Federal Ministry of Economics and Technology Berlin, 5 November 2008

Federal Ministry of Finance

Securing Jobs by Strengthening Growth

Federal Government's Package of Measures

A. Objectives

In light of the worldwide slowdown in economic activity arising from the serious crisis on the global financial markets, the Federal Government considers the safeguarding of growth and employment on an ongoing basis to be a priority task.

Through the ***Package of Measures*** *to Reduce the Fiscal Burden, to Stabilise Social Insurance Expenditure and for Investment in Families* of **7 October 2008**, the Federal Government has already **extended relief of more than €6 billion** for 2009 and of almost **€14 billion** annually **for the years from 2010 onwards**. Child benefit and the tax-free child allowance will be increased and additional measures to support families will be introduced. Unemployment insurance contributions will again be reduced significantly to 2.8% in 2009 and 2010; compared with 2006, when the contribution rate still stood at 6.5%, we are reducing the burden on people and business by around €30 billion annually. This is an appropriate addition to the relief provided by the reform to business taxation that entered into force in 2008; this means there will be tax relief of €7 billion in 2009 alone. The oil and fuel price developments are currently having an ameliorating effect as well. Oil prices have declined substantially since reaching their peak in the summer of this year. The Federal Government expects that the lower prices in world energy markets will now be passed on speedily to consumers and businesses.

The package of measures to stabilise the financial markets that recently entered into force will safeguard the German financial system's stability and ability to function. This also creates a decisive precondition so that the necessary supply of liquidity and credit to trade and industry remains assured. This reinforces the financial foundations for investments that companies need to make and which are required to safeguard jobs. This is important to preserve people's and businesses' confidence in the social market economy.

The Federal Government's package of measures adopted today holds out the prospect of securing jobs and quickly overcoming the cyclical weakness.

In the spirit of **policy on growth that is responsive to the economic cycle**, the measures add up in the long term, can be implemented quickly and will take effect fast. They provide strong stimuli for public and private investments. The burden on people and business will be reduced, consumption will be rejuvenated and improvements in employment will be safeguarded.

The new measures will be embedded into a credible financing concept that stands by the objective of **budget consolidation** and fully accepts cyclically induced revenue shortfalls and extra spending. In light of the altered macroeconomic situation, it will not be possible to achieve a federal budget without new borrowing in 2011 as far as can be foreseen today. This does not mean the target has been abandoned; in fact, the Federal Government will do all it can to reach a federal budget without new debt at the earliest possible time.

In 2009 and 2010, the Federal Government's measures will stimulate investment and orders worth around €50 billion by companies, private households and local authorities. Furthermore, the measures to secure financing and liquidity for companies safeguard funding for investments of a good €20 billion. Together with the measures approved by the Cabinet on 7 October 2008, a total of around €32 billion will be made available in 2009 and 2010 alone from the public aggregate budgets.

B. Measures

I. Securing funding

(1) To safeguard the supply of credit to the economy and small and medium-sized enterprises in particular even though there are bottlenecks in the banking sector, the Kreditanstalt für Wiederaufbau (KfW) will create an **additional financing instrument with a volume of up to €15 billion**, temporarily in place until the end of 2009, through which the supply of credit from the private banking sector will be enhanced. In this context, the assumption of liability by the KfW of up to 80% and cover for the KfW's banking risk are planned. These will be backed up by a corresponding federal guarantee. The European Commission will be involved in these plans.

II. Stimulating investment

(2) The Federal Government will introduce a 25% rate of **declining-balance depreciation** for movable assets as of 1 January 2009, which will be temporarily in place for a period of two years.

(3) In addition to the declining-balance depreciation, the Federal Government will also extend for a period of two years the **special depreciation facilities for small and medium-sized enterprises (SMEs)** (by increasing the business asset thresholds and profit thresholds relevant in this regard to €335,000 and €200,000 respectively).

(4) The Federal Government wishes to stimulate additional investments in the energy efficiency of buildings and is therefore topping up the resources for the **refurbishment programme to reduce CO_2 emissions** and further measures by **€3 billion** for the period from 2009 to 2011. This covers the **adaptation of residential space to suit the needs of the elderly** promoted by the KfW within the framework of the Federal Government's initiative dealing with age as an economic factor, as well as the investment package of the Federation, *Länder* and municipalities for the energy efficient refurbishment of schools, nursery schools, sports facilities and other social infrastructures and large residential estates.

(5) To stabilise investment in important **infrastructure projects**, the KfW's infrastructure programmes for structurally weak **local authorities** will be **raised** by **€3 billion**. The terms of interest will be structured in a particularly favourable manner for a limited period in the process. The Federal Government calls on the *Länder*, through their supervisory control over the local authorities, to ensure that financially weak local authorities can access the programme.

(6) The Federal Government will implement **urgent investment in transport infrastructure** at an accelerated pace. To this end, an innovation and investment programme for transport will be established with a volume of €1 billion in both 2009 and 2010. This takes into account the innovation and investment programme for railways, as well as measures to mitigate noise, maintain and expand federal highways, and to maintain the structural fabric of waterways. In this way, targeted economic stimuli are being embedded in the Federal Government's lasting transport policy strategy.

Furthermore, road building projects that have already been identified as fundamentally suitable for a public-private partnership will be implemented at a more rapid pace where the projects are economically efficient. Further infrastructure projects – above and beyond road construction – are to be reviewed in terms of their suitability for PPP.

(7) From 1 January 2009, the Federal Government will increase funding for the Federation and *Länder*'s joint task of improving regional economic structures. Within the framework of a special programme for 2009, the Federation will make the one-off sum of €200 million additionally available to the *Länder*; of this figure, €100 million will be provide in cash and €100 million will be provided as commitment appropriations borne in the subsequent years.

III. Supporting adjustment – easing the burden on households

(8) The Federal Government will expand the **tax deductibility of tradesmen's services** for maintenance and refurbishment work and double the tax bonus to 20% of €6,000 (= €1,200) as of 1 January 2009. The Federal Government will evaluate the effectiveness of the improved deduction facility two years after it has entered into force.

In order to promote the development and widening use of ecologically efficient vehicles and simultaneously facilitate the process of adjustment for the **automotive industry**, the Federal Government will adopt the following measures:

- (9) For cars with a date of first registration after the Cabinet decision on the draft bill, the Federal Government will introduce an **exemption from motor vehicle tax** for one year, limited until 31 December 2010, in order to release pent-up demand until the changeover in motor vehicle taxation. In the case of vehicles fulfilling the Euro 5 and Euro 6 standards, the maximum motor vehicle tax exemption will be extended to two years from the date of first registration. In all cases, the motor vehicle tax exemption will end on 31 December 2010. At the same time, the Federal Government will rapidly press on with the **changeover in motor vehicle tax** to CO_2 and pollution-based taxation with effect from 2011, and work towards transferring motor vehicle tax to the Federation.

- (10) On the basis of the position agreed thus far, the Federal Government will emphatically push at European level for the envisaged regulation on **motor vehicles' CO_2 emissions from 2012** to be designed in such a way that the burdens on the automotive industry are tolerable. It is particularly important that the CO_2 reductions to be delivered are introduced gradually over several years, and that inappropriate sanctions in the case of non-compliance are avoided. All of the steps taken by companies to reduce CO_2 should be taken into account.

- (11) The Federal Government will press for the financing objectives of the European Investment Bank (EIB) for loans in connection with research, development and innovation to be increased from €7.2 billion in 2007 to €10 billion in 2009 in order, *inter alia*, to accelerate the **development of modern motor vehicle technology**. Furthermore we will aim for the EIB's annual lending volume to support SMEs to be increased from €5 billion in 2007 to €8 billion in both 2009 and 2010, from which smaller suppliers to the automotive industry can benefit. Finally, the Federal Government will work to ensure that restrictions on the awarding of loans to large companies are relaxed for the duration of the financial crisis.

(12) In order to promote **innovation** and energy efficiency in a general manner especially in times of difficulty, the KfW will substantially enhance its previous measures regarding the promotion and adoption of innovations. The KfW will simultaneously expand its available range of equity capital so that new and innovative companies have easier access to follow-up financing.

The Federal Government will create an **additional safety net for employees** that intercedes in the crisis. The aim is to link job security with further qualification. To this end, the Federal Government is adopting the following measures financed by the Federal Employment Agency.

- (13) The Federal Government will universally expand the special programme for older and low skilled workers in order to use in-service training to prevent dismissals.

- (14) With 1,000 additional job placement officers in the employment agencies, the placement of workers in their period of notice will be improved (job-to-job placement).

- (15) Limited in duration to one year, the Federal Government will extend the entitlement period for the short-time work allowance to 18 months from the current 12 months. It should also be possible to use short-time work for qualifying workers further.