places, improve the quality of training and permeability between the training areas | The Innovation Group consists of representatives of the Federal States, the business associations, the trade unions, leading entrepreneurs and representatives of innovative vocational training practice; it will work out proposals for structural improvement | From February 2006 |
| 146. | “School/Business/Working Life” programme | A programme to strengthen the occupational orientation of young people. The aim is to promote innovative projects to prepare young people for the demands of a job and working life, in keeping with their experience and real practice, and introduce them to economic thinking and acting. Sustained cooperation between schools and companies and other institutions in the world of work is to be tried out with the aim of putting the cooperation on a permanent level. | Improve occupational orientation, make the transition to training and working life easier | Limited to run until 31.12.2007; adjusted follow-up programme under review | Since 1999 |
| 147. | Develop new skilled occupations | New occupations on 1.8.2006: <ul style="list-style-type: none"> ▲ Trained kitchen, furniture and removals service staff member ▲ Marketing and social research specialist ▲ Dialogue marketing service personnel (2-year course) ▲ Dialogue market sales person New occupations on 1.8.2007: <ul style="list-style-type: none"> ▲ Trained timber and buildings protection worker (2-year course) ▲ Timber and buildings protector ▲ Object protection officer (2-year course) | Making training more attractive for firms, especially in the SME sector, and offer new opportunities to young people | | 1.8.2006 or 1.8.2007 |

| | | | | |
|--|---|--|--|-----------|
| 148. National Pact for Training and Skilled Recruits | <p>In this pact the private sector undertook to raise 30,000 new training places in firms and 25,000 preliminary qualification places for training in firms each year. On 14.7.2006 the Pact Steering Committee decided to prolong the pact, that was originally due to expire in 2007, and develop it further. The next meeting of the Pact Steering Committee will be in March 2007 for the purpose of prolonging the pact.</p> | <p>Improve the supply of training places by opening up new potentials for additional training places in firms.</p> | <p>The Training Pact was completed for the period 2004 - 2007 and prolongation is intended.</p> | 16.6.2004 |
| 149. More vocational training places | <p>► JOBSTARTER Programme (2005 - 2010): Projects will be promoted to improve the regional provision of company training places for young people by persuading plants or companies to offer training ► A Federal-State special programme will be launched in the new states in 2006 as well to promote 13,000 additional training places</p> | <p>Increase the supply of training places in and outside firms and improve the quality of training structures</p> | <p>During the first two promotion rounds about 150 projects were approved. More project selection rounds will follow; 3rd promotional directive will be published in spring 2007; the agreement with the new states is for the training period 2006 - 2009</p> | From 2005 |
| 150. Reduce the number of premature school-leavers | <p>A second chance for truants A pilot programme to reintegrate truants and guide them to the school-leaver's certificate. Initially 1000 young people in more than 50 localities throughout Germany will be given individual offers adjusted to their personal circumstances to enable them to obtain the school-leaver's certificate. Case managers will be available in the local coordination offices to act as permanent contact partners and counsellors for the young people; they may possibly also help to place the youngsters in practical courses or in extra tuition.</p> | <p>Reduce the number leaving school prematurely; individual counselling for initially around 1000 young people nationwide, adjusted to their personal circumstances to enable them to finish their schooling and obtain a certificate.</p> | <p>Started in summer 2006</p> | |

| Serial No. | Measure | Description | Expected Impact | Implementation Stage | |
|------------|--------------------------------|---|---|--|------------------|
| | | | | Status and Timetable | Comes into Force |
| 151. | Strategy for Lifelong Learning | <p>▲ The Learning Region programme: To build up and expand regional networks across training areas and providers. As many representatives from the education sector as possible on regional level (providers of advanced training, companies, schools of every type, labour offices, chambers, municipalities, employers and trade unions, socio-cultural facilities and so on) are to cooperate in evolving innovative measures for lifelong learning which can be tested and made permanent</p> <p>▲ Innovation Group on Advanced Training: Fourteen experts from research and practice are working on combining the most important themes and requirements to improve the framework conditions for lifelong learning and consistently expand this to a stringent concept</p> <p>▲ Appraisal of models for saving for training</p> <p>New offers that are really needed and for which there is demand are to be developed with greater scope for individual design. The possibility is being examined of developing a method of saving for training that will be neutral in budgetary effect but motivate individuals through incentives and promotion to invest themselves more in education and training and so in their own development.</p> | <p>Create networks of regional education and training providers, increase the participation rate in education and training and increase chances of employment</p> <p>Increase the numbers in advanced training, achieve better integration of the various areas of education and training</p> <p>Increase the readiness of individuals to invest in their own education</p> | <p>Current programme runs until end-2007</p> <p>May 2006 - May 2007</p> <p>Appraisal completed end-2006, implementation under discussion</p> | Comes into Force |

Abbreviations

| | |
|-----------------|--|
| CO ₂ | Carbon dioxide |
| COORETEC | CO ₂ reduction technologies |
| EC | European Community |
| ECB | European Central Bank |
| EIB | European Investment Bank |
| EIF | European Investment Fund |
| ERP | European Recovery Fund |
| EU | European Union |
| EXIST | New businesses hived off from universities |
| EXIST-Seed | Promotion of technology-oriented hive-offs from universities |
| G8 | Group of 8 major industrial countries |
| GDP | Gross domestic product |
| HIPCs | Highly indebted poor countries |
| ICT | Information and communications technology |
| IMF | International Monetary Fund |
| INQA | New Quality of Work Initiative |
| JG | Annual Report by the Council of Economic Experts |
| KfW | Kreditanstalt für Wiederaufbau, German Development Bank |
| NEMO | Network Management East |
| OECD | Organisation for Economic Cooperation and Development |
| PPPs | Public private partnerships |
| PRO INNO II | Programme to promote the innovative competence of SMEs |
| R&D | Research and development |
| REACH | Registration, Evaluation and Authorisation of Chemicals |
| REITs | Real Estate Investment Trusts |
| SMEs | Small and midsize enterprises |
| WTO | World Trade Organisation |

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