



Federal Ministry  
of Economics  
and Technology



Overall Economic Policy

# Annual Economic Report 2008

## Staying on Course!

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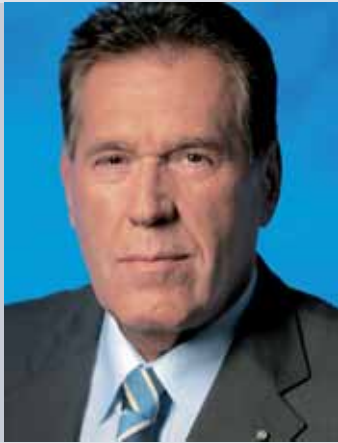
Overall Economic Policy

# **Annual Economic Report 2008**

## **Staying on Course!**



## Preface



### “Staying on Course!”

The title of this year’s Annual Economic Report is an appeal to all those who bear responsibility in economic policy in Germany. That is the companies, who must stay competitive and become more competitive in the interests of growth and employment. It is the men and women of our society, who are actively helping to shape structural change. It is the employers and trade unions in the wage rounds, whom I call upon to continue the responsible wage policy of past years. And not least we as the Federal Government must continue with determination on the course that has been successful so far.

This course is set to achieve falling unemployment and rising employment, bigger market chances for companies, better incomes prospects for individuals and sounder public finance. I invite you all to continue to support the reform strategy of the Federal Government.

Above all we must work together to ensure that the employment chances can continue to be used with determination. For this we need a flexible labour market that allows the use of instruments like part-time work, opening clauses in wage agreements, short-term employment contracts, part-time work, mini-jobs and time accounts. We need low subsidiary wage costs, and it is our aim to keep these permanently below 40 percent. We also need a slender state that gives room for enterprise and commitment and innovative companies. We, the Federal Government, will continue to use our financial scope - on the one side to consolidate and on the other to give stimulus for growth and employment.

A handwritten signature in black ink, appearing to read 'Michael Glos', written in a cursive style.

Michael Glos

Federal Minister of Economics and Technology

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# The Federal Government's Annual Economic Report 2008

The Federal Government herewith presents to the German Parliament and the Upper House (Bundesrat) the Annual Economic Report 2008, in accordance with § 2 of the Act to Promote the Stability and Growth of the Economy.

As last year 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 2007/2008 by the German Council of Economic Experts, which are integrated in this section, have been focussed on major economic policy issues. A detailed "balance sheet" of the measures by the Federal Government since the start of the current legislative period and the measures planned for 2008 and beyond are given in tabular form in the Annex. 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 prospects for 2008 and their expert analysis of the basic lines of economic policy. With the Annual Economic Report the Federal Government presents macroeconomic orientation data for 2008 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 2008: Staying on Course! Summary

Germany is set on a good course, with an upswing that is benefiting everyone, record employment and a balanced public budget. The reforms of the last few years are now paying off and the German economy is continuing to grow. The Federal Government is assuming economic growth this year of 1.7 percent. The number in employment will also continue to grow (by 280,000 on average for the year) and unemployment will continue to fall (by 330,000 on average for the year). Germany must stay on this course. More reforms will also bring more benefits to everyone.

The Federal Government's reform balance sheet is something to be proud of. The upswing is benefiting the people – in the form of better earnings prospects and more jobs. A historic peak was reached in autumn 2007 with more than 40 million in jobs. Moreover, the growth in employment is more dynamic than in earlier upswing phases. Employment on which social insurance is paid alone increased last year by an estimated 570,000 persons on average for the year. The number unemployed fell from a year's average of 4.9 million in 2005 to less than 3.8 million last year (and so by nearly one quarter). Unlike past phases the economic dynamic is now increasingly also benefiting the people who face particular problems on the labour market – older workers, the long-term unemployed and the low-skilled.

The consolidation of the budget is making good progress. In 2007 the public budget as a whole was in balance – for the first time since 1989. We aim to achieve a balanced federal budget in 2011 at the latest. We must continue to use the scope, firstly to consolidate, and secondly to stimulate growth and employment.

“Not to Squander the Achievement”. That is the title given to their Annual Report 2007/2008 by the Council of Economic Experts for the Assessment of the Macroeconomic Development. It contains two messages: firstly, confirmation that the policy of recent years has been successful, and secondly concern that these successes could be jeopardised. The Federal Government takes this concern seriously. The economic risks for the current year have grown. The international dynamic will slacken this year – not least as a result of the turbulence on the financial markets in the United States and their worldwide

effects. The stimulus from foreign trade is lessening. The high oil price and the weakness of the US dollar against the euro will put further strain on the German economy.

It is all the more important to remain on course in economic policy. Particularly against the background of greater uncertainty the flexibility and ability to react of markets and market participants need to be further improved with structural reforms. The Federal Government will therefore consistently maintain its strategy to improve the economic framework conditions, under the leitmotif “Invest-Restructure-Reform”, which was decided in Genshagen at the start of 2006 and brought up to date in Meseberg last year. The aim is to increase further the potential for growth and resistance in the German economy, enable individuals to share even more in the upswing and ensure sustained public budgets and social insurance systems.

Reducing unemployment even further is still one of the most urgent tasks. The Federal Government will therefore ensure that employment opportunities can be utilised with determination and flexibility. Wherever incentive mechanisms for the supply of and demand for jobs can be improved and undesirable developments corrected action is needed. Part-time work and opening clauses in collective wage agreements, short-term employment contracts, temporary work, mini-jobs and working time accounts are examples of flexible elements that have now made the German labour market highly adaptable, and led to a rapid build up of employment in the upswing.

An important aim of employment policy reform is to keep subsidiary wage costs permanently below 40 percent – that is, the contribution rates to social insurance, of which the employer and the employee each pay half. The reduction in the contribution rate to unemployment insurance to 3.3 percent on 1 January 2008 is a major step here. It eases the cost burden on companies while increasing the purchasing power of the employees who are paying contributions. With its active labour market policy the Federal Government is also helping to reintegrate particularly people with placement difficulties and older workers back in the first labour market. The Federal

Government will also improve the prospects for exploiting employment potentials that are still unutilised. This includes measures to facilitate combining a family and a career, for example, and a longer term concept for the import of personnel to meet market needs. Here the Federal Government will make every effort to ensure that the domestic potential of skilled personnel is given priority. To enable employees to share more in their company's earnings in future the Federal Government will improve the conditions for an increase in staff shareholding on the basis of the proposal from the Coalition Working Group.

The Federal Government will continue to encourage business commitment. The reform of corporation tax on 1 January 2008 will reduce the average overall tax burden on companies in Germany to just under 30 percent. That will make the German tax rates competitive again internationally. The reform of inheritance tax will facilitate the changeover in generations, particularly for small and midsize firms. Moreover, individuals and companies will be relieved of more superfluous bureaucracy. A third act of legislation to ease the burden on the SME sector is in preparation. Not least, the mobilisation of venture capital will help innovative new entrepreneurs to make their way financially in the difficult start-up phase of a company.

Innovative enterprises are the driving force of growth and employment. So innovation and technological strengths need constant improvement. With its High-Tech Strategy the Federal Government is working to ensure that basic research is translated into marketable products more quickly. It is improving the conditions for new technology-intensive firms and it is continuing to develop the telecommunications infrastructure and the information and communications technologies to ensure even better conditions for innovation. The Federal Government will invest a further 6.5 billion euros in research, technology and innovation in this legislative period. The aim is to invest, in conjunction with the private sector, 3 percent of the gross domestic product in research and development by 2010. In provision for the future efforts in education will be increased and equality of opportunity improved.

Viable energy costs and sustained energy supplies are essential if Germany is to remain a competitive business location in the long term as well. We must also meet the challenges of worldwide climate change. The Federal Government has therefore decided an integrated energy and climate programme, which provides, among other things, for increased use of renewable energies.

The demographic development will also require reforms to the social insurance systems. The aim here must be to increase competition in the health system further and specifically increase preventive health care. Care insurance will be reformed to meet people's needs better.

A higher growth path in the long term requires sound and sustainable public finances. In lowering the ratio of public expenditure from just under 47 percent in 2005 to around 44 percent in 2007 the Federal Government has already taken a good step forward in quantitative consolidation. Beside this, qualitative consolidation also remains a central task, and here public expenditure must be made more efficient in every area, and investment in the bases of growth – particularly education and the infrastructure – increased. To secure the success already achieved with consolidation the Federal Government wishes to see effective regulation of public debt anchored in the Grundgesetz (Basic Law), as part of Federalism Reform II, and oriented to the requirements of the European Stability and Growth Pact.

With its high export dependency the German economy profits particularly from favourable international economic conditions. Hence the Federal Government will continue to work, on national and international level, for open markets. Essential progress was achieved in 2007, during the German presidency of the EU Council and the G8. The Federal Government will continue to work on EU level i.a to strengthen the internal market in the energy sector, liberalise the market for postal services and ensure that a competition-oriented telecommunications policy is maintained. On international level the Doha Round needs to be continued in a way that holds promise of success, the transparency of the international financial markets increased and protection of

intellectual property improved. As a follow-up to its presidency of the G8 and to the Heiligendamm summit the Federal Government will contribute to

extending the international framework of a social market economy.

**Table 1: Key Data on the Macroeconomic Development in Germany<sup>1</sup>**

	2006	2007	Annual projection 2008
	Year-on-year change in %		
<b>Gross domestic product (price adjusted)</b>	<b>2.9</b>	<b>2.5</b>	<b>1.7</b>
Employment (in Germany)	0.6	1.7	0.7
<i>Unemployment rate in % (Federal Labour Agency definition)<sup>2</sup></i>	10.8	9.0	8.2
<b>Use of GDP (price adjusted)</b>			
Private households and private non-profit institutions serving private households	1.0	-0.3	1.1
Equipment	8.3	8.4	4.1
Buildings	4.3	2.0	0.5
Domestic demand	1.9	1.1	1.4
Exports	12.5	8.3	5.8
Imports	11.2	5.7	5.9
<i>External Balance of goods and services (contribution to growth in GDP)<sup>3</sup></i>	<i>1.1</i>	<i>1.5</i>	<i>0.4</i>
Gross wages and salaries per person employed (nominal)	0.9	1.3	2.4

<sup>1</sup> UP to 2007 preliminary results from the Federal Statistical Office as per 15 January 2008.

<sup>2</sup> In relation to all persons in employment.

<sup>3</sup> Contribution to growth rate in GDP.

# I. Assessment and Perspectives of a Successful Reform Strategy

## A. Reforms Pay Off

### German economy still on expansion course

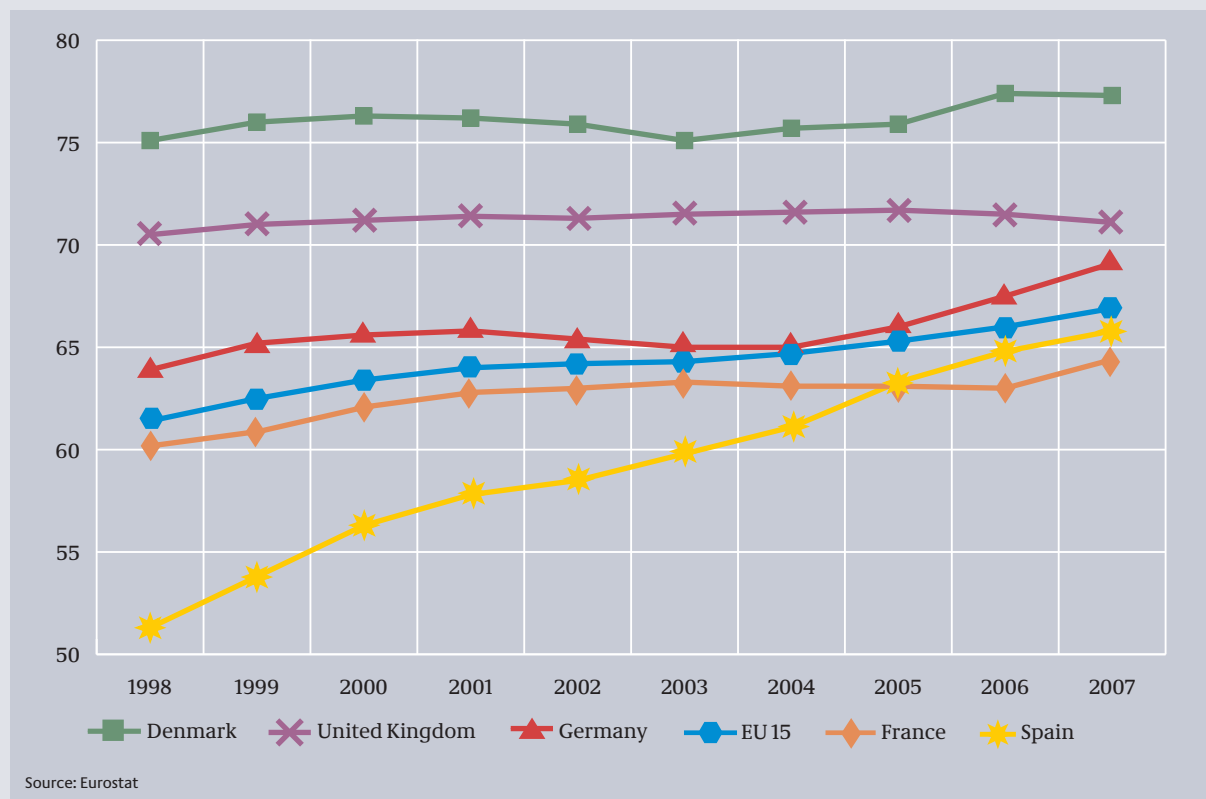
1. The past year was a successful one for Germany. The reforms of recent years paid off: for the state in the form of sound public finances and regained scope for achieving economic and social policy aims, for companies in the form of better sales and earnings prospects and for Germany as a whole as a business location with greater attractiveness to national and international investors and more growth than in previous years.

2. The upswing is benefiting people in the form of more jobs and better incomes prospects (see Table 2). Many previously unutilised employment possibilities have been opened up and new added. For the first time in postwar history nearly 40 million people on average were in work in 2007. That was one million or 2.3 percent more than on average for 2005. The employment rate is higher than the average for the

EU 15 (see Diagram 1). Employment on which social insurance is paid showed extraordinarily strong growth, at 0.7 million people or 2.6 percent (cf. JG Items 490 ff. and Table 2), while the number out of work fell much more strongly than in earlier upswing periods, from an average of 4.9 million in 2005 to less than 3.8 million last year. The number registered unemployed thus fell by 1.1 million people or nearly one quarter.

In contrast to past phases the newly gained dynamic is also increasingly benefitting those people who face particular placement difficulties on the labour market - older workers, the long-term unemployed and the low-skilled. The employment rate for the over-54s has risen to 52 percent. That is a growth of more than 10 percentage points since the year 2000. So the target set for Europe in the Lisbon Strategy of achieving an employment rate of 50 percent in this group by 2010 is already achieved in 2007. The outflows from long-term unemployment, which were

Diagram 1: Overall Employment Rate by EU Comparison in Percent<sup>4</sup>



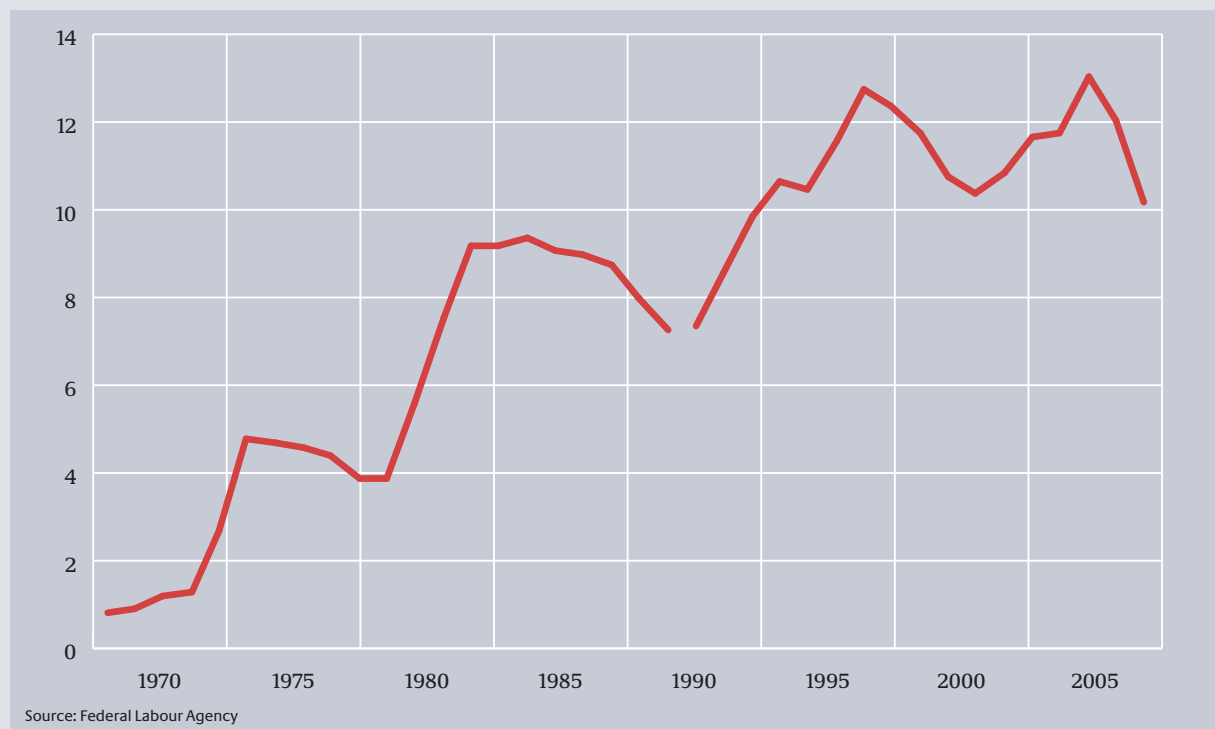
<sup>4</sup> Share of persons employed aged 15-64 in this age group in the population, EU 15. For 2007: figures for the 2nd quarter, otherwise year's averages, preliminary figures for 2005, 2006 and 2007 for Germany, EU 15 and Spain.

clearly higher in the past year than in previous years, are particularly welcome as a reduction in structural unemployment. The number of long-term unemployed who found a job was the highest since 1998 (JG Item 501). Moreover, the growth in the number of jobs has also brought a powerful rise in incomes from employment. After largely stagnating for several years total wages and salaries increased by 3.1 percent last year. That encourages consumption and fuels the dynamic in the domestic economy. But it is also important to ensure that working people will in future share even more in the positive development in corporate earnings. The Federal Government will therefore improve the conditions for extending staff shareholding on the basis proposed by the Coalition Working Group (cf. Item 30).

3. It has not been possible in any upswing phase since the 1970s completely to reduce the unemployment that had built up in the previous downswing. A basic residue of unemployment rose in every cyclical phase

and became a structural fixture. So it is a particular feature of the present upswing that for the first time for 30 years it has been possible to reduce unemployment more than it rose in the previous downswing (cf. Diagram 2). That is an indication of the effectiveness of the reforms on the labour market. These successes are not only reflected in powerful economic growth, they are also clear signs that the structural adaptability of the German labour market has increased and the far-reaching reforms of the past are beginning to pay off for people. The Council of Economic Experts also sees signs which, taken together and by comparison with earlier upswing phases, indicate that this is more than just a temporary cyclical recovery on the labour market. The signs are the strong rise in persons in employment paying social insurance (cf. Diagram 4 (a)), the above-average fall in unemployment (cf. Diagram 4 (b)), and a clear rise in the relation of vacancies to the number unemployed. The rise in employment intensity (cf. Diagram 5), or the fall in the employment threshold, that is, the

**Diagram 2: Unemployment Rates 1970-2007 in Percent<sup>5</sup>**



<sup>5</sup> Unemployment rate in relation to persons in dependent employment.

threshold in GDP growth above which there is a rise in employment, are also seen by the Council of Economic Experts as signs that the responsiveness, flexibility and dynamic of the labour market have increased (cf. JG 475ff.). The Federal Government sees its reform course of recent years confirmed and encouraged by these statements from the Council of Economic Experts.

4. In the view of the Council of Economic Experts (JG Item 95ff.) and other empirical studies (e.g. Deutsche Bundesbank, the economic research institutes) it is above all the labour market policy reforms, combined with the competitiveness companies have regained in recent years, that have led to a clear improvement in the medium-term growth prospects for the German economy (production potential). According to calculations by the Council of Economic Experts the potential growth rate has nearly doubled, from 0.9 percent in 2004 to 1.7 percent in 2007 (JG Item 104). According to estimates by the Deutsche Bundesbank the production potential is currently growing by 1¼ percent. That is an increase of around ¼ percentage point from the previous period. The Federal Government sees this as a sign that the adaptability of the German economy and its resistance to internal and external disruptions have increased in recent years.

5. The situation of the public budgets has also greatly improved over recent years through the reform process and the cyclical recovery. In 2007 the public sector as a whole was able to achieve a slight surplus, for the first time since 1989, with a clear drop in the structural deficit to nearly zero. The indebtedness criterion in the European Stability and Growth Pact, that had been infringed several times in the past, was observed in 2006 and 2007, while in 2005 the deficit rate was still 3.4% of nominal GDP. The deficit in the federal budget was reduced more than originally planned owing to increased revenue in the cyclical recovery and the Federal Government's active consolidation policy. The Federal Government is aiming to achieve a balanced federal budget for 2011. Owing to the weaker rise in public expenditure the ratio of public expenditure to nominal GDP has fallen markedly. Ultimately this means less state and more freedom for individuals and companies. And, as the economic research institutes affirm in their joint diagnosis of autumn 2007, the growth trend should have been strengthened. Altogether, as the Council of Economic Experts sums up, "at the end of 2007 Germany is much better positioned as a business location than at the time of the last upswing" (JG Item 1).

6. The economic upswing in Germany, the decline in unemployment and the reorganisation of the public

**Table 2: Reform Dividend in Figures 2005–2007**

	2005	2007	Change 2005/2007
Persons employed in mill.	38.8	39.7	+0.9 mill. (+2.3%)
Employed paying social insurance in mill.	26.2	26.9	+0.7 mill. (+2.6%)
Registered unemployed (Year's average in mill.)	4.9	3.8	-1.1 mill. (-22.3%)
Long-term unemployed in mill.	1.6	1.4	-0.2 mill. (-17.3%)
Overhang of applicants for training places <sup>6</sup>	27,900	10,700	-17,200
No. of new training places over previous year in 1000s <sup>6</sup>	550	626	+76
Employment rate for over 54s <sup>7</sup>	45.5%	52.0%	+6.5%-points
Subsidiary wage costs <sup>8</sup>	41.4%	39.7%	-1.7%-points
State expenditure	46.9%	43.9%	-3.0%-points
Financing balance in % of GDP	-3.4%	0	+3.4%-points

<sup>6</sup> Figures up to 30.09; <sup>7</sup> Share of persons employed aged 55-64 in the total number in this age group.

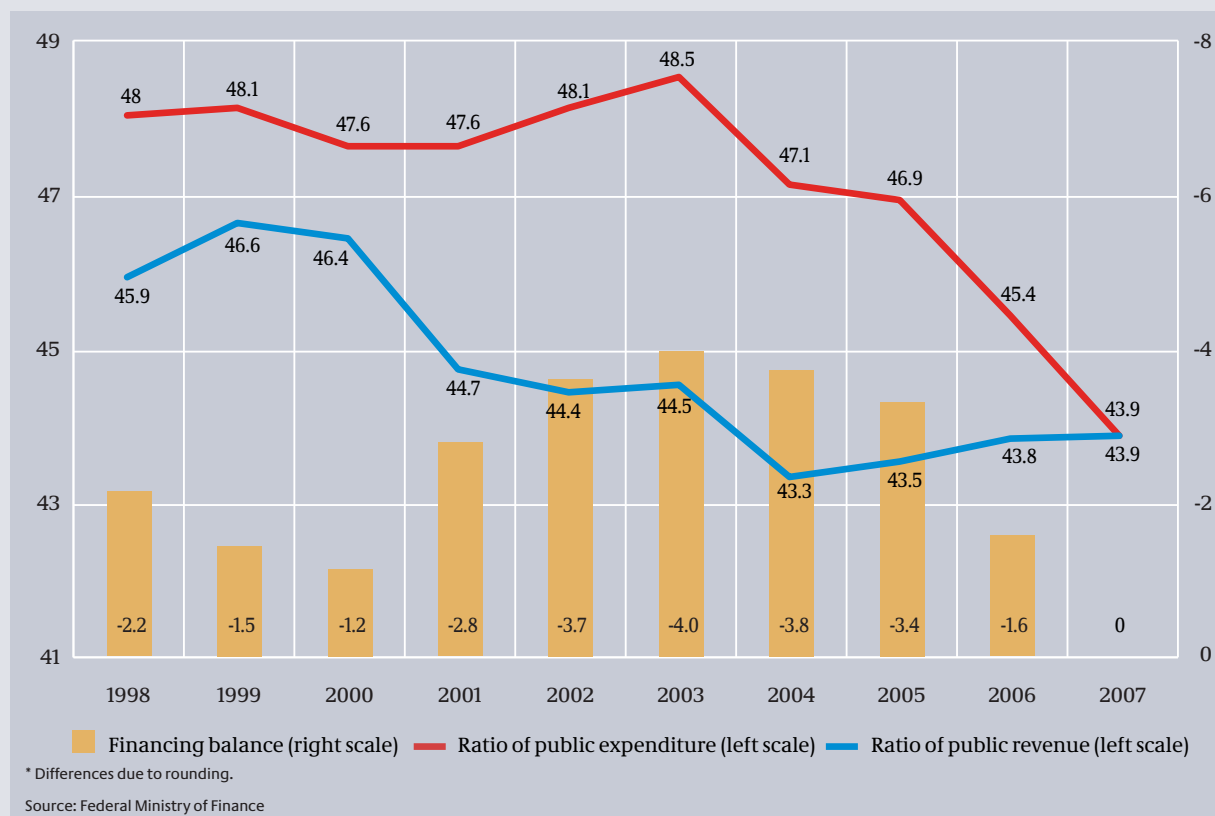
<sup>8</sup> Social insurance rates of which the employer and the employee each pay half.

finances are successes in which many have played a part. The employers and trade unions have exercised judgement in their wage agreements and so also improved the employment prospects for the unemployed. The inclusion of a growing number of opening clauses in wage agreements has provided new scope for adjustment on plant level. Companies have consolidated their balance sheets, made their production processes more efficient, positioned themselves successfully on world markets with new and high quality products and services, and are investing strongly again. Together all this has clearly strengthened the competitiveness of our economy. The foreign trade environment has also been favourable, while the policy pursued by the Federal Government has also made a major contribution to the upswing. Policy itself cannot create permanent jobs, but it can set the framework conditions so that more sustainable jobs and incomes can be created. That has happened. The Council of Economic Experts also confirms this: "With reforms, some of which are far-reaching,

policy in the fields of taxation, the labour market and social insurance has contributed to Germany's economic comeback" (JG Item 1).

7. The growth process in Germany has lasted for nearly three years now and it will continue this year as well. On the basis of the information available last autumn the Council of Economic Experts are expecting real growth of 1.9 percent (JG Items 4 and 112). Meantime, however, the risks from abroad have increased again. The real estate crisis in the USA since summer 2007 has caused a liquidity and adjustment crisis on the international financial markets. Banks are having to take losses, in some cases on a spectacular scale. So far Germany has proved relatively robust. Apart from some exceptions the banks have sufficient reserves to be able to respond appropriately to the clear changes in the market situation, and so far there are no signs of a credit squeeze on German companies as a consequence of the turbulence on the financial markets.

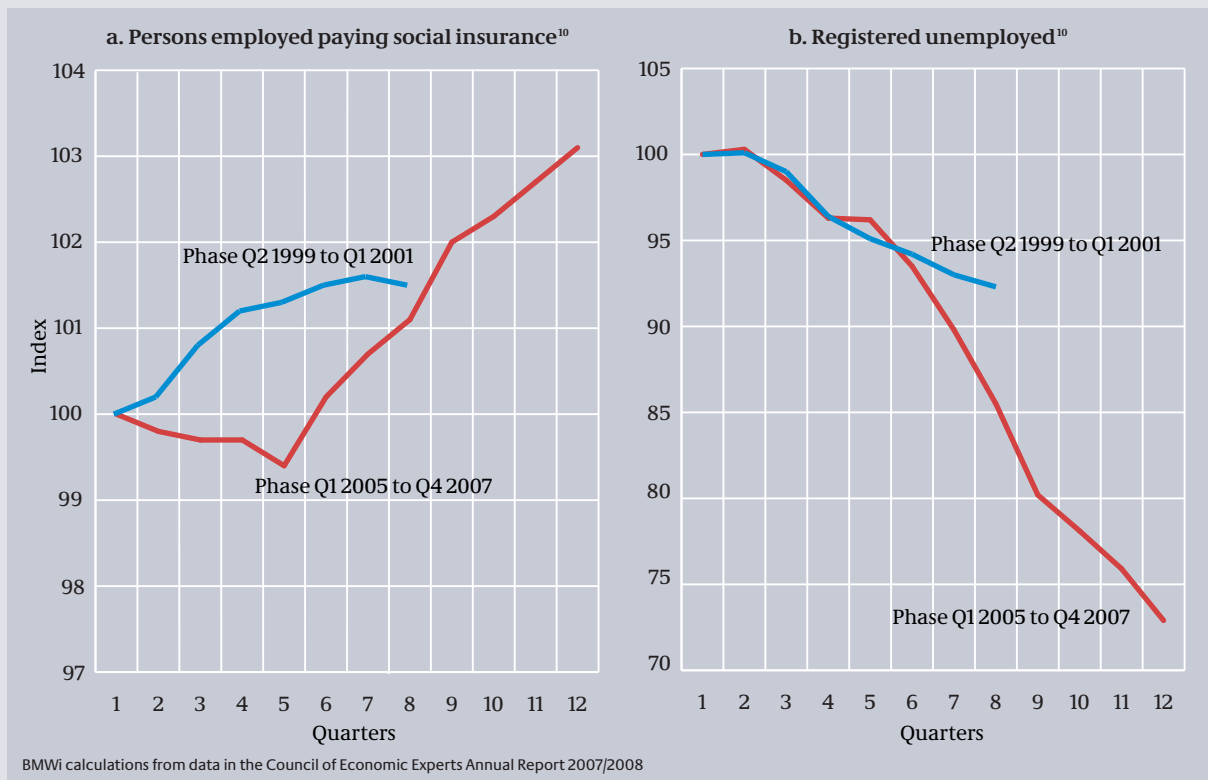
**Diagram 3: Germany's Path to a Balanced Public Budget – Public Expenditure, Revenue and Financing Balance (in relation to nominal gross domestic product)\***



The Federal Government is now assuming growth of 1.7 percent (for more details see Chapter II). The Federal Government and the Council of Economic Experts (JG Items 119 and 120ff.) estimate that unemployment will fall further this year, on average, by 330,000 persons to 3.5 million, and that employment will continue to rise – by 280,000 to about 40 million. Consumer prices did rise noticeably at the turn of the year, but in the view of the Bundesbank they will moderate again in the course of this year when one-off price effects (e.g. the increase in VAT at the start of 2007, and higher university tuition fees in spring 2007) come to an end. The Council of Economic Experts, the economic research institutes and the Federal Government are expecting the inflation rate on average for this year to be below the expected rise in wages and salaries per person, so that real incomes will rise slightly.

8. The domestic economy is providing increasingly strong support for the basic cyclical dynamic, while the stimulus from abroad is slackening. The real estate crisis may be expected to dampen the US economy and the development in the world economy, although there are strong endogenous driving forces in other regions of the world. The dynamic in the economy as a whole will probably be less strong this year. The high oil price and the weakness of the US dollar against the euro will put a further strain on the German economy. The uncertainties over the further upwards movement have undoubtedly increased, and it is all the more important now to support the confidence in the future which entrepreneurs and employees have regained by maintaining the clear course in economic policy and further strengthening the resistance in the German economy. The Federal Government agrees with the Council of Economic Experts: What has been achieved must not be squan-

**Diagram 4: Employment and Unemployment by Cyclical Comparison<sup>9</sup>**



<sup>9</sup> For the definition of the upswing phases see JG 2007/2008, Box 14. In contrast to the statement by the Council of Economic Experts the start of the second phase was put at the 1st q. of 2005 to avoid distortions in this phase from changes to legal regulations under Social Code II; figures seasonally adjusted according to the X12-Arima Census Procedure.

<sup>10</sup> Index, i.e. start of upswing = 100.



dered. The flexibility and responsiveness of markets and market participants can and must be improved further with structural measures.

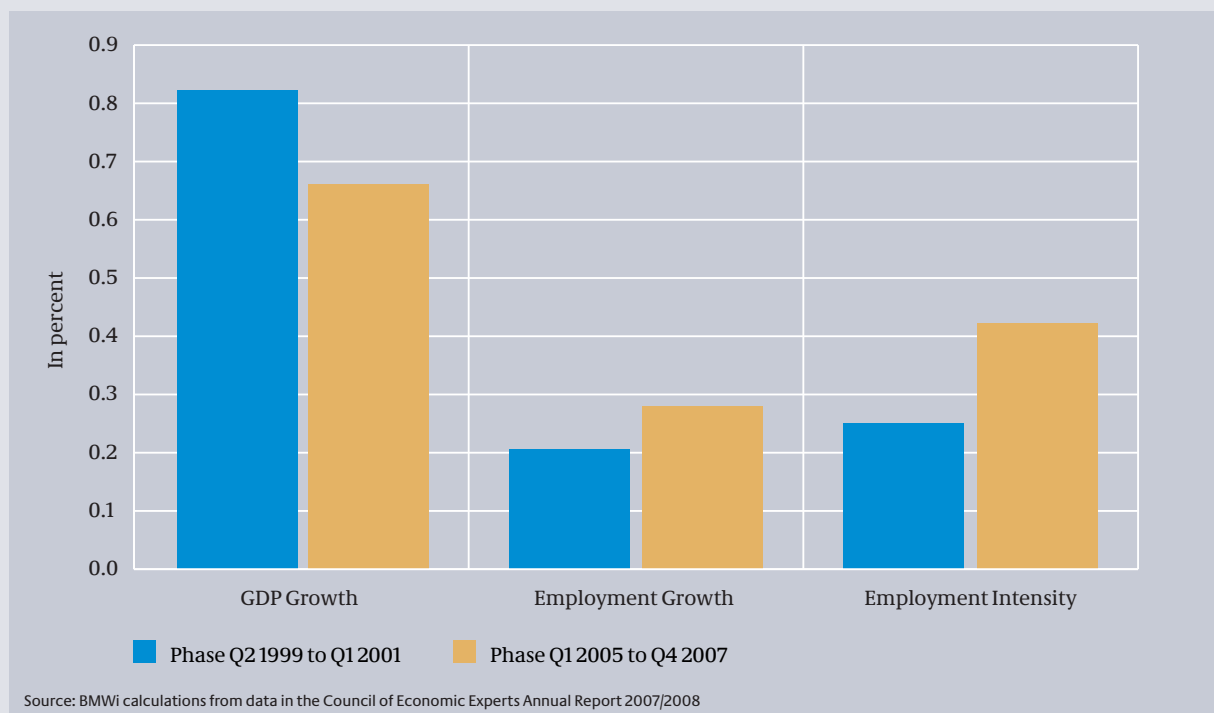
9. The Federal Government will therefore consistently pursue the path embarked upon at the start of 2006 with the Genshagen reform strategy, and further strengthen the bases of the upswing. This strategy, with the leitmotif “Invest - Restructure - Reform”, has been successful. The combination of an economic policy to stimulate growth and employment on the one side and budget consolidation on the other has been successful. The people have regained confidence and companies are investing more again in jobs and machines.

10. We must continue to use and expand Germany’s strengths (see Box 1) so that the level of prosperity in our country can continue to grow, quantitatively and qualitatively. The more the existing opportunities for

growth are utilised the easier will it be to realise the aims of policy on society, social affairs and the environment, like a high per capita income, justice between the generations, equality of opportunity, social security and environmental and climate protection. The Federal Government has underlined these aims in its National Sustainability Strategy. Sustained growth can best be achieved if structural reforms and favourable macroeconomic framework conditions are mutually supportive. Strengthening the forces of growth and sustaining the macroeconomic development are therefore the essential aim of the strategy agreed by the Federal Government for the second half of the current legislative period at its meeting in Meseberg in summer 2007 (see Box 3).

Many of the tasks resulting from the national and international challenges have already been successfully tackled in the first half of this legislative period (see Box 2 and for more detail the table of measures in

**Diagram 5: Employment Intensity by Time Comparison<sup>11</sup>**



<sup>11</sup> Average growth in real GDP and persons employed paying statutory social insurance over previous quarter in percent during period observed. Employment intensity: growth in the number employed paying statutory social insurance in relation to growth in GDP. For the definition of the upswing phases see JG 2007/2008, Box 14. In contrast to the statement by the Council of Economic Experts the start of the second phase was put at the 1st q. of 2005 to avoid distortions in this phase from changes to legal regulations under Social Code II; figures seasonally adjusted according to the X12-Arima Census Procedure.

### Box 1: Germany's Strengths

- ▶ **Competitiveness:** The high competitiveness of German firms on world markets is rooted not only in good quality and excellent price-performance ratios, it is also manifest in good positioning on new growth markets, e.g. in Eastern Europe.
- ▶ **Exports:** The structure of the German economy, with a large number of small and midsize firms, many of which are world market leaders, helps to create a supply that is flexible and meets customers' needs. It pays off in particular export successes. Germany remained world champion in the export of goods in 2007 as well, with an export volume of 989 billion euros.
- ▶ **World market share:** Even faced with the increasing export presence of the rapidly growing economies in Asia and Latin America German firms have succeeded in securing and expanding their own market position. Germany was the only G7 state able to increase its share of world trade in the last 10 years. In 2007 German exports of goods and services increased more strongly, at real 8.3 percent, than was expected from the growth in sales markets.
- ▶ **Technological efficiency:** Germany has been No. 2 on the world ranking list - measured by size of population - for patents of world market relevance for years (cf. Diagram 8). In exports of R&D-intensive goods it shares top place with the United States. Together the two countries account for about one third of world trade in these goods.
- ▶ **Energy:** Germany is playing a pioneer role in opening up and using renewable energy sources. It is a leading producer worldwide in photovoltaics, wind power and biodiesel fuel.
- ▶ **Education and training:** Eighty-four percent of the population in Germany have university entrance qualification (Abitur) or a vocational qualification (Secondary Stage II) compared with the OECD average of 67 percent. So Germany is in the top field. Youth unemployment is below the OECD average.
- ▶ **Social peace:** The economic system in the Federal Republic of Germany is based on competition and efficiency. Risks in life which the individual cannot carry are absorbed by an efficient network of social security. This makes an important contribution to social peace and the stability of society.
- ▶ **Restraint in labour disputes:** Between 1996 and 2005 on yearly average 2.4 working days per thousand employees were lost through strikes, compared with 144.9 in Spain, 86.8 in Italy, 71.5 in France, 23.6 in Great Britain and even the Netherlands with 7.8.
- ▶ **Infrastructure:** Germany has one of the densest networks of autobahns and railways in Europe; it also has a well developed, technically high quality and reliable communications structure with relatively low communication costs.

the Annex), some still need to be tackled. The appropriate efforts will be continued in the second half of this legislative period, on the basis of the results of the government meeting in Meseberg in August 2007. The Genshagen strategy was further developed and formulated more precisely under the motto "Upswing - Participation - Prosperity". The upswing should benefit more and more people personally. That will require economic, social and political efforts. The scope for all to participate needs to be widened and new chances opened up. Accordingly, the Federal Government will work in future as well to continue to improve the bases for growth:

- ▶ Basic and advanced training is to provide skills and give everyone the opportunity for personal promotion.
- ▶ More people are to be integrated in the first labour market through "Challenge and Support".
- ▶ Germany's position as a high-tech location is to be built up further through investment in research and science and in the innovativeness of German firms.
- ▶ Competition is to be strengthened further to the benefit of private and commercial customers through reforms on the goods markets, especially in the energy sector.

In addition, the social security systems need further stabilisation and the quality of the environment and living standards in Germany needs to be increased further, taking account of national and international economic framework conditions. Further, a sound

and sustained fiscal policy will be pursued on national and European level, thus contributing to non-inflationary growth. Not least, the Federal Government will work for markets to be opened in the global environment.

### Box 2: Essential Elements of the Reform Balance Sheet (see Table Serial No. 1)

#### Labour Market

▶ **Lower subsidiary wage costs:**

On 1 January 2007 the contribution rate to unemployment insurance was reduced from 6.5 percent to 4.2 percent, and from 1 January 2008 it was reduced again by a further 0.9 percentage points to 3.3 percent. This relieved the persons paying contributions of around 25 billion euros or about 1 percent of GDP. As a result subsidiary wage costs, that is, contribution rates to social insurance, of which the employer and the employee each pay half, will fall again and be even further below 40 percent than in 2007 (cf. Item 20).

▶ **New prospects for people facing placement difficulties:**

With the employment grant for employers a measure was introduced in labour market policy for the first time to open up longer term or permanent prospects of taking part in working life for people with particularly severe placement difficulties. The training grant and the integration grant for younger workers will also improve the job prospects for young unemployed (cf. Item 24).

▶ **More employment chances for older workers:**

With the 50 Plus Initiative the efforts to integrate older workers in the first labour market will be increased. The aim is to make older workers more employable and improve their chances of getting a job (50 Plus Initiative, "New Quality of Labour" Initiative, Federal Government programme "The 50 Plus Prospect – Employment Pacts in the Regions", cf. Item 23 and Table Serial No. 15ff.).

▶ **Counter the shortage of skilled personnel by importing personnel to meet market needs:**

The individual priority test will no longer be needed for personnel from the 12 new EU member states qualified in mechanical engineering, vehicle construction and electrical engineering, nor for foreign graduates of German universities (Item 29).

#### Business Activity

▶ **Making corporate taxation competitive:**

To strengthen the ability of companies to invest, create jobs and secure existing jobs, and to make Germany even more attractive as a business location, the Federal Government has reformed corporate taxation. With an average overall tax burden of just under 30 percent Germany now offers better tax conditions, so underlining its international competitiveness in this area as well. Taxation of income from capital has also been comprehensively modernised with the introduction of a flat rate tax on capital earnings and on capital gains as per 1 January 2009 (Item 32).

▶ **Less bureaucracy:**

To assess the cost of bureaucracy the Standard Costs Model (SCM) was introduced. New laws and regulations will be examined by the independent National Norms Control Council. In addition, the Federal Government has launched a number of projects to reduce bureaucracy and further deregulation (cf. Item 34). The 2008 Tax Law, which came into force on 1 January 2008, contains a large number of regulations for the reduction of bureaucracy and to simplify tax legislation (see Table Serial No. 36).



▶ **More competition on the energy markets:**

The temporary intensification of supervision to prevent abuse that has been in force since the start of 2008 under cartel law will make it easier for the cartel authorities to proceed against abuse in the form of excessive charging by energy enterprises with a dominant market position (Item 41). The Ordinance on Network Connections for Power Stations will remove possible discrimination in connecting new power stations to the grid; in particular it will facilitate market access for new suppliers of power stations (cf. Item 100 and Table Serial No. 60).

▶ **Liberalising the Post Markets:**

Deutsche Post AG's exclusive licence for letter services expired on 31 December 2007. That will on principle enable more competition in pricing and services (cf. Item 39).

▶ **Strengthening the SME sector:**

The SME Initiative has i.a. encouraged new businesses, improved financing for small and midsize firms and reduced bureaucracy to their benefit (cf. Item 46).

▶ **Access to venture capital for innovations improved:**

The Federal Government has presented a Law to Modernise the Framework Conditions with the aim of mobilising more venture and equity capital for innovations (cf. Item 52).

#### Technological Efficiency and Innovations

▶ **Research strengthened:**

With its Excellence Initiative and the Pact for Research and Innovation the Federal Government and the federal states are building up the universities in Germany that are strongest in research into internationally outstanding centres and securing the high level of efficiency of research facilities outside the universities. In this legislative period the Federal Government will invest a further 6.5 billion euros in research and development (cf. Item 59).

▶ **Innovation incentives improved:**

To combine all the innovation policy initiatives and operate a uniform innovation policy the Federal Government has developed a High-Tech Strategy. The main aim is to make public research and innovation promotion efficient by networking research and industry better, combining forces in strategic partnerships and shaping framing conditions that will encourage innovation. Altogether around 15 billion euros will be made available by 2009 for top level technologies and cross-section measures that transcend the divisions between technologies (cf. Item 60).

#### Securing the Bases of Life

▶ **Sustained development as a guiding principle:**

To secure the bases of prosperity in the long term and successfully cope with structural change it is important to ensure sustained growth. The Federal Government's Sustainability Strategy is therefore designed to harmonise a high growth rate that will promote employment, while protecting the environment and resources and operating a viable social policy that is fair to the generations. The Federal Government will present a progress report on this in autumn 2008 (cf. Item 10).

▶ **Use of domestic energy resources improved:**

With its Integrated Energy and Climate Programme the Federal Government is improving the framework conditions for energy policy, partly as orientation for the investment and consumption decisions by market participants, i.a. through less dependency, more renewable energies, more energy efficiency, climate-friendly energy extraction, ecological housing construction and less emission of harmful substances by transport (Item 67).

▶ **More use of renewable energies:**

The Renewable Energies Act in particular will make a major contribution to increasing the share of renewable energies in energy supplies (cf. Item 68f.).

▶ **Security in old age now resistant to demographic change:**

To stabilise the statutory pensions insurance the standard retirement threshold for persons born in 1947 and later will be raised in annual steps between 2012 and 2029 from 65 to 67 (cf. Item 78).

▶ **Competition in the health sector increased:**

Greater economy in the statutory health insurance system will be achieved through greater transparency and intensification of competition. At the same equal entitlement and access to high-quality medical care will be guaranteed for everyone (cf. Item 80ff.).

Sustained and efficient public budgets

▶ **The budget consolidated:**

The Federal Government's active consolidation policy has made a major contribution to reducing the deficit. A balanced budget was already achieved last year by the social insurance systems and in numerous federal states and municipalities. Altogether this has entirely eliminated the deficit on all public budgets for the year 2007 (cf. Items 88f.).

**Meeting national and international challenges**

11. Like many other industrial countries Germany still faces difficult challenges - coping with demographic change, progressive globalisation and worldwide climate change. For a long time the birth rate in Germany has been too low to keep the number of inhabitants constant. At the same time, happily, life expectancy is rising more and more through technical progress in health care. The share of older people in the population is increasing, but the share of persons of working age is falling. This trend will continue, and from the middle of the next decade it will cause the number of inhabitants to fall and reduce the potential labour force. Above all, for an extensive period the pensions insurance system will have a growing number receiving payments with a falling number paying contributions. In view of this, reforms must be carried out in a large number of areas to maintain growth and prosperity and social peace between the generations in Germany in the future. We need a higher employment ratio and stronger growth in productivity in order to achieve the necessary increases in growth and incomes.

12. In addition, Germany must face international challenges. Germany is well positioned in international competition, and it has profited enormously from globalisation as a whole. But other countries are catching up. The new EU member states, China, India and other newly industrialised countries are also positioning themselves successfully on international

markets and they are also exploiting the opportunities of globalisation for their own development. They are also increasingly offering higher quality goods and services at attractive prices, and they have developed into important actors in the world economy and in international trade and capital transactions. That is on the one side increasing the pressure of competition on Germany, while on the other it is creating more favourable consumer prices and offering favourable sales prospects with undistorted exchange rates. Germany can profit particularly from this as a country strong in exports.

13. The world economic integration is accelerating the structural change to the knowledge and services society. The technological progress brought by the modern information and communications systems is opening up new opportunities and possibilities for companies and consumers. However, the structure of demand is shifting. There is less demand for unskilled workers and more for skilled personnel. If the level of individual incomes is to be maintained permanent investment in personal skills will be needed. This will require enormous efforts from people who will have to reorient. The state will help. That applies both to the provision of the necessary education and training infrastructure and when the necessary structural change has to be cushioned temporarily through social policy, in order to give those affected time to make the necessary adjustment to the new framework conditions. But ultimately what is needed is also willingness on the part of the individual to seize

structural change as an opportunity. For structural change through technical progress is a major source of growing prosperity.

14. The challenges of worldwide climate change are closely connected with the question of how, under the conditions of worldwide rising demand for energy, supplies at economic prices can be ensured in future, and altogether sustained energy supplies realised. An ambitious strategy to increase energy efficiency and increase the renewable energies further is an appropriate way of reducing emissions of greenhouse gases. What is needed in climate policy can and must be designed so that it is also meaningful in energy policy. It includes reliable and competitive framework conditions for companies and private households. With the integrated energy and climate programme that was passed in December 2007 the Federal Government is facing up to its responsibility for an effective policy on energy and climate protection. In doing so it is also setting an example for other industrial and developing countries.

15. The turbulence on the financial markets that has lasted since early autumn 2007 has underlined the central importance of greater transparency on these markets. Maintaining stability on the international financial markets is a growing challenge, in view of the growing worldwide dependencies between national financial markets. This challenge must be taken up, nationally, on a European scale and internationally. It is a source of instability if investors who

are willing to take a risk can always rely on being relieved of liability and risk by policy if there is turbulence. For the future, therefore, the national and international rules need readjusting. That also applies to newly industrialised countries in view of their importance for the stability of the international financial markets. However, it will never be possible to prevent turbulence altogether. That could only be done at the cost of strangling the financial markets. But then they would no longer be able to perform their task of providing the world economy with capital for investment. So the national and international supervisory rules must be brought into better balance with the risks entered into by market participants.

It is still too early to draw final lessons from the turbulence on the financial markets. The Federal Government shares the view of the Council of Economic Experts on this (JG Item 90). Before concrete measures are taken the events must be carefully analysed. At the request of the G7 the Forum for Financial Stability (FSF) has set up a working group to analyse the causes of the turbulence on the financial markets and to work out possible options for action.<sup>12</sup> Particular attention will be devoted to the role of the rating agencies, questions of financial accounting, the valuation of loan derivatives and transparency, supervisory regulations and international cooperation between the supervisory authorities. The work of the FSF is to be concluded by April 2008. Studies on the same subject will be advanced in the EU by then as well.

<sup>12</sup> The FSF consists of the finance ministries, central banks and supervisory authorities from 12 countries (including the G7 states), international supervisory bodies and international financial institutes, like the International Monetary Fund (IMF).

### Box 3: The Main Elements of the Economic Reform Strategy for 2008 (cf. Table Serial No. 2)

#### Labour Market

- ▶ **Redirection of the labour market policy instruments:** The Federal Government has evaluated the labour market policy instruments and will slim these down and make them more precise (cf. Item 19).
- ▶ **The budget of the Federal Labour Agency (BA):** In the estimate of the Federal Government the BA will be operating without a loan from the Federal Government by 2011 .
- ▶ **Overall concept for the low wage sector:** To restructure the low wage sector an overall concept will be developed that is people-friendly and practical to administer. It will consist of a grant for persons in employment, a child allowance and a redesign of the regulations on additional earnings.
- ▶ **Staff shareholding:** The Federal Government supports the joint working group of the coalition parties and the parliamentary parties which is developing a short-term implementation concept (Item 30).
- ▶ **“Service by people for people – Jobs in the Health, Care and Nursing Sector”.** A general concept is being worked out for this (cf. Item 85).
- ▶ **Households as clients and employers:** The Federal Government will examine how the promotion and administrative procedures can be simplified and made more effective (cf. Item 27).
- ▶ **The Law on Temporary Staff and the Law on Minimum Working Conditions:** Branches can be included in the area of application of the Law on Temporary Staff if more than 50 percent of their workforce is bound by collective wage agreements and if the employers and trade unions make joint application before the end of March 2008. The Law on Minimum Working Conditions of 1952 is to be adjusted so that minimum wages can be fixed for branches where less than 50 percent of the workforce is bound by collective wage agreements (cf. Table Serial No. 7).
- ▶ **Master plan for freight transport and logistics:** To increase the efficiency of the freight transport system and promote mobility a master plan will be worked out for Germany as a location for logistics and business (cf. Item 54).

#### Qualification and Skilled Personnel

- ▶ **Vocational Training:** The Federal Government wants every school-leaver to have a school certificate, if possible, and every young person who wants to train and is capable of doing so should get a training place. More school-leavers should also be induced to study technical and scientific subjects. The Federal Government has therefore launched a “Qualification Initiative” (cf. Box 5).
- ▶ **Immigration:** As well as building up a systematic monitoring system to establish the need for skilled personnel a concept on the import of skilled personnel will be developed to allow immigration to meet labour market requirements. Quantitative and qualitative instruments will be examined and the experience of other countries in steering immigration to suit the labour market will be incorporated (cf. Item 28).

#### Research and Science

- ▶ **The 3 percent target by 2010:** The Federal budget for 2008 contains what is expected to be the necessary federal share for an R&D ratio of 2.7 percent (cf. Table Serial No. 101).
- ▶ **Research lighthouses** will be set up, e.g. in climate research strategy; a national centre on combating dementia (e.g. Parkinson’s disease, Alzheimer’s) will be set up as will an initiative to recruit leading research scientists; THESEUS programme for a new Internet-based research infrastructure; digital networking of energy supplies (“E-energy” – Renewable Energy) (cf. Item 61).
- ▶ **The Law on Freedom in Research:** The Federal Government is currently working out a key points paper on attractive framework conditions for research (cf. Item 60).





#### Energy and the environment

- ▶ **Start of the implementation of the Integrated Energy and Climate Programme:** In order to reduce dependence on fossil energy sources and make the production of energy more climate-friendly with the use of more renewable energies and greater energy efficiency, an Integrated Energy and Climate Programme was passed on 5 December 2007 (cf. Item 67 and Box 8).

#### The international framework to the social market economy – Responsibility in globalisation

- ▶ **Implementing the G8 decisions of Heiligendamm and realising the millennium development goals:** The Federal Government successfully utilised the German presidency of the G8 to advance its concerns regarding the avoidance of new protectionism in investment, promoting innovations, energy and climate protection policy and development policy (cf. Item 108 and Box 11).
- ▶ **Securing innovations:** Protection of intellectual property is to be strengthened particularly through the institutionalised dialogue between the G8 and the leading newly industrialised countries in the Heiligendamm process (cf. Item 107).
- ▶ **Sustained design of globalisation:** The Federal Government wishes to see social and ecological standards applied internationally, the promotion of corporate social responsibility (CSR), the implementation of the ILO Conventions and the promotion of the transparency initiative on raw materials (Extractive Industries Transparency Initiative – EITI) (cf. Box 11).
- ▶ **Ensuring stability of the financial sector:** The Federal Government wants to see greater transparency on the financial markets, and voluntary undertakings by the hedge funds sector in a code of conduct; it is participating in the continuance of the G8 process (Item 15).
- ▶ **Protecting national security interests, remaining open and attractive to foreign investors:** The Federal Government is studying a special control procedure to take account of national security interests in cases of problematic foreign investment (Item 58f.).

#### Demographic change

- ▶ **Steadying occupational and private provision for old age:** A concept will be worked out on this by March 2008 (Item 78 and Table Serial No. 155).
- ▶ **Preventive health care:** The Federal Government is working out a law on prevention to enable better health care and promotion (Item 84).

#### The modern state and people-friendly administration

- ▶ **The Federalism Commission II:** Federalism Reform II will restructure the federal fiscal constitution and improve the efficiency of the administration (Item 94). A central theme is limiting public indebtedness and avoiding budgetary crises in a federalised state with effective debt regulation.
- ▶ **Inheritance tax reform:** The Federal Government will re-draft inheritance tax law in 2008 on the basis of a constitutional and realistic assessment of all classes of property. Corporate succession is to be made easier, particularly in small and midsize firms, so that their continuance is assured (cf. Item 37 and Box 6).
- ▶ **Standard cost assessment:** The new standardised assessment procedure to reduce bureaucracy is to be extended. From the end of 2007 the identification and assessment of bureaucracy costs will be extended beyond the corporate sector to individuals as well (Item 34).
- ▶ **The Act to Reduce the Burden on SMEs III (MEG III):** Following MEG I and II MEG III will end or amend more obligatory reporting and altogether help to slim down the legislation further (Item 34).



- ▶ **Modernisation through IT:** E.g. setting up people's websites, online vehicle registration, electronic tax declaration, electronic patients card and digital libraries. The identity card is to be developed into a citizen's card and IT networks between the Federal Government and the federal states harmonised. The concept on IT steering of the federal administration decided on 5 December 2007 (i.a. introducing an IT commissioner) will make IT use more efficient (Item 34f.).

### Building Up Eastern Germany – Utilising Successes

16. The Federal Government's policy on eastern Germany is producing successes. Economic growth of around 3 percent has been achieved in the eastern German states in each of the past two years, which is more than in any year since the mid-90s. It brings growth in the east above the west German rate, although the development differs between regions. The catching up process is regaining momentum. Unemployment has also fallen markedly. However, at 15.1 percent on average for 2007 it was still twice as high as in the old federal states. So in view of the high level of long-term unemployment special measures will be taken to create additional prospects for the long-term unemployed in regions where unemployment is particularly high. The Federal Government will pursue its promotional policy with consistency and so contribute in future as well to strengthening growth, creating new jobs and securing social cohesion. It will take due account of regional differences in its promotional concept for the new federal states (cf. Box 4 and Table Serial No. 98).

### Economic Policy in the European and International Context

17. It is also part of the national strategy to actively participate in designing the rules for global goods and capital markets within the European and international institutions. The successful G8 summit in Heiligendamm under the German presidency and with the leitmotif "Growth and Responsibility" has strengthened the international consensus that free markets and the sustainable political design of framework conditions for the world economy are inseparably linked. Against this background it is now important politically to concretise the aims of the Federal Government for the further development of the international framework of the social market economy and for achieving the millennium goals. Core areas are open markets, the international application of social standards, the promotion and protection of innovations, energy and climate protection policy and development policy. None of these global problem areas can be solved without the inclusion of the developing countries and emerging economies.

#### Box 4: The Main Strategic Elements in the Policy for the New Federal States<sup>13</sup>

- ▶ Securing the financial framework conditions for the catching up process in the new states through the Solidarity Pact II, which contains supplementary allocations from the federal budget of 105 billion euros (Basket I) to meet special needs in the new states and an over-proportionate allocation from the federal budget totalling 51 billion euros (Basket II).
- ▶ Promotion of research, science, innovation and investment oriented to the specific strengths and potentials of eastern Germany and adhering to the principle of "Strengthening Strengths".
- ▶ Targeted attraction of international investment that will help to modernise the economic structure, create jobs and build up international networks.
- ▶ Creating more prospects for employment through basic and advanced training, and targeted federal programmes to improve the infrastructure and employ the long-term unemployed, like the "Municipal Combi" Programme.
- ▶ Developing strategies for action to cope with the many effects of demographic change.

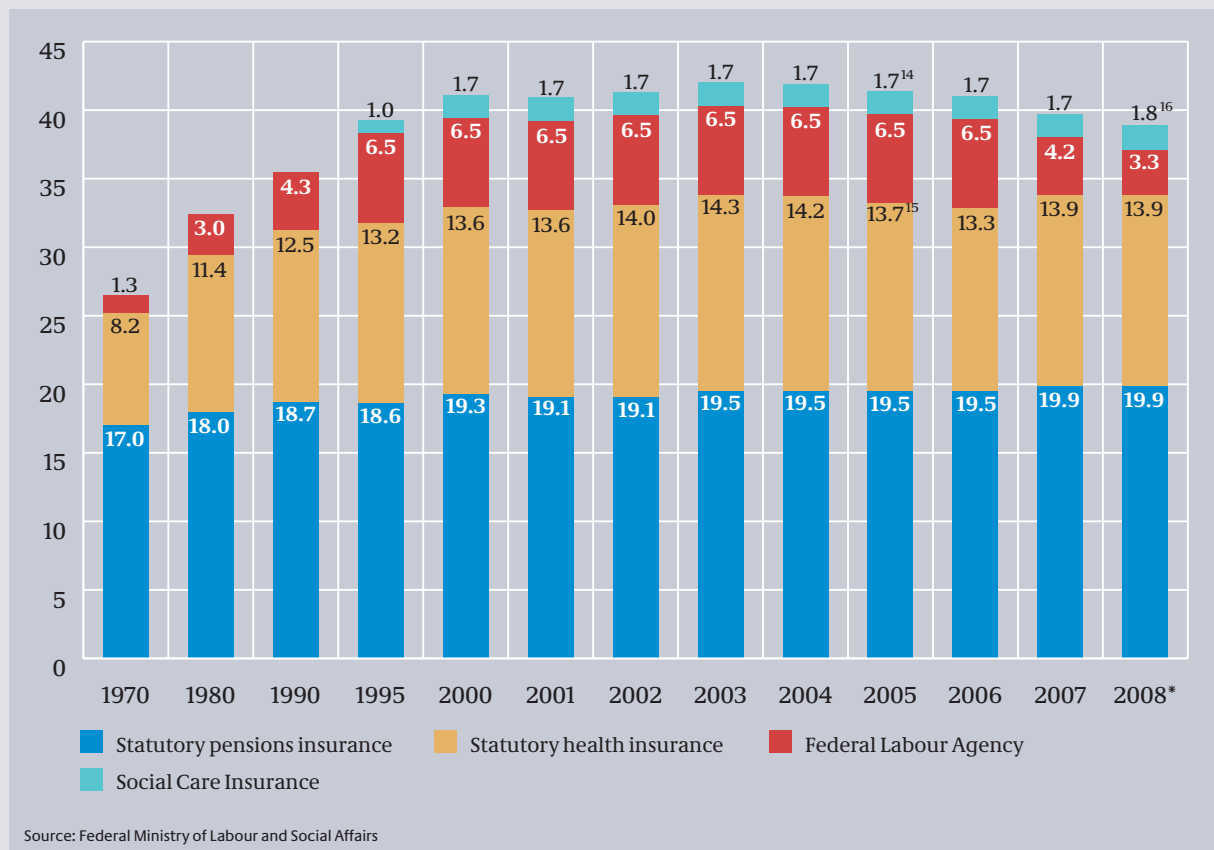
<sup>13</sup> Cf. the Federal Government's Annual Report on the State of German Unity 2007, Bundestags-Drucksache 16/6500.

18. In trade policy the European Union is working for the speedy conclusion of the Doha Development Round (cf. Item 105). The main concern here is to shape globalisation through new liberal trade rules and with greater consideration for the development and environmental policy aspects of reducing customs duties and obstacles to trade; this should open up new chances for the developing countries as well. The Federal Government is therefore working for open markets and to maintain Germany's attractiveness as a location for foreign investment (cf. Item 97). At the same time investment projects must be examined for compatibility with public safety. The Federal Government is therefore examining a special control procedure to take account of national safety interests in the case of foreign investment that is problematic in this regard (cf. Item 99).

## B. Utilise Employment Chances with Determination

19. It is the central aim of the Federal Government to continue to help maintain jobs and create new employment possibilities. It therefore takes very seriously the aim of keeping the social insurance contribution rates, of which the employer and the employee each pay half, permanently down below 40 percent (cf. Item 20 and Diagram 6). The further reduction in the contribution rate to unemployment insurance is an essential step here (cf. Box 2). Similarly, the active labour market policy is helping to avoid and combat long-term unemployment and to integrate people with low skills. Unutilised employment potentials must also be better utilised, e.g. in combining a career and a family and in household-related em-

**Diagram 6: Average Annual Social Insurance Contribution Rates in Percent of Liable Gross Earnings**



\*Estimate

<sup>14</sup> Increase of 0.25 % for childless contributors as per 01.01.2005.

<sup>15</sup> Average annual general rate without membership-related special contribution of 0.9% from 01.07.2005.

<sup>16</sup> Rounded annual average, raised from 1.7% to 1.95% from 1 July 2008.

ployment. The Federal Government is therefore examining how the promotion and administrative procedures can be made simpler and more effective (cf. Table Serial No. 8). It will continue – in cooperation with the federal states – fundamentally to improve the German system of basic and advanced vocational training, in both quality and breadth of effect. Beside building up a monitoring system to establish the need for skilled personnel it will develop a concept for the import of foreign skilled personnel oriented to Germany's future interests.

#### **Federal Labour Agency: Utilise the scope for lowering contribution rates**

20. In the view of the Federal Government the Federal Labour Agency (BA) will be able to manage without a federal loan in the years up to 2011. It should be able to perform its tasks in accordance with its legal requirements and be able to build up a pension fund to secure the claims of its officers. To lower subsidiary wage costs and so support the build up of employment the Federal Government has utilised the present scope in the BA's finances to lower the contribution rate further as per 1 January 2008, from 4.2 percent to 3.3 percent.

21. The Council of Economic Experts is in favour of keeping the contribution rate to unemployment insurance stable throughout the entire economic cycle (JG Item 319). They stress that a reduction beyond the originally intended reduction to 3.9 percent is hardly possible if contributions are to be kept stable. The Federal Government sees the goal of stability in contributions as safe in the medium term. For the rest lower subsidiary wage costs make working in Germany more competitive and help the low skilled in particular to find a job.

The Council of Economic Experts also wants the revenue to the Federal Labour Agency from contributions on no account to be used to pay for measures that are paid for out of the public budget, that is financed from tax revenue (JG Item 320). They have in mind particularly the integration contribution introduced on 1 January 2008 (cf. Table Serial No. 5), with which the BA is paying half of the integration costs

and the administrative costs of basic security for job-seekers. The Federal Government shares the view of the Council of Economic Experts that on principle there should be a clear division of tasks between social insurance on the one hand and the general public budget financed from tax revenue on the other. The introduction of the integration contribution – while at the same time ending the discontinuance payment<sup>17</sup> – however follows on from the fact that the Federal Labour Agency was already financing active job schemes for persons on unemployment assistance before this was combined with social assistance. As the contributions from the insured are paid not only to finance unemployment benefit but also job promotion the Federal Government, unlike the Council of Economic Experts, does not see this as an inappropriate use of contribution revenue.

#### **Combi-Wages to encourage unemployment prevention**

22. With the support of the economic upswing, fortunately even disadvantaged groups like the long-term unemployed, young people and older workers are now benefiting to a particular extent from the growing demand for labour (cf. Item 2).

23. With its "50 Plus-Initiative" the Federal Government has increased its efforts to integrate older workers in the first labour market. The aim of the initiative is to make these workers more employable and improve their chances of finding a job by increasing the integration grants and wage cost grants already available and making them more attractive (cf. Table Serial No. 15). Short-term employment contracts with workers over 52 have also been made easier, permanently and in harmony with EU Community law. That should encourage firms to take on more older workers.

24. The new employment grant for employers should benefit especially workers with particular placement difficulties, who have no prospects of finding a job on the general labour market in the foreseeable future. The aim is to open up longer term or permanent prospects of working life for them again (cf. Table Serial No. 9ff.). The effectiveness of the employment grant is

<sup>17</sup> The discontinuance payment was made by the BA to the Federal Government out of its revenue from contributions if within three months of the expiry of a claim to unemployment benefit the person unemployed drew "Unemployment Benefit II".

being assessed so that if necessary adjustments can be made. For young people under 25 who have been unemployed for at least six months the Federal Government has introduced for a limited period two forms of employer's grant - firstly, a training grant for younger workers without a vocational qualification, and secondly, the integration grant for younger workers with a vocational qualification. These arrangements will develop their full effect in 2008.

25. The federal programme to promote additional jobs, the Federal Municipal Combi Programme, is intended to create, in both 2008 and 2009, up to 50,000 jobs paying social insurance. The jobs will primarily be with municipal authorities or enterprises working for the common good in districts and independent towns where there is particularly high and rigid long-term unemployment (cf. Box 1 and Table Serial No. 11). East German regions with particularly resistant unemployment are to benefit especially. The target group of the Municipal Combi Programme, under which federal grants will be paid to employers, are people who were unemployed for at least two years, have drawn Unemployment Benefit II and are still registered unemployed. The Council of Economic Experts takes a very critical view of the "Municipal Combi", seeing it as equivalent to a classical job creation scheme (JG Item 309ff.) with the risk of displacing unpromoted jobs. The Federal Government does not share that view. Its 2006 Report on the Effectiveness of Modern Services on the Labour Market (BT-DS 16/3982) recommends that in labour market regions with a considerable overhang of labour some forms of publicly promoted jobs paying social insurance should be created for a limited period for groups who are particularly in need of promotion. The jobs must be additional and in the public interest. This should help to prevent the displacement effects feared. This programme, like some listed in the Annex "Measures by the Federal Government 2006-2007", will also be co-financed by the European Social Fund (ESF).

### **Make better use of existing employment potentials, and open up new ones**

26. In other areas existing employment potentials are to be better utilised and new potentials opened up in order to counter in good time the demographic change and the shortage of skilled personnel that is becoming apparent in some sectors. To make greater use of the existing potential of skilled labour the Federal Government announced in the spring of 2007 the target of having 55 percent of the age group 55 to under 65 active in working life by 2010.

A further point to tackle is better ways to combine a family and a career. The Federal Government is helping here i.a. by sharing in the creation of a bigger supply of high quality child care, for small children as well. The Federal Government, the federal states and the municipalities have agreed to increase the supply for children under three to 750,000 places in day nurseries or day centres by 2013 (cf. Table Serial No. 39). That will provide places for about one third of the very smallest children, and it will put Germany in the top group in Europe for child care. The Law on Parents Allowances and Parenting Time, which came into force in 2007, will also give financial support to young families for up to 14 months after the birth of a child (cf. Table Serial No. 36). The new regulation has met with a good reception. Limiting the period during which the allowance is paid to one year is an incentive for parents to go back to work again soon after the break. In addition, the Federal Government will promote the creation of places in kindergartens in small and midsize firms for children under three with start-up finance of up to 10,000 euros from 2008. At least 5,000 new places are to be created in this way.

27. There is also insufficiently utilised potential for jobs in household-related services in Germany. The crafts and small and midsize services providers have profited from the scope available since 1 January 2006

for the deduction from tax of more household-related care services and private expenditure on workmen's services to renovate, maintain and modernise properties (cf. Annual Economic Report 2007, Table Serial No. 114). The Federal Government will examine how the promotion and administrative procedures for households as clients and employers can be made simpler and more effective.

#### Utilising the potential of labour

28. The Council of Economic Experts has only most recently observed a marked shortage of skilled personnel in certain regions and in engineering and technical professions (JG Items 535ff.). Among other things, they say, this suggests inadequate regional and sectoral mobility of the unemployed and employ-

ees and/or inflexible salary structures, and they rightly say that obtaining skilled personnel in professions where there is a marked demand overhang is first and foremost a task for the companies, employers and trade unions in wage negotiations.

It is also the view of the Federal Government that the domestic reservoir of skilled personnel should first and foremost be exploited more fully, and the quality and breadth of basic and advanced training in Germany improved to secure a supply of skilled personnel for the medium and long term. It is making a considerable contribution to solving this problem with an active labour market policy that has been made clearly more efficient through the reform of the Federal Labour Agency, the National Pact for Training

#### Box 5: Advancement through Education – The Federal Government's Qualification Initiative (cf. Table Serial No. 26)

The Qualification Initiative brings together key measures by the Federal Government with the aim of improving the quality and breadth of the German system of basic and advanced training, and so helping to secure growth and employment in Germany. Examples of important measures are:

- ▶ An advanced training initiative for 80,000 training personnel, to improve the education prospects for children under six.
- ▶ The creation of additional training places for older applicants, i.a. with a training bonus for companies that train applicants who particularly deserve training and have previously been rejected.
- ▶ Promotion scholarships for persons in work to open up new paths up the career ladder through education and training.
- ▶ Support for the federal states in creating a service agency for the better allocation of university places – this should prevent places remaining unused because of multiple applications.
- ▶ Introduction of a “voluntary technical year” – to encourage more students to enrol for technical and scientific courses and make more graduates in these subjects available on the labour market in the medium term.
- ▶ 2008, The Mathematics Year - publicity on the importance of mathematics and its many applications in our daily lives and work to help people understand maths better.
- ▶ A Pact for Women in MINT professions<sup>18</sup> – to provide realistic information on these professions and encourage women to enrol for these subjects.
- ▶ Formation of an “Advanced Qualification Alliance” between the Federal Government, the federal states, the municipalities and the employers and trade unions in which in future concrete measures by the partners and measures to develop public advanced training promotion can be incorporated.

The Federal Government's Qualification Initiative is seen as a contribution to a general initiative incorporating the federal states and the social partners. A “Qualification Initiative” for Germany is to be drawn up by the autumn of 2008.

<sup>18</sup> Mathematics, Informatics, Natural Sciences and Technology.

and Skilled Recruits in Germany (cf. Item 29), the Higher Education Pact (cf. Item 60) and the Special Federal/ State Programmes. It is the aim of the Federal Government's Qualification Initiative (cf. Box 5) to open up more of the domestic potential of training staff and skilled personnel, e.g. by offering young people better training prospects, with greater efforts in advanced training, by mobilising skilled labour from the unemployed and including the hidden reserve. The federal states also bear a responsibility here. To ease current bottlenecks in engineering professions in areas where demand is particularly heavy – at present mechanical engineering, vehicle construction and electrical engineering – the Federal Government has, finally, facilitated access to the German labour market for applicants from the 12 new EU member states and foreign graduates of German universities and technical colleges.

#### Vocational Training

29. Obtaining and training recruits to technical occupations and management posts requires constant modernisation of existing occupations and the creation of new ones to meet the needs of the economy. At present these are predominantly in the services sector and the new technologies (cf. Table Serial No. 91). The “National Pact for Training and Skilled Recruits” (Training Pact, cf. Table Serial No. 19) agreed with the business confederations was prolonged for a further three years on 5 March 2007. Companies have doubled their 2004 commitment and are now offering 60,000 new training places a year on average. The associations have also undertaken to persuade 30,000 companies a year to start training and provide 40,000 places a year where young people can qualify to start a vocational training course. With 79,200 new training places and 49,400 new training companies (November 2007) these commitments were clearly exceeded in 2007. The number of entry qualification places promised had almost been reached by the end of October 2007. The positive balance on the labour market is also being reflected in a clearly lower overhang of applicants (cf. Table 2).

#### Staff Shareholding

30. Staff shareholding can increase the motivation of the workforce, improve productivity and help to

strengthen the company's equity base. For the staff new sources of income can be opened up. The Council of Economic Experts points out that staff shareholding can be a meaningful instrument in individual cases and on company level (JG Item 562ff.). The model used is crucial. Staff shareholding, as the Council of Economic Experts says (JG Item 562ff.), is first and foremost a matter for the companies and the parties to collective wage agreements, and initiatives by the legislature or a promotional programme are not needed. In the view of the Federal Government the state, by setting suitable legal conditions, can help to increase the willingness of both the employer and the employees to introduce and accept staff shareholding. The Federal Government supports the joint working group of the coalition parties and the parliamentary parties who are working out a concept for the implementation of staff shareholding.

### C. Strengthening Entrepreneurial Activity

31. Germany is once more well positioned as a location for business investment. German companies are highly competitive. That position must not only be maintained, it needs to be defended in international competition and strengthened. The Federal Government will improve taxation conditions, relieve businesses of even more bureaucratic obstacles, open markets further, strengthen Germany as a financial centre and help to ease financing, especially for small and midsize firms. It will also improve the infrastructure for business investment, support regions undergoing structural change and continue building up eastern Germany.

#### Easing the cost burden on companies

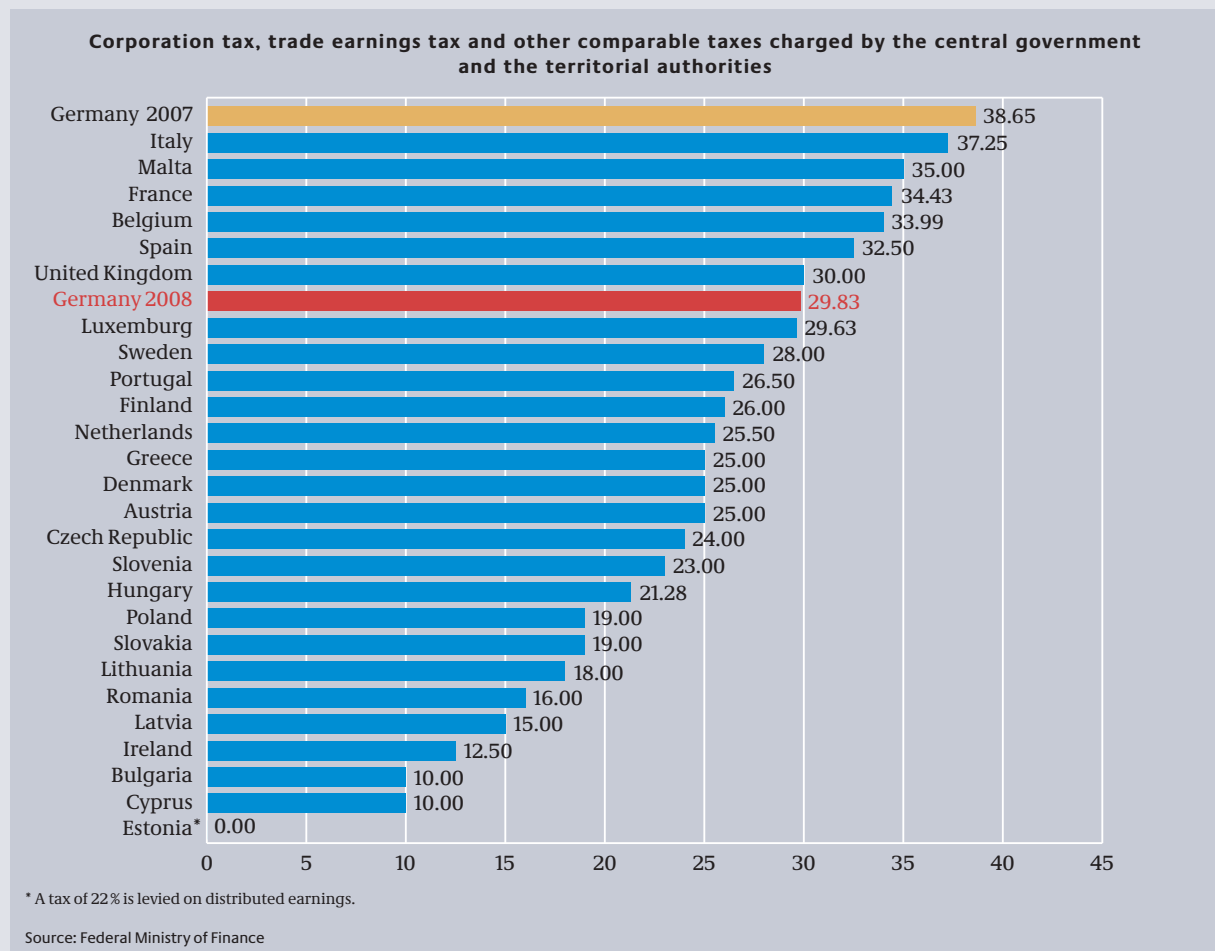
##### Reform of corporate taxation reduces the tax burden

32. The Federal Government has reformed corporate taxation with the aim of improving companies' ability to invest, creating new jobs and securing existing jobs, as well as making Germany even more attractive to business investors (cf. Table Serial No. 44). With an

average overall tax burden of just under 30 percent Germany is now offering better tax conditions, and so underlining its international competitiveness in this field as well (cf. Diagram 7). This will make it easier for German companies to improve their equity base. The reform will also help to ensure that profits earned in Germany are taxed in Germany. The amendments to the trade tax regulations on financing will also stabilise the revenue base for the state, especially the municipalities. The coordinated adjustment of the rates of corporation tax will put a largely equal burden on companies independent of their legal form. In particular with the introduction of a new investment allowance, which replaces the former complicated depreciation provision, corporate taxation reform will also specifically set SME-friendly accents.

The new regulations also introduce an “interest barrier”, to enable profits to be taxed in appropriate relation to the interest expenditure claimed. That will make it more difficult for companies to shift profits abroad for tax reasons (for more detail see Table Serial No. 45). Similar aims are served by the inclusion of 25 percent of all interest payments and shares of rent, leasing instalments and licences in financing in calculating trading profits. A free allowance of 100,000 euros will particularly benefit small and midsize firms. The inclusion of 50 percent of permanent debt interest payments formerly allowed has been dropped, as it was open to creative accounting. To prevent this, for the rest the “mantle purchase regulation” has been replaced with a new regulation that will be more effective (for more detail see Table Serial No. 46).

**Diagram 7: Corporate Taxation 2007 (nominal; retained earnings)**





To supplement corporate tax reform from 1 January 2009 a flat rate tax of 25 percent, plus Solidarity Premium, will be charged on capital earnings and on capital gains. Taxpayers on lower personal rates can opt for income tax assessment. At the same time a general tax on profits on sales is to be introduced for capital investment. The changes in the taxation of private income from capital through the introduction of the new tax will also help to counter the transfer of capital abroad for tax reasons (for more detail see Table Serial No. 47).

The Council of Economic Experts takes a positive view of corporate tax reform 2008 on the whole, as the advantages predominate. The reform is an improvement and – particularly with the reduction in the rates – it will markedly increase Germany's attraction for businesses. But they criticise the coordination of corporate taxation with the new tax of 25 percent on investment earnings and profits on sales, calling it the "Achilles heel", as it will distort financing decisions in favour of financing through borrowing. That is counter to the legislature's aim of strengthening companies' equity base and so it will restrict the investment activity of companies operating nationally. Nor does the reform realise the aim of neutrality towards the company's legal form.

In fact the interaction of corporate taxation and the new 25 percent tax does require careful coordination. The Federal Government has taken into account conceivable effects on corporate investment and financing decisions. In the end result it regards an internationally attractive taxation of capital income to supplement the reform of corporate taxation as essential in regard to the mobility of the factor capital to reduce the incentives to create favourable tax structures. The reform will also improve the neutrality of taxation altogether. That also applies to neutrality towards the legal form of the company, which is achieved in the end result as the tax burden is reduced by the reduction in the rates for incorporated companies on the one side and the possibility for unincorporated firms with high earnings to plough back profits on the other. But the reform is also neu-

tral towards investment, which will be strengthened in future through the equal treatment of the different forms of financing within the framework of offsetting for trade tax.

The Federal Government does not agree with the Council of Economic Experts' criticism of the method of financing corporate taxation reform, namely that the tax system will become more complicated while investment conditions will deteriorate. Rather, it regards funding the reform as essential in view of the need for consolidation. Moreover, the funding is to help ensure that scope for tax structuring, like shifting earnings and losses abroad to evade German tax, will be limited and in future big international concerns especially will also tax in Germany the profits they have made in Germany.

#### **Inheritance tax to secure corporate succession**

33. In December 2007 the Federal Government decided on draft legislation to reform the legislation on inheritance tax and the valuation of property. The decision by the Federal Constitutional Court of 7 November 2006 has been taken into account in the new legislation. In future the estate will be valued in relation to the price that could be achieved on a sale in the course of normal business (the "common value" or market value). The resultant higher value will affect operating assets, shares in incorporated companies, land and forestry, real estate and the other assets. The higher revenue from these higher valuations will be used i.a. to benefit the nearest relatives (spouse, children, grandchildren) in the form of higher personal free allowances. Inheritance to the value of an average single-family house will then generally be free of inheritance tax for this group of heirs. Above all, the succeeding generation in a company is to be relieved of some inheritance tax. This is on condition that the heir continues to run the business and secures employment (cf. Box 6). The new regulation is to ensure that the inheritance tax payable on the transfer of a business does not jeopardise its continued existence and so endanger growth and jobs.



#### Box 6: Cabinet Decisions on the Key Points of Reform of Inheritance Tax and Valuation Law

- ▶ All types of assets will in future be assessed by the common or market value.
- ▶ The closest relatives (Tax Class I) will have bigger free personal allowances: 500,000 euros for spouses, 400,000 for children and 200,000 for grandchildren.
- ▶ Registered cohabiting partners will have the same personal free allowance as spouses (500,000 euros).
- ▶ For operating assets in the broadest sense (including shares of more than 25 percent in incorporated companies, agricultural and forestry enterprises) the share of assets allowed for preferential treatment is fixed at 85 percent.
- ▶ In addition, for smaller enterprises a sliding allowance of 150,000 euros will be introduced. Operating assets to a total value of 1 million euros will be free of tax. The allowance will have been reduced to zero on operating assets of a total value of 3 million euros.
- ▶ The allowances for operating assets are conditional on the enterprise being continued for a period of 15 years. In addition, for ten years the wage bill may not fall below 70 percent of the average wage bill of the last five years before inheritance.
- ▶ For rented housing 10 percent deduction is allowed from the assessment base.
- ▶ For inheritances during the period from 1 January 2007 until the new law comes into force the taxpayer can choose to have the new law applied, if it is more favourable for him. The personal free allowances in force previously must still be applied in this case.

#### Reducing more bureaucracy

34. Reducing bureaucracy is a key part of the policy to reduce obstacles to growth. Bureaucratic requirements are expenditure for companies, individuals and the administration itself. The first interim assessment of the costs of bureaucracy based on the SCM standard costs model<sup>19</sup> up to the end of September 2007 showed that the most elaborate obligatory information required of businesses costs 27 billion euros a year. So reducing bureaucracy plays a key part in the policy to remove obstacles to growth. For new laws and regulations the independent National Norms Control Council appointed by the Federal Government in September 2006 after legislation will examine estimates from ministries in regard to plausibility, and where necessary indicate less costly alternatives (cf. Table Serial No. 53).<sup>20</sup>

35. The Federal Government has set itself the aim of examining by the end of 2011 the full cost of bureaucracy in the form of the obligatory provision of information as measured, identifying which requirements are unnecessary and removing them. The aim is to reduce the present cost burden by 25 percent. First, by the end of 2009 c. 50 of the most costly informa-

tion requirements, which cause around 80 percent of the total bureaucracy costs to businesses in Germany, are to be examined in dialogue with companies and associations and if necessary simplified as far as possible. In the same way the ministries will examine the essential information requirements in their fields of competence. This should achieve about half the target.

With the First and Second Law to Ease the Burden on SMEs the Federal Government has set in motion a large number of debureaucratisation and deregulation projects.<sup>21</sup> They are supplemented by an extensive list of measures that will further ease the burden on SMEs by 2009. Many of the measures decided have already been implemented. Basically, mainly small and midsize firms and new businesses operating in statistics, bookkeeping, and social insurance, trade, pricing and transport law will pay less (cf. Table Serial No. 50ff.). A third law to help SMEs by reducing bureaucracy, MEG III, is now in preparation. In addition, in the second half of the legislative period the Federal Government, in close cooperation with the federal states, will continue to modernise the administration, particularly with the use of IT, and make it

<sup>19</sup> The method used to calculate in euros and cents all the obligatory provision of information and reporting required by the state.

<sup>20</sup> Cf. the report by the Norms Control Council on its activities, "Kostenbewusstsein stärken - Für eine bessere Gesetzgebung", [www.normenkontrollrat.bund.de](http://www.normenkontrollrat.bund.de).

<sup>21</sup> Cf. the report by the Federal Government "Bürokratieabbau - Erkennen - Messen - Abbauen".

more people-friendly. Examples of projects here are online vehicle registration, the electronic patients card, and further developing the identity card to a citizen's card.

36. The Annual Tax Law 2008 which came into force on 1 January 2008 also contains a large number of important regulations to reduce bureaucracy and simplify tax law (cf. Table Serial No. 49). Under this law from 2011 the wage tax card is also to be replaced by a purely electronic procedure. The introduction of a tax identification number has already been decided, and it will be implemented speedily.

37. On European level an action programme for the European Commission to reduce the administrative burden in the EU was launched under the German presidency of the EU Council. The administrative expenditure caused by existing EU regulations is to be reduced by 25 percent by 2012. The first package of measures is intended to relieve European businesses of 1.3 billion euros in the short term. The European Commission estimates that meeting this target could lead to an increase in the EU GDP of around 150 billion euros in the medium term.

## Opening Markets, Strengthening Competition

### Competition Policy

38. It is the aim of the Federal Government's competition policy to open markets and keep them open and improve the conditions for more equality of opportunity in competition. An amendment to the Act against Restraints of Competition that came into force at the end of 2007 strengthened competition-oriented supervision to prevent abuse of energy pricing in the interests of consumers and energy-dependent enterprises (cf. Item 41 and Table Serial No. 59). The amendment is also intended to counter ruinous price competition in the foodstuffs trade (cf. Table Serial No. 58).

39. The liberalisation in the post and rail sectors will also bring more intensive competition (cf. Items 103 and 42). The Federal Government will continue its competition-oriented telecommunications policy as

well (cf. Items 65 and 101). It aims to make the health sector more competitive to achieve better utilisation of the existing potentials for growth. Small and mid-size services providers in particular are to be effectively protected from discrimination and the misuse of market power when signing individual contracts with health insurance institutes.

### Improving the Efficiency of the Energy Markets, Lowering Energy Prices

40. Big price increases have recently been evident for gas and electricity, and they cannot be explained by the development in raw materials prices alone. It is clear that even nine years after the markets were opened competition is still not functioning properly. The rise in the price of electricity is reducing the efficiency of the German economy as a whole and having negative effects on the economic cycle. Markets that are open and function efficiently on the supply and on the demand side are a precondition for internationally competitive energy prices.

41. The Federal Government prepared a package of measures in autumn 2006 to create better structural conditions in the longer term for more competition on the supply side of the energy markets. In the short term the more stringent supervision of abuse introduced for a limited period under cartel law should be effective. It will make it easier for the cartel authorities to proceed against pricing by energy enterprises with a dominant market position that is counter to competition (cf. Table Serial No. 59). From 2009 the incentive regulation will replace the procedures that are still in place and which require prices for the use of the energy networks (network charges) to be approved by the Federal Network Agency. It was able to achieve further reductions in network charges in 2007 even on the basis of the present system.

### More Competition in Rail Transport

42. The Federal Government will keep to its aim to involve private capital in Deutsche Bahn AG. The purpose is to put more traffic on to the trains as rail reform continues, improve the framework for competition on the railways and ease the pressure on the public budget.

### Modernising the Legislation on Public Contracts

43. The Federal Government has set itself the aim of modernising and simplifying the German legislation on the award of public contracts, which is complex and difficult to understand. Particular efforts will be made to design the legislation to suit SMEs. The key concern is to keep the regulations to the necessary minimum and take out bureaucratic requirements.

The system of public contracts and orders should also make a contribution to the integrated energy and climate programme through purchases of energy-efficient products and services. In addition, the Federal Government will orient public procurement on Federal level more to innovative products and services as part of the High-Tech Strategy.

### Public Corporate Governance Codex to be Introduced

44. The aim of the Federal Government's public corporate governance codex to be introduced in 2008 is to create modern structures for good governance in public enterprises - greater efficiency and transparency are just as important for state enterprises and their success as for the private sector. The management and supervision of state enterprises are to be improved through standards for good and responsible corporate management, while the Federal Government's aim in taking shares in these enterprises will be more effectively fulfilled.

### Implementing the Services Directive

45. Rapid and coherent implementation of the European directive on services is essential, in the view of the Federal Government, in order to make greater use of the potentials for growth and employment on the internal European market. It sees the directive as a chance to achieve noticeably easier conditions in the services sector and increase confidence in cross-frontier offers of services (cf. Box 7). In 2008 the course must be set, in cooperation with the federal states, to implement this directive. (In particular, the services-related regulations need to be examined on all law-making levels, single points of contact built up and a European system of mutual assistance established by the federal states.)

### Strengthening the SME Sector, Helping New Businesses

#### The SME Initiative

46. To strengthen the SME sector the Federal Government is removing obstacles to business activity and improving financing conditions, especially for small and midsize firms. Under its SME Initiative the Federal Government implemented a large number of measures in 2007 to help small and midsize firms, especially new businesses, to encourage training, ease SME financing and reduce bureaucracy (cf. Table Serial No. 71). The Federal Government is continuing this initiative. The services sector is receiving particular attention (cf. Item 45 and Box 7).

#### Box 7: Tourism as an Example

- ▶ Tourism is an important area of the services sector and it is showing above-average growth rates. The Federal Government supports small and midsize firms in the tourism sector with an extensive range of measures. It finances the German Tourism Centre, which markets Germany for tourists worldwide, with around 25 million euros a year. Examples of other measures are the training programme run by the German Tourism Seminar, and promotion of e-business.
- ▶ One of the aims of the German presidency of the EU Council in the first half of 2007 was to strengthen Europe further in international competition as a region for tourism. Among other things, practical measures were agreed to increase cooperation between towns. Now the effects of climate change on tourism are an important item on the agenda. Opportunities for growth, particularly in nature, culture and health tourism and business travel must be utilised.

### **New Businesses: Opening the Way**

47. Germany needs a more specific culture of independence. To lower the barriers to setting up in business the Federal Government is pursuing the aim of simplifying and accelerating the necessary administrative processes. The federal states are already supporting this with new business agencies and start-up centres, where men and women embarking on establishing a new business can obtain a wide range of high-quality consultancy and practical services. The Federal Government is also building up and extending a national agency for women entrepreneurs (Bundesgründerinnenagentur – bga) to support women in every branch and every phase of setting up a business.

It is now possible to register a company in Germany within a few hours. On average six days are needed to set up a company limited by shares (GmbH). With the aim of making the registration and approvals procedures even more transparent and speedy the Federal Government launched an action “The Easy Start Up” in November 2007 with active support from all involved. The Federal Government also supports i.a. technology-oriented new businesses (on EXIST, and the High-Tech New Business Fund see Item 62).

48. The promotion of training and consultancy offered by the Federal Government for new entrepreneurs and for small and midsize enterprises has also been made more transparent and efficient. In conjunction with the federal states the Federal Government has worked out a coordinated concept for individual consultancy to new firms. Since 1 October 2007 the Federal Government has also been offering a national programme, “New Business Coaching for Germany”, to cover the phase of setting up a business and its firm establishment in the first five years of its operation. From summer 2008 coaching for previously unemployed new entrepreneurs in the first year after start-up is planned. It will replace the former coaching for new previously unemployed entrepreneurs by the Federal Labour Agency. Promotion of consultancy for individual new entrepreneurs in the pre-start up phase is solely the responsibility of the federal states.

### **KfW’s Small Loan Programme**

49. To improve the start-up conditions, especially for small and micro enterprises, the Federal Government is continuing its work to improve and extend the promotion under the European Recovery Programme (ERP) and by Kreditanstalt für Wiederaufbau (KfW). The two programmes StartGeld (Start-Up Money) and Mikrodarlehen (Micro Loans) offered by KfW for new and young businesses with a small need for capital were combined as per 1 January 2008 into a new small loans programme, KfW StartGeld. It contains a number of improvements for the end-borrower - there is no longer a minimum loan requirement and the same new entrepreneur can apply twice, as long as the maximum amount borrowed does not exceed 50,000 euros.

### **Modernising statutory occupational accident insurance**

50. The Federal Government will modernise statutory occupational accident insurance in 2008 to make this more economical and efficient, and to develop the system further. Key points in the reform are slimming down the organisation more, modernising the administrative structures and reorganising burden-sharing between the occupational accident insurers. A “Joint German Labour Protection Strategy” has been drawn up by the Federal Government, the federal states and the accident insurers and also forms part of the reform. Companies are to be relieved of some of the load by a set of regulations and requirements that is strictly oriented to need. Consultancy will also be offered, and this and the work of supervision will be coordinated and shared between the state authorities and the accident insurers.

### **Strengthening Germany as a financial centre, improving financing conditions**

#### **Financial services supervision**

51. In 2002 the legislature created an efficient supervisory authority for the whole financial sector (banks, insurance companies, securities trading and financial conglomerates) in the Federal Financial Services Supervisory Authority (BAFin). There are similar authorities in a number of other industrial states (Japan, Austria, Netherlands, Great Britain, Belgium

and Sweden). The first stage of reorganising the BaFin will come into force in March 2008 with the legislation to modernise the supervision structure. The modernisation of material banking supervision and, if necessary, other organisational measures, are to follow in a second stage. That will initially enable the most recent developments on the financial markets to be analysed and the consequences drawn. The Federal Government is currently examining how the modernisation of banking supervision can be implemented and what other points need to be considered in view of the most recent events.

The Council of Economic Experts is in favour of concentrating banking supervision in the Deutsche Bundesbank and integrating the BaFin there. However, in the view of the Federal Government the principle of cooperation between the BaFin and the Deutsche Bundesbank in the exercise of banking supervision has basically worked well. The issues of cooperation between the BaFin and the Deutsche Bundesbank in the area of banking supervision in Germany were laid down in § 7 of the Banking Law. The BaFin primarily executes the supervisory measures in regard to the banks while the Deutsche Bundesbank - generally through its main offices - exercises day-to-day supervision of the banks in the meaning of § 7 of the Banking Law.

#### **Mobilising venture capital**

52. The Federal Government has presented the draft of a law to modernise the framework conditions with the aim of mobilising more venture and equity capital for innovations. Beside an amendment to the law on private equity companies it chiefly contains the new legislation on venture capital funds. This covers the taxation of investment in venture capital in young technology-based firms. The Federal Government is also mobilising private venture capital investment through a number of promotional programmes (cf. Item 62), so creating internationally attractive framework conditions in Germany for venture capital (cf. Table Serial No. 73).

#### **The Risk Limitation Law**

53. The draft of a law to limit the risks involved in financial investment (Law on Risk Limitation) passed by the Federal Government is intended to increase transparency in areas where financial investors are active. This should put those active on the financial markets in a better position to counter undesirable developments in the economy as a whole and ensure the best possible results.

### **Improving the infrastructure**

#### **Transport and logistics**

54. Transport and logistics are major components of modern production and services processes and they make a major contribution to the competitiveness of an economy. The Federal Government will provide around 9.5 billion euros this year in investment funds for the classical transport modes alone (road, rail and waterways). That is around 0.5 billion euros more than in 2007. The Federal Government has developed a framework investment plan for the federal infrastructure up to 2010, to ensure that the German transport system remains efficient in future as well (cf. Table Serial No. 85). In the course of 2008 it will present the masterplan for freight traffic and logistics, with private sector involvement. This will include a concept for action to show how the freight traffic system can be made more efficient and sustainable, and better use made of the transport routes and the logistics infrastructure (cf. Table Serial No. 86).

#### **Public private partnerships (PPPs)**

55. Public private partnerships (PPPs) can be a promising way to perform public infrastructure tasks more economically. If PPPs are to be successful more suitable legal conditions need to be set beyond the PPP Acceleration Law and procedures standardised. With this aim the Investment Law has been amended and a new asset class "infrastructure funds" (special infrastructure assets) created. Infrastructure funds are allowed to take shares in PPP project companies, and this will enable more private capital to be mobilised which will then be available for investment in PPP projects. This will open access for private investors to the PPP market, which has previously been closed to them owing to the big investment sums needed. To

develop the market for PPPs further in December 2007 the Federal Government began preparations and further appraisals to set up a company specialising in PPP questions. Its sole function will be to advise the public sector on all PPP issues. Beside the basic work, especially in developing PPP standards further, the company is to focus on advice on specific projects. Its structure, with private investors and the public sector involved in roughly equal halves, should combine the know-how in the public sector with that in the private sector (cf. Table Serial No.88f.).

### Supporting Companies in International Competition

#### Making Germany even more attractive as a business location

56. The Federal Government intends to reorganise the state funded or promoted institutions that are active in foreign trade promotion and location marketing (cf. Box 10). The first step was to establish Invest in Germany GmbH in January 2007 by merging the Industrial Investment Council with Invest in Germany. Now this new location marketing company will be merged step by step with the Federal Foreign Trade Agency (bfai). The position of the foreign trade chambers as the main representatives of German business interests abroad is to be further strengthened by progressively combining the activities of the bfai and Invest in Germany under their roof (see Table Serial No. 97). This combination of competences and organisations will create more transparency for customers and make location marketing more efficient.

#### Regional promotion

57. In its regional promotion the Federal Government supports regions undergoing structural change. It supplements other policy areas, like labour market, innovation, research and education policy. A precondition for effective growth-oriented regional promotion is the targeted use of funds, and the chief instrument for this is the Joint Task "For the Improvement of the Regional Economic Structure". At the start of 2007 the new regulations on promotional regions came into force, and in September the new Joint Task Law. The amendment to the Joint Task Law takes due account of the new version of Art. 91a of the Basic

Law decided as part of Federalism Reform I. The Federal Government has secured the financing for the Joint Task. As in 2007, the Federal budget for 2008 earmarks around 650 million euros for this (see Table Serial No. 89). In addition, the regions will have in total a further 34.5 billion euros for 2007–2013 from the European funds. Co-finance from the federal states is required for the use of both federal Joint Task funds and the European funds.

#### Safeguarding National Security Interests

58. As was stressed in the G8 summit declaration of Heiligendamm on 8 June 2007, freedom to invest is an essential pillar of support for economic growth, prosperity and employment. This summit declaration, which was passed under the German presidency of the G8, points the direction for action by the Federal Government (cf. Item 108 and Box 11). However, due account must be taken of more recent developments. The possibility cannot be excluded that individual investors are also pursuing political aims. Investment can be problematic if it could jeopardise public order or the security of the Federal Republic of Germany. In these exceptional cases policy must have means of control. The Federal Government therefore intends to create a possibility of appraising such commitments for their compatibility with public safety and if necessary banning them. The majority of the Council of Economic Experts doubt the need for extended controls and regard the present instruments as sufficient (JG Item 583ff.). However, in the view of the Federal Government the present scope allowed by law needs widening to include such cases. The draft legislation presented by the Federal Government provides for an extremely slender procedure that will not involve unnecessary bureaucratic burdens on investors. Moreover, investors are shortly to have legal and planning certainty. The Federal Government's approach is cross-sectoral. The appraisal will be oriented to the requirements in the EC Treaty. A ban or imposition of conditions will only be considered if this is essential for reasons of public safety in the Federal Republic of Germany, and that will presumably only happen in extremely rare individual cases.



## D. Building Up Innovation and Technological Strengths

59. Knowledge and new technologies create the conditions for sustained higher economic growth. Germany is one of the most intensely committed nations in the world to research and innovation (see Diagram 8). It is the technological driving force in Europe and world champion in the export of technological goods.

With the increase in public investment in research and development (R&D) the Federal Government is coming close to its target of R&D accounting for 3 percent of the gross domestic product by 2010. In this legislative period the R&D budget is to be increased by 6.5 billion euros. The federal states are also involved in reaching the 3 percent target by 2010. R&D expenditure by the private sector has risen most recently as well.

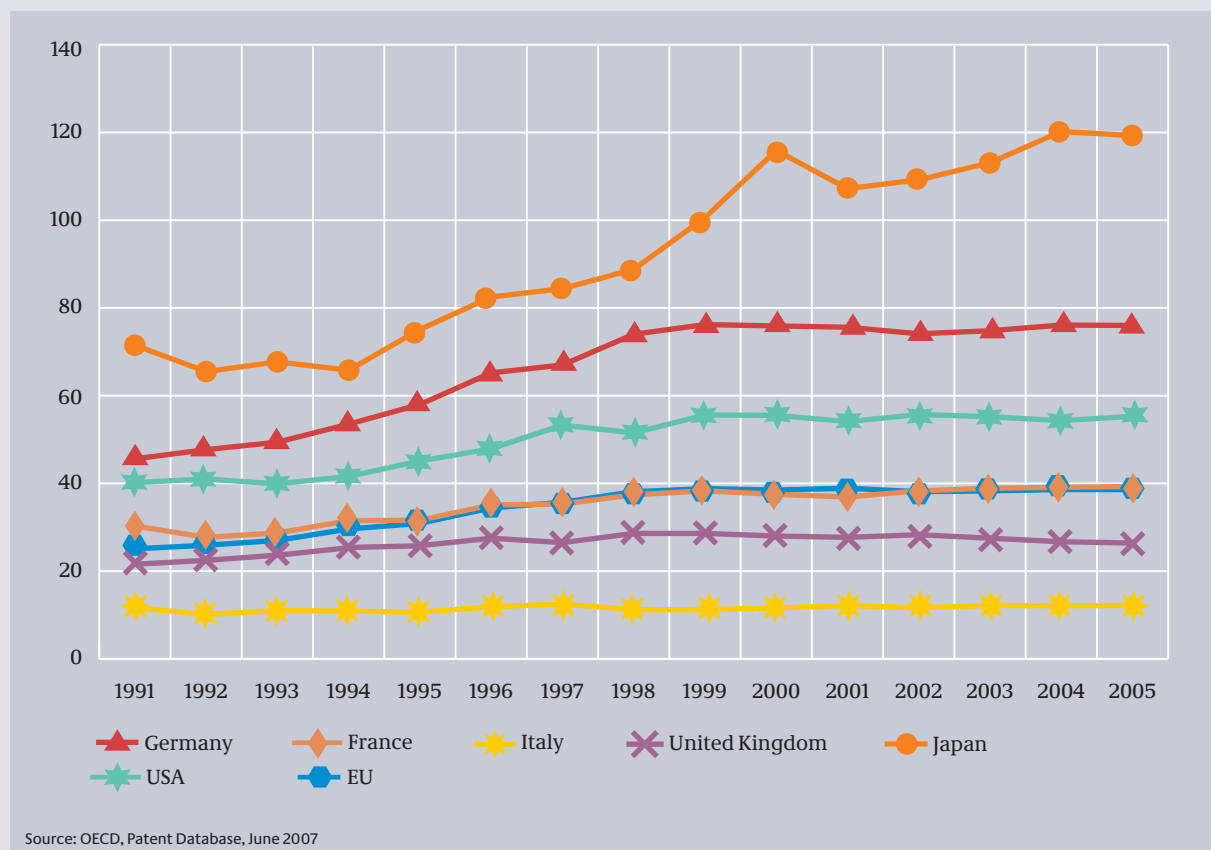
### Strengthening excellence, individual responsibility and freedom in research

60. The performance of German research will be considerably strengthened, i. a. by the Initiative for Excellence, the Pact for Research and Innovation and the Higher Education Pact (cf. Table Serial No. 103ff.). The Federal Government and the federal states are preparing key points for a possible continuance of the Pact for Research and Innovation. The research institutes not only need funds, they also need more flexibility in order to work with excellence, efficiency and be internationally competitive. Hence the Federal Government will work out key points for a law on freedom in research to create attractive general conditions.

### Developing the High-Tech Strategy Further

61. In the High-Tech Strategy decided in 2007 the Federal Government has combined its innovation policy in fields of key future importance and made the framework conditions more innovation-friendly

Diagram 8: Patents with World Market Relevance<sup>22</sup>



<sup>22</sup> Per million of the population.

(cf. Table Serial No. 100ff. and 106ff, and JWB 2007, Box 8). The central concern is to network research and industry better and build bridges from research into markets. The first progress report in October 2007<sup>23</sup> outlines new priorities and names health, climate and resource protection, mobility and security as global challenges that are of particular importance for the men and women in our country. New forms of cooperation will be built up in strategic partnerships in order to open up lead markets.

The Research Union of Science and Industry which consists of leading figures from companies, associations and research establishments is working with the Federal Government in implementing and further developing the High-Tech Strategy. Parallel to this, the Federal Government's Qualification Initiative "Advancement through Education and Training" (see Chapter B) has launched measures that will ensure recruitment of the skilled personnel who are essential for the success of the High-Tech Strategy.

#### **Promoting new technology-oriented firms**

62. The new EXIST scholarships for new entrepreneurs will make it easier for staff in universities and research establishments who want to set up a business to venture into self-employment and develop ideas from scientific research into marketable products. The new EXIST research transfer programme is also designed, like the "GO-Bio"-programme already established in biotechnology, for new university hive-offs that are technically particularly ambitious. In addition, the High-Tech New Businesses Fund can provide the initial finance for new technology-based firms. It has been possible to increase the fund to 272 million euros. Altogether, with the High-Tech New Businesses Fund, the ERP Start-Up Fund and the ERP/EIF Umbrella Fund equity capital of more than 1 billion euros will be available for the different phases of setting up a company (cf. Table Serial No. 71).

#### **Bringing together industry and science**

63. Clusters, in which companies cooperate with research establishments, make an important contribution to innovation. With the Peak Cluster Competition

launched in 2007 the Federal Government is making the most efficient clusters of science and industry more innovative and supporting them on their way to the top at international level. The Research Bonus introduced in 2007 gives universities and research establishments incentives to cooperate more intensively with small and midsize firms.

In the "Dialogue Innovation East" the Federal Government is developing a concept in direct cooperation with the east German States that combines sustained innovation policy for eastern Germany with excellent research and measures to secure and obtain recruits to research and industry.

#### **Rapid and simple innovation promotion and financing**

64. Innovation promotion for SMEs is being combined into a new "Central Small and Medium-Sized Enterprises Innovation Programme" and made more user-friendly (cf. Table Serial No. 111). Under the "Innovative SMEs"-initiative small and medium-sized enterprises (SMEs) that are engaged in top level research have since 2007 had simplified and accelerated access to promotional funds for research in future-oriented technological fields. At the same time a central, inter-ministerial advisory office on the Federal Government's research and innovation promotion is being set up. In addition, the Federal Government will examine the question of R&D promotion for Germany through tax concessions and alternatives currently available and present the results in 2008.

#### **The telecommunications and information society**

65. To improve the telecommunications infrastructure in Germany further the Federal Government will i. a. noticeably extend the broadband supply in Germany with various initiatives, programmes and working groups (cf. Table Serial No. 125). A modern business or research structure would be inconceivable without the new information technologies. Hence the Federal Government and the private sector agreed at the first national IT summit in December 2006 to promote the development of these technologies with lighthouse projects, like new search techniques for

<sup>23</sup> Die Hightech-Strategie für Deutschland – Erster Fortschrittsbericht, [www.hightech-strategie.de](http://www.hightech-strategie.de).



the Internet or the integration of the information and communications techniques in the energy distribution networks. At the second IT summit an assessment was made and further measures agreed (cf. Table Serial No. 126).

66. The action programme “iD 2010” covers all the fields of action from e-government to the framework conditions for new media (cf. JWB 2007, Box 9). The Federal Government will make consistent use of the new possibilities on the Internet and in electronic data processing to modernise the state and the administration and make them one of the most people-friendly in Europe. The “ICT 2020” Initiative is designed to put ICT innovations into practice without frictional losses.

## E. Future-Oriented Energy Policy and Resource Use

### Integrated energy and climate programme

67. In spring 2007, under the German presidency, the EU heads of state and government set the signals for an integrated energy and climate policy. This includes ambitious targets for climate protection, the increased use of renewable energies, and increasing energy efficiency. On this basis the Federal Government decided an ambitious energy and climate programme of 29 key points in Meseberg in August 2007. On 5 December 2007 the Cabinet presented an extensive package of 14 laws and ordinances. A second smaller package with more law-making projects will

#### Box 8: The Aims of the Integrated Energy and Climate Programme

- ▶ **Less dependence, more renewable energies:** Increase the share of renewable energies in electricity generation to 25–30 percent by 2020 with continuous increases to 2030; increase the share of renewable energies in heating with the Renewable Energies for Heating Law; regulation on feeding biogas into the natural gas networks.
- ▶ **More energy efficiency and greater spread of energy-efficient products and technologies:** Double electricity generation from combined thermal-power stations by 2020; rapid introduction of intelligent measurement procedures in the electricity sector; liberalise the electricity meter market; promote energy consultancy; introduce a European Top Runner approach on EU level as part of the implementation of the Eco Design Directive.
- ▶ **Climate-friendly energy production:** Support for the introduction of clean and low-CO<sub>2</sub> power station technologies.
- ▶ **More jobs through energy-efficient and climate-protective building:** Increase the stringency of energy requirements in the first stage by on average 30 percent; maintain the CO<sub>2</sub> in Buildings Renovation Programme until 2011; Federal-States-Municipalities Investment Pact to modernise energy use in the social infrastructure; amendment to the heatings costs ordinance, with appraisal of whether flanking rights for tenants need to be strengthened; Renewable Energies in Heating Law.
- ▶ **Less emission of harmful substances in traffic:** incentives to reduce CO<sub>2</sub> emissions, i. a. include a CO<sub>2</sub> component in vehicle tax; promote electro-mobility; increase the steering effect of the toll on heavy lorries; include air traffic in emissions trading with neutral effect on competition; improve consumption marking of vehicles.
- ▶ **Increase Germany’s lead in technology:** the Federal Government will launch new initiatives in energy research focussed on climate protection, energy efficiency, renewable energies and CO<sub>2</sub> capture and storage.

follow on 21 May 2008. This will consistently implement the Meseberg decisions. The Federal Government's guideline in energy and climate policy is the triple target of securing supplies, economy and environmental compatibility. The aims of the Integrated Energy and Climate Programme (cf. Box 8) will be flanked by a foreign energy policy that will make its contribution to ensuring that fossil energy sources are used as efficiently as possible and the use of renewable energies increased, thus helping to ensure that sustained energy structures are built up in other countries as well. As the German contribution to an international climate protection agreement after 2012 the Federal Government is offering to reduce German greenhouse gas emissions by 40 percent from the 1990 level by 2010, if the EU reduces its emissions by 30 percent in the same period, other industrial countries undertake to make comparable reductions and the newly industrialised countries agree to make appropriate contributions to climate protection.

### Renewable energies

68. The use of renewable energies developed very positively in 2006 as well. Their share of primary energy consumption has more than doubled since 2000, rising from 2.6 percent to around 5.8 percent in 2006. Their share in total end-consumption of energy (electricity, heating, fuels) rose during the same period from 3.8 percent to around 8 percent, bringing their contribution to CO<sub>2</sub> reduction up to around 100 million tonnes in 2006. With renewable energies accounting for a share of more than 14 percent of electricity consumption in 2007 the target set in the Renewable Energies Law of at least 12.5 percent by 2010 is already clearly passed. The Renewable Energies Law made a major contribution to this.<sup>24</sup> At the same time renewable energies have also increasingly developed into an economic factor in Germany and helped to create noticeably more employment. The Federal Government will continue to support the activities by German companies abroad with the "Export Initiative on Renewable Energies", e.g. with consultancy, trade fairs and visits abroad for delegations.

69. Renewable energies are being further expanded in accordance with European requirements. The European Council decided in spring 2007 that by 2020 20 percent of total energy consumption in the EU (electricity, heating/refrigeration, fuels) must come from renewable energies. The Federal Government has set itself the aim of increasing the share of renewable energies in the electricity sector to 25 to 30 percent by 2020 with continuous increases after that date. To achieve these aims the Federal Government has presented the draft of a new version of the Renewable Energies Law. A Renewable Energies in Heating Law is to ensure that the share of renewable energies in heating consumption rises to 14 percent by 2020. In transport the increase in the use of bio-fuels is to be directed more than hitherto to reducing greenhouse gas emissions. The Federal Emissions Prevention Law lays down a minimum share for bio-fuels in the total quantity of fuels used in transport. A net contribution to climate protection of 5 percent is to be achieved through greenhouse gas reduction by the year 2015 and 10 percent by 2020. That means that bio-fuels must account for a share of around 20 percent in volume. To implement these requirements the Federal Government has decided on draft legislation to amend the Federal Emissions Prevention Law.

### The Ordinance on Energy Saving

70. To implement the Integrated Energy and Climate Programme the Ordinance on Energy Saving will be adjusted to the targets decided by the Federal Government. The main focus of the intended amendments is to make the energy requirements for buildings more stringent by on average 30 percent, increase some requirements for later fitting in plants and buildings and introduce regulations on the gradual elimination of night storage heaters (cf. Table Serial No. 150).

### Energy Efficiency

71. In spring 2008 a new promotional programme "The Special Fund for Energy Efficiency in SMEs" will be launched, offering loans for energy saving measures in small and midsize companies at especially favourable interest rates. As a supporting measure

<sup>24</sup> Cf. EEG-Erfahrungsbericht 2007, Bundestags-Drucksache 16/7119.

energy consultancy using promotional funds will be offered in advance.

### Energy Research

72. An efficient and climate-compatible energy supply is inconceivable without modern energy technologies. New technologies need to be prepared with research and development. The Federal Government has therefore increased the funds earmarked for energy research and innovation up to 2009 by more than 30 percent from the 2006 level. Altogether it will invest 2 billion euros in new energy technologies between 2006 and 2009, and so contribute to climate protection, growth and employment (cf. Table Serial No. 130).

### Emissions Trading

73. In 2008 the second period of European emissions trading will start. The regulations for Germany for the period 2008 to 2012 are laid down in the 2012 allocation law (cf. Table Serial No. 134), which sets an ambitious target for CO<sub>2</sub> reduction. It will ensure that the energy sector and other industries make an appropriate contribution to achieving the German climate protection target for 2008 to 2012. The allocation for energy plant will be changed to a benchmarking system that will reward efficient plant and put a heavier charge on obsolete technology. This will set additional incentives for the modernisation process in the German energy industry. Less reduction will be expected from the producing sector than from the energy industry and this differential treatment of the two sectors takes into account the different competition situations and the potentials for reductions. Small emitters will also be entirely exempt from contributing to the reduction. About one tenth of the total allocations, namely 40 million certificates a year, will no longer be distributed free but sold. Germany will auction the biggest number of emissions certificates in the EU.

74. In future, as part of the revision of the emissions trading directive for subsequent trading periods, the Federal Government will also endeavour to obtain a clearly higher share of certificates to auction, especially for electricity generating plant. It will also

endeavour to achieve harmonised allocation rules for energy-intensive industries in global competition that apply throughout the EU. It is also important for investors to receive reliable price signals from the emissions trading system in future. The Federal Government welcomes the agreement by the Environment Council to include air traffic in emissions trading.

75. Establishing the “International Carbon Action Partnership” (ICAP) has also laid the foundation stone for linking European emissions trading with the trading systems in other countries or regions. The Federal Government is one of the initiators of the ICAP and it will actively advance the further expansion of the global market for emissions certificates, in conjunction with the European Commission and the other EU member states.

### Securing energy supplies

76. Secure energy supplies and competitive energy prices are crucial for the competitiveness of the German economy. According to studies by the International Energy Agency world demand for energy will rise by more than 50 percent by 2030, unless governments take new measures. The entry of new and large energy consumers like China and India into the world energy markets and the growing geopolitical challenges are increasing the risk of price rises. The challenges facing climate policy are also growing. All this requires a policy that will lead to clearly lower energy consumption and so clearly less CO<sub>2</sub> emission.

The Federal Government is relying on a balanced and diversified energy mix, which includes hard coal and a growing share of renewable energies. It is also aiming for ambitious increases in efficiency in both energy production and conversion and on the demand side. To maintain the competitiveness of the German economy it is important to make efficient use of resources and further diversify both the sources of supply and the transport routes. Energy policy dialogues with major supplier, transit and consumer countries like Russia, Norway, India and others are being continued.

### Raw Materials

77. To ensure a sufficient and continuous supply of mineral and energy raw materials to the German economy the Federal Government is working for fair world trade and for a reduction in the negative social and ecological effects of extracting and using raw materials.<sup>25</sup> The Federal Government and industry have increased their cooperation over raw materials questions, in the international context as well, i.a. in the Extractive Industries Transparency Initiative (EITI) (cf. Table Serial No. 178). The activities of the Federal Government complement and support the raw materials activities of industry (cf. Item 68 and Box 8).

## F. Social Security Systems to Withstand Demographic Change

### Security in old age

78. The social security systems also need to be sustainable so that despite growing pressure of international competition and demographic change they will remain viable and affordable in the long term, while providing appropriate social protection. The pensions system has been thoroughly modernised with the reforms carried out in recent years. The statutory pensions system has been adjusted to the changing demographic conditions, and to economic and social framework conditions, while remaining fair to the different generations. Broad state promotion has also been created for supplementary pension schemes.

To maintain these aims and stabilise the statutory pensions system the standard retirement age will be raised from 65 to 67 in yearly stages from 2012 to 2029 for persons born in 1947 and after (cf. Table Serial No. 154). Corresponding increases will follow for other types of pension. Special regulations will apply to persons who have been insured for especially long periods. The protection clause in the pensions adjustment system has been modified. The lower adjustments not made in 2005 and 2006 will be offset from pension increases from 2011 so that positive adjustments are halved until the need for adjustment is removed.

The Council of Economic Experts confirms that with its “Pension at 67” ruling the Federal Government has clearly improved the sustainability of the pensions insurance system (JG Item 252ff.). This reform is essential to secure the statutory pensions system for the foreseeable future against the problems on the expenditure side resulting from the ageing of the population. By increasing the production potential in the economy as a whole in the long term it is also helping to improve macroeconomic growth prospects.

79. The Federal Government is examining how home ownership can be better integrated in the state promoted pensions system. The Council of Economic Experts regards this as “the wrong path” (JG Item 26), but the Federal Government does not share that view. For many people owning their own home is an important item in their provision for their old age.

### Health Policy

80. With the Law to Increase Competition in the Statutory Health Insurance System the Federal Government has created the conditions for greater economy in the German health system. At the same time all people are guaranteed equal access to high quality medical care. The regulations, which mainly came into force on 1 April 2007, are already having an effect. Just under 100,000 people who were previously without health insurance have returned to the statutory or private health insurance system. As well as improvements in the range of benefits the insurance institutes now have more scope to sign individual contracts with providers and discount agreements for drugs. This in turn creates scope for more competition and efficiency and so also serves the economic policy aim of lowering subsidiary wage costs. In order to secure that aim permanently weakening the contributions base by shifting expenditure on to the statutory health insurance institutes is to be avoided in future.

81. The new Confederation of Health Insurance Institutes has been set up as planned and will be able to start operating on 1 July 2008. The new financial architecture of the institutes, the Health Fund, is also

<sup>25</sup> Cf. “Elemente einer Rohstoffstrategie der Bundesregierung”, March 2007.

being prepared as planned for 1 January 2009. On 1 November 2008 the Federal Government will for the first time set the general statutory health insurance contribution rate in an ordinance with effect from 1 January 2009. The reform of the payments scales for contracted medical practitioners will be implemented in stages between 2007 and 2011.

82. The statutory health institutes are expected to have achieved a surplus in 2007 of a similar order to 2006 (1.63 billion euros). Hence, at the end of 2007 very few of the institutes should still have debts. All the institutes must be debt-free at the latest when the Health Fund starts operating in 2009, in accordance with the Law to Increase Competition in the Statutory Health Insurance System (cf. Table Serial No. 177).

83. The Council of Economic Experts also praises the key measures on the expenditure side in the new law, the reorganisation of risk structure compensation, the reform of the payments scale for doctors, the new regulations on competition for contracts and the obligatory insurance with the new framework conditions for changing from statutory to private insurance as the right steps. But they regard the measures on the financing side as unsatisfactory (JG Item 289). In the view of the Federal Government, however, in its criticism of the Health Fund the Council of Economic Experts is overlooking the expected competition effects. The incentives for the health insurance institutes to operate economically, and to offer those insured with them better health care, will be strengthened, while competition for the best risks will be unattractive.

84. The Federal Government will build up prevention to an independent pillar of health care. A draft law to increase health promotion (the Prevention Law) aims to coordinate the measures by the social insurers and the branches of social insurance and improve their quality. The Federal Government and the federal states must continue to exercise their responsibility in addition to the work of the health insurance institutes as flanking measures (cf. Table Serial No. 160).

### **The General Concept of “Service from Person to Person”**

85. A functioning health service for everyone is not only of benefit to each individual and important for society as a whole, it is also important for the future economic outlook. Against the background of the demographic development the health service is an enormous employment and innovation factor. Hence a general concept is being worked out on “Service from Person to Person – Jobs in Health, Care and Nursing” that will also detail how the many employment potentials in this sector can be even better utilised.

### **Reform of care insurance**

86. The draft law on the structural development of care insurance (the Care Development Law) is intended to direct the benefits from this insurance even better to the requirements of persons needing care and their relatives. The benefit rates for home care and the top stage of hospitalised care have been kept constant since 1995, and they are to be raised in three steps. In addition, on the principle of ambulatory before hospital care the domestic supply structures are to be improved. Beyond increasing the benefit amounts payable for domestic care a claim to consultation on care (case management) is to be introduced and care bases created. These measures should help to build up and extend supply structures close to the home. The draft legislation contains important measures to improve the quality of care and the transparency and comparability of the benefits provided. The contribution rate to care insurance is to be increased as per 1 July 2008 by 0.25 percentage points to 1.95 percent. The increase can finance the benefits up to January 2015.

87. The Council of Economic Experts expressly welcomes the measures on the benefits side of the reform (JG Item 293). With their model calculations they also make clear that the contribution rate to social care insurance can remain within a viable framework until 2050 with the legal changes intended in care reform (JG Item 307). They urge further reforms to spread the demographic load more fairly between the generations. In the view of the Federal Government further improvements to the long-term financing of care

insurance remains a challenge which will have to be faced in the coming legislative period. With all the improvements care insurance will remain a key insurance system that is dependent on those needing care making a contribution and paying for some of the services.

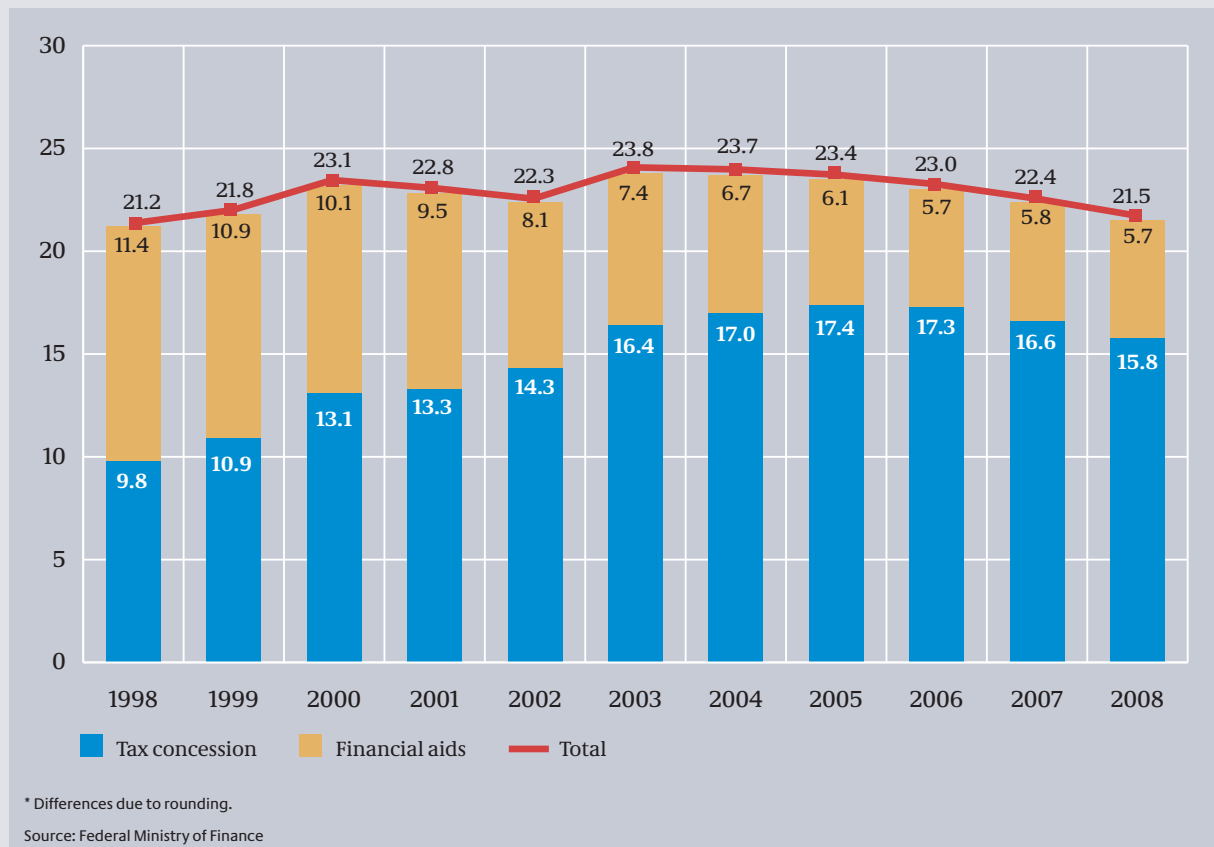
## G. Sustainable Public Budgets for the Future

88. In 2007 a balanced budget was achieved on every state level (the Federal Government, the federal states, the municipalities and the social insurance institutes). In 2008 new borrowing in the Federal budget will fall to 11.9 billion euros. In the following years there will be further marked cuts in Federal fiscal planning, so that by 2011 net borrowing in the Federal budget will be zero.

89. In their decision in April 2007 the finance ministers of the Eurozone stated their aim to achieve structurally balanced public budgets by 2010. The German public budget was already nearly balanced structurally in 2007, and it will remain so until 2011. With the implementation of this decision Germany is also setting an important signal to strengthen the reformed Stability and Growth Pact. From 2010 the level of debt measured by nominal gross domestic product will fall below 60 percent. So beside the deficit ratio the second important reference figure in the Maastricht Treaty will also be undercut.

90. The reduction in subsidies will make an essential contribution to the quantitative and the qualitative consolidation of the Federal budget. Federal subsidies fell between 2005 and 2008, the period covered by the current 21st Subsidisation Report by the Federal Government, by around 2.0 billion euros to 21.5 billion euros (cf. Diagram 9). The reduction in tax con-

Diagram 9: The Development in Federal Subsidies from 1998 to 2008 (in billion euros)\*





cessions accounts for the major part of this, falling continuously by 9 percent to 15.8 billion euros. Financial aids, which were nearly halved from 1998 to 2005 to 6.1 billion euros, will fall again in 2008 by 7 percent to 5.7 billion euros. By 2011 the fiscal plan envisages a further fall to 5 billion euros. The Federal Government has also taken steps to improve the effectiveness and efficiency of state subsidies further. In particular, comprehensive external evaluation of the 20 largest tax concessions in regard to clarity, target effectiveness, suitability and efficiency has been commissioned.

91. The consistent consolidation is combined with targeted promotion of priority policy areas. In addition to continuing the 25 billion euro “Stimulus Programme” decided at the start of the legislative period, a further amount of just under 10 billion euros will be directed in the fiscal planning period to specific focal points in those policy fields that accord with Germany’s great and traditional economic importance. In the fore is expenditure on research and education, internal and external security and development cooperation. By increasing the nursery structure for children under three to meet demand the Federal Government is making a further contribution to a modern and sustained family policy. More scope will be created from increased revenue and this will mainly benefit climate protection.

92. In a supplement to the 2007 budget the budgetary conditions were created for the Federal Government to provide a total of 2.15 billion euros through a special “Child Care Expansion” fund in financial assistance between 2008 and 2013 for investment by the federal states and the municipalities to expand the child care infrastructure. Altogether the Federal Government will provide 4 billion euros by 2013 to finance child care places in the federal states. As well as the 2.15 billion euros from the special fund a further 1.85 billion euros will be made available up to and including 2013 in the form of an additional fixed turnover tax revenue for the states. From 2014 they will then receive an additional fixed amount of turnover tax revenue of 770 million euros a year.

93. The Federal Government’s main aim is a balanced Federal budget in 2011. Scope must be utilised as before, firstly to consolidate and secondly to stimulate growth and employment.

#### **Federalism Reform II**

94. In Germany the framework conditions for economic and fiscal policy are largely determined by the federal structure of the state. The first stage of federalism reform came into force in September 2006, reducing the complex interlacing of competences and partially reorganising law-making powers. In a second stage, financial relations between the Federal Government and the federal states are now to be adjusted to the changes in framework conditions within and outside Germany, especially the conditions for growth and employment policy. To work out appropriate proposals for reform a joint commission was set up on 8 March 2007 by the Federal Parliament and the Upper House. The main fiscal themes are limiting public indebtedness and avoiding budget crises in the federalised state. The declared aim is to create the institutional conditions for a sustainable development in the public budgets and effectively to limit public indebtedness. For this, more stringent barriers to borrowing are needed, with an early warning system that will counter undesirable developments in the budgets at an early stage. This will secure the state financial scope to perform urgent future tasks. The consultations extend beyond fiscal themes and also cover possible ways of improving the quality of the public administration and making it more economical. In the view of the Federal Government a significant increase in the efficiency of the tax authorities to the point of setting up a federal tax administration (transferring competence for administering community taxes to the Federal Government) is particularly urgent (cf. Table Serial No. 167).

## H. Economic Policy in the European and International Context

### Coordinating national and European policy

95. Under the German presidency the EU member states reaffirmed that the single market with functioning competition and the same rules in every member state must be further developed (cf. Box 9). The primary aim of the new single market strategy presented by the European Commission in November 2007 is to develop Europe further as a competitive location in the global environment, taking due account of the concerns of consumer and environmental protection and the social dimension.

96. The German national reform strategy is in full accord with the European Lisbon Strategy. In this context the member states orient their national economic and employment policies to common aims and provide information on the implementation of these. In its Strategy Report for the spring summit of 2008 the European Commission praised progress in implementing the Lisbon Strategy and at the same time proposed more measures both on Community level and for member states in the four priority policy areas: “Investing in people and modernising labour

markets”, “Unlocking the business potential, especially of SMEs”, “Investing in Knowledge and Innovation” and “Energy and climate change”. The European Commission proposes that the “Integrated Guidelines” for economic and employment policy should remain unchanged for the next cycle of the Lisbon Strategy, 2008-2010, while the justifications and explanations are brought up to date. The Federal Government shares the European Commission’s view that the Integrated Guidelines have proved valuable in their present form and fundamental revision is not needed; however, the decisions at the spring summit in 2007 should be explicitly taken into account in some guidelines to integrate the social policy aims much more visibly. In adjusting to the new three-year cycle 2008–2010 of the Integrated Guidelines the member states will revise their national reform programmes accordingly.<sup>26</sup> Altogether it is important for Germany to ensure that in all the proposals from the EU the principle of subsidiarity is strictly observed.

97. On EU level the Federal Government regards the following aspects as most important for the integrated climate and energy policy and in implementing the decisions by the European Council of March 2007:

- ▶ The climate package announced by the European Commission for January 2008,

### Box 9: The Main Results of the German EU Council Presidency

- ▶ Develop the Lisbon Strategy further.
- ▶ Pass the Roaming Ordinance to lower roaming charges throughout Europe.
- ▶ Set clear aims for a secure, economical and environmentally compatible supply of energy and concretise an energy and climate policy for Europe.
- ▶ Further develop the European single market further for goods and services, especially financial services.
- ▶ Make companies more competitive, i. a. by reducing bureaucracy and with better law-making.
- ▶ Agreement between the Eurozone member states to aim for structurally balanced public budgets by 2010 at the latest.
- ▶ Progress in liberalising postal services and with the revised market access strategy in countries outside Europe.
- ▶ More stringent and targeted coordination procedures for fiscal and economic policy in the enlarged EU now of 27 member states.
- ▶ “Good Work” as an element of flexicurity arrangements and an important building block of the Lisbon Strategy.

<sup>26</sup> Cf. Nationales Reformprogramm Deutschland 2005 - 2008, Implementation and progress report 2007 ([www.bmwi.de](http://www.bmwi.de)).



- ▶ measures to increase energy efficiency and
- ▶ the regulations on the single market.

98. The climate package will contain proposals for legislation to spread the load of the EU climate targets, achieve the 20 percent target for renewable energies in total energy consumption by 2020 and on the emissions trading system from 2013, as well as on low-CO<sub>2</sub> power station technologies. In particular, the Federal Government is working to ensure that national promotion systems, like the successful feed-in remuneration system, which has now been introduced in 18 EU states, can continue to be used to encourage the use of renewable energies.

99. In the measures to implement the Eco-Design-Directive the Federal Government will support a top runner approach with the following features: a high level of requirements, oriented to the most efficient products and technologies on the market, dynamisation through regular updating of standards and requirements that are technologically neutral. It will also actively support the updating and extension of energy consumption marking announced by the European Commission.

100. The single market must bring noticeable advantages to businesses and private consumers. European competition must not work to the disadvantage of Germany as the central transit country for electricity and gas. Sufficient account must be taken of the need to ensure supplies.

The European Commission presented its proposals to strengthen the single market for electricity and gas in September 2007. In the view of the Federal Government essential points in this third electricity and gas single market package are not yet convincingly solved. The proposal by the European Commission will mean more bureaucracy, heavy expenditure on regulation and very strong centralisation of power with the European Commission. The new EU agency that is proposed for cooperation between the energy regulatory authorities will again be dominated by the European Commission. The Federal Government also doubts that the full separation of ownership of the electricity transmission networks and

the long distance gas pipelines favoured by the European Commission is likely to set in motion dynamic competition. Firstly, it will entail considerable and disproportionately strong intervention in private ownership, and secondly there is no convincing reason why separation of ownership would lead to higher investment, lower prices and improvement in the horizontal variety of suppliers. With the Ordinance on Network Connections for Power Stations that came into force on 30 June 2007 the Federal Government has already removed possible discrimination on national level in connecting new power stations to the grids, and so facilitated market access, particularly for new power station suppliers. The electricity and gas single market package is supplemented by a European Strategic Energy Technology Plan that was presented by the European Commission in November 2007. With its Integrated Energy and Climate Programme (cf. Box 8) already passed in December 2007 the Federal Government is i.a. implementing the European aim of greater use of renewable energies (cf. Item 68).

101. At the interface of industry policy and environment policy the Federal Government supports the aim of the European Commission to reduce the average carbon dioxide emission of new vehicles entering traffic in the EU in the year 2012 to 120 g/km. It will expressly work for a fair distribution of the load between the automotive manufacturers. This includes ensuring that smaller vehicles, which account for a considerable share of the total number, also make their contribution to reducing emissions. In regard to the payments to be made by the manufacturers if they do not reach the reduction target the Federal Government wishes to see an appropriate level fixed that will produce the desired result. Funds that have to be used to pay fines will not then be available to develop innovative technical solutions to reduce consumption further.

102. In telecommunications policy the Federal Government will work for stringent continuance of the competition-oriented telecommunications policy in the revision of the framework in Community law for electronic communication that is due in 2008. It will support the application of the subsidiarity re-

quirement and oppose the creation of unnecessary bureaucratic structures, e.g. in connection with a European regulatory body which the European Commission plans to set up. It is also the aim of the Federal Government to ensure that effective and up to date sector-specific regulation can be continued when the current framework in Community law is adjusted. At the same time, this should be kept to the necessary minimum. The Federal Government will therefore work to ensure that in the medium to long term sector-specific regulation is transferred into general competition law and the transfer made systematic.

103. In policy on postal services political agreement was reached in the Council of Ministers on 1 October 2007 on further procedures to liberalise the European single market for postal services. The European post market will on principle be fully open from 1 January 2011. Member states should put all the necessary regulations into force by 31 December 2010 at the latest. Eleven member states will be allowed to postpone applying the amendment directive until 31 December 2012. The European Parliament is regarded as likely to agree on principle to the compromise reached. Germany is one of the member states whose national post markets will open by an earlier date. The monopoly held by Deutsche Post AG for letter post expired on 31 December 2007.

104. In the summer of 2007 the Federal Government also agreed to enable branch-related minimum wages to be set in letter services. The Federal Parliament passed the necessary law on 14 December 2007 on the basis of a draft law presented by the Federal Government on 19 September 2007. Under this law letter postal services will be included in the area of application of the law on temporary staff. The Upper House approved the law on 20 December 2007.

105. In trade policy a successful conclusion of the Doha Development Round remains a primary aim of the Federal Government and the European Union. The special responsibility to the developing countries will also be taken into account here. The Federal Government is aiming for an ambitious and balanced result across all the areas of negotiation. A key area of

focus will be improving market access for industrial goods and services, which is of particular importance for the German economy. Beyond this, however, the EU has to face the challenge of an ever denser network of bilateral trade agreements worldwide, and it is therefore endeavouring to obtain agreements with those third countries whose markets offer particular growth potentials for European firms and have so far been difficult to access owing to high trade barriers. The Federal Government supports the EU's focus on newly industrialised countries with strong growth rates, particularly in Asia, and under the German presidency of the Council worked to ensure that the appropriate mandates for the European Commission to negotiate were passed quickly. The Federal Government is also working for economic partnership agreements between the EU and the African, Caribbean and Pacific (ACP) states to increase integration in the world economy (cf. Table Serial No. 174).

#### **International Economic Policy: Opening Markets – Implementing the Heiligendamm Process**

106. The Federal Government's successful foreign trade policy – under the presidency of the EU Council as well – has helped to firm Germany's strong position in the world. It has made German firms more competitive and helped to underpin Germany's leading position as an export nation.

In the past year a particular contribution has been made by

- ▶ deepening transatlantic economic integration,
- ▶ strengthening economic cooperation with the newly industrialised countries in Asia, Latin America and the Gulf states, and
- ▶ stronger efforts to make better use of the economic potentials in Africa for growth and development.

International trade has been increased and the opening of markets for German and European goods, services and investment advanced. At the EU-US summit in April a "Framework Agreement to Deepen Transatlantic Economic Integration" was signed. A transatlantic economic council was set up to supervise the reduction of unnecessary dual regulations. Light-

house projects were also started, i.a. to protect intellectual property, harmonise regulations on corporate accounting and stock markets and reduce obstacles to investment.

107. A key area of the Federal Government's foreign trade policy is the continuance of the Doha Round (see Item 105) and the protection of intellectual property. In an increasingly globalised economy product piracy and other infringements of intellectual property rights have become a massive problem. In many states the legislation does meet international standards, but in practice a big gap still yawns between the need and the reality. According to an estimate by the OECD in 2005 pirated products to the value of at least 150 billion euros were traded worldwide. In proportion to Germany's share of world trade the damage this has caused Germany may be put at at least 15 billion euros. Hence the Federal Government will make even greater efforts than before to combat infringements of intellectual property rights in third countries. Partnership and cooperation with the countries involved will be the main focus, and beside bilateral dialogue in economic policy project-related cooperation with third countries, e.g. over customs duties, will be intensified. As part of the Heiligendamm process (cf. Item 108 and Box 11) discussions will also be held on how to ensure the effective observance of intellectual property rights.

108. Free markets and political design of sustainable framework conditions for the world economy are inseparably linked. That was a central result of the G8 summit in Heiligendamm, where the leitmotif was "Growth and Responsibility". Under the German presidency the heads of state and government of the G8 agreed with the major emerging economies, China, India, Brazil, Mexico and South Africa, jointly to take more political, economic and social responsibility for global challenges. They have consequently initiated a high-ranking structured and thematic political dialogue on the platform of the OECD, known as the Heiligendamm Process (cf. Box 11). The aim of the Federal Government is to advance the creation of fair framework conditions for an open and socially responsible world economy in the core areas of open investment conditions, corporate responsibility, the promotion and protection of innovations, energy and climate protection policy and development cooperation. None of these global problem fields can be solved without including the developing countries and emerging economies.

The Heiligendamm Process is initially limited to two years, and it is to be concluded with a final report to the G8 summit in Italy in 2009. Germany has taken over the chairmanship of the Political Steering Committee for the first year, and heads the Support Unit set up at the OECD.

#### **Box 10: Foreign Trade Policy in 2008: Ensuring Open World Markets and Settling Trade Disputes in the WTO**

- ▶ Shape globalisation with new liberal trade rules and reduce customs duties, trade barriers and bureaucracy in the Doha Round.
- ▶ Counter product piracy, trade in illegal copies and illegal technology transfer by protecting intellectual property, especially in regard to newly industrialised countries.
- ▶ Open up new market opportunities for German firms with free trade agreements and by reducing excessive regulation (especially in the transatlantic economic area).
- ▶ Ensure supplies of energy and raw materials for the German economy by reducing export taxes and with customised loans to open up extraction sites.
- ▶ Support German firms on foreign markets with Hermes guarantees, investment guarantees and consultancy and information.
- ▶ Keep Germany open and attractive to foreign investment by redirecting location advertising (cf. Item 56) and at the same time safeguard national security interests by amending the Foreign Trade Law (cf. Item 58).

**Box 11: The Aims of the Heiligendamm Process**

- ▶ **Investment conditions, including responsible business conduct:**  
Freedom of investment is a determinant pillar of economic growth, prosperity and employment world-wide. Open, comparable and favourable investment conditions are therefore desirable, in industrial countries and emerging economies, for the mutual benefit of all sides. Hence the dialogue will consist first of an assessment of current investment conditions and then a discussion of best practices. In this context the Federal Government also intends to discuss the issue of responsible business conduct.
- ▶ **Promoting and protecting innovations:**  
Innovations are the key to the competitiveness of modern economies. In the Heiligendamm Process, therefore, aspects of both promoting and protecting innovations will be taken into account. In innovation promotion the G8 declaration lists as the major themes for the dialogue the economic value of IPR as essential for innovation, market incentives to innovate and the spread of knowledge, with the utilisation and licensing of patented research results. In the protection of innovations the aim is dialogue over the effective implementation of intellectual property rights.
- ▶ **Energy efficiency and technological cooperation:**  
The accelerating climate change and the worldwide rising consumption of energy are facing the world with major challenges. With the support of the International Energy Agency the G8 and the major newly industrialised countries intend to consider jointly how concrete measures can be taken to increase energy efficiency and technological cooperation, increase energy security and reduce greenhouse gas emissions. The main emphasis is to be on measures to increase efficiency in buildings and modernising power stations.
- ▶ **Development cooperation, especially in Africa:**  
The Heiligendamm process will offer the opportunity for an exchange of views and information with the most important newly industrialised countries on questions of joint responsibility in development policy, especially in Africa. In Heiligendamm, the G8 and the major newly industrialised countries again acknowledged the millennium development targets, and in the dialogue they will devote particular attention to the effectiveness of development cooperation, donor harmonisation and growth and responsibility in Africa.

## II. The Annual Projection by the Federal Government for 2008

### A fragile world economic situation

109. After several years of high economic growth the world economy – particularly the United States – lost momentum in 2007. It seems unlikely that the high growth rates of past years will continue in 2008. The turbulence on the global financial markets that started in the second half of 2007 caused by the mortgage crisis in the United States led to a weaker economic development in that country, with prospects for growth there deteriorating into this year as well. The effects of the turbulence on the financial markets are presumably not yet fully overcome. A decelerating of growth in Japan is also to be expected. Economic growth is also expected to be rather lower in the newly industrialised and developing countries, particularly in Asia, but it will remain on a high level. The expansion in the Eurozone will continue, but the rate will slow due to the higher oil price, the stronger euro, higher interest rates and a more cautious lending policy.

### Assumptions

110. The Annual Projection is based on the following assumptions:

- ▶ According to projections by international organisations growth in the world economy will expand rather less than last year, at around 4 percent in real terms, as will world trade, expected to grow at around 6 percent in 2008.
- ▶ Technical assumptions on the oil price and exchange rates are usually based on the averages of the last few weeks before the prognosis. This projection is therefore based on an average price for Brent crude of around 95 US dollars per barrel last year and an exchange rate for the euro of about 1.45 US dollars. As a technical assumption it is also expected that the European Central Bank's key rate will remain at 4.0 percent.
- ▶ The wage trend in the economy as a whole will remain within the growth in macroeconomic productivity in real terms. Unit labour costs per person employed are expected to rise by around 1 percent.

### Upswing to continue at slower rate

111. The economic development in Germany proved much better than expected in the Annual Projection 2007, owing to the unexpectedly strong stimulus from foreign trade (cf. Box 12). This year, the develop-

ment in the world economy will be less favourable to economic growth in Germany than last year. Foreign trade – the driving force of growth in recent years – will lose impact this year, while growth will now be fuelled mainly by the domestic economy. The Federal Government shares the view of the Council of Economic Experts on this (JG 2007, Item 112). The rise in the rate for the euro against the US dollar compared with last year is putting a burden on the German export industry. The marked rise in the prices for crude oil, which is invoiced in US dollars, can only be partly be damped by the higher rate for the euro. The high crude oil prices are affecting the prices for other energy sources, and, like the higher prices for other industrial raw materials, are putting a strain on German industry. With the inflationary effects from international agricultural markets they have noticeably affected the price climate in Germany, especially in the last quarter of last year. However, the price climate is expected to lighten again during of this year.

The recovery in the domestic economy is characterised by sustained brisk investment activity. Owing to the high capacity utilisation and the stock of orders in hand the main focus is on expansion. The labour market is continuing to improve, and the present upswing can be classed as remarkably employment intensive. It is estimated that in 2007 around 570,000 jobs subject to social insurance contributions alone were created, and the Federal Government is expecting marked growth in this form of employment in 2008 as well. This is helping to ensure that self-supporting elements play an increasing role in the upswing. A favourable development in employment and incomes encourages private consumption. The upward movement in prices caused by the increase in the standard rate of VAT in January 2007 will no longer be affecting private consumption this year. Hence the slackening of the stimulus from foreign trade will come at a time when the German economy is robust. Investment in equipment should also show a dynamic development this year, although the rate will decelerate. The development in construction investment will diverge in 2008, with private non-residential building expected to be stimulated by expansion investment. Public building will also support the upswing, while private housing construction is not

expected to provide noticeable stimulus. For the year as a whole the Federal Government is expecting growth in the gross domestic product (GDP) of 1.7 percent, price adjusted (see Diagram 10), so close to the trend growth rate. After calendar adjustment this is a rise of 1.4 percent. The German economy is still on a growth course.

The forecast of economic growth in the Annual Projection is slightly below the estimate by the Council of Economic Experts; in some components it differs more strongly because it is based on more recent indicator data.

### The chances and risks in the economic development

112. There is a risk that the main impetus of growth will not pass from foreign trade to the domestic economy, and there shift particularly into private consumption as much as expected. If the price level rises more than expected, real disposable incomes, and so private consumption, will be dampened. The main

risks to economic development in Germany are in the foreign sector, for example, if the mortgage crisis in the USA were to spread to banks and investors worldwide. Any turbulence caused by this on the financial markets could be reflected in more weakening of the world economic cycle, especially economic growth in the United States, and world trade. An abrupt rise in the rate for the euro would also put further strain on German exporters. There is also the risk of crude oil prices markedly above the assumptions. In the domestic economy, second round effects caused by wage policy could also have a negative effect on the price level and the trend in employment. However, there are also chances of a more favourable development. The situation on the raw materials markets could relax compared with the assumptions made here. Similarly, the basic dynamic in the domestic economy could prove better than expected. After weighing the chances and risks the Annual Projection presents what appears to be the most likely development in the present view.

**Diagram 10: The Annual Projection 2008 – Gross Domestic Product Development in Germany (price adjusted)**

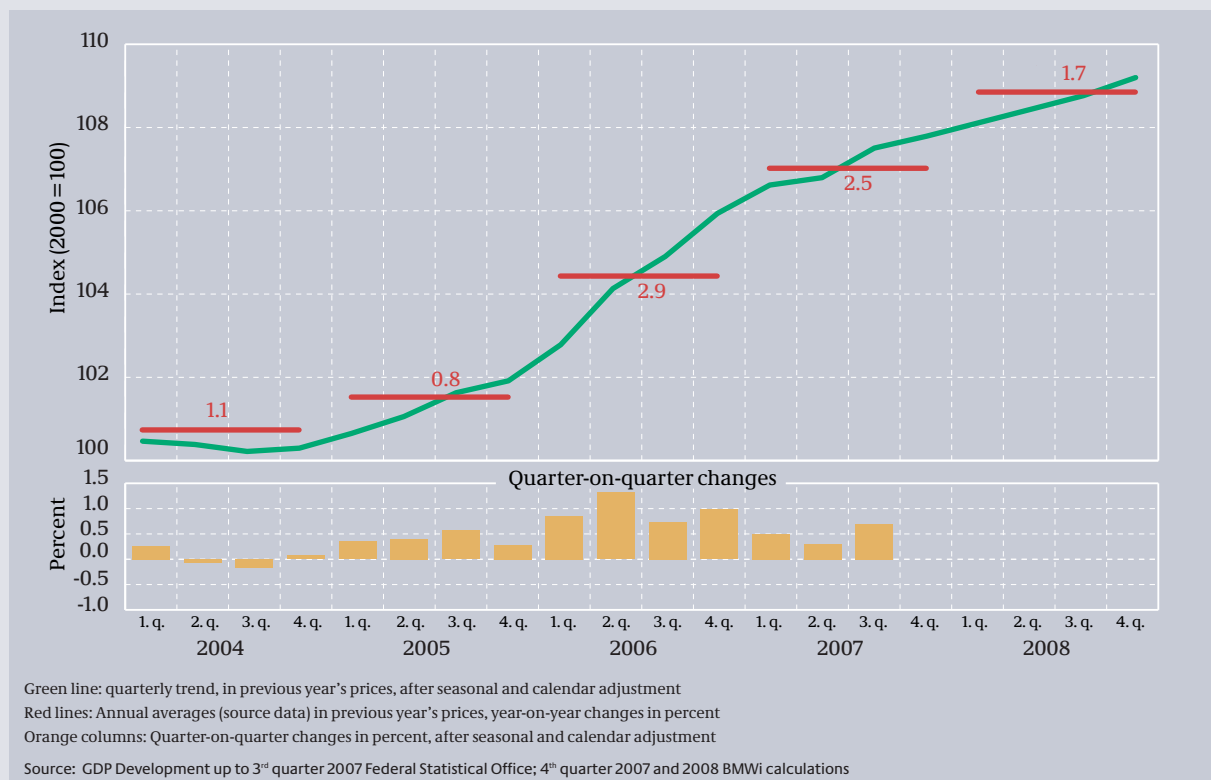


Table 3: Key Data on the Macroeconomic Development in the Federal Republic of Germany<sup>27</sup>

	2006	2007	Annual Projection 2008
	Year-on-year change in %		
<b>Production of the gross domestic product (GDP)</b>			
GDP (price adjusted)	2.9	2.5	1.7
Employment (in Germany)	0.6	1.7	0.7
GDP per person employed	2.2	0.8	1.0
GDP per hour worked	2.4	0.8	0.8
Unemployment rate in % according to national accounts <sup>28</sup>	9.8	8.3	7.8
Unemployment rate in % (Federal Labour Agency definition) <sup>28</sup>	10.8	9.0	8.2
<b>Use of GDP in current prices</b>			
Consumption expenditures			
Private households and private non-profit institutions serving private households	2.3	1.4	3.1
Government	1.0	2.4	3.0
Gross fixed capital formation	6.7	7.7	3.3
Changes in inventories etc. (bill. euros)	-4.7	-6.4	-3.6
Domestic demand	3.0	2.7	3.2
External Balance of goods and services (bill. euros)	126.4	168.1	174.8
(in % of GDP)	5.4	6.9	7.0
<b>Gross domestic product (in current prices)</b>	<b>3.5</b>	<b>4.3</b>	<b>3.3</b>
<b>Use of GDP in real terms</b>			
Consumption expenditures			
Private households and private non-profit institutions serving private households	1.0	-0.3	1.1
Government	0.9	2.0	1.0
Gross fixed capital formation	6.1	4.9	2.3
Machinery and equipment	8.3	8.4	4.1
Construction	4.3	2.0	0.5
Other products	6.7	6.6	5.9
Changes in inventories etc. (contribution to growth in GDP) <sup>29</sup>	-0.1	-0.1	0.1
Domestic demand	1.9	1.1	1.4
Exports	12.5	8.3	5.8
Imports	11.2	5.7	5.9
External Balance of goods and services (contribution to growth in GDP) <sup>29</sup>	1.1	1.5	0.4
<b>Gross domestic product (price adjusted)</b>	<b>2.9</b>	<b>2.5</b>	<b>1.7</b>
<b>Prices (2000 = 100)</b>			
Private consumption expenditures <sup>30</sup>	1.4	1.7	2.0
Domestic demand	1.1	1.6	1.8
Gross domestic product <sup>31</sup>	0.6	1.8	1.6
<b>Distribution of the gross national income (residence concept)</b>			
Wages and salaries	1.7	2.6	2.7
Entrepreneurial and property income	7.2	7.2	5.6
National income	3.6	4.2	3.7
Gross national income	3.5	4.4	3.2
<i>Memo item (residence concept):</i>			
Employees	0.6	1.7	0.7
Gross wages and salaries: Total	1.5	3.1	3.1
Per employee	0.9	1.3	2.4
Private households disposable income	1.9	1.6	2.8
Savings ratio in % <sup>32</sup>	10.5	10.8	10.6

<sup>27</sup> Up to 2007 preliminary results by the Federal Statistical Office as per 15 January 2008; <sup>28</sup> In relation to the whole economically active population; <sup>29</sup> Contribution to growth rate in GDP; <sup>30</sup> Consumer price index year-on-year change: 2006: 1.7%, 2007: 2.2%, 2008: 2.3%; <sup>31</sup> Unit labour costs per employee, year-on-year change: 2006: -1.1%, 2007: 0.1%, 2008: 1.0%; <sup>32</sup> Savings in % of private households disposable incomes including adjustment for the change in net equity of households in pension funds reserves.



### Stimulus from foreign trade to continue

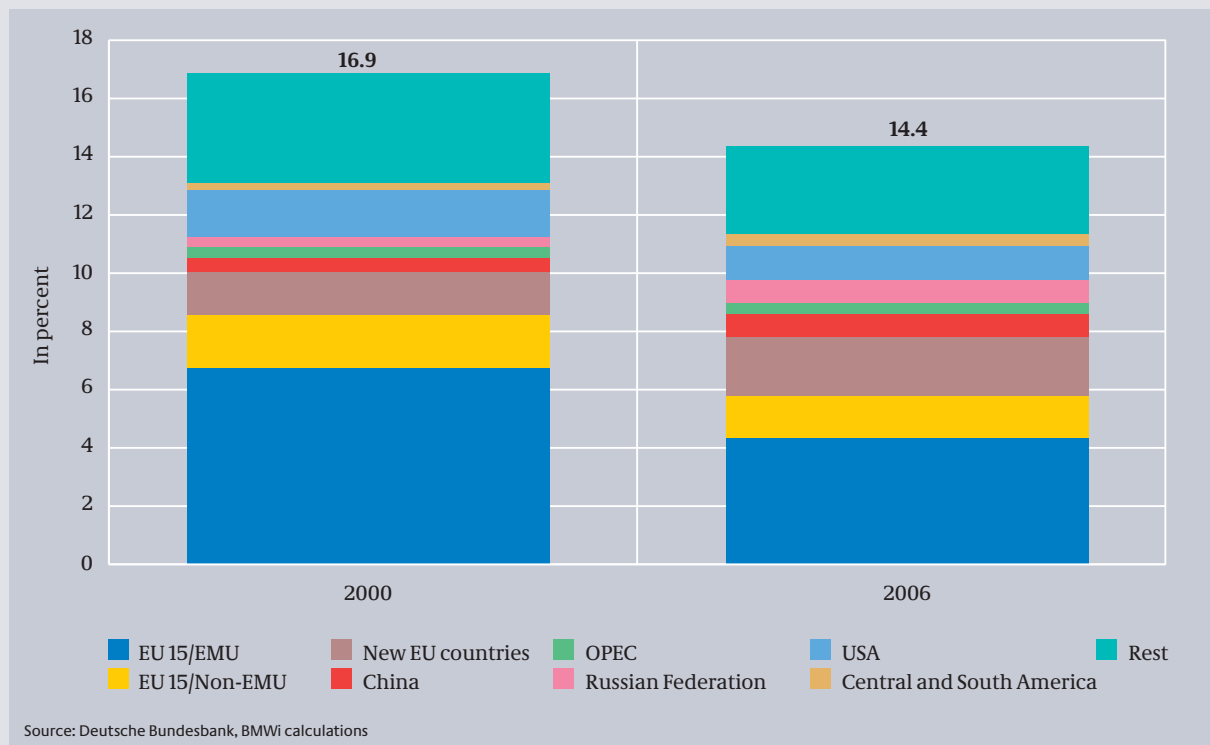
113. This year, foreign trade will not contribute as much as previously to economic growth. That is evident from the flattening in the worldwide economic dynamic and the development in exchange rates. But exports will continue to provide stimulus to the German economy this year, helped by the favourable price competitiveness of German products and the product structure of German exports, which is mainly high-quality investment goods. There is particularly heavy demand for these goods in regions in the catching-up process. The economic development in central and eastern European countries, for example, rapidly developing Asian economies like China, and oil-exporting countries should support German exports. There have been regional shifts in the contributions to export growth in the past (Diagram 11). The growth rate in exports will fall from 8.3 percent in 2007 to 5.8 percent in 2008, but imports will grow rather more strongly, fuelled by higher consumption dynamic, rising from 5.7 percent in 2007 to 5.9 percent in 2008. Nevertheless, the surplus on foreign trade should rise further, and reach another record

value in 2008. Net exports will again make a positive contribution to growth in 2008, but at 0.4 percentage points it will be less than in 2007.

### Dynamic development in investment at lower rate

114. Gross fixed capital formation will continue to support economic growth. Current indicators, like the index of domestic orders received by capital goods producers, point to continued dynamic in investment in machinery and equipment. Manufacturing companies also still have above-average capacity utilisation and orders stocks. So they may be expected to increase their capacities this year as well. In addition, German companies are better equipped with equity capital owing to their good earnings situation, and they have more scope for self-financing. The scope for financing with borrowed funds, on the other hand, may be moderately reduced as a result of risk premium adjustments caused by the turbulence on global financial markets. The easier depreciation conditions also ended at the close of 2007. The Federal Government is assuming growth in investment in machinery and equipment this year of around 4 percent. The

Diagram 11: The Regional Distribution of Contributions to the Nominal Growth in Goods Exports





upswing in this form of investment, that has lasted for four years now, will continue at a slower pace this year, compared with the high growth rates of earlier years. The construction industry will, as a whole, make a lower contribution to macroeconomic growth. Investment in commercial and public building will remain brisk. Commercial building will be supported by capacity expansion. In public building there could be a catching-up effect, as there have been considerable cutbacks in this area in past years to consolidate the budget. Housing construction, on the other hand, should have a noticeably dampening effect on building investment as a whole, as many house-building measures were brought forward to avoid the increase in the standard rate of VAT. Altogether, therefore, construction investment may be expected to expand only slightly this year. Nevertheless, the weak phase in construction, that lasted until 2005 after the reunification boom, can be regarded as over, on the whole.

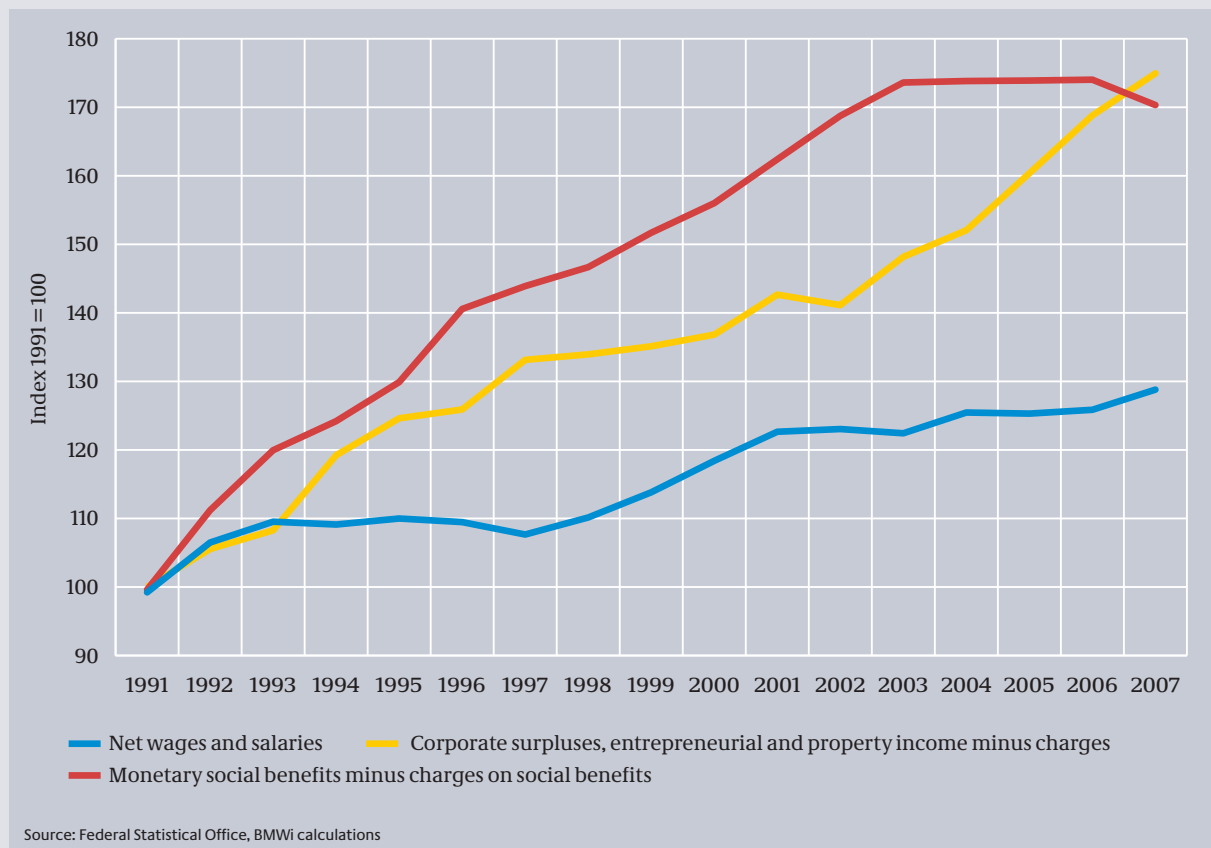
### Recovery in private consumption

115. With its great weight (about 40 percent of total demand) private consumption has a major influence on macroeconomic growth. Apart from the year 2006, which was characterised by purchases brought forward, private consumption has made only a minor contribution to macroeconomic growth since 2002.

The development in disposable incomes, the changes in consumer prices and savings behaviour by private households largely determine the price-adjusted development in private consumption spending. Disposable incomes consist of the net sum of wages, transfer incomes and entrepreneurial and property income to private households.

The individual components of disposable incomes have developed differently in the past (Diagram 12). It has been possible to dampen the strong upward trend in state transfer payments since 2003. Entrepreneurial and property income to private

**Diagram 12: The Development in the Components of Nominal Disposable Incomes**



households is gaining in importance. Its share in disposable incomes has risen by five percentage points since 1991 to around 35 percent. Net wages and salaries have risen relatively moderately in past years.

For the year 2008 the collective wage agreements available so far and the above-average capacity utilisation in some sectors of the economy, together with the better employment structure, indicate an increase in wages from employment per person employed (actual earnings) of 2.4 percent. As the number employed will rise by 0.7 percent the sum of gross wages and salaries will rise by 3.1 percent. Despite the further fall in social insurance contribution rates on balance net wages and salaries per person employed will rise by 2.4 percent, the same percentage as the corresponding gross figure. This is due to the progression in income taxation.

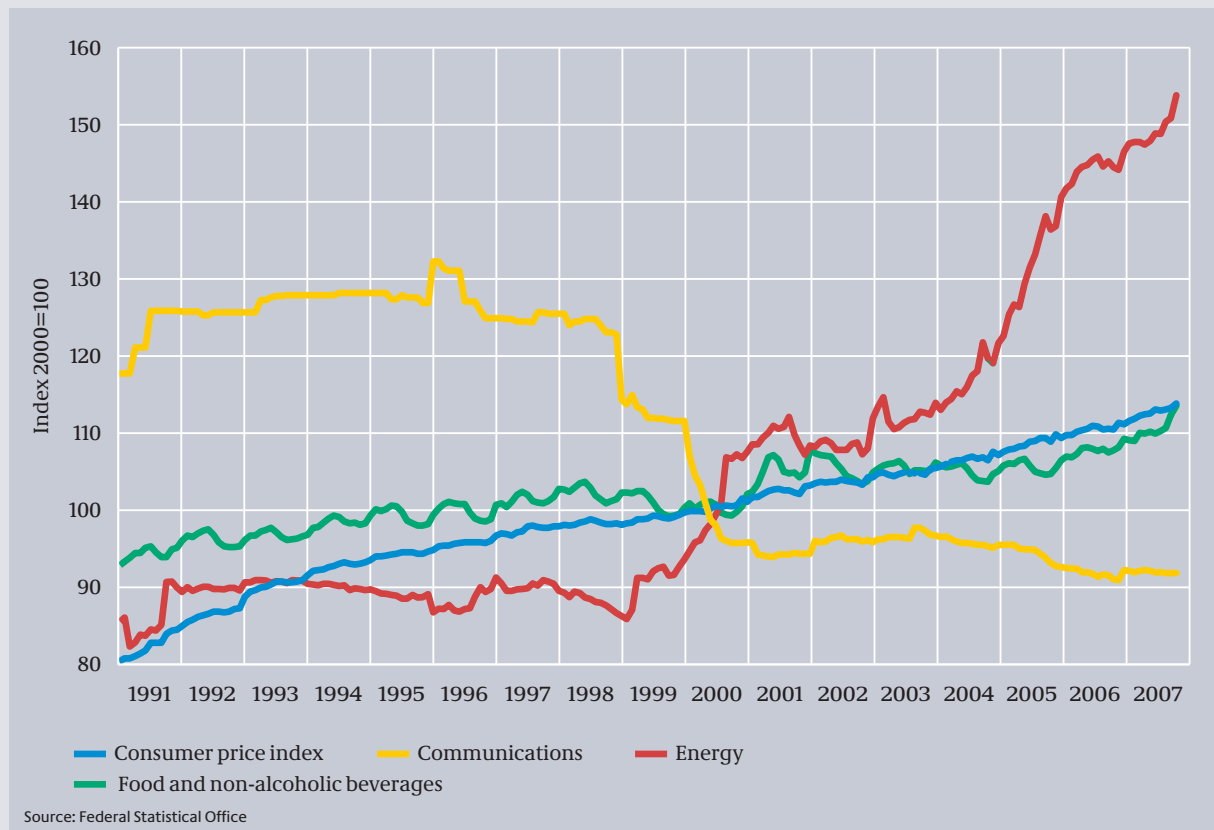
Monetary social benefits paid by the state to private households contribute just under one third to

disposable incomes. These transfers will rise by just under 1 percent, as the result of two contrary effects. Unemployment insurance payments will be reduced as the positive development on the labour market continues, but statutory pensions insurance payments will rise rather more strongly than in past years, owing to the pensions adjustments that are due.

Entrepreneurial and property income to private households should rise again more strongly, at 3.7 percent, than income from employment. Their share in disposable incomes will thus increase further, if less strongly than before.

Altogether there will be growth of 2.8 percent in disposable incomes, which will be available for consumption and saving. While the motive to save for retirement will certainly remain in view of the demographic development, it is to be expected that consumer restraint will ease this year and the savings rate

**Diagram 13: The Consumer Price Index and Selected Components**



will fall again slightly after the rise last year. Taking these factors and the development on the labour market into account consumer spending by private households may be expected to rise this year by 3.1 percent in current prices. With a private consumption deflator of 2.0 percent real growth in private consumption will be 1.1 percent. The private consumption deflator is slightly lower than the consumer price index, for it is based on the structure of goods in the current period, not in a base year. Altogether private consumption will contribute 0.6 percentage points to growth in GDP this year.

#### Public consumption

116. A much clearer growth is to be expected in public consumption in the current year, compared with past years. Public consumption in current prices may be expected to rise by around 3 percent compared with 2007. This will be due to increases in wage agreements in the public service and a clear growth in state purchases of pre-products. At the same time the dynamic evident to date in social benefits in kind will continue this year as well at around 3 percent over the previous year. Price adjusted public consumption will rise by 1.0 percent.

#### Price trend more moderate again over the year

117. The clearly stronger rise in the price level last year compared with 2006 was mainly due to the increase in the standard rate of VAT. After a year the effect of passing this on in consumer prices should be largely over. With the higher world market prices for energy and agricultural raw materials consumer prices for energy and foodstuffs have risen markedly during 2007 (Diagram 13). It is to be expected that the prices for electricity, gas and other fuels will increase again noticeably more than the general price level, as the price level of these commodities follows that of crude oil after a timelag.

Food prices rose unexpectedly strongly last year and it is now to be expected that the trend in this price level will ease again during 2008. If only as the one-off effect of raising the standard rate of VAT comes to an end the rise in the price level should moderate during the year. Altogether the Federal Government is expecting a rise in the consumer price

level of 2.3 percent on average for 2008, with the rise at the end of the year clearly back below 2 percent.

#### Favourable development on the labour market continues

118. Although the cyclical trend will slow slightly this year the labour market will continue to show a positive development. The Federal Government is assuming that on average for the year the number employed will rise by 280,000 and so lie above 40 million on average for the year (Diagram 14). The development on the labour market will be supported by a powerful increase in employees subject to social insurance contributions.

The number registered unemployed will fall further. For the year 2008 the Federal Government is expecting a further fall of around 330,000 to around 3.45 million on average for the year. That will bring unemployment back about to the level of 1993. A positive effect is that structural unemployment is also falling noticeably, so ever larger sections of the population are benefiting from the economic upswing in Germany.

The unemployment rate as defined by the Federal Labour Agency has fallen by 2.7 percentage points from its peak in 2005 to 9.0 percent in 2007. The Federal Government is expecting a further fall for this year of 0.8 percentage points to 8.2 percent. The internationally comparable unemployment rate assessed by the International Labour Organisation (ILO) standard should fall by 0.5 percentage points to 7.8 percent.

#### Income distribution: Entrepreneurial and property income rise again

119. Compensation of employees, that is gross wages and salaries plus the employer's contributions to the social security system, will grow by 2.7 percent, rather more than in the previous year. Nevertheless, this growth will still be dampened by slower growth in employment and the reduction in the statutory unemployment insurance rates. If the social insurance rates fall, this reduces the increase in the compensation of employees. Entrepreneurial and property income, on the other hand will again rise more strongly, at 5.6 percent. Together the increase in the

compensation of employees and entrepreneurial and property income will cause a rise in the national income of 3.7 percent, after growth of 4.2 percent in 2007. In assessing this trend it must be taken into account that a growing number of employee households draw income from property.

**Public budgets close to balance**

120. After a balanced public budget was achieved the balance of public financing will deteriorate to  $- \frac{1}{2}$  percent in relation to nominal GDP in the current year. However, the result is still within the framework of a nearly balanced public budget. The reasons for the expected deterioration in the balance are the initial loss of revenue from the reform of corporate tax-

tion, increased dynamic in state consumption spending and the reduction in the contribution rates to unemployment insurance by a total of 0.9 percentage points. The deterioration in the financing balance is thus largely due to structural causes. The effect of fiscal policy is therefore slightly expansionary this year. However, it must be remembered here that an expenditure line that is restrictive on the whole compared with the macroeconomic trend will be continued this year as well. Public spending will increase by around 2 percent this year. As a result of this increase, which is under-proportionate compared with the macroeconomic trend, a further fall in the ratio of public spending to around  $43 \frac{1}{2}$  percent in relation to nominal GDP is to be expected.

**Diagram 14: The Development in Employment**



### Box 12: Review of the Annual Projection 2007 and the Actual Development

In the Annual Economic Report for 2007 the Federal Government assumed growth in real gross domestic product of 1.7 percent. That figure was about in the middle of the current forecast range of 1.3 to 2.1 percent. In fact GDP grew by 2.5 percent, so the dynamic of the present upswing was underestimated.

The Projection for 2007 assumed that the contribution of net exports to growth would, as in 2006, be rather less than one percentage point, and that the domestic economy would grow rather less than in 2006, owing to the increase in the standard rate of VAT. In fact the contribution to growth of foreign trade and payments was 1.5 percentage points, so clearly higher than expected. The domestic economy grew about as projected, by 1.1 percent.

The unexpectedly high contribution of foreign trade and payments to growth in the gross domestic product is due to the fact that exports grew more than expected at +0.5 percentage points, and imports remained 1.1 percentage points below expectations. That imports grew less than expected is due mainly to the weakness of private consumption.

In the Annual Projection 2007 it was assumed that private consumption would grow by 0.3 percent; in fact it fell by -0.3 percent. It was rightly foreseen that the higher standard rate of VAT would weaken the year's result as a whole, but the effects of bringing forward purchases were rather underestimated and the marked rise in the savings rate was not expected.

Gross fixed capital formation developed clearly more strongly than expected, as a result of the powerful basic dynamic in the economy. There were also investment incentives, chiefly from the improvement in depreciation conditions, which was limited to the end of 2007. At 8.4 percent investment in machinery and equipment rose by 3.4 percentage points more than assumed in the Annual Projection 2007. The development in construction investment was also underestimated. Instead of the expected 1.6 percent the growth was 2.0 percent – partly as a result of the mild winter.

The recovery on the **labour market** proved much better than expected. The number unemployed fell by around 710,000 persons, which is about 230,000 persons more than expected. The number in employment also rose more than expected, by on average 1.7 percent over the year instead of 0.7 percent. The resultant increase in the volume of labour caused gross wages and salaries to rise by 3.1 percent, half as much again as estimated in the Annual Projection 2007.

The **development in the price level** – measured by the deflator of private consumption – fell by 0.2 percentage points less than had been expected (1.9 percent). The GDP deflator rose by 1.8 percent, clearly more than projected, as contrary to the original expectations the terms of trade improved. The consumer price index rose by 2.2 percent, one tenth of a percentage point less than expected.

Germany achieved a balanced **public budget** in 2007 for the first time since 1989. So the public budgets have developed very much better than was expected at the start of 2007. The dynamic in the economy as a whole proved much better than expected, and this brought a noticeable additional relief for the public budgets. So the reduction in the deficit was much more than was to have been expected from the Federal Government's consolidation measures. However, in the overall view structural factors still predominate in the reduction in the deficit of 1.6 percentage points. The measures implemented by the Federal Government, together with the restrictive expenditure line already laid down, have brought a consolidation contribution of clearly above 1 percent of the gross domestic product.

Table 4: Comparison of the Annual Projection 2007 with the Actual Development<sup>33</sup>

	Annual Projection 2007	Actual Development 2007
Year-on-year change in %		
<b>Production of the gross domestic product (GDP)</b>		
GDP (price adjusted)	1.7	2.5
Employment (in Germany)	0.8	1.7
GDP per person employed	0.9	0.8
GDP per hour worked	0.9	0.8
Unemployment rate in % (according to national accounts) <sup>34</sup>	7.3	8.3
Unemployment rate in % (as defined by the Federal Labour Agency) <sup>34</sup>	9.6	9.0
<b>Use of GDP in current prices</b>		
Consumption expenditures		
Private households and private non-profit institutions serving private households	2.2	1.4
Government	1.5	2.4
Gross fixed capital formation	5.4	7.7
Changes in inventories etc. (bill. euros)	6.3	-6.4
Domestic demand	2.7	2.7
External Balance of goods and services (bill. euros)	127.0	168.1
(in % of GDP)	5.3	6.9
<b>Gross domestic product (in current prices)</b>	3.2	4.3
<b>Use of GDP in real terms</b>		
Consumption		
Private households and private non-profit institutions serving private households	0.3	-0.3
Government	0.5	2.0
Gross fixed capital formation	3.3	4.9
Machinery and equipment	5.0	8.4
Construction	1.6	2.0
Other plant and equipment	6.0	6.6
Changes in inventories etc. (contribution to growth in GDP) <sup>35</sup>	0.0	-0.1
Domestic demand	1.0	1.1
Exports	7.8	8.3
Imports	6.8	5.7
External Balance of goods and services (contribution to growth in GDP) <sup>35</sup>	0.8	1.5
<b>Gross domestic product (price adjusted)</b>	1.7	2.5
<b>Price trend (2000 = 100)</b>		
Private consumption expenditures <sup>36</sup>	1.9	1.7
Domestic demand	1.7	1.6
Gross domestic product <sup>37</sup>	1.4	1.8
<b>Distribution of the gross national income (GNI)</b> (residence concept)		
Wages and salaries	1.4	2.6
Entrepreneurial and property income	5.0	7.2
National income	2.6	4.2
Gross national income	3.2	4.4
<i>Memo item (residence concept):</i>		
Employees	0.7	1.7
Gross wages and salaries Total	1.9	3.1
Per employee	1.2	1.3
Disposable income of private households	2.1	1.6
Savings ratio in % <sup>38</sup>	10.4	10.8

<sup>33</sup> Up to 2007 preliminary figures from the Federal Statistical Office as per 15 January 2008; <sup>34</sup> In relation to the whole economically active population; <sup>35</sup> Contribution to growth rate in GDP; <sup>36</sup> Consumer price index year-on-year change 2006: 1.7%, 2007: 2.2%; <sup>37</sup> Unit labour costs per employee year-on-year change 2006: -1.1%; 2007: 0.1%; <sup>38</sup> Savings in % of private households' disposable incomes including adjustment for the change in net equity of households in pension funds reserves.

## Annex: Measures by the Federal Government 2006–2008

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Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
<b>A. Reforms Pay Off</b>					
1.	Key Elements in the Reform Balance Sheet	<p><b>Labour market</b></p> <ul style="list-style-type: none"> <li>▶ Lower subsidiary wage costs: Serial No. 3.</li> <li>▶ New prospects for people with placement difficulties: Serial No. 9ff.</li> <li>▶ More employment chances for older workers: Serial No. 4ff.</li> <li>▶ Immigration to suit market needs: Serial Nos. 18, 19 and 26ff.</li> </ul> <p><b>Entrepreneurial activity</b></p> <ul style="list-style-type: none"> <li>▶ Reform of corporate taxation: Serial No. 44ff.</li> <li>▶ Less bureaucracy: Serial No. 49ff.</li> <li>▶ More competition on the energy markets: Serial No. 60.</li> <li>▶ Liberalised post markets: cf. Item 39.</li> <li>▶ A stronger SME sector: cf. Serial No. 71.</li> <li>▶ Access to venture capital: Serial No. 73.</li> </ul> <p><b>Technological efficiency and innovations</b></p> <ul style="list-style-type: none"> <li>▶ Research strengthened: Serial Nos. 71 and 100ff.</li> <li>▶ Excellence Initiative: Serial No. 103.</li> <li>▶ Innovation incentives/High-Tech Strategy: Serial No. 106ff.</li> </ul> <p><b>Securing the bases of life</b></p> <ul style="list-style-type: none"> <li>▶ Integrated energy and climate programme: Serial No. 129.</li> <li>▶ Renewable energies: Serial No. 138ff.</li> <li>▶ Security in old age: Serial No. 154ff.</li> <li>▶ Competition in the health sector: Serial No. 159ff.</li> </ul> <p><b>Sustained and efficient public budgets</b></p> <ul style="list-style-type: none"> <li>▶ Budget consolidation: Serial No. 163ff.</li> </ul>	Cf. Box 2.		
2.	Key Elements in the Economic Policy Reform Strategy 2008	<p><b>Labour market</b></p> <ul style="list-style-type: none"> <li>▶ Redirection of labour market policy instruments: Serial No. 8.</li> <li>▶ Federal Labour Agency budget: Item 20, Serial No. 5.</li> <li>▶ General concept for the low-wage sector: Box 3.</li> <li>▶ Staff shareholding: Item 30.</li> <li>▶ Jobs in the health sector, in care and nursing – General concept: Item 85.</li> <li>▶ Households as clients and employers: Item 27.</li> <li>▶ Law on Temporary Staff and Minimum Working Conditions: Serial No. 7.</li> <li>▶ Master plan for freight traffic and logistics: Item 54 and Serial No. 86.</li> </ul>	Cf. Box 3.		

#### **Training and skilled personnel**

- ▶ Qualification Initiative: Box 5 and Serial No. 26.
- ▶ Immigration: Item 28.

#### **Research and science**

- ▶ 3 % target for 2010: Serial No. 101.
- ▶ Implementing and developing the High-Tech Strategy: Serial No. 106ff.
- ▶ Research lighthouses: Item 65.
- ▶ Law on Scientific Freedom: Item 60.

#### **Energy and the environment**

- ▶ Integrated Energy and Climate Programme: Item 67, Box 8 and Serial No. 129.

#### **International framework for the social market economy –**

##### **Responsibility in globalisation**

- ▶ Implementing the G8 Heiligendamm decisions and realising the millennium targets: Item 108 and Serial No. 169ff.
- ▶ Protection of intellectual property: Item 107 and Serial No. 172.
- ▶ Achieve sustainable globalisation: Box 11.
- ▶ Stability of the financial sector: Item 15.
- ▶ Sustain national security interests, remain open and attractive for foreign investment: Item 58 and Serial No. 99.

#### **Demographic change**

- ▶ Concept for occupational and private pensions: Serial No. 155.
- ▶ Preventive health care: Serial No. 160.

#### **A modern state and people-friendly administration**

- ▶ Federalism Commission II: Item 94ff.
- ▶ Inheritance tax reform: Box 6 and Serial No. 48.
- ▶ Standard costs calculation: Item 52.
- ▶ SME Relief Law III: Item 34.
- ▶ Modernisation through IT: Serial Nos. 49 and 161.

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
<b>B. Utilise Employment Chances with Determination</b>					
<b>Federal Labour Agency: Utilise Scope to Lower Contribution Rates</b>					
3.	Reduce subsidiary wage costs	<ul style="list-style-type: none"> <li>▶ Unemployment insurance rate lowered from 6.5% through 4.2% in 2007 to 3.3% on 1 January 2008.</li> <li>▶ To make up some of the loss of revenue the Federal Government will take one percentage point of the additional revenue from the increase in VAT.</li> </ul>	Reduce subsidiary wage costs, lower rates for employers and employees giving new stimulus to create jobs paying social insurance.	In force.	01.01.2008
4.	Work organisation in the Federal Labour Agency	Improve the organisation of placement work in the Federal Labour Agency by introducing handling programmes.	Increase the efficiency and effectiveness of placement by identifying the individual need for handling each person unemployed on the basis of systematic profiling (customer differentiation).	In force.	End of 2006
5.	Integration contribution from the Federal Labour Agency	Sixth Act to Amend the Third Book of the Social Code and other laws: Introduction of an integration contribution to involve the Federal Labour Agency in the costs of integration payments under the Social Code II.	<ul style="list-style-type: none"> <li>▶ To involve the Federal Labour Agency in the costs of integrating the long-term unemployed in keeping with its responsibility for labour promotion.</li> <li>▶ Readjust the financial responsibility between the Federal Labour Agency and the Federal Government at the interface of labour promotion – basic security.</li> <li>▶ Relieve the Federal budget of 3 billion euros a year net.</li> </ul>	In force, BGBl. Part I, p. 3245 of 31.12.2007	01.01.2008
<b>Combi-Wages to Activate Unemployment Prevention</b>					
6.	Extend the Law on Temporary Staff to letter post services	The Law on Temporary Staff extended to include letter post, as the post monopoly expired on 01.01.2008; a directive on minimum wages issued based on the extended Temporary Staff Law.	Collectively agreed working conditions to apply to all the workforce in the letter post branch.	Legislative and ordinance procedures completed.	Second Law to Amend the Law on Temporary Staff: 28.12.2007/ Ordinance on Binding Working Conditions for the Letter Post Branch: 01.01.2008

7.	The Law on Temporary Staff extended to other branches and the Law on Fixing Minimum Working Conditions updated	Branches may be included in the area of application of the Law on Temporary Staff if more than 50% of their workforce are on collective agreements and if joint application is made by the employers and trade unions before the end of March 2008. The Law on Minimum Working Conditions of 1952 is to be adjusted to enable minimum wages to be fixed in branches where less than 50% of the workforce are bound by collective agreements.	Branch-related securing of appropriate standards for workers.	Decision by the Coalition Committee of 18.06.2007.	2008
8.	Develop Social Code II	Develop Social Code II; changes to the contents on material payments law.	<ul style="list-style-type: none"> <li>▶ Bringing standard payments in the new federal states up to the level in the old federal states.</li> <li>▶ Reforms in material payments law, to extrapolate the system in Social Code II.</li> <li>▶ Increase the efficiency of basic security for job-seekers.</li> <li>▶ Improve administration practice.</li> </ul>	In force; ongoing.	<ul style="list-style-type: none"> <li>▶ 01.04.2006</li> <li>▶ 01.08.2006</li> <li>▶ In part 01.07.06</li> <li>▶ 01.01.2007 and/or backdated 01.01.2005</li> </ul>
9.	Avoid long-term unemployment	Special programme by the Federal Labour Agency "Integration Progress for Monitored Customers".	Preventive approach to avoiding long-term unemployment through a gradual reduction in multiple placement obstacles with prospective integration within 900 days.	In force.	11/2006
10.	The Job Prospect – Prospects for the long-term unemployed with particular placement obstacles	Second Act to Amend the Second Book of the Social Code: Promotion of up to 100,000 jobs paying social insurance for long-term unemployed applicants with particular placement obstacles (in the form of an employment grant to the employer).	Opening permanent job opportunities for persons out of the labour market to enable them to take part in working life by offering financial compensation for their under-performance.	In force. Transition regulation until 31.03.2008; promotion only of additional jobs that are in the public interest.	01.10.2007
11.	Additional jobs in regions with particularly high long-term unemployment	Federal programme to promote additional jobs created by municipal authorities in regions with particularly high and rigid long-term unemployment (Federal Municipal-Combiprogramme): creation of additional jobs paying social insurance in regions (districts and independent towns) with an overall unemployment rate of 15% and more.	To place long-term unemployed workers in regions with particularly high and rigid unemployment that have not yet benefited from the economic upswing in jobs; to create new jobs with municipal and district authorities, or other employers in agreement with a municipality, that will help perform municipal tasks. To be implemented by the Federal Administrative Office.	Cabinet on 27.06.2007.	01/2008

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
12.	The Job Initiative "Jobs without barriers"	Initiative on the training and employment of handicapped people and on occupational prevention. The Council for the Participation of the Handicapped has recommended implementing the Job Initiative and made available funds from the Compensation Fund supplemented by the European Social Fund.	Basis: Information, especially from companies, on the changes in the regulations on the integration of handicapped people in the general labour market and information on possibilities for implementation in companies, with practical examples. Expected to achieve sustained improvement in the employment situation for the handicapped (training and activity on the general labour market).	Implemented 5/2004 to 12/2006, evaluated 1/2007 to 6/2007, continued 7/2007 to 12/2010.	
13.	The 4000 Jobs Labour Market Programme	<ul style="list-style-type: none"> <li>▶ 1000 new jobs for severely handicapped people with particular difficulties on the general labour market.</li> <li>▶ 500 new training places for severely handicapped young people.</li> <li>▶ 2500 offers of particular support for severely handicapped people in their activities on the general labour market.</li> </ul> <p>The Council for the Participation of the Handicapped has recommended implementing the labour market programme and proposed funding from the Compensation Fund.</p>	Promotion of the integration of severely handicapped people in the general labour market, particularly those who are experiencing special difficulties on the labour market for other reasons as well. Expected to created 4000 new/additional jobs (and training places) on the general labour market.	Being implemented since January 2007.	

### Make Better use of Existing Employment Potentials, Open Up New Potentials

#### Promote the Employment of Older Workers

14.	Improve the employment prospects for older workers	<ul style="list-style-type: none"> <li>▶ Law to Improve the Employment Prospects for Older Workers.</li> <li>▶ Increase earnings security, wage cost grants and advanced training for older workers.</li> <li>▶ New regulation on short-term employment contracts with workers aged 52 and over in accordance with EU law.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Increase the employment rate for older workers.</li> <li>▶ Improve advanced training and employment opportunities for older workers.</li> <li>▶ Improve the scope in labour law for employing older workers</li> <li>▶ Create greater legal and planning certainty.</li> </ul>	In force.	01.05.2007
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	Employment pacts for older workers	<p>Federal Programme: "The 50 Plus Prospect - Employment Pacts for Older Workers in the Regions":</p> <ul style="list-style-type: none"> <li>▶ To promote 62 regional projects in which 93 working associations and registered municipal sponsors will take part for the reintegration in working life of older long-term unemployed workers aged between 50 and 64; 2006: 115 million euros, 2007/123 million euros.</li> <li>▶ Continue the Federal programme from 1.1.2008 to 31.12.2010 in all 62 regional projects, while extending this to a total of around 200 ARGEs, agencies with separate tasks and registered municipal sponsors.</li> </ul> <p>Average budget 2008-2010 275 million euros.</p>	<p>▶ Prognosis of costs: a total of 628 million euros by 2011 (of which the Federal Labour Agency will provide 429 million euros). To be financed with integration bonds, so that tendentially no extra expenditure will be involved.</p>	Ongoing	10/2005
15.	Employment pacts for older workers	<p>Federal Programme: "The 50 Plus Prospect - Employment Pacts for Older Workers in the Regions":</p> <ul style="list-style-type: none"> <li>▶ To promote 62 regional projects in which 93 working associations and registered municipal sponsors will take part for the reintegration in working life of older long-term unemployed workers aged between 50 and 64; 2006: 115 million euros, 2007/123 million euros.</li> <li>▶ Continue the Federal programme from 1.1.2008 to 31.12.2010 in all 62 regional projects, while extending this to a total of around 200 ARGEs, agencies with separate tasks and registered municipal sponsors.</li> </ul> <p>Average budget 2008-2010 275 million euros.</p>	<p>▶ Help improve the employment situation and increase the employment rate for older workers; utilise the potentials in the regions to integrate older unemployed workers in the general labour market.</p> <ul style="list-style-type: none"> <li>▶ Integrate 22,000 older long-term unemployed workers by the end of November 2007.</li> <li>▶ Planned for 2008 to 2010: Activate at least another 200,000 older long-term unemployed workers and integrate at least another 50,000 in the general labour market.</li> </ul>	Ongoing	10/2005
16.	Promotion of vocational training	Special programme on advanced training for the low skilled and older workers in companies. One-year programme run by the Federal Labour Agency.	<p>▶ Targeted advance training promotion of older and employed workers with low skills.</p> <p>▶ Stimulate advanced training, particularly in SMEs to improve the qualification level.</p>	Ongoing	01.01.2006 Modified from 01.01.2007
17.	Age-related working conditions	Promotion of model projects to work out age-related working conditions. Practical models for older workers (55+) will be developed and tried out in firms. The aim is to show ways in which the special potentials of older people can be utilised in working life and how this can be effectively supported. Budget effects: ▶ 2006: 208,107 euros ▶ 2007: 414,522 euros	Against the background of the demographic change in the workforce it is necessary to find new, practical and effective ways of promoting and maintaining the health and performance of older workers.	Ongoing	Project to run from 09/2006 to 08/2009

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
18.	Maintaining the performance of older workers	Developing information provision and consultancy for SMEs and craft firms, to maintain the performance of older employees and increase competitiveness, e.g. through an age-related corporate culture, by retaining experience and knowledge (knowledge transfer), supporting willingness to undergo further training, and with personnel development measures as part of a demography-related personnel policy.	The demographic change is expected to cause a shortage of skilled personnel while the workforce grows older. Keeping older workers employable is part of the SME Initiative.	SME Initiative passed by the Federal Cabinet on 19.07.2006.	Ongoing
<b>Vocational Training – Integrating Young People in the Labour Market</b>					
19.	National Pact for Training and Skilled Recruits in Germany	National Pact for Training and Skilled Recruits in Germany (2007–2010): <ul style="list-style-type: none"> <li>▶ The employers have undertaken to obtain 60,000 new training places a year on average and 40,000 places on inhouse entry qualification courses.</li> <li>▶ A new commitment to persuade 30,000 companies a year to start training.</li> </ul>	Improve the supply of training places by opening up new potentials for additional training places in companies.	Originally designed to run until 2007, the Pact was prolonged to 2010.	16.06.2004; prolonged on 05.03.2007
20.	Entry qualification	The employers have undertaken to offer 40,000 places on inhouse entry qualification courses. The Federal Government has undertaken to guarantee promotion of 40,000 places in each of the coming three years.	<ul style="list-style-type: none"> <li>▶ Bridge into vocational training for youngsters with limited placement prospects, and who have not found a training place even through the late placement service.</li> <li>▶ Aim: More of the target group transferring into company training.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 10/2006 increase from 25,000 to 40,000 places.</li> <li>▶ Measure transferred into labour promotion law and the legislation on basic security for job-seekers.</li> </ul>	10/2004 Entry Qualification Programme 10/2007 No time limit on regular payments 01.10.2007 standard instrument with no time limit.
21.	Innovation Group on Vocational Training	Vocational training is to be modernised through better permeability, greater acceptance of non-academic qualifications and greater acknowledgement of acquired qualifications. For these aims high-ranking representatives of companies, research, vocational schools, the employers and trade unions and the federal states have worked in the Innovation Group on Vocational Training to develop joint strategies for improvements. These are now presented as "10 Guidelines for the Modernisation and Structural Improvement of Vocational Training".	The modernisation and structural improvement of vocational training.	To be implemented as part of the Qualification Initiative.	
22.	JOBSTARTER Programme	The JOBSTARTER Programme (2005-2010) 144 projects have already been approved in the first two promotional rounds. More project selection rounds will follow: 3 <sup>rd</sup> promotional directive published in June 2007.	Improve the regional supply of training places for young people by persuading plants or companies to offer training.	Regular adjustment to current training place situation.	2007



<p>23. Fourth Act to Amend the Social Code Book III</p>	<p>Introduction of a training and an integration grant for younger workers.          The training grant and the integration grant are paid to employers for workers under the age of 25 who were unemployed for at least six months.          ► The integration grant is for younger workers who have a vocational qualification.          ► The training grant is for younger workers who do not yet have a vocational qualification.          This will implement a key result of the work of the Coalition Working Group on the Labour Market.          In addition, the entry qualification courses will be included as an employers' benefit in labour promotion law and the legislation on basic security for job-seekers.          The possibility of monitoring by social educationalists and organisational support for company vocational training and preparatory vocational courses will be introduced in accordance with the commitments in the training pact.          To help pupils from general schools the scope for offering more in-depth vocational orientation courses will be increased.</p>	<p>Improve the skills and employment chances of younger people with placement problems.</p>	<p>In force.          Fourth Act to Amend the Third Book of the Social Code of 10.10.2007 (BGBl. Part I, p. 2329 of 15.10.2007).</p>	<p>01.10.2007</p>
<p>24. Model programme on competence agencies</p>	<p>The model programme will set up competence agencies throughout Germany that will play an important part in consultancy and placement and perform a pilot function between the competent institutions for the "tailor-made" vocational and social integration of particularly disadvantaged young people.</p>	<p>Improve the social and vocational integration of young people.</p>	<p>In force.</p>	<p>2006</p>
<p>25. The "Competence through Voluntary Service" Programme</p>	<p>This programme improves access to social participation and competence-based learning in the Voluntary Social and Ecological Year for disadvantaged youngsters. The ability of disadvantaged young people to undergo training and find a job will be increased through combinations of non-formal and informal with formal courses. Teaching staff in vocational schools and company trainers will be involved, as will labour market participants.</p>	<p>Disadvantaged young people have so far been clearly under-represented in the voluntary services. In these services the young people acquire not only vocational orientation and work experience but also personal and social competences that are in great demand as key competences on the labour market.          This improves their chances of training and employment and ensures their social integration.</p>	<p>Autumn 2007</p>	

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
<b>Utilising the Potential of Skilled Labour</b>					
26.	The Federal Government's Qualification Initiative	The Federal Government presents its contribution to a Qualification Initiative for Germany. I.a. it contains the following measures: An advanced training initiative for 80,000 trainers and day care personnel, a training bonus for companies that train old applicants who are particularly deserving of promotion, a training building blocks programme, promotion scholarships for employees, appointment of job starter monitors, the "Prospect: Vocational Qualification" programme, extending the Vocational Training legislation on the master's qualification, a service agency for the better allocation of university places, the Higher Education Pact for 2020, advertising for university courses in eastern Germany, the Year of Mathematics, a programme for women professors, a pact for women in MINT professions, the AQUA programme, the Advanced Training Alliance, the advanced training award, building up regional advanced training structures, advanced training monitoring.	To ensure the need for skilled personnel is met, improve the quality and breadth of the basic and advanced training system.	Decision by the Federal Cabinet on 09.01.2008 for a Federal Government Qualification Initiative as part of a general initiative, particularly to include the federal states and the employers and trade unions.	2008
27.	Improve educational promotion in early childhood	<p>Improve the quality of the facilities and the care in day nurseries with the following national projects:</p> <ul style="list-style-type: none"> <li>▲ Speech tuition in day nurseries.</li> <li>▲ Stories to teach and learn.</li> <li>▲ Child care exchanges.</li> <li>▲ Implementing the National Quality Initiative in the day nursery system.</li> <li>▲ Internet website <a href="http://www.wissen-und-wachsen.de">www.wissen-und-wachsen.de</a></li> <li>▲ Online handbook of day nursery care.</li> <li>▲ Training day nursery personnel.</li> <li>▲ A quality campaign.</li> </ul>	Qualitative improvement of education in early childhood.	In force.	2007
28.	"The Second Chance" pilot programme	"The Second Chance" is a pilot programme for youngsters who refuse to go to school and so risk failing their leaving exams; it helps them to reintegrate into the normal school system.	To reduce the number of early school-leavers.	In force.	2006
29.	Lifelong learning	In the Innovation Group on Advanced Training experts from research and practice are working out recommendations to build up lifelong learning.	<ul style="list-style-type: none"> <li>▲ Increase numbers in advanced training, achieve better interaction of training areas.</li> <li>▲ Improve supply.</li> <li>▲ Address certain target groups.</li> <li>▲ Improve competitiveness and participation through lifelong learning.</li> <li>▲ Increase training consultancy.</li> </ul>	By end-2007 recommendations on a new concept for "Learning through Life".	2008

30.	Saving for advanced training	Three financing components and consultancy for individual advanced vocational training (based on an experts model): advanced training award of up to 154 euros from 2008; loans for advanced training, opening the law on wealth formation for advanced training investment.	<ul style="list-style-type: none"> <li>▶ Increase numbers in advanced training.</li> <li>▶ Increase individuals' readiness to investment in training.</li> <li>▶ Increase the importance of advanced training.</li> </ul>	Key points of Saving for Advanced Training decided by the Cabinet on 13.06.2007.	2008
31.	Amendment to the Vocational Training Law	<p>The Vocational Training Law amended as follows: Rates for pupils and students will be set at 10 % and the free allowances raised by 8 % at the start of the winter semester or school year 2008.</p> <p>In view of the particular financial needs of students with children they will in future receive a child care bonus of 113 euros. Foreign apprentices and students will be eligible for grants under the Vocational Training Law if they are living in Germany and intend to stay here permanently.</p>	<ul style="list-style-type: none"> <li>▶ Increase the numbers at university.</li> <li>▶ Make it easier to combine a family with an academic career.</li> <li>▶ Improve the integration of young people from a migrant background who want vocational training.</li> </ul>	The 22 <sup>nd</sup> Act to Amend the Vocational Training Law decided by Federal Parliament in 2 <sup>nd</sup> and 3 <sup>rd</sup> readings on 16.11.2007.	

### New Regulations on Promotion for New Previously Unemployed Entrepreneurs

32.	New previously unemployed entrepreneurs	New business grant available for previously unemployed new entrepreneurs.	Combine the present instruments to encourage unemployed persons to become self-employed into a new grant for new entrepreneurs; Increase the effectiveness and efficiency of this promotion.	In force.	01.08.2006
33.	Competences of the Labour Agencies	Widen the competences of the Labour Agencies to enable them to place unemployed persons in self-employment as well (new version of § 36, Para. 4 of Social Code Bk III). Job-seekers are not obliged to accept this offer from the agencies, nor does a lack of willingness to do so entail any loss of benefits.	An additional offer of new business promotion for job-seekers who are interested in becoming self-employed; the aim is to increase the number reintegrated in the labour market by increasing self-employment.	In force.	05/2007

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
<b>Promotion of Employment for Women</b>					
34.	Management monitor	Developing core indicators to supervise the progress of equality for men and women in management positions.	Increase the share of women in management posts.	Ongoing	2007
35.	Women in self-employment and as new entrepreneurs	<ul style="list-style-type: none"> <li>▶ To develop quality standards for consultancy specifically for new women entrepreneurs.</li> <li>▶ Cooperation for women entrepreneurs.</li> <li>▶ The German Prize for Women Entrepreneurs.</li> </ul>	To promote women in setting up a business and in self-employment.	Ongoing	2005 2006
<b>Facilitating combining a family and a career</b>					
36.	Parent allowances	Parents who do not work for more than 30 hours a week on average after the birth of a child will receive a parents allowance. This will on principle replace 67 % of their loss in income, but will amount at most to 1800 euros; the minimum of 300 euros will be paid even if no income is lost. The allowance is paid for a maximum of 12 months with two partner months added.	To promote equal sharing by men and women in caring for the family and a career. Shorter breaks in work to care for children will reduce the gender-specific differences in employment, unemployment and earnings.	In force. First evaluation in 2008.	01.01.2007
37.	Multi-generation houses	At least one multi-generation house will be built in every district and every independent town by 2010. These houses will create structures for all the generations to live together in active cooperation; they will be a turntable for family support services across the generations and community commitment (assistance, community and care services).	To make it easier to combine a family and a career, promote innovative activities to increase employment, and improve the infrastructure for families and older people.	Ongoing	2006
38.	Increase day nursery provision for children under 3	Legislation to improve the quality and supply of day nurseries (Act on the Expansion of Day Nurseries of 27.12.2004, BGBl. I, p. 3852), and an annual report by the Federal Government in accordance with § 24a, Para. 3 of the Social Code Bk VIII on the state of expansion of day nurseries for children under 3.	Qualitative and quantitative improvements to the supply of day nurseries.	Ongoing	2005
39.	Improve the quantity of child care for under-3s	Build up a bigger supply for children under 3 to meet demand by 2013 (for about 35 % of this age group). From 2013 children under three throughout Germany will have a right to a place in a day nursery or other day care facility. The legal basis is provided firstly in the Law on Financing Child Care and secondly it will be implemented in the Child Promotion Law by the end of 2008 through the amendment to the Social Code Bk VIII.	Provide more places in day nurseries for children under 3 and facilitate combining a family and a career.	Cabinet approval on 05.09.2007 of the results of the Federal-State Working Group on 28.08.2007. The necessary amendment to the Social Code Bk VIII – the Child Promotion Law – will be completed by the end of 2008.	Child Care Financing Law 31.12.2007 Amendment to Social Code Bk VIII – Child Promotion Law: by 01/2009 at the latest

### Strengthen Family-Friendly Personnel Policy

40. Enterprises programme "The Family – A Success Factor: Convincing Companies"	This programme aims to persuade entrepreneurs, managers and personnel managers to operate a family-friendly personnel policy as a strategic management instrument. To spread this in practice regional ambassadors will work in every Federal state. The programme was launched in 2006 as part of the "Alliance for the Family" with partners from business, the associations and politics.	Establish a family-friendly personnel policy as a management instrument in companies, with managers and personnel departments.	Ongoing	01/2006
41. Corporate Network "The Family – A Success Factor: Convincing Companies"	This network serves as a platform for companies that are committed to a family-friendly personnel policy and it is helping to make family-friendliness a trademark of German industry. The corporate network will provide information, exchanges and best practice examples that will make it easier, particularly for small firms, to orient to the theme of combining a career and a family. So far 700 firms have joined the network.	Establish family-friendly personnel policy as a management instrument in companies, with managers and personnel departments.	Ongoing	07/2006

### Migration

42. National Integration Plan	<p>To draw up a National Integration Plan with targets, concrete measures and voluntary undertakings by all involved in ten fields of action:</p> <ul style="list-style-type: none"> <li>▶ Improve integration courses.</li> <li>▶ Promote learning German right from arrival.</li> <li>▶ Ensure good education and training, improve employment chances.</li> <li>▶ Improve the lives of girls and women, realise equality.</li> <li>▶ Support integration locally.</li> <li>▶ Culture and integration.</li> <li>▶ Integration through sports.</li> <li>▶ Utilise the full range of the media.</li> <li>▶ Improve integration through commitment to citizenship and equal participation.</li> <li>▶ Research – open to the world.</li> </ul>	<p>Improve the integration of immigrants in key social areas through the broad involvement of all three levels, federal, state and municipal, in dialogue with the main actors among the general public and the immigrants themselves (i.a. with measures to improve training and labour market integration). Include immigrants and the main actors in society in drawing up sustainable integration policies for all state levels; promote individual responsibility and networking; anchor "integration" as a cross-sectional theme in every social and political area.</p>	<p>In force (Cabinet acknowledgement on 11.07.2007). In force (Cabinet acknowledgement on 11.07.2004). Integration summit with introduction of the National Integration Plan on 12.07.2007; Assessment in 2008.</p>	07/2007
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Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
43.	Migration	The pilot project "Cultural Variety" is aimed to stimulate development and growth, and occupational integration in east and west Germany. The knowledge of foreign languages and different cultures held by young women immigrants should be seen as a resource and utilised for economic growth. New procedures are to be developed and tested to create jobs and training places for women immigrants.	The project should make a lasting contribution to improving the vocational integration of young women immigrants. Assessment procedures that are dialogue-oriented are to end the systematic under-appreciation of the resources and potential of young female immigrants.	Ongoing	01.10.2006

### C. Strengthening Entrepreneurial Activity

#### Reduce costs for companies

44.	Reform of corporate taxation	<ul style="list-style-type: none"> <li>▲ The rate of corporation tax brought down markedly from 25 % to 15 %.</li> <li>▲ At the same time the trade tax assessment figure is being reduced from 5 % to 3.5 %. Trade tax can no longer be deducted as operating expense. For an incorporated firm – with a municipal trade tax rate of 400 % – the total tax burden, including the Solidarity Premium, will be 29.8 %.</li> <li>▲ For retained earnings by partnerships drawing up financial statements a concession has been introduced with a tax rate of 28.25 %.</li> <li>▲ The total tax payable on retained earnings by partnerships will then also be 29.8 %, including the Solidarity Premium, and so correspond to the total tax payable by incorporated firms.</li> </ul>	Make Germany more attractive for business investment through taxation and so increase investment, jobs and tax revenue.	Corporate Tax Reform Law 2008 of 14.08.2007; announced on 17.08.2007 (BGBl. I, p. 1912).	Came into force on 18.08.2007 To be applied from 01.01.2008
45.	Reform of corporate taxation/interest barrier	<ul style="list-style-type: none"> <li>▲ The interest barrier limits deductible interest payments to 30 % of the sum of profits before interest expenditure and depreciation. Any interest expenditure beyond this can be deducted as expenses in following years.</li> <li>▲ Small and midsize firms have a free allowance of 1 million euros.</li> <li>▲ Companies that are not consolidated and do not have shareholder borrowed funds are generally exempt from the application of the interest barrier.</li> <li>▲ Consolidated companies can obtain exemption from application of the interest barrier if they can prove that their equity ratio – the relation of equity to the balance sheet total – corresponds to the average in the concern.</li> </ul>	To prevent earnings being shifted abroad and financing with borrowed funds shifted into Germany for tax reasons.	As Serial No. 44	In force since 18.08.2007 To apply from 26.05.2007

46.	Reform of corporate taxation/deduction of losses by incorporated firms	Carrying percentages of losses forward for corporation and trade tax purposes is not allowed to an incorporated company if between 25% and 50% of the shares in the company pass to a new owner within five years. If more than 50% of the shares are acquired within five years no losses may be carried forward.	To avoid tax reduction structures.	As Serial No. 44	In force since 16.08.2007 To apply from 01.01.2008
47.	Tax on capital earnings	Introduction of a tax on capital earnings and profits on sales of 25% plus the Solidarity Premium and if applicable church tax.	To counter shifting capital abroad for tax reasons, make Germany more attractive as a financial centre.	As Serial No. 46	In force since 18.08. 2007 To apply from 01.01.2009
48.	Government draft to reform inheritance tax and valuation law	<ul style="list-style-type: none"> <li>▶ The valuation of property to be oriented to the market value.</li> <li>▶ Increase in the personal free allowances for the closest relatives: 500,000 for the married partner, 400,000 euros for children and 200,000 for grandchildren.</li> <li>▶ Cohabiting partners receive the same personal free allowance as the married partner.</li> <li>▶ For commercial assets (including shares of more than 25% in incorporated companies, agriculture and forestry) the concessionary share is fixed at 85%.</li> <li>▶ An additional sliding allowance of 150,000 euros to help smaller firms.</li> <li>▶ For rented housing a ten-percent deduction from the assessment basis.</li> </ul> <p>Option of backdating for inheritances between January 2007 and the time the reform comes into force, but the former personal free allowances will still apply.</p>	A valuation of all classes of assets that is constitutional and realistic, to enable successful handover to the next generation and continuance of the company while securing jobs.	Draft legislation decided by the Federal Cabinet on 11.12.2007.	
49.	Annual Tax Law 2008	<ul style="list-style-type: none"> <li>▶ Introduction of electronic wage tax deduction features, last issue of wage tax cards for 2010 (§ 39e Income Tax Law).</li> <li>▶ Conversion of capital earnings tax declaration to online procedure (§ 45a Income Tax Law).</li> <li>▶ Simplified procedure for notification of pension entitlements (§ 22a, Para. 2 Income Tax Law).</li> </ul>	The reduction in costs this law will bring will fundamentally improve companies' competitiveness.	Annual Tax Law of 20.12.2007 (BGBl. I, 2007, p. 3150).	On principle on 29.12.2007 - for exceptions see Art. 28 of the law



Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
50.	First Act to Reduce Bureaucratic Obstacles, especially for Small and Midsize Firms	<p>I. a. raise thresholds for tax accounting and other requirements, for the appointment of authorised representatives and for obligatory statistical reporting.</p>	<p>► This legislation is chiefly intended to offer lasting relief to SMEs and improve the framework conditions and competitiveness of companies, especially SMEs.</p> <p>► Introducing a single point of contact will make it easier to set up a business, not only for EU citizens but also for German entrepreneurs.</p>	In force.	01.01.2007
51.	Second Act to Reduce Bureaucratic Obstacles, especially for Small and Midsize Firms	<p>► I. a. relief in statistics, bookkeeping, social insurance, trade, pricing and road transport law; further improvement to the promotion of the regional economic structure.</p> <p>► This law reduces bureaucracy, mainly for SMEs, and also covers the handling of at least 100 million euros.</p>	<p>Intended to offer lasting relief, especially to SMEs and new businesses, and improve the framework conditions for companies and the competitiveness, particularly of SMEs.</p>	In force.	14.09.2007
52.	Reducing bureaucracy – The Standard Costs Model (SCM)	<p>► The SCM measures the costs of bureaucracy for the obligatory provision of information in the entire range of Federal regulations with the aim of identifying unnecessary bureaucracy costs and removing them. The Federal Government is aiming to reduce the present load of bureaucracy costs by 25 % by 2011.</p> <p>► The aim of identifying unnecessary bureaucracy costs and so reducing them by 25 % by 2011 will require interim stages to achieve about half of the target by the end of 2009. As a large part of the bureaucracy costs result from only a few information requirements it is appropriate to reappraise these first. The Federal Government has therefore set itself the aim of examining the possibility of simplifying first the c. 50 most costly information requirements by the end of 2009, as these cause around 80 % of the total bureaucracy costs in Germany. This will be done in dialogue with companies and associations and if necessary, steps will be taken to simplify the requirements. It must also be remembered that the results must be perceptible, not only in economic policy but also for the individual company. Beside these most costly information requirements the ministries will also reappraise the main information requirements in their fields of competence in the same way by the end of 2009, in the light of the SCM results.</p>	<p>The introduction of the SCM will</p> <p>► introduce a procedure to measure and reduce bureaucratic obstacles from information requirements,</p> <p>► reduce bureaucracy costs for companies, the administration and individuals,</p> <p>► improve the estimation of the results of legislation/the costs of new proposed regulations.</p>	Cabinet decision on 24.10.2007 - Report by the Federal Government on the application of the SCM "Bureaucracy Costs: Identify - Measure - Reduce".	

53.	Reducing bureaucracy – The Norms Control Council (NCC)	The NCC is an independent controlling and consultative body, which examines existing and, in particular, new regulations to identify the bureaucracy costs caused.	The NCC is to support the Federal Government in checking existing and, in particular, new norms in federal law to identify any bureaucracy costs (information requirements) caused. Hence the NCC does not question the political objectives of the norm. The NCC published its first report on its activities on 19 September 2007, confirming positive effects.	In force.	19.09.2006 (setting up the NCC)
54.	Reducing bureaucracy: Proposals from the regions	Ultimately 48 proposals from the regions to reduce bureaucracy and on deregulation that resulted from the second round of calls were implemented or are currently being implemented. 138 different proposals have been received from the regions, so that more than every third has resulted in concrete measures to reduce bureaucracy and further deregulation on federal level.	Calling for proposals from the regions on deregulation and to reduce bureaucracy has opened up discussion between companies and the administrations in the regions on problems. In many cases this can lead to pragmatic local solutions requiring amendments to laws and ordinances. And if regional solutions do not solve the problem the Federal Government does receive a wealth of proposals to reduce bureaucracy, which it appraises to see whether they can be implemented, wholly in the ideal case, or at least in part.	Conclusion of the second round of calls.	
55.	Plan of action to reduce bureaucratic obstacles in agriculture, forestry and the foodstuffs sector	This plan of action contains 41 measures to reduce bureaucracy, covering the reduction and simplification of information requirements for farmers and agricultural enterprises, and easing standards and material regulations. It also contains measures to simplify EU law that were introduced by Germany during the German presidency of the EU Council in 2007 and are part of the “health check” on community agricultural policy in 2008.	Of the 20 measures that are already in force especially the ending of the obligation to carry a cattle pass on journeys within national frontiers, the legal conditions for multiple use of existing statistical data and the simplifications in recording handling veterinary medication have eased the requirements for farmers. Major progress has been made in reducing bureaucracy on EU level, e.g. through the agreement to simplify controls of the requirements on direct payments (“cross compliance”).	Decision on the plan of action by a Federal-State Steering Group on 23.06.2006. More individual measures added on 12.02.2007.	

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
56.	Modernising the regulations on public procurement	<ul style="list-style-type: none"> <li>▶ Draft of a law to simplify public procurement (Procurements Legislation Simplification Law).</li> <li>▶ The federal level issue of a general administration regulation on the acquisition of energy-efficient products and services, including guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Simplify and modernise procurements law.</li> <li>▶ Acquire energy-efficient products and services as a contribution to solving the central question of environmental and climate protection.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Decision by the Federal Government in 2006 on the main points.</li> <li>▶ Decision by the Federal Government on 23/24.08.07 (Cabinet session in Meseberg).</li> </ul>	To be implemented in 2007/2008
57.	Law to Ease the Burden on Small and Midsize Firms II: Amendment to the legislation on chambers of industry and commerce	Reduce bureaucracy, introduce Doppik to the chambers, easier data transmission.	Increase efficiency in the chambers and save costs for member firms.	Legislation on chambers of industry and commerce amended in the Law to Ease the Burden on SMEs II.	09/2007
<b>Opening Markets, Strengthening Competition</b>					
58.	More stringent ban on sales below cost price	Temporary more stringent ban on sales below cost price in the foodstuffs trade for companies with a strong market position; the ban also extended to only occasional sales.	More effective protection of small and midsize retail firms against abusive displacement practices; reducing concentration.	In force.	22.12.2007
59.	Temporary more stringent supervision of electricity and gas suppliers under cartel law to prevent abuse	Temporary more stringent supervision under cartel law to prevent abuse by electricity and gas suppliers with dominant market positions; easier identification of abuse through overcharging, i.a. including inappropriate exceeding of costs.	Competition is still not functioning on the electricity and gas markets, where high concentration is partly responsible for considerable price rises. Energy consumers are to be protected from price abuse through market power by flanking temporary more stringent cartel supervision until measures with structural effect have led to increased competition.	In force.	22.12.2007
60.	Ordinance on Network Connections for Power Stations	Electricity market Ordinance on the connection of power stations to the networks.	To intensify competition on the electricity market and secure supplies by making network connection easier for new suppliers as well and increasing planning certainty for all involved.	In force.	30.06.2007
61.	Electricity and gas market: Ordinance on the Incentives Regulation	Ordinance on the Incentives Regulation: From 01.01.2009 network operators are to be prescribed upper limits for their earnings that will be calculated in a national efficiency comparison.	The incentives regulation is to set incentives to efficiency in network operation, similar to those	In force.	06.11.2007

			set by competition on a free market. The aim is to lower costs for network users by lowering network charges through the prescribed increases in efficiency.			
62.	Electricity market: Bottleneck management	Cross-frontier bottleneck management as part of European regional initiatives in the electricity sector, especially in the Pentilateral Energy Forum (Germany, France and the Benelux countries). The Forum was set up by decision of the energy ministers of the five member states involved in June 2005, who signed the Memorandum of Understanding in the Pentilateral Energy Forum on 06.06.2007. Negotiations are now proceeding in support groups; target date for introduction 01.01.2009.	Intensify competition on the electricity market, secure supplies, especially by regional electricity market linkage based on load flow.	Memorandum of Understanding on electricity market linkage and securing supplies signed on 06.06.2007.	By January 2009	
63.	Recognition of vocational qualifications in the crafts legislation	Implementation of RL 2005/36/EC on the recognition of vocational qualifications in crafts legislation.	Implement EU law, intensify competition, improve market performance, complete the single market.	Draft law.	2007	
64.	Ordinance on the Accountancy Profession	Draft of a law to increase oversight of this profession and reform the relevant regulations in the ordinance on the accountancy profession (Professional Supervision Reform Law).	Implement the eighth directive and increase supervision of the accountancy profession to increase investors' confidence and make this profession more competitive.	In force.	06.09.2007	
65.	Legislation on legal consultancy	Draft of a law to change the regulations in the legal consultancy legislation (Legal Services Law).	Total redrafting of the law on legal services which has a difficult history. Differentiate between free and charged legal services, modernise and adjust the law to European and international developments. Deregulation.	Announced in December 2007.	Expected 01.07.2008	
66.	No win, no fee	Draft of a law to change the regulations banning agreements not to charge for a failed suit.	Ease the ban on agreements for a lawyer only to charge if the case is successful following the decision by the Federal Constitutional Court of 12.12.2006 – 1 BvR 2576/04.	Deadline set by the Federal Constitutional Court for the new regulation ends on 30.06.08 (despatched Ref.E 10/07).		
67.	Tax Consultancy Law	Draft of an eighth law to amend the Tax Consultancy Law.	Liberalise the legislation on the profession of tax consultant, implement the directive on professional recognition, harmonise the laws on these professions (lawyers, accountants).	Cabinet decision of 19.09.2007.	Expected March 2008	

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
68.	Ordinance on architects' and engineers' fees	Amendment	Simplification, transparency and more competition.	In preparation.	
69.	Services Directive	Implement the Services Directive.	Improve the legal and practical framework conditions for service providers in Germany and Europe (e.g. by introducing single points of contact, electronic administrative procedures, systematic reappraisal of the legislation relevant to services and measures to improve quality transparency).	Implementation in progress; to end on 28.12.2009.	
<b>Strengthen the SME sector, promote formation of new businesses</b>					
70.	Law to Modernise the Legislation on GmbHs (limited liability companies) and combat abuse	Facilitate and accelerate the establishment of a business, simplify the implementation of creditors' claims.	Deregulate and modernise the GmbH legislation.	Cabinet decision of 23.05.2007; 1 <sup>st</sup> discussion in Upper House on 06.07.2007.	Planned for 1 <sup>st</sup> half 2008
71.	SME Initiative	<p>1.1 Create favourable framework conditions for small and mid-size firms i. a. with</p> <ul style="list-style-type: none"> <li>▲ More favourable depreciation conditions for firms (increase in declining balance depreciation for investment from 20 % to 30 %) in 2006 and 2007.</li> <li>▲ Increase the turnover threshold for current taxation in the old federal states from 125,000 euros to 250,000 euros from 2006 and prolong the threshold of 500,000 euros applying in the new federal states to 31.12.2009.</li> </ul> <p>1.2 Reduce bureaucracy (cf. Item 34 and Table Serial No. 50ff.)</p> <p>1.3 New Businesses Campaign to spark off more new businesses, i. a. by</p> <ul style="list-style-type: none"> <li>▲ Speeding up entry in the commercial, cooperatives and partnerships registers and creating a company register.</li> <li>▲ Facilitating setting up a GmbH (limited liability company).</li> <li>▲ Combining and redirecting promotion of individual consultancy for new businesses.</li> </ul>	<p>Strengthen the forces of growth in SMEs.</p> <p>In force 2006 and 2007.</p>	<p>Decided by Federal Cabinet on 19 July 2006.</p> <p>▲ In force.</p> <p>▲ 1<sup>st</sup> reading in Federal Parliament 20.09.2007.</p> <p>▲ Federal programme in force (consultancy for new businesses set up by previously unemployed persons from mid-2008).</p>	<p>Ongoing</p> <p>Ongoing</p> <p>01.01.2007</p> <p>Planned for 1<sup>st</sup> half of 2008</p> <p>01.10.2007</p>

<ul style="list-style-type: none"> <li>▶ Introducing protection against pledging to improve security for old age for the self-employed.</li> <li>▶ New design of promotion for new businesses hived off from research (EXIST): EXIST new business scholarship/EXIST research transfers.</li> </ul> <p>1.4 Make SMEs more innovative, i. a. by:</p> <ul style="list-style-type: none"> <li>▶ Clearly increasing the funds for SME-oriented technology promotion 2006-2009.</li> <li>▶ Improving access by SMEs to the technology-specific programmes of the Federal Government for key industrial technologies - The Innovative SME.</li> <li>▶ Introducing a research premium for public research and a research premium II for non-profit making research establishments carrying out R&amp;D for SMEs.</li> <li>▶ Combining the R&amp;D cooperation programmes into the new "Central SME Innovation Programme".</li> <li>▶ A central cross-ministerial advisory office on promotion for research and innovation programmes.</li> <li>▶ Expanding the technology-oriented services offered by the federal technical standards offices for SMEs.</li> </ul> <p>1.5 Modernising vocational training and securing recruits to skilled occupations, i. a. by:</p> <ul style="list-style-type: none"> <li>▶ Continuing and developing the National Pact for Training and Skilled Recruits.</li> <li>▶ Continuously modernising existing training orders and drawing up new ones, as well as ordinances on advanced vocational training, including the master's certificates.</li> <li>▶ Extending in-company training, partly through graded training orders that build up on each other.</li> <li>▶ Better integration of basic and advanced training.</li> </ul> <p>1.6 Improve the financing situation for SMEs, i. a. by:</p> <ul style="list-style-type: none"> <li>▶ Improving and extending the ERP and KfW promotional programmes, e.g.</li> <li>▶ the ERP Regional Promotion Programme (increase the financing shares).</li> <li>▶ KfW Business Loan (introduce a 50 % release from liability for the banks).</li> <li>▶ New ERP Energy Efficiency Programme (promotion of energy-efficiency measures in companies).</li> </ul>	<ul style="list-style-type: none"> <li>▶ In force.</li> <li>▶ In force.</li> </ul> <p>Measure in preparation.</p> <p>Measure in preparation.</p> <p>Measure in preparation.</p> <p>New promotional competition "Trade fairs, norms, testing and quality control".</p> <ul style="list-style-type: none"> <li>▶ Pact prolonged for 3 years on 5 March 2007.</li> <li>▶ 4 new and 18 modernised training orders came into force on 01.08.2007.</li> <li>▶ 7 new and 3 modernised training orders planned for 2008.</li> </ul> <p>In force.</p> <p>In force.</p> <p>In force.</p> <p>In force.</p>	<p>01.03.2007</p> <p>March 2007 May/November 2007</p> <p>2007</p> <p>February 2007/ October 2007</p> <p>January 2007</p> <p>July 2007</p> <p>February 2008</p> <p>January 2008</p>
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Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
72.	Promotion of consultancy for new businesses	<ul style="list-style-type: none"> <li>▶ New KfW StartGeld Programme for small firms (optimising various end-borrower conditions).</li> <li>▶ Promoting the readiness of the banks to finance viable SME projects despite the higher security requirements, by maintaining and strengthening the system of guarantee banks.</li> </ul> <p>1.7 Mobilise venture capital for innovations: i. a.</p> <ul style="list-style-type: none"> <li>▶ Increase the Fund for New Entrepreneurs and Young Technology-based Firms (High-Tech New Businesses Fund, ERP Start-Up Fund, ERP/EIF Umbrella Fund) with partners from industry.</li> <li>▶ The volume of the High-Tech New Businesses Fund increased by 10 million euros to 272 million euros.</li> </ul>	<p>Create transparency, uniformity and efficiency in new businesses consultancy.</p>	<p>Federal programme in force (consultancy for new businesses set up by previous unemployed persons mid-2008).</p>	<p>01.10.2007</p>
73.	Law to Modernise the Framework Conditions for Equity Investments	<p>Combining and redirecting training and consultancy promotion for individual new businesses with the following key points:</p> <ul style="list-style-type: none"> <li>▶ Offers through regional offices.</li> <li>▶ A new business defined as up to five years old.</li> <li>▶ Federal states may improve the programme conditions.</li> </ul> <p>The well-established promotion of information and training events for new businesses and SMEs will be continued, as will the promotion of general conceptual consultancy for existing companies.</p> <p>Create adequate regulatory and tax conditions for venture and equity capital.</p>	<p>Promote equity investments in young and small to midsize companies.</p>	<p>Cabinet decision of 15.08.2007. Draft law currently in the parliamentary procedure.</p>	<p>Backdated to 1 January 2008</p>

#### Make Industry More competitive

74.	East German Automotive Cluster	Build up the East German Automotive Cluster.	Make industry more competitive.	In force.	January 2007
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75. High-Tech Strategy – Air Traffic Research Programme	Promotion of technology projects in industry-directed research associations.	Make the German air industry more innovative, form efficient networks of research and industry.	Introduced by the Promotion Directive; 1st round of tenders completed in 2006; round of tenders for integrated technology projects completed in 2007; research associations to run from 2007 to 2010. 200 million euros in 1 <sup>st</sup> round of tenders and integrated technology projects.	January 2007
76. High-Tech Strategy – “Research Initiative: The Building of the Future”	<p>Key Points:</p> <ul style="list-style-type: none"> <li>▶ Public private partnerships (PPPs).</li> <li>▶ Energy-saving and contracting technologies.</li> <li>▶ Federal Republic of Germany participating in the international Solar Decathlon (Plus Energy Houses) competition.</li> <li>▶ Introduction of radio frequency identification (RFID) technologies in building.</li> <li>▶ Use of pioneering technologies in buildings (e.g. vacuum insulation panels, recycled masonry, adaption of photovoltaics to facades etc.).</li> </ul>	<p>The aim of the research initiative “The Building of the Future” is to make German building more competitive on the single European market.</p> <ul style="list-style-type: none"> <li>▶ About 150 applications were received for the procedure and are being appraised.</li> <li>▶ Research applications in 2006: 34 projects with a total volume of more than 7 million euros, 4.56 million euros in budget funds (incl. complementary research and conferences).</li> <li>▶ Ministerial research in 2006: 27 projects.</li> <li>▶ Budget funds (incl. complementary research, conferences etc.) 2.44 million euros.</li> </ul>	Promotional directive for 2007/2008 published on 01.02.2007.	03.07.2006

**Strengthening Germany as a Financial Centre**

77. EU Transparency Directive	<p>Law to Implement the EU Transparency Directive:</p> <ul style="list-style-type: none"> <li>▶ Introduce additional thresholds for securities issuers to report communications on voting rights.</li> <li>▶ Extended publication requirements in accounting.</li> <li>▶ Important capital market information to be distributed throughout Europe and stored centrally.</li> </ul>	Improve capital market transparency, distribute capital market information throughout Europe.	Announced on 10.01.2007.	20.01.2007
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Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
78.	Investment Law	Law to Amend the Investment Law and Adapt Other Regulations (Investment Law Amendment Act).	Make Germany more competitive as a domicile for investment funds; improve competition conditions on the German funds market and induce more funds to set up in Germany; reduce bureaucracy.	Announced on 27.12.2007 (BGBl. I, p. 3089) Cabinet decision on 25.04.2007 1 <sup>st</sup> consultation in Upper House on 08.06.2007; 1 <sup>st</sup> reading in Federal Parliament on 13.06.2007; 2 <sup>nd</sup> and 3 <sup>rd</sup> readings on 21.09.2007; 2 <sup>nd</sup> consultation in Upper House on 12.10.2007.	28.12.2007 Early December 2007
79.	Real Estate Investment Trusts (REITs)	<ul style="list-style-type: none"> <li>▶ Introduce REITs.</li> <li>▶ Law to create incorporated German real estate companies traded on the stock market.</li> </ul>	Make Germany more competitive as a location for financial services and real estate companies.	Announced on 01.06.2007 (BGBl. I, p. 914) 2 <sup>nd</sup> and 3 <sup>rd</sup> readings in Federal Parliament 23.03.2007; Approved by Upper House on 30.03.2007.	Backdated to 01.01.2007
80.	Banking Directive and Capital Adequacy Directive	<ul style="list-style-type: none"> <li>▶ Law to implement the new banking directive and the new version of the capital adequacy directive, with the relevant ordinances.</li> <li>▶ More detailed requirements in the solvency ordinance and the ordinance on large loans and loans for millions (BGBl. I, p. 2926) of 14.12.2006.</li> </ul>	Appropriate equity for securities firms and banks, taking into account the risks they enter into in their lending and other business. Encourage better risk provision by banks and strengthen the framework conditions for financial stability.	Announced on 22.11.2006 (BGBl. I, p. 2606).	01.01.2007
81.	Insurance Supervision Law	<ul style="list-style-type: none"> <li>8<sup>th</sup> Law to Amend the Insurance Supervision Law:</li> <li>▶ Introduce the country of domicile principle for reinsurance companies.</li> <li>▶ Harmonise supervision of reinsurance companies.</li> <li>▶ Adapt to international supervision standards.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Implement the EU directive on reinsurance (2005/68/EC) in national law.</li> <li>▶ create a single EU market and so strengthen the EU and German financial markets, harmonise protection of the insured.</li> </ul>	Federal Parliament on 01.02.2007, Upper House on 09.03.2007 Announced on 01.06.2007 (BGBl. I, p. 923).	02.06.2007
82.	Enable cross-frontier mergers and simplify national corporate conversions	<ul style="list-style-type: none"> <li>Enable cross-frontier mergers of incorporated companies within the European Union and simplify national corporate conversions by</li> <li>a) Second Law to Amend the Conversion Law</li> <li>b) Law on Staff Codetermination on Cross-frontier Mergers.</li> </ul>	Reasons to introduce this legislation: To implement Directive 2005/56/EC of the European Parliament and the Council of 26 October 2005 on mergers of incorporated companies in different member states (OJ EU L310, p. 1).		

83.	Financial Instruments Markets	Law to implement the directive on markets for financial instruments and the Commission implementation directive (Financial Markets Directive Implementation Law): Extend the EU pass for securities services, regulations on trading platforms and securities transactions.	Expected effect: German companies will in future be able to organise at lower cost; their mobility and competitiveness will be increased, as will acceptance of corporate decisions and the necessary structural adjustments. Achieve a balance between companies' need for more flexibility and the justified interests of the workforces in protection.	Announced: a) 24.04.2007 (BGBl. I, p. 542). b) 28.12.2006 (BGBl. I, p. 3332).	a) 25.04.2007 b) 29.12.2006
84.	German Corporate Governance Codex	Amend the German Corporate Governance Codex.	Promote the integration of EU financial markets for securities.	Completed 11.05. 2007.	01.11.2007
			Adjust to VorstOG of 03.08.2005.	In force.	

### Improving the Infrastructure

85.	Investment Framework Plan up to 2010	The Investment Framework Plan up to 2010 for the Federal transport infrastructure lays down the medium term investment strategy to implement transport policy within the framework of the available budget funds. Maintaining and expanding the infrastructure is of crucial importance if Germany is to be a strong and dynamic business location; it is also essential for growth and employment. The dynamic development of mobility, especially in freight transport, is directly related to the changes in the world economic development.	<ul style="list-style-type: none"> <li>▶ The five-year plans that are to be drawn up for the Federal rail network and the Federal long distance road network on the basis of the expansion law have been worked out as general medium term plan across the transport modes, and include the Federal waterways.</li> <li>▶ With this approach, taken here for the first time, the concept of an integrated transport policy is being consistently pursued in investment planning.</li> <li>▶ The Investment Framework Plan will thus create the necessary framework conditions for planning and investment certainty.</li> </ul>	In force.	09.05.2007
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Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
86.	Master plan for freight transport and logistics	<ul style="list-style-type: none"> <li>▶ Action concept for a more efficient freight transport system and better use of all the transport routes.</li> <li>▶ Current developments and trends will be taken into account, as well as quality requirements in transport, business and logistics. The assessment will follow a weak points analysis.</li> </ul>	Strengthen Germany as a production and logistics location and increase competitiveness, growth and employment. Reduce environmental pollution.	In preparation.	2008, followed by implementation of the recommendations for action.
87.	Railway structure reform	Continue reform of the railway structure; involve private investors in the German railway company DB AG.	<ul style="list-style-type: none"> <li>▶ More transport by rail.</li> <li>▶ Ease the federal budget.</li> <li>▶ Improve the framework for competition in rail transport.</li> <li>▶ Improve the international competitiveness of DB AG.</li> </ul>	Coalition committee; Appraisal of privatisation models by the Federal Government expected by end February 2008.	
88.	Investment Law on PPPs	Open the Investment Law to admit PPPs by forming a new asset class for PPP projects. The draft of a law to amend the Investment Law and adapt other regulations (Investment Law Amendment Act) provides for the creation of an infrastructure fund for this purpose (Infrastructure Special Fund).	Mobilise more capital for PPPs by widening the scope for investment and asset formation.	Announced on 27.12.2007 (BGBl. I, p. 3089) Cabinet decision on 25.04.2007.	Early 2008
89.	Preparations for establishing a consultancy company specialising in PPPs	Prepare to establish a company to advise the public authorities on all the relevant PPP issues, focussing on specific PPP projects and further developing standards. Improve the framework conditions for PPPs, especially in budget, tax and promotional law and in the transport and hospital sectors.	Further develop the PPP market in Germany. Reduce disadvantages for PPPs compared with conventional procurement.	1 <sup>st</sup> consultation Upper House on 08.06.2007; 1 <sup>st</sup> reading in Federal Parliament on 13.06.2007; 2 <sup>nd</sup> and 3 <sup>rd</sup> readings on 08.11.2007; 2 <sup>nd</sup> consultation by Upper House on 30.11.2007	Cabinet decision on 11.12.2007.

#### Building Up Eastern Germany – Utilising Successes

90.	Industrial research facilities in the new federal states	Instruction to reappraise "Basic promotion of external non-profit making industrial research establishments in the new states".	Strengthen the innovation process and the R&D potential in the new states.	Meseberg reappraisal requirement.	
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91.	Attracting investors to the new federal states	Marketing eastern Germany as a business location and attracting investors in cooperation with Invest in Germany GmbH; conferences on investment and future business opportunities in eastern Germany.	Strengthen eastern Germany as a location for business and investment.	Ongoing	
92.	High-Tech Strategy – Innovation Competition “Industry Meets Research”	The regional actors in research establishments and SMEs are called upon to present innovative concepts for new and more effective forms of communication and cooperation to make the present borders between the innovation systems more penetrable, utilise synergies and in particular improve the transfer of the results of scientific research into business applications.	To identify and promote new and effective forms of communication and cooperation between the actors in the East German innovation process.	17.01.2007 <ul style="list-style-type: none"> <li>▶ Initial award of 11 projects particularly deserving of promotion after the 1<sup>st</sup> round of promotion in September 2007 with a volume of 4.7 million euros from 2007–2010.</li> <li>▶ Promotion of 14 more projects after appraisal expected in 2007.</li> </ul> Application deadline for the 2nd round of promotion 15.12.2007; decision in spring 2008.	
93.	Promotion of SMEs and new businesses	Developing promotion of SMEs and new businesses flexibly and with preference for the new federal states (cf. Table Serial No. 72).	Stimulate new businesses and growth in eastern Germany.	Cabinet decision of 19.07.2006 partly realised.	
94.	Training Place Programme East	The Federal Government and the federal states will promote an additional 10,000 company-related training places in the new federal states and Berlin.	A contribution from the Federal Government and the federal states to creating a sufficient supply of training places.	2007	
95.	High-Tech Strategy: Entrepreneurial Regions	Under the innovation initiative “Entrepreneurial Regions” the following major areas of promotion for the new federal states will be specifically increased: Start of the second round of promotion under the “Centres for Innovation Competence” programme; start of the new “ForMaT” programme in July 2007; development of the “Growth Cores” programme (Module Growth Cores Potential).	<ul style="list-style-type: none"> <li>▶ Make eastern German firms more innovative and competitive.</li> <li>▶ Promote excellence.</li> <li>▶ Secure recruits.</li> <li>▶ Transfer ideas into value creation for the new federal states.</li> </ul>	In force. 2007	

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
96.	High-Tech Strategy: Dialogue Innovation East	The memorandum on innovation policy in eastern Germany agreed between the Federal Government and the East German States is the starting point for a new form of strategic cooperation, for which the Federal Government and the federal states agreed to launch an Dialogue Innovation East in 2007.	<ul style="list-style-type: none"> <li>▶ Increase East German innovation and competitiveness.</li> <li>▶ Secure recruits.</li> <li>▶ Systematic strategic development in public research.</li> <li>▶ Make the East German research scene more attractive.</li> <li>▶ Integrate the policy approaches of the Federal Government and the East German states.</li> </ul>	In preparation	Early 2008
<b>Support Companies in International Competition</b>					
97.	Location marketing	Merge Invest in Germany GmbH with the Federal Agency for Foreign Trade.	Synergy effects from the merger of the location marketing offices that are financed from the federal budget; attract investors and provide information on foreign trade.	Implemented by January 2008.	
98.	Regional promotion	The German regional promotion area for 2007 to 2013 to come into force as part of the Joint Task "For the Improvement of the Regional Economic Structure".	Implement new EU requirements on financial aids. Increase investment activity by industry in targeted structurally weak regions to create and secure jobs. improve the business-related infrastructure, initiate cooperation networks and cluster management and regional management projects.	In force.	01.01.2007
99.	Appraisal of foreign direct investment	13 <sup>th</sup> Law to Amend the Foreign Trade Law and the Ordinance on Foreign Trade.	Widen the appraisal of foreign direct investment in order to guarantee public order or the safety of the Federal Republic of Germany.	Cabinet discussion expected early 2008.	2008

## D. Increase Innovation and Technological Strengths

100.	Mobilise R&D investment; 6 billion euros programme for research and development	For projects that promise to have over-proportional leverage effect in creating more R&D investment by the federal states and industry, and so will have a great mobilisation effect on innovation. The greater part of the additional funds from the 6 billion euros programme will flow into measures under the Federal Government's High-Tech Strategy.	<ul style="list-style-type: none"> <li>▶ Mobilise additional R&amp;D investment by the federal states and industry.</li> <li>▶ Strengthen top level and cross-sectoral technologies.</li> <li>▶ Make the SME sector more innovative.</li> <li>▶ Increase the efficiency and international attractiveness of the German research system.</li> </ul>	In force. Statement of intent at the Cabinet session Meseberg in 2007 to increase the funds if necessary in accordance with economic development.	2006
101.	Mobilise R&D investment	<ul style="list-style-type: none"> <li>▶ Agreement between the Federal Government and the federal states on strategies to reach the 3 % target for research and development.</li> <li>▶ Present annual progress reports.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Increase R&amp;D investment.</li> <li>▶ Contribution by the Federal Government and the federal states to achieving the 3 % target.</li> </ul>	Decision by the Federal and State heads of government on 13.12.2006 and 19.12.2007.	2006
102.	Innovation and growth	Continue the "Council for Innovation and Growth".	Improve competitiveness.	First meeting 2006; fifth meeting planned for August 2008.	2006

## Strengthen Excellence, Individual Responsibility and Freedom in Research

103.	Excellence Initiative	With the Excellence Initiative the Federal Government and the federal states have set a particular focus on strengthening top level research at the universities. In October 2006 the decision was taken on the first round of promotion (2006–2010): 18 graduate schools, 17 excellence clusters and three future concepts from a total of 22 universities were approved. As a result of the selection process for the second round of promotion (2007–2011) 21 graduate schools, 20 excellence clusters and 6 future concepts will receive promotion.	Build up the most research-intensive universities in Germany to internationally outstanding centres.	Two promotional rounds now completed.	2006
104.	The Higher Education Pact	In accordance with their constitutional competences the Federal Government and the federal states are pursuing the following aims with the Higher Education Pact 2020: a) To ensure a sufficient supply of university places in the long term. Initially by 2010 more than 90,000 more students are to start a university course than in 2005; b) The efficiency of university research is to be strengthened. Programmed requirements to be introduced for research projects funded by the German Research Society overheads are to be 20 % of the promotion – to cover the indirect expenditure on the promotion.	<ul style="list-style-type: none"> <li>a) Increase the percentage of the relevant age groups at university.</li> <li>b) Increase excellence in university research.</li> </ul>	Agreement on the Higher Education Pact between the federal states and the Federal Government, signed by the heads of government on 14 June 2007; the agreement covers the first phase of promotion up to 31 December 2010 and is to be continued; measures will take effect from the winter semester 2007/2008.	2007



Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
105.	Pact for Research and Innovation	With the Pact for Research and Innovation the annual grants from the Federal Government and the federal states to the major scientific and research organisations (Max-Planck-Gesellschaft, Deutsche Forschungsgemeinschaft, Helmholtz Association of National Research Centres, Wissenschaftsgemeinschaft Gottfried Wilhelm Leibniz, Fraunhofer Gesellschaft) will be increased by at least 3 %.	Aim i.a. to intensify competition by concentrating on excellence, strengthening cooperation between organisations, securing excellence in research with internationally competitive recruits, using new and unconventional research approaches, improving the innovation balance sheet through greater cooperation with industry and problem-oriented technology transfer, and with greater use of research and development results.	After presentation of the interim reports by the organisation in summer 2007 if necessary conclusions to be drawn regarding the 2007 Monitoring Report on the Pact; agreement on key data in preparation for the 2008 Monitoring Report.	2006–2010

#### Developing the High-Tech Strategy Further

106.	High-Tech Strategy	Agreement across policy fields on measures relevant for innovation policy in 17 high-tech sectors (e.g. nano- and bio-technology, ICT, mechanical engineering, environmental and energy technology, health) and on selected cross-sectoral themes; introduction of new incentive mechanisms for cooperation between research and industry, creation of framework conditions to stimulate innovation and support implementation and further development through the research union of business and science.	Make German industry more innovative; orient publicly funded research establishments more to practical application of results.	In force; 1 <sup>st</sup> progress report presented to the Cabinet in October 2007.	08/2006
107.	High-Tech Strategy - Strategic Partnerships	Establish and build up strategic partnerships with industry, e.g. OLED Initiative: Companies, research establishments and the Federal Government have agreed to invest a total of up to 500 million euros in the research and development of organic light diodes.	Improve innovation through closer cooperation between companies and universities and research establishments, and combine activities in promising technology fields where Germany has market leader potential.	In force.	Ongoing

108.	High-Tech Strategy – Research Premium	Introduce a research premium for universities financed jointly by the Federal Government and the federal states, and a “Research Premium II” for non-profit making research establishments that do not receive basic funding. This will provide an incentive for the universities and research establishments to mobilise more potentials for broadly based cooperation with industry. The premium will be given for completed R&D commissions from companies employing up to 1000 people.	Reduce structural deficits in universities and research establishments in cooperation with industry.	In force.	02/2007 and 10/2007
109.	High-Tech Strategy – Top Clusters Competition	The Top Clusters Competition will support the most efficient clusters of science and industry in increasing their international attractiveness and building up their position in global competition.	Increase the innovative strength of the most efficient clusters of science and industry.	Select up to five top clusters in the first round of the competition in September 2008.	08/2007
110.	High-Tech Strategy – The Exchange Processes Competition	The competition on “Exchange Processes between Universities and Companies”, that is being held in cooperation with the Association of Foundations for German Research (Stifterverband für die Deutsche Wissenschaft), will reward outstanding examples of mutual cooperation between universities and companies.	Networking research and industry.	In force.	09/2006
111.	High-Tech Strategy – ZIM	Introduce a central innovation programme for SMEs, ZIM, to combine and slim down previous programmes and increase transparency for SMEs.	Create more manageable structures in promotion for innovative SMEs; at the same time strengthen programmes with critical mass.	Concept presented.	Mid-2008
112.	High-Tech Strategy – Centralised consultancy on “Promotion for Research and Innovation”	Build up an inter-ministerial consultancy office on Federal technology promotion programmes.	Improve the supply of consultancy for present and potential recipients of technology promotion.	Draft contracts and ministerial agreement in November 2007.	Early 2008
113.	High-Tech Strategy – EXIST Research Transfer	A module EXIST Research Transfer is to be added to the EXIST “Hive-Offs from Research”-programme to enable ideas generated in scientific research to be implemented in new businesses and marketed.	Improve the transfer of knowledge and technology through hive-offs from research.	In force.	November 2007
114.	High-Tech Strategy – The Innovative SME	“The Innovative SME” is to make it easier for SMEs to obtain research promotion under specialised programmes, especially when presenting their first application, with regular dates for tenders and simplified application procedures.	Increase the innovation potential of small and midsize firms.	So far the appropriate offers of promotion have been realised for 5 major themes.	08/2007

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
115.	High-Tech Strategy – PVAs	Further developing patent utilisation agencies (PVAs) at universities and research establishments.	The Federal Government is working with universities and industry on a concept to promote invention and patent utilisation from 2008; the aims are to increase specialisation on promising fields and networking without losing the regional reference.	Ongoing coordination.	
116.	High-Tech Strategy – Standardisation	Implementing the German standardisation strategy through the project "Innovation with Norms and Standards".	To open up new aspects of standardisation in various technology fields since 2006 67 norms and standardisation projects have been started with the support of the German Standards Institute (Deutsches Institut für Normung – DIN).	Ongoing implementation.	
117.	High-Tech Strategy – Civil Security Research Programme	Research for Civil Security Programme in which research, law-making, drafting regulations, international cooperation and procurements for civil security are treated as a single context.	<ul style="list-style-type: none"> <li>▶ Secure freedom through research.</li> <li>▶ Combine the contributions from technology, natural sciences, the humanities and the social sciences for "Greater Security for People".</li> <li>▶ Open up the growing market for security solutions.</li> </ul>	Cabinet decision, EU notification made.	11/2007
118.	High-Tech Strategy – Nano Initiative 2010	Inter-ministerial action frame that combines the aims and approaches for action in nano technology. This action plan ranges from research and innovation promotion, through support for SMEs to shaping the framework conditions. Responsible handling of technology and comprehensive dialogue with the public are other central elements (Federal Ministry of Health).	<ul style="list-style-type: none"> <li>▶ Improve competitiveness.</li> <li>▶ Strengthen Germany as a research location.</li> <li>▶ Act as driving force for innovation in Europe.</li> </ul>	Cabinet decision.	2007
119.	High-Tech Strategy – Health research and medical technology	Innovations in health research and medical technology that will encourage safe and healthy lifestyles will be promoted, especially with new disease-related competence networks, integrated research and treatment centres, clinical studies and the Medical Technology Action Plan.	<ul style="list-style-type: none"> <li>▶ Incorporate research results as quickly as possible into health care and so benefit patients.</li> </ul>	In force.	

120.	High-Tech Strategy – Biotechnology	Innovations in biotechnology for a safe and healthy lifestyle will be promoted, taking account of the European Commission's Biotechnology Strategy. A new emphasis is on further strengthening the pharmaceutical branch with networks and strategic partnerships in biotechnology (Pharma Initiative).	To incorporate the results of research into health care as quickly as possible and so benefit patients.	In force.
121.	High-Tech Strategy – Plants	In the innovation field of plants firstly promotion of genetic research for plant cultivation has been further developed, especially through increasing international cooperation. Secondly, the promotion of research in regenerative raw materials for material and energy use has been increased and a competition-oriented promotional measure announced to concentrate agricultural and foodstuffs research and development capacities in Germany.	To accelerate the build up of a knowledge-based bio industry in Germany, achieve the European lead in plant biotechnology and plant cultivation by 2015; increase the share of regenerative raw materials by 2015; expand the use of renewable and regenerative raw materials in the chemical industry and as energy.	Promotional measures in force or planned.
122.	High-Tech Strategy – Air Traffic Research	Air traffic research programme; promotion of technology projects in industry-directed research associations.	Increase innovation by the German air industry, form efficient networks of research and industry.	Introduced by the Promotion Directive; 1 <sup>st</sup> round of tenders completed in 2006; tenders for integrated technology projects completed in 2007; research associations to run 2007–2010; 200 million euros in 1 <sup>st</sup> round of tenders and integrated technology projects.
123.	High-Tech Strategy – Transport Research Programme	<ul style="list-style-type: none"> <li>▲ Intelligent logistics.</li> <li>▲ Mobility for people in the 21<sup>st</sup> century.</li> <li>▲ Intelligent infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>▲ Increase efficiency in transport.</li> <li>▲ Ease traffic problems and pollution.</li> <li>▲ Ensure mobility.</li> </ul>	Early 2008
124.	High-Tech Strategy – Space Technologies	Promote specific projects: <ul style="list-style-type: none"> <li>▲ Terrasar earth observation system.</li> <li>▲ Galileo European satellite navigation system.</li> <li>▲ Data transmission through laser terminals (LCTs).</li> <li>▲ Participation in the ISS international space station.</li> </ul>	Build up lead for the German space industry in technology and systems.	

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
<b>The Information Society and Telecommunications</b>					
125.	Broadband Strategy	<p>Bundle of measures (selection):</p> <ul style="list-style-type: none"> <li>▶ Broadband Portal (<a href="http://www.zukunft-breitband.de">www.zukunft-breitband.de</a>) and "Broadband Atlas" (<a href="http://www.breitbandatlas.de">www.breitbandatlas.de</a>).</li> <li>▶ Provision of frequencies for broadband radio services.</li> <li>▶ Provision of information as help to self-help for municipalities so far undersupplied: how to receive state funding without infringing European competition rules, and what possibilities are already available for financial promotion.</li> <li>▶ Pilot project "Broadband for municipalities not yet linked up": Six problem municipalities are to be chosen to show how local councils can close gaps in supply.</li> <li>▶ Promotion for broadband in rural areas under the Joint Task "For the Improvement of the Agricultural Structure and Coastal Protection" (GAK).</li> <li>▶ The results will be published in spring 2008.</li> <li>▶ Set up a working group for national broadband coverage to test approaches to solutions and work out recommendations (i.a. in cooperation with the federal states, telecommunications confederations and industry).</li> </ul>	Closing broadband gaps.	Working groups and pilot project were started in 2007; results expected in 2008.	
126.	High-Tech Strategy – IT Summits	National IT summit process with 220 top representatives of industry, politics and research. Subjects at the 2nd IT summit in December 2007: "The ICT of the Future", "The Community in the Digital World", "Recruits and Skilled Personnel in the ICT Sector", and "Confidence in the Digital World".	Strengthening Germany as an ICT location through cooperation between the state, industry and research.	First IT summit on 18 December 2006 in Potsdam; second on 10 December 2007 in Hanover; the IT summit process will be continued.	
127.	High-Tech Strategy – ID 2010	Federal Government action programme: "Germany the Information Society 2010" (ID 2010); as part of the Federal Government's High-Tech Strategy to be implemented by a high-ranking ministerial working group taking account of the national IT summit processes.	Strategic Federal Government programme in ICT policy for the current legislative period.	In force.	11/2006
128.	High-Tech Strategy – ICT 2020	ICT 2020 research programme: The research promotion will be directed to areas of application that are strong in Germany and in which innovations are largely ICT driven. Beside the ICT industry itself these are automotive construction, mechanical engineering, medicine, logistics and energy. Part of "Germany the Information Society 2010" (ID 2010).	<ul style="list-style-type: none"> <li>▶ Firm and increase Germany's technological lead in ICT.</li> <li>▶ Secure and increase Germany's competitiveness as a location for production and jobs both sectorally and cross-sectorally.</li> <li>▶ Strengthen the quality of research, science and techno-</li> </ul>	In force.	

		logical development and build up the role of German ICT research as an international partner and competitor. ▶ Create the bases for maintaining and increasing the number of jobs.	
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**E. A Future-Oriented Energy Policy and the Use of Resources**

129.	Energy and Climate Programme	Integrated energy and climate programme.	<p>Package of measures, especially</p> <ul style="list-style-type: none"> <li>▶ On law-making.</li> <li>▶ On reaching the Federal Government's energy and climate policy targets.</li> <li>▶ On the national implementation of the decisions by the European Council of 09.03.2007 on climate protection, energy efficiency and the expansion of the renewable energies (reducing greenhouse gas emissions in Germany by 2020 by at least 40 % from the 1990 level by 2020, increasing the share of renewable energies in primary energy consumption in the EU to 20 % by 2020, increasing energy efficiency in the EU by 20 % by 2020 from the trend).</li> </ul>	<p>Cabinet decision December 2007 and May 2008.</p> <p>From 2008 depending on each measure</p>
130.	Energy Research	Strengthen energy research (innovation campaign "Energy for Germany"): Investment totalling 2 billion euros between 2006 and 2009 in new energy technologies, and so a contribution to innovation, technical progress, climate protection, growth and employment.	<ul style="list-style-type: none"> <li>▶ A secure, economical and climate-compatible energy supply is inconceivable without the modern energy technologies.</li> <li>▶ New technologies must be prepared through research and development.</li> </ul>	<p>In force.</p> <p>2006</p>
131.	Energy Efficiency	Work out a research strategy on energy efficiency: The way will be prepared for future energy-efficient, climate-compatible and secure energy supplies through the next generation of basic research.	<p>The Federal Government's aims to double energy productivity and increase energy efficiency by 3 % a year are to be made achievable through the development of highly efficient, intelligent and interactive energy conversion and consumption systems.</p>	<p>In force.</p>

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
132.	High-Tech Strategy – Climate Protection	The High-Tech Strategy for climate protection by research, industry and policy jointly shows that climate protection and the requirements of a modern industrial society are compatible.	Improve competitiveness, strengthen German technology.	In force.	
133.	Master Plan “Environmental Technologies”	The Master Plan “Environmental Technologies” promotes research into basic sciences and their application, with the comprehensive use and national and international distribution of environmental technologies, i. a. through promoting top level research by SMEs, setting up innovation platforms and with research marketing measures.	<ul style="list-style-type: none"> <li>▶ Further improvement to the conditions for new environmental technologies.</li> <li>▶ Identify and open up key markets for German industry in selected areas like hydro-technology and climate protection.</li> </ul>	Partly being implemented, partly in preparation.	
134.	Emissions Trading: National Allocation Plan (NAP) 2008–2012	Implement the market economy instrument of emissions trading: The total quantity to be allocated and the allocation rules will be laid down for the 2008-2012 trading period, and at the same time conditions for investment created that can be calculated for the long term. The fierce international competition in some branches is taken into account.	Cost-efficient reduction of CO <sub>2</sub> emissions by companies obliged to trade emissions, investment in efficient and environmentally-friendly plant.	Implemented by the Allocation Law 2012.	In force August 2007; European Commission finally confirmed regulations in October 2007.
135.	Cost-efficient Climate Protection	Clean Development Mechanism/Joint Implementation Initiative to be implemented as an element in the partnerships between the Federal Government and German industry. Other measures planned as part of this initiative: <ul style="list-style-type: none"> <li>▶ Further develop the legal and institutional bases in Germany.</li> <li>▶ Avoid specific project risks.</li> <li>▶ A financial contribution from the Federal Government Marketing activities.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Achieve climate protection at favourable cost on corporate level (EU emissions trading).</li> <li>▶ Improve competitiveness and open up foreign markets for innovative climate protection technologies on all levels (esp. industry and energy supplies/energy efficiency and renewable energies).</li> </ul>	In preparation.	
136.	Law on Bio-Fuels Ratios	Law on Bio-Fuels Ratios: Sellers of fossil fuels for transport (petrol or diesel) are obliged to sell a minimum amount laid down by law of bio-fuels (ratio). The bio-fuels used to fulfil the requirement are subject to the full rate of energy tax.	Increase the share of bio-fuels to 8 % (in relation to the energy content) by 2015.	In force.	01.01.2007
137.	8 <sup>th</sup> Amendment to the BImSch Law	This amendment is to achieve a further replacement of fossil fuels with bio-fuels. The share of bio-fuels which traders must sell will be fixed from the year 2015 as a net climate protection contribution (decarbonisation). The energy ratios applying till the end of 2014 will be replaced by the obligation to reduce greenhouse gases.	The contribution to climate protection to be made through the use of bio-fuels will be increased from 5 % in 2015 in stages to 10 % from 2010.	Draft law decided by the Federal Cabinet on 05.12.2007.	



138.	Renewable Energies – Amendment to the Renewable Energies Law	Limit the effects of promoting the increase in renewable energies in the electricity market through the Renewable Energies Law to electricity-intensive companies and the rail network. Pass the government draft of a new version of the law, i.a. with higher aims.	Secure economical and environmentally-compatible energy supplies; relieve electricity-intensive companies and the railways. Further continuous expansion of renewable energies in the electricity sector.	Draft law decided by the Federal Cabinet on 14.06.2006; experience report passed on 07.11.2007; draft of new version passed on 5.12.2007.	01.12.2006
139.	Market Incentive Programme on Renewable Energies	Promote solar panels and modern wood heating with grants; promotional rates regularly adjusted to steer market development. 2007: 160,000 measures promoted with an investment volume of 1.7 billion euros. Government draft of a Renewable Energies in Heating Law passed (cf. Serial No. 147).	Reduce dependence on imported energy, ease strain on climate and raw materials, strengthen regional value created and create permanent jobs.	Current programme.	New promotional directives in force since 20.01.2007.
140.	German Biomass Research Centre Leipzig (DBFZ)	Initiative to concentrate research and development in the use of agricultural and forestry biomass for energy i.a. as bio-fuels.	Increase technical progress in the use of regenerative raw materials for energy as bio-fuels, strengthen rural regions and optimise existing biomass potentials; contribute to climate protection and secure energy supplies.	Set up the DBFZ (gGmbH i. G.); research work commenced on 01.01.2008.	01.01.2008
141.	Export Initiative Energy Efficiency	Support for SMEs in the energy-efficiency branch with the instruments of foreign trade promotion to help them open up export markets.	<ul style="list-style-type: none"> <li>▶ Increasing the export ratio of energy-efficiency products makes domestic industry more competitive.</li> <li>▶ Falling costs for these products can be expected from export-induced increases in production.</li> <li>▶ Value creation in Germany will be strengthened and jobs created.</li> <li>▶ Spreading German technology abroad helps climate protection.</li> </ul>	Ongoing measure; no deadline.	

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
142.	Export Initiative Renewable Energies	Support for SMEs in the renewable energies branch with the instruments of foreign trade promotion to help them open up export markets.	<ul style="list-style-type: none"> <li>▶ Increasing the export ratio of renewable energies makes the domestic renewable energies industry more competitive.</li> <li>▶ Falling costs for renewable energies products can be expected from export-induced increases in production.</li> <li>▶ Value creation in Germany will be strengthened and jobs created.</li> <li>▶ Spreading German renewable energies technology abroad helps climate protection.</li> </ul>	Ongoing measure; no deadline	
143.	Increase Resource Efficiency	Initiative to increase resource efficiency; provide incentives to increase resource productivity. The potentials for saving energy and material in various branches will first be assessed.	Reduce the input of material and increase recycling rates for selected materials.	Branch dialogues are currently being held to identify potentials, obstacles and points to start increasing efficiency in the steel, copper, construction and housing sectors and in information and communications technology.	
144.	Set Up "Resource Efficiency Network"	Set up "Resource Efficiency Network".	Improve the exchange of information; increase energy and raw materials productivity in Germany (build up an information platform).	Prepare pilot projects to develop concepts on advanced vocational training on resource efficiency; build up a data bank on efficiency technology.	Established in March 2007
145.	Eco Design and Energy Consumption Marking	<ul style="list-style-type: none"> <li>▶ Eco design of electrically operated products; use the European Top Runner approach.</li> <li>▶ Increase the market share of ecologically advantageous appliances (energy-saving light bulbs, energy-efficient household appliances).</li> <li>▶ Mark the energy consumption on more tools and appliances and bring the existing marking up to date.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Increase energy efficiency.</li> <li>▶ Reduce strain on the environment (air pollution, water consumption etc.).</li> </ul>	The first measures to implement the ECO-Design Directive are currently being negotiated on European level. Bringing the European marking up to date is to run parallel.	2008, 2009

146.	Promotion of Environmental Technologies	<ul style="list-style-type: none"> <li>▶ Promotion of environmental technologies.</li> <li>▶ Implementing the EU plan of action for environmental technologies with complementary national measures (cf. national road map).</li> </ul>	Remove the obstacles to researching, developing and spreading environmental technologies; utilising the positive effects of environmental technologies to improve environmental protection, growth and employment.	Continue the national road map to January 2009.	Ongoing
147.	Increase the share of renewable energies in heating	Pass the government draft of a law on renewable energies in heating.	Reduce dependence on imported energy, ease strain on climate and raw materials, increase regional value creation and create secure jobs.	Cabinet decision of 05.12.2007.	
148.	High-Tech Strategy – Innovation Programme on Hydrogen and Fuel Cell Technology	The “National Innovation Programme on Hydrogen and Fuel Cell Technology” (NIP) is a long-term programme with the aim of considerably increasing application-oriented research and development activities in the field of hydrogen and fuel cells with a view to their use in transport and buildings in conjunction with major demonstration projects.	The NIP is the third long-term pillar in the implementation of the fuels strategy. It is making a major contribution to securing future energy supplies in the housing and mobility sectors.	In force.	
149.	Include a CO <sub>2</sub> component in passenger car vehicle tax	A CO <sub>2</sub> component in vehicle tax for newly registered passenger cars and a flanking regulation on old vehicles are to become part of the integrated energy and climate programme by 2020. The federal ministries responsible have already agreed on key points.	It was agreed in the Coalition Treaty that incentives are to be created for energy-efficient drives through a vehicle tax oriented to CO <sub>2</sub> and other harmful emissions.	In preparation.	
150.	Amendment to the Energy Saving Ordinance	Amendment to the Energy Saving Ordinance (EnEV 2007) with the introduction of the energy certificate for existing buildings as well; additional energy requirements for lighting and air-conditioning plant in non-residential buildings.	Increase energy renovation of existing buildings; increase energy efficiency and climate protection in buildings.	In force.	01.10.2007
151.	Energy Efficiency in Buildings – EnEV Amendment 2009	<p>The EnEV Amendment 2009 will make the energy requirements in new and old buildings on average 30 % more stringent. Other key points in the amendment are:</p> <ul style="list-style-type: none"> <li>▶ Extend individual requirements for ex post fittings in plant and buildings, increase implementation by intensifying private certification requirements.</li> <li>▶ Regulations on gradually eliminating night storage heaters.</li> <li>▶ Aim to introducing uniform regulations on fines for failure to observe requirements for new and old buildings.</li> </ul>	Increase energy efficiency in buildings.	Ministerial draft to be presented in April/May 2008.	By 01.01.2009

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
152.	Increase energy efficiency in buildings and revive the construction industry	<ul style="list-style-type: none"> <li>▲ Increase the volume of promotion for the energy renovation of buildings to reduce energy consumption and CO<sub>2</sub> emission.</li> <li>▲ Come closer to the target of the energy renovation of 5 % of pre-1978 buildings a year; promoted measures to stimulate investment of 28 billion euros, i.a. helping small and midsize building firms.</li> <li>▲ This programme consists of a promotional part, a tax part and energy renovation measures in federal buildings. The promotional part (loans at reduced interest rates and since 01.01.2007 grants as well) totals around 1 billion euros a year and is handled by KfW Förderbank.</li> </ul>	Increase energy efficiency in buildings and help the revival in the construction industry; secure or strengthen employment in construction.	In force.	Loans: 01.02.2006 Grants: 01.01.2007
153.	Energy Policy Dialogue	The Federal Government is continuing the dialogue with India, China, Brazil, Russia, Norway, and with Algeria, Libya and Ukraine, Turkey and other countries. Dialogues with countries in the Caspian Sea region, like Azerbaijan and Kazakhstan, have been started.	Deepen energy policy cooperation	Country-specific.	Country-specific

### F. Social Security Systems to Withstand Demographic Change

154.	Raising the retirement threshold	The standard retirement threshold in statutory pensions insurance is to be raised for those born in 1947 and after from 65 to 67 from 2012.	Long-term stabilisation of the level of benefits and the contribution rates to statutory pensions insurance; target for the rates: 2020: not above 20 % 2030: not above 22 % Target for level of benefits (before tax): 2020: not below 46 % 2030: not below 43 %.	Announced on 30.04.2007 (BGBl. I, p. 554).	01.01.2008
155.	Strengthen supplementary pension provision with capital cover	<ul style="list-style-type: none"> <li>▲ Prolong exemption from social insurance contributions for payments out of wages or salaries into an occupational pension plan beyond 2008.</li> <li>▲ Reduce the statutory validity period for occupational pension plans financed by the employer from 30 to 25 years.</li> <li>▲ Tax regulations to flank the reduction in the validity period under labour law.</li> <li>▲ Increase the child allowance in private pension plans promoted with tax concessions (the patchwork pension) for children born from 1 January 2008 from 185 euros to 300 euros a year.</li> </ul>	<ul style="list-style-type: none"> <li>▲ Increase in private pension provision and occupational pension plans.</li> </ul>	Points 1-4: Implemented under the Law to Promote Supplementary Pension Provision and to Amend the Third Book of the Social Code of 10.12.2007 (BGBl. I, p. 2838).  Point 5: In preparation.	Points 1 to 30: 01.01.2009  Point 4: 01.01.2008

156.	Pensions Adjustment	<p>► The Coalition Treaty also provides for the better integration of the promotion of home ownership into promoted pension provision.</p> <p>Modify the protection clause in pensions adjustment (compensation from 2011 where adjustment reductions were not realised since 2005).</p>	<p>Help to achieve the targets for contribution rates and to secure the level of benefits;          Contribution rates target:          2020: not above 20 %          2030: not above 22 %;          target for level of benefits (before tax):          2020: not below 46 %          2030: not below 43 %.</p>	In force.	01.03.2007
157.	Education Campaign on Saving for Retirement	<p>Education campaign "Saving for Retirement is Top of the Class": Courses at adult education colleges throughout Germany on saving for retirement, offered by neutral organisations and product-independent. Around 1,000 courses at about 500 colleges mainly for the age group 30 to 45.</p>	<p>As people are increasingly taking responsibility themselves for their pension provision this campaign focuses on the age group 30 to 45; in a 12-hour course they are given detailed information on saving for retirement to enable them to take the appropriate steps.</p>	In force.	01.02.2007
158.	Ensuring and improving medical care	<p>Liberalise the legislation on registered medical practitioners and make it more flexible through amendments to the law on contracts with medical practitioners i.a.</p> <ul style="list-style-type: none"> <li>► Admission of local and regional occupational groups of all providers registered as medical practitioners.</li> <li>► Easier appointment conditions for doctors in ambulatory care, enabling better combination of a family and a career.</li> <li>► Total abolition of the age threshold for registration as medical practitioner and for retirement as medical practitioner in under-supplied planning areas.</li> </ul>	<ul style="list-style-type: none"> <li>► Improve medical care.</li> <li>► Avoid bottlenecks in supply, especially in the new federal states.</li> </ul>	In force.	01.01.2007

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
159.	Increase competition in the statutory health service	<p>Law to Strengthen Competition in the Statutory Health Service:</p> <ul style="list-style-type: none"> <li>▶ Comprehensive insurance for everyone through introduction of general obligatory insurance.</li> <li>▶ Better range of choice for the insured (e.g. between different forms of supply, rates for patient contribution and reimbursement method).</li> <li>▶ New scale of fees for registered medical practitioners to accord with performance.</li> <li>▶ Gradual increase in the Federal grant to co-finance services not covered by the insurance.</li> <li>▶ Set up a health fund with risk structure compensation oriented to mortality rates.</li> <li>▶ Improvements in interface management and the transitions in the supply system (integrated medical care).</li> <li>▶ More economical supply of drugs.</li> <li>▶ Debt-free statutory health institutes.</li> <li>▶ Reorganisation of the association structures for the health insurance institutes.</li> <li>▶ Reduce bureaucracy.</li> <li>▶ Improve services for the insured (change "can provide" into "must provide", increase rehabilitation and palliative care, nursing homes).</li> <li>▶ Reform private health insurance.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Increase efficiency in health care through more competition and structural reforms.</li> <li>▶ Ensure financial sustainability of the system taking account of the demographic change and medical progress.</li> <li>▶ Improve the quality of medical care.</li> <li>▶ For justification see note to Item 1405.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Reform of doctors' fees decided; gradual implementation by 2011.</li> <li>▶ Federal association set up.</li> <li>▶ A single contribution rate set by the Federal Government for 01.11.2008 with effect from 01.01.2009.</li> <li>▶ Mortality-oriented risk structure compensation in preparation.</li> </ul>	Gradually from 01.04.2007
160.	Increase preventive health care	<p>Increase primary preventive health care and health promotion through a prevention law.</p>	<p>Reduce the prevalence of chronic diseases, prevent early retirement, maintain ability to work of patients, avoid or reduce need for nursing care.</p>	In preparation.	
161.	Electronic Patients Card	<p>Introduce an electronic patients card and build up a telematics infrastructure:</p> <ul style="list-style-type: none"> <li>▶ Issue a forgery-proof electronic patients card that contains information entitling the holder to treatment in other EU member states as well; the card to contain both compulsory and voluntary information.</li> <li>▶ Online transmission of prescription data (obligatory).</li> <li>▶ Issue an emergency data set (voluntary).</li> <li>▶ Issue a medication therapy security test (voluntary).</li> <li>▶ Enable doctors' letters to be sent online (voluntary).</li> <li>▶ Create electronic patients records (voluntary).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Extending the current health insurance card to an electronic patient's card will create the technical base for a general and cross-sectoral IT infrastructure in the health service which everyone involved in the treatment process can use in the interests of the patients.</li> </ul>	<p>The test projects were started at the end of 2006 on the basis of:</p> <ul style="list-style-type: none"> <li>▶ the Law to Modernise the Statutory Health Insurance System,</li> <li>▶ the Law to Establish a Telematics Organisational Structure in the Health Service and</li> </ul>	<p>23.06.2005</p> <p>09.11.2005</p>

03.10.2006

▶ the Ordinance on tests to introduce the electronic patients card and continue this ordinance.

The projects will be extended regionally and functionally on the basis of the migration plan. They will create the technical and logistical conditions for the health insurance institutes to start issuing the electronic patients cards throughout Germany from the end of 2008.

▶ Top level standards in data protection mechanisms will optimise the information and communications processes for those involved in the health service.

▶ The use of technology will improve the quality and efficiency of medical care while further reducing misuse of claims to treatment.

▶ The rights of recourse and the need for the agreement of the insured will help to increase patients' rights to information and decision-making.

▶ Establishing an IT infrastructure in the health service will create the technological basis for more services in the interests of the patients.

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
162.	Reform of Care Insurance	<ul style="list-style-type: none"> <li>▶ Gradual increase in ambulatory and hospitalised care dynamisation of services.</li> <li>▶ More services for people with limited ability to perform normal tasks and include people on Care Stage O.</li> <li>▶ Create care bases.</li> <li>▶ Individual claims to comprehensive care consultancy (case management).</li> <li>▶ Improve the framework conditions, especially for new forms of residence with shared services.</li> <li>▶ Extended scope for the use of the individual care insurance card.</li> <li>▶ Improve day and night care.</li> <li>▶ Increase the promotional funds to increase the supply of low-threshold care and for honorary structures and self-help in the nursing sector.</li> <li>▶ Introduce care time for persons in employment.</li> <li>▶ Increase prevention and rehabilitation in care.</li> <li>▶ Increase quality control and transparency.</li> <li>▶ Support commitment across generations.</li> <li>▶ Reduce interface problems, promote economy and de-bureaucratisation.</li> <li>▶ Strengthen individual provision.</li> <li>▶ Increase the contribution rate by 0.25 percentage points.</li> <li>▶ Make provision for old age transferable, in obligatory private care insurance as well.</li> </ul>	<p>The reform is intended to firm care insurance for the future and help its further development</p> <p><b>Aims:</b></p> <ul style="list-style-type: none"> <li>▶ Even better orientation of care insurance to the needs and wishes of people needing care and their relatives, especially to support and promote domestic care structures on the principle "ambulatory before hospital care".</li> <li>▶ Retain care insurance as an independent branch of social security.</li> <li>▶ Ensure security against the risk of needing care in future, too, and a fair distribution of the loads within society.</li> <li>▶ The model for care insurance is now and will be in future care that sustains human dignity.</li> </ul>	<p>Draft of a law to develop the structure of care insurance further (Care Development Law).</p> <p>Federal Government draft of 17.10.2007; BR Drs. 718/07).</p>	01.07.2008

## G. Sustainable Public Budgets for the Future

### Budget Consolidation

163.	Budget consolidation	Increase the standard rates of turnover tax and insurance tax by 3 percentage points, of which 1 percentage point will be used to lower the contribution rate to unemployment insurance.	Regain scope for action.	Law to Accompany the Budget of 29.06.2006.	
164.	Reduce subsidies	Evaluate the 20 largest tax concessions in regard to efficiency and effectiveness.	Reduce subsidisation, increase efficiency.	Research report commissioned from outside experts, planned conclusion: autumn 2008.	



165.	Budget consolidation	<p>Federal Government measures:</p> <ul style="list-style-type: none"> <li>▶ Reduce net Federal borrowing from 27.9 billion euros in 2006 to 11.9 billion euros in 2008.</li> <li>▶ Further continuous reduction in net borrowing to zero in 2011.</li> <li>▶ Aim: an overall structurally balanced budget in 2010.</li> </ul>	<p>Federal Government's contribution to consolidating the overall public budget: reducing the structural deficit in the current programme period (2007 to 2011) by ½ percentage points on average for the year.</p>	<p>Decisions by the FMK of 25.05.2007 and the Fiscal Planning Council of 20.06.2007.</p>
<b>Federalism Reform</b>				
166.	Federalism Reform I – Modernising the Federal Structure	<p>Amend the Basic Law and issue a complementary law to federalism reform to implement the amendments in general law.</p> <p>Main reform measures:</p> <ul style="list-style-type: none"> <li>▶ Strengthen the law-making competences of the Federal Government in areas of national importance and of the federal states in regional matters.</li> <li>▶ Repeal framework law-making through an appropriate division of the issues assigned to this type of competence between the Federal Government and the federal states.</li> <li>▶ Reduce mutual blocking by reducing the number of laws requiring approval.</li> <li>▶ Increase the scope for strategic cooperation between the Federal Government and the federal states in education and research.</li> <li>▶ Reduce mixed financings.</li> <li>▶ Anchor the National Stability Pact in the Basic Law; introduce distribution of any fines for infringement of the European Stability and Growth Pact between the Federal Government and the federal states in a ratio of 65 to 25 percent.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Improve action and decision-making for the Federal Government and the Federal States.</li> <li>▶ Achieve a better assignment of the political competences and make the performance of tasks more purposeful and efficient.</li> </ul>	<p>In force.</p> <p>01.09.2006</p>

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
167.	Federal Reform II	<p>A joint commission set up by decision of the German Parliament and the Upper House on 15.12.2006 to modernise Federal/State fiscal relations. Its task will be to put forward proposals to adjust these relations to the changed framework conditions within and outside Germany.</p> <p>Reform themes:</p> <ul style="list-style-type: none"> <li>▶ Prevent budget crises and cope with them.</li> <li>▶ Reform the regulations on borrowing.</li> <li>▶ Improve the efficiency of the tax administration.</li> <li>▶ Improve the performance of state administrative tasks; make a critical assessment of the tasks and set standards.</li> <li>▶ Reduce bureaucracy and increase efficiency, i. a. by separating tasks within the public administration.</li> <li>▶ Increase cooperation and possibilities for easier voluntary association between federal states.</li> </ul>	<p>The proposals are to lead to greater individual responsibility for the territorial authorities and strengthen their finances for the better performance of their tasks.</p> <p>Important aims are:</p> <ul style="list-style-type: none"> <li>▶ Improve the institutional conditions for sustainable public budgets for the Federal Government and the federal states with regulations to cut back state borrowing and a procedure to prevent budget crises.</li> <li>▶ Increase the efficiency of the performance of state tasks with comprehensive modernisation of the administration and a critical assessment of tasks to meet the growing expectations in the general public and companies that the administration must be service-oriented, of high quality, quick and economical.</li> </ul>	<p>The aim is to implement the reform by the end of the legislative period in 2009.</p>	

## H. Economic Policy in the European and International Context

168.	Framework conditions in foreign trade	<ul style="list-style-type: none"> <li>▶ The Federal Government is working to open markets worldwide for goods and services and develop the world trade rules in the WTO.</li> <li>▶ Its aim is to strengthen the trade policy instruments that protect against unfair trading practices and so strengthen international competition.</li> <li>▶ It is also working for reforms to the EU general preference system and the preferential rules on origin as appropriate to business and growth while maintaining the greatest possible continuity.</li> <li>▶ The export credit guarantees and investment guarantees will be maintained, particularly to support the technology-oriented export industry in opening up difficult markets in developing countries and newly industrialised countries; SMEs should have rapid access to the Federal guarantees.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Ease the burden on companies.</li> <li>▶ Support companies on foreign markets.</li> </ul>	<p>Ministerial draft end 2008.</p> <p>Ongoing.</p>	<p>Ongoing</p>
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		<ul style="list-style-type: none"> <li>▶ Slim down the Foreign Trade Law and the Ordinance on Foreign Trade in order to make them more manageable and easier to apply.</li> <li>▶ Accelerate and de-bureaucratise the decision-making processes for export credit guarantees.</li> <li>▶ Widen the bilateral investment promotion and protection agreements and the Federal guarantees for foreign investment.</li> <li>▶ Continue the programme of foreign trade fairs on a high level, and from 2007 add a programme to encourage young innovative companies to take part in key international trade fairs in Germany in cooperation with the federal states, especially in the choice of the fairs.</li> <li>▶ Build up the German chambers of industry and commerce abroad in cooperation with German companies.</li> <li>▶ Improve the business-oriented offers by the Federal Agency for Foreign Trade (bfai).</li> <li>▶ A flanking SME-oriented policy on projects abroad.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Improve access to public orders in third countries and enable them to be handled smoothly.</li> </ul>
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**The Heiligendamm Process**

169.	The Heiligendamm Process	<p>A dialogue between the G8 and Brazil, China, India, Mexico and South Africa on key world economic issues (investment incl. CSR, innovation/IPR, energy efficiency and development/ Africa).</p>	<ul style="list-style-type: none"> <li>▶ Build up a global partnership to solve global challenges.</li> <li>▶ Balance the interests of industry and the newly industrialised countries.</li> <li>▶ Greater involvement of the big newly industrialised countries, which should share responsibility in political and economic global governance.</li> </ul>	<p>Interim reports for the G8 summit of heads of state and government in 07/2008 in Japan and the G8 summit in Italy in 2009.</p> <p>Reports to the Cabinet and Parliament as part of the usual reports after G8 summits.</p>
170.	Follow-Up to G8 Presidency	<ul style="list-style-type: none"> <li>▶ "Growth and Responsibility in Africa": sustained investment.</li> <li>▶ Support for the partnership "Making Finance Work for Africa".</li> <li>▶ Promotion of investment by German companies in Africa.</li> </ul>	<p>More involvement of German companies in Africa will make a positive contribution to sustained development (jobs, incomes, growth).</p>	<p>Africa Investment Day in December 2007 in Frankfurt; A number of events for SMEs in cooperation with business associations, December 2007 to February 2008.</p>

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
<b>Internationale Stabilität und Zusammenarbeit</b>					
171.	Conclusion of the Doha Development Round	The Federal Government will continue to work for an ambitious and balanced conclusion to the Doha Round.	Expand and strengthen the system of multilateral trade through further market opening, global gains in prosperity on the level of three-figure billion euros, better integration of developing countries in world trade and reform of the trade rules.	Negotiations ongoing, aim to conclude these by end 2008.	
172.	Follow-Up to EU/US Summit 2007 in Washington	The Transatlantic Economic Council was set up at the EU/US summit in 2007 with the aim of reducing non-tariff trade barriers - like different regulations and standards in transatlantic trade. High-ranking figures from both sides are members and the aim of the Council is actively to promote transatlantic cooperation in the non-tariff area. Concrete implementation proposals will be put before the annual EU/US summit. The Federal Government and German business support the work of the Council in all areas.	<ul style="list-style-type: none"> <li>▶ Cooperation on regulation, especially in               <ul style="list-style-type: none"> <li>-chemicals,</li> <li>- pharmaceutical industry,</li> <li>- automotive industry and</li> <li>- finance (accounting)</li> </ul> </li> <li>▶ Also improvement in economic cooperation in               <ul style="list-style-type: none"> <li>- protection of intellectual property,</li> <li>- safe trade,</li> <li>- financial markets,</li> <li>- investment,</li> <li>- innovation and technology,</li> <li>- procurements.</li> </ul> </li> </ul>	<p>The Transatlantic Economic Council meets twice a year, once directly before the annual EU/US summit.</p> <p>The European Commission reports regularly on progress and further work.</p>	
173.	Free trade agreements	<ul style="list-style-type: none"> <li>▶ EU concludes free trade agreements with South Korea, India and ASEAN.</li> <li>▶ Conclusion of more far-reaching free trade agreements between the EU and Russia and Ukraine.</li> </ul>	<ul style="list-style-type: none"> <li>- Clear improvement in sales chances for European and German exporters as markets are largely open; equal competition conditions restored after free trade agreements between these countries and EU competitors.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Free trade agreement with South Korea expected in first half 2008; end of negotiations with India and ASEAN not yet in sight.</li> <li>▶ Start of negotiations envisaged after Russia or Ukraine join the WTO.</li> </ul>	
174.	Integration of the African, Caribbean and Pacific (ACP) States in the world economy continues	The Federal Government supports economic partnership agreements with the ACP states in conformity with the World Trade Organisation. From 2008 interim agreements will first apply only to goods trade; comprehensive economic partnership agreement already made with the Caribbean region.	<ul style="list-style-type: none"> <li>▶ Strengthen global trade for the ACP states with better regional integration</li> <li>▶ through the reduction of intra-regional trade barriers and the establishment of regional trade rules and</li> </ul>	<p>From 01.01.2008 access to the EU markets almost free of customs duties and quotas on the basis of the economic partnership preferences or agreement.</p>	

		<p>► through the improvement of access for the ACP states to the EU market (and improvement in origin rules): EU grants market access almost free of customs duties and quotas on the basis of the interim agreement.</p>	<p>Negotiations proceeding in 2008 on comprehensive economic partnership agreements.</p>
175.	<p>Improvement in technical support and trade-related capacity expansion for developing countries</p>	<p>► Implement the EU "aid for trade"-strategy decided in 2007 and originally based on the Doha Round (aid to developing countries, multilateral regulations implemented).          ► Total volume 2 billion euros from 2010 through EU and its member states for trade-related and technical support as part of development cooperation.</p>	<p>Concrete implementation steps need to be started, European Commission and member states currently working on these and measures.</p>
176.	<p>Promotion of renewable energies and energy efficiency in developing countries</p>	<p>► "Sustained energy for development": A German development cooperation programme launched in 2002 at the world summit in Johannesburg; by 2007 one billion euros will have been provided (500 million euros for renewable energies and 500 million euros to increase energy efficiency).          ► Special facility for investment in renewable energies and energy efficiency in developing countries: Owing to heavy demand the original loan volume was doubled in 2007 (only two years after start): Loans at reduced interest rates to the amount of at least 1 billion euros will be available over five years; in addition, from 2008 the possibilities for use of the 4E-facility for Africa are to be extended. Under the Action Programme for Climate and Development 20 million euros a year will be used in grants.          ► Energy programmes are currently being promoted in 45 partner countries. The current projects have a volume of around 2.9 billion euros.</p>	<p>The total of 1 billion euros in new commitments promised under the Sustained Energy for Development Programme was already reached after three years.</p>
177.	<p>Debt relief initiatives</p>	<p>Debt relief:          ► up to 7 billion euros granted by the Federal Government under the Cologne Debt Relief Initiative (extension of the HIPC Initiative) and          ► about 3.5 billion euros under the Multilateral Debt Relief Initiative.          Better application of the framework for debt viability by the World Bank and the IMF to reduce the risks of renewed over-indebtedness by borrower countries.</p>	<p>3.6 billion euros in debt relief already granted under the HIPC Initiative.</p>

Serial No.	Measure	Description	Expected Impact	Implementation Stage	
				Status and Timetable	Comes Into Force
178.	Increase transparency in the extractive industries	Support the Multi-Stakeholder Initiative and the Extractive Industries Transparency Initiative (EITI) politically and financially and on the spot in the developing countries. The Federal Government alternates with France as a member of the Supervisory Council of the Initiative.	Greater transparency regarding the money flows induced by raw materials will make an important contribution to the better application of the principles of good governance and to combating corruption in raw materials producing countries.	The Federal Government is contributing 500,000 euros (2008-9) to the EITI Multi-Donor Trust Fund (set up at the World Bank). The EITI Secretariat in Oslo will receive 100,000 euros a year from Germany in 2007-2009. In a public private partnership with an international software company domiciled in Germany the Federal Government will contribute 1 million euros; there is also an EITI good governance component focus in Ghana.	

## Abbreviations


ACP	African, Caribbean and Pacific States
ASEAN	Association of South East Asian Nations
BA	Federal Labour Agency
bfai	Federal Foreign Trade Agency
BaFin	Federal Financial Services Supervisory Authority
BT-DS	Bundestags-Drucksache
CDM	Clean Development Mechanism
CO <sub>2</sub>	Carbon dioxide
CSR	Corporate Social Responsibility
EC	European Community
ECB	European Central Bank
EITI	Extract Industries Transparency Initiative
EIF	European Investment Fund
ERP	European Recovery Programme
ESF	European Social Fund
EU	European Union
EXIST	New businesses hived off from research
FSF	Forum for Financial Stability
G7/8	Group of leading industrial nations
GDP	Gross domestic product
GNP	Gross national product
ICT	Information and communications technologies
IEA	International Energy Agency
ILO	International Labour Organisation
IMF	International Monetary Fund
IT	Information technology
JG	Annual Report by the Council of Economic Experts
KfW	Kreditanstalt für Wiederaufbau
OECD	Organisation for Cooperation and Development
PISA	Programmes for International Student Assessment
PPP	Public private partnership
R&D	Research and Development
REITS	Real Estate Investment Trusts
SMEs	Small and midsize enterprises
WTO	World Trade Organisation

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