

Initiative for Growth – **new economic dynamism for Germany**

The growth of Germany's economy has been severely impacted in recent years by the COVID-19 pandemic, the Russian invasion of Ukraine and its repercussions on the global energy markets. Together, our citizens, businesses and policy-makers have successfully tackled these crises. It proved possible to prevent a slump in economic output, especially during the energy price crisis triggered largely by the loss of gas imports from Russia. As a result, it was also possible to safeguard the incomes and job opportunities for people in Germany. This year will see the German economy returning to a growth path. Beyond these cyclical developments, the structural challenges facing Germany's economy are now coming more to the fore: the faster pace of demographic change, weak potential growth and productivity growth, the necessary shift to climate neutrality and the increase in geoeconomic risks for a German economy which benefits so greatly from international trade. We need a sustainably strong economy in order to safeguard and renew our prosperity, to provide good jobs and to deliver decarbonisation. However, estimates show annual potential growth of a mere 0.5% for the coming ten years. In order to ensure that growth does not become entrenched at this low level, Germany needs to make its economy more attractive, more competitive and more innovative.

Future-proof and sound government finances are a key precondition in this context. Credible fiscal rules ensure that public finances are viable and that the state is capable of taking action. The Federal Government is ensuring that the necessary public-sector investment in the modernisation of the public capital stock can be undertaken and financed to boost medium- and long-term potential growth. This also means that priorities must be set for the measures taken by the state.

The Federal Government has agreed on a comprehensive package of measures which will provide the German economy with an immediate boost for greater economic dynamism. But more importantly, the measures adopted by the Federal Government

will substantially improve the long-term potential growth of the German economy and thus lastingly enhance the attractiveness and competitiveness of the German economy.

The Federal Government will now swiftly implement the measures contained in this package. Where new or amended legislation is required, the corresponding proposals will be adopted in the cabinet together with the Budget Act or later in the second half of 2024. The Federal Government requests the Bundestag and the Bundesrat to adopt the proposed legislation in the near future, if possible at the same time as the Budget Act, in order to ensure that the envisaged measures can swiftly take effect.

I. Strengthen competitiveness: incentivise investments, improve the policy environment

Germany's economy is facing great structural challenges. Against the background of limited budgetary scope, it is important to prioritise investment in infrastructure, transformation, digitisation, education, innovation and research in the budget. Strengthening competitiveness is a further priority. On top of this, an important role is played by the medium-term stability of the contributions towards social security, since they have a major impact on the level of non-wage labour costs. The Federal Government has already launched important reforms to achieve this stabilisation. In the health sector, the Federal Government is undertaking fundamental structural reforms to deliver more quality and efficiency in outpatient and inpatient care; here, a role is also played by digitisation in this sector. Via the "generational capital", the Federal Government has taken an important step towards stabilising the contributions to statutory pension insurance.

Substantial investment is particularly needed to cope with the major tasks of digitisation and the transition to climate neutrality so that Germany can continue to be a world-leading competitive and highly innovative economy. The lion's share of these investments must be delivered by the private sector. To this end, the Federal Government will take a number of measures to improve the policy environment for

private-sector investment, especially in research and development, and will make its funding policy more efficient. The Growth Opportunities Act and the Future Financing Act have already provided an initial boost in terms of tax policy, not least in view of what is a high tax burden on businesses in the international comparison. We intend to build on this by means of the following measures, and to create additional incentives and financial scope for investment and innovation by private-sector companies.

1. Improve conditions for depreciation: Accelerated depreciation of capital goods has a direct and positive impact on investment activity. For this reason, in order to incentivise private-sector investment, the Federal Government will

- a. extend declining balance depreciation until 2028 and raise the rate from 20% to 25%, and
- b. reform the collective depreciation rules by launching pool depreciation (increase to €5,000).

2. Expand the research allowance: The Federal Government will increase the assessment basis for the research allowance by a further €2 million to €12 million. The maximum allowance would thus rise to €3 million a year, and to €4.2 million for small and medium-sized enterprises (SMEs).

3. Avoid fiscal drag: Inflation-related increased burdens on taxpayers are to be avoided. The Federal Government will therefore also avoid the effects of fiscal drag for 2025 and 2026 and shift the tax bracket thresholds accordingly.

4. Further develop the KfW's toolbox: Smart support for businesses which efficiently mobilises private-sector capital must also help to boost the dynamism of the German economy. The Federal Government will therefore ensure that funding instruments are designed as effectively as possible and scope at the Federation-owned promotional bank KfW can be used in a way that reduces the impact on the budget as much as possible. The measures include:

- a. the increased use of reduced-interest loans rather than investment grants;
- b. the provision of federal guarantees to cover risks relating to the expansion of production by companies;

- c. and a possible equity transformation fund which gives particular consideration to SMEs and the skilled crafts sector.

5. Strengthen Germany as a centre for electric mobility: The Federal Government will step up its efforts to stand by the side of the automotive industry and its employees as they address electric mobility. Here, the expansion of a nationwide, needs-oriented and user-friendly fuelling and charging infrastructure is of crucial importance in removing a significant deterrent to the purchase of electric vehicles. By the end of 2025, the “Germany Network” will establish 9,000 rapid charging points at 1,000 key sites for traffic such as autobahns and federal roads, and in urban and rural areas. This will close remaining gaps in charging infrastructure and ensure that charging points are available every 10 to 15 kilometres across Germany. Also, the Federal Government will implement the provisions of the EU’s Energy Performance of Buildings Directive (EPBD) regarding the requirements to expand charging infrastructure in the buildings sector before the end of this legislative term in the Electric Mobility Infrastructure in Buildings Act and make use of the ongoing legislative procedure on the “fuelling station coverage requirement”, which will probably be discussed in parliament in the autumn. Via this package of measures, the Federal Government is ensuring that, in future, charging of electric vehicles can be as swift and convenient as refuelling today.

The Federal Government’s policies are open to different technologies. For this reason, the following measures relate both to fully electric vehicles and to comparable zero-emission vehicles (e.g. those driven entirely by eFuels):

- a. Retrospectively to 1 July 2024, a special depreciation allowance is introduced for companies for newly registered fully electric and comparable zero-emission vehicles which makes it much more attractive to purchase such vehicles. The special depreciation rules apply to vehicles which are newly registered by the end of 2028.
- b. Increase in cap on the gross listed price from €70,000 to €95,000 in the taxation of company cars for electric vehicles.
- c. Tax equivalence of vehicles operated solely using eFuels with fully electric vehicles, especially for motor vehicle tax and company car taxation.

6. Reduce construction costs and boost the construction of new housing:

Building needs to become quicker, easier and less bureaucratic. Construction costs need to be permanently cut, and red tape needs to be rigorously pruned. This also applies to further-reaching energy-related standards where the saved emissions are inadequate in relation to the costs incurred.

Also, the Federal Government will reduce existing bureaucratic requirements, e.g. in response to the ongoing Construction Industry Reality Check, including for ecological and sustainable construction materials. Further to this, it will be made easier for municipalities to draw up area development plans. In addition, the conversion of buildings to different uses in urban areas will be made much easier via an anchoring of framework approvals in construction law. A simplification of the processes and approval procedures for the conversion of attics into apartments and the addition of further storeys will also efficiently establish the preconditions for new housing. This will also be made easier in the case of condominium owners' associations. Residual rules requiring paper documents will be abolished to improve online applications for building permits. To this end, the Federal Government will implement the following specific projects, e.g. in the context of the revision of the Federal Building Code:

- a. acceleration of local area planning procedures via the introduction of deadlines and the streamlining of the environmental impact assessment,
- b. end-to-end digitisation of the land-use planning procedure and the building approval procedure through to the announcement,
- c. further development of the project-related local area plan with flexibility for urban planning decisions,
- d. "innovation clause" for simplified conversion of existing plans to the current Land Use Ordinance,
- e. simplification of the testing of excavated material to accelerate construction and reduce construction costs,
- f. presentation of guidelines and process recommendations to promote construction on the basis of Building Type E, and corresponding adjustment to construction contract legislation in the German Civil Code.

In order to incentivise the new-build of affordable housing in particular, the Federal Government will top up the programme for climate-friendly new construction in the low-price segment (KNN). The Federal Government is providing €1 billion for this in 2025.

7. Expand AI data centres: Germany is to become a world-leading digital and AI hub. This requires sufficient computing capacity. The Federal Government will therefore further improve the policy environment for computer centres, e.g. by speeding up approval procedures and access to necessary grid connections (e.g. transparency about available grid capacity).

It will make considerable efforts to expand high-performance computing capacities in the research sector and to make these available to the business community, and particularly to innovative startups. At the same time, the Federal Government aims, not least in the interest of digital sovereignty of administration and businesses, to strengthen providers in Germany via appropriate measures (e.g. pooling in-house requirements). The Federal Government welcomes investments by international technology firms in Germany and the involvement and investment of national and European companies.

8. Strengthen the production of films and computer games: The Federal Government will make Germany more competitive by introducing effective, transparent and non-bureaucratic incentives for film production. The introduction of a film promotion allowance jointly financed by the Federation and the Länder (federal states) is intended to give producers of films and high-end series and production service providers funding of up to 30% of the German production costs. The Federal Government intends to implement this together with the Länder.

At the same time, the Federal Government will make Germany more internationally attractive for computer games production by revising the funding for games and introducing a funding allowance financed jointly by the Federation and the Länder.

9. Implement the National Pharma Strategy ambitiously: The Federal Government is making Germany attractive again as a research and manufacturing base for the pharmaceuticals industry. The National Pharma Strategy improves the policy

environment for the manufacture and development of pharmaceuticals, progresses digitisation in the sector, and provides incentives for the establishment of production sites in Germany. As part of the Strategy, the Federal Government intends to improve the policy environment for clinical studies via the Medical Research Act, not least via better access to data, to significantly simplify and accelerate approvals for studies, and to reduce bureaucracy.

10. Set up a raw materials fund: The Federal Government intends to reduce dependency on critical raw materials. These are of special significance for the technologies and applications needed for the green and digital transitions and for aerospace, security and defence.

To this end, the Federal Government will set up a raw materials fund and is examining the diversified financing of projects along the entire value chain for critical mineral raw materials. The relevant raw materials should be “critical” as defined in the EU’s CRMA. The KfW will set up a raw materials fund on behalf of the Federal Government.

11. Press ahead pragmatically with an ambitious free trade agenda: The Federal Government will call for a strengthening of the openness of the EU in the field of trade policy and thus help foster the diversification of its trade flows. Our goal continues to be the conclusion of economic agreements that are as comprehensive as possible with our global partners, especially in North and Latin America, and in the Asia-Pacific region. The Federal Government will step up its advocacy of “EU-only” free trade agreements, or advocate that the EU-only parts of more comprehensive agreements be brought forward until the entire agreement has been ratified. Furthermore, the Federal Government will call for smaller agreements to facilitate trade in specific goods, thus building pragmatic bridges for international trade. We should also explore possibilities for such agreements with the U.S. and aim for their conclusion. In all of these negotiations, we will treat our partners as equals and bear their interests in mind – including local value creation and sustainability.

II. Strengthen business dynamism: eliminate unnecessary bureaucracy

A dynamic economy is characterised by companies which take risks and generate innovations and by those products and services which offer the greatest benefits for consumers winning through in fair competition. Whilst a functioning administration will ideally be able to complement the commercial activities of the companies, unnecessary bureaucracy restricts the commercial efficiency of the companies and stifles the traditionally high capacities for innovation in German firms: excessive bureaucracy thus weakens long-term productivity growth, puts the brakes on economic activity, and ties up corporate resources which cannot be used for investment, research and development. In order to free up valuable capacity for creativity, innovation and growth-promoting activities in companies, the Federal Government will continue to rigorously prune bureaucracy and aim to ensure that statutory provisions are implemented in a way that imposes the smallest burden.

12. Further reduce bureaucracy: The systematic reduction of bureaucracy is a horizontal task affecting all policy fields. For this reason, all the ministries of the Federal Government will contribute to the following measures:

- a. A burden reduction path will be stipulated in law. In future, the Federal Government will present a Bureaucracy Reduction Act each year which ensures that the burden imposed by all federal laws in that year diminishes, also taking account of newly imposed regulations.
- b. The Federal Government will rapidly commence work on a first annual Bureaucracy Reduction Act. To this end, the proposals for Bureaucracy Reduction Act IV, e.g. from the associations and the Länder, will be reviewed once again by the National Regulatory Control Council. Other

unnecessary requirements for paper-based documentation will be abolished.

- c. Also, reality checks will be introduced in all ministries (at least two reality checks per ministry in 2024), leading in each case to specific bureaucracy reduction measures, which then feed into the annual reduction act. The Federal Government will set up an interministerial working group on reality checks. The individual ministries are to progress the measures on their own responsibility in their portfolios, but in a coordinated way, and are to make them public.
- d. All the ministries in the Federal Government commit to a rigorous reduction of documentation and reporting requirements in their own portfolios, with reduction targets and time paths that can be clearly monitored.
- e. The Federal Government will set up an online bureaucracy reduction website. This will give businesses, citizens and the administration itself a permanent opportunity to propose specific measures to reduce bureaucracy. If the National Regulatory Control Council supports these proposals, any rejection by the Federal Government will require special justification.

13. Reduce the application of data protection requirements: In order to increase the dynamism of the German economy, the bureaucratic effort required to apply data protection requirements is also to be reduced, and application harmonised at European level. The Federal Government, in coordination with the Länder, is therefore aiming to take the following measures:

- a. For certain sectors, agreement will be reached with the Länder on concentrating the supervisory powers in an agency of one of the Länder, so that the companies have one nationwide supervisory agency and thus a single contact point with special expertise for complex issues. The aim is to make the procedures generally more efficient.
- b. Greater nationwide harmonisation of the application of data protection rules via binding decisions by the Data Protection Conference; this will reduce legal uncertainty and bureaucracy for companies, with companies

able to rely on the various Länder supervisory agencies applying the rules in the most uniform possible way within Germany.

- c. Increase in the threshold from which companies have to appoint a data protection officer from 20 staff at present to 50 staff members.
- d. Expansion of the processing possibilities to improve the data basis for policy decisions by the Federation, Länder and municipalities.
- e. More precise arrangements in national law under the GDPR to increase the level of legal certainty and to facilitate application.

At European level, the Federal Government will advocate:

- a. that the application and enforcement of the GDPR at European level be harmonised with a view to simplification, and that the cooperation between the supervisory agencies of the Member States (particularly in the European Data Protection Board) be improved, and
- b. that the European Commission examines in an ambitious manner and presents corresponding proposals regarding the identification of third countries, areas, international organisations or specific sectors in third countries for which it can be determined that an adequate level of data protection exists with a view to simplifying the international transfer of data.

14. Restrict European bureaucratic burdens and utilise potential for acceleration: In order to avoid excessive implementation of EU law, the Federal Government will now implement EU directives in national law as they stand, and will identify and reduce existing excessive implementation. The Net-Zero Industry Act (NZIA) is an important milestone, particularly for greater acceleration of planning and approval procedures for industrial facilities. In order that German firms can swiftly benefit from the new rules, German law will be brought in line with the NZIA as quickly as possible, in particular in order to rapidly speed up planning and approval procedures and thus create legal certainty.

15. Implement the Supply Chain Due Diligence Act pragmatically: It is important to avoid disproportionate burdens on companies when implementing due diligence and reporting requirements. For this reason, we will transpose the EU's Corporate Sustainability Due Diligence Directive (CSDDD) as it stands before the end of this legislative term by amending the Supply Chain Due Diligence Act, imposing as little bureaucracy as possible. As a result, before the end of this legislative term, only around one-third of the companies previously covered by the Act, i.e. fewer than 1,000, will now be directly affected. All of the obligations under the CSDDD, including the rules on liability under civil law, will only be rendered binding at the latest point in time prescribed by European law: for companies with more than 5,000 employees globally and more than €1,500 million in turnover from 2027; for companies with more than 3,000 employees globally and more than €900 million in turnover from 2028; for companies with more than 1,000 employees globally and more than €450 million in turnover from 2029.

Once the Corporate Sustainability Reporting Directive (CSRD) enters into force on 1 January 2025, the companies will be able to replace the reports based on the Act by the reports now envisaged by the CSRD on the basis of EU law. Until then, no sanctions will be imposed for violations of reporting requirements under the Act.

Also, we will advocate to the European Commission that the very comprehensive requirements for the content of sustainability reporting under the CSRD be significantly reduced.

We will set binding standards governing requests by companies for information from SMEs in their supply chain in order to provide tangible relief to the many small businesses which are only indirectly affected by the reporting requirements.

16. Simplify tax law: If an economy is to be attractive, it needs simple and manageable tax rules. The effort required of citizens and companies to comply with the rules must be reduced. For this reason, potential to simplify the processes for taxpayers and the administration must be leveraged, and digital access to tax rules must be facilitated. The Federal Government will examine the proposals from the commissions of experts on “simplified corporate taxation” and “citizen-friendly income tax”, which are expected for July, and if it accepts the proposals, will cast them in draft legislation this year.

17. Speed up export controls: The Federal Government will make export control procedures more digital, more rapid, and more efficient. To this end, it will introduce a new expedited procedure at the Federal Office for Economic Affairs and Export Control via the declaration procedure. Also, greater use is to be made of collective export licences and maximum amount licences. These instruments will give particularly reliable companies greater independence in handling exports that are less legally complex or that are undertaken repeatedly. Also, the introduction of permanent licences reaching beyond the export of war weapons is a feasible possibility. We will increase the staff resources of the competent authorities up to a level that is competitive in European terms. A transparency database will also enable the Federal Government to significantly reduce the administrative burden whilst maintaining commercial confidentiality.

18. Simplify procurement law and boost compliance with collective agreements: Procurement law is to be simplified, accelerated and moved online. Procurement procedures are to entail less bureaucracy for contracting authorities and contractors so that companies will be more likely to bid for public-sector contracts again. The barriers for innovative startups in particular must be lowered. Relaxations and simplifications of rules will also apply to the security and defence industry, to the digitisation of administration, and to major infrastructure projects like roads, bridges, railways and networks. Sustainable procurement is to be made easier and more binding. To this end, the Federal Government will launch a package of legislation with changes to all the relevant laws governing procurement above and below the EU

threshold, reducing the burden on administration and companies by more than €1 billion a year. This includes a substantial rise in the general and other specific thresholds for direct contract awards (e.g. for innovative services from startups, restricted invitations to tender and negotiated contracts without an invitation to tender, or online marketplaces).

Via the Collective Agreement Faithfulness Act, the Federal Government will boost adherence to collective agreements and establish a basis on which this can be made a condition in procurement procedures.

19. Unleash the circular economy: The improved use of resources in the context of the circular economy offers great potential for growth and increased economic activity in Germany. To this end, the Federal Government will adopt an End-of-Waste Ordinance for important mineral construction materials, enabling materials to be recycled more effectively and these substitute mineral raw materials to be marketed as quality-assured recycled products. Also, it will revise the Commercial Wastes Ordinance to improve the quality of the material flows covered by it and to enable it to be complied with in a more practical and uniform manner. Finally, it will launch a digitisation initiative in the circular economy and waste management sector for the sharing of the data needed to close substance cycles. Also, the establishment of regulatory sandboxes in the circular economy will promote innovation. As a supplement to the established system of mechanical recycling, chemical recycling can make a contribution to the circular economy by using waste that is difficult to recycle. The National Circular Economy Strategy brings together measures to unleash the potential of the circular economy for growth, the environment and innovation beyond the current legislative term.

III. Boost dynamism via better incentives to work and more skilled labour

A larger supply of labour is needed to boost the economy. The baby boomer years from 1955 to 1964 are now gradually retiring from the labour force. This means that a substantial number of workers will be lost to the labour market in the coming years. In order to effectively counter this decline in labour supply, the Federal Government has already implemented significant measures in the form of the Skilled Immigration Act and the Skilled Labour Strategy. But this is not enough. In particular, those people who are involuntarily working part-time and older people who would like to work beyond the retirement age can make a valuable contribution towards economic activity in Germany. The Federal Government will boost the incentives to take up a job or to increase the number of hours worked beyond this as well.

Furthermore, the Federal Government will step up its efforts to attract people around the world to come and work in Germany, and to speed up the integration of migrants who are already in Germany. Not least, an improved policy environment for the labour market will also foster higher productivity growth.

20. Honour additional work and permit flexibility: The Federal Government will implement the following measures to permit more flexible approaches to work and to honour additional work appropriately:

- a. So that additional work will pay off, bonuses for additional work which goes beyond the collectively agreed full-time work will be freed from tax and welfare charges. Here, full-time work under collective arrangements means a working week of at least 34 hours, and of 40 hours for working hours which have not been collectively stipulated or agreed.
- b. The Federal Government will establish a new tax incentive to increase the hours worked by part-time employees: when employers pay a bonus for increased working hours, the Federal Government will provide a tax concession for this bonus. We will exclude the possibility of abuse.

- c. The Federal Government will establish a limited possibility to deviate from the current rules of the Working Time Act in terms of the maximum daily working time where collective agreements or company agreements based on collective agreements provide for this. This possibility will be limited in time and subject to evaluation. We want to continue to make the development of trust-based working time possible under labour law.
- d. In past years, an immense potential of the labour market was left unutilised, not least due to the increased sickness levels of employees. The Federal Government will review the special rules on doctors' surgeries registering sick leave by phone which were in force during the COVID-19 pandemic, and may decide to adapt them with a view to a solution which involves as little bureaucracy as possible.

21. Boosting female employment: An adequate availability of childcare services is an important element to enable young parents, and women in particular, to combine work and family life more effectively. Via the Child Daycare Quality Act 2, the Federation is also making a contribution towards levelling up the quality of education in early childhood. The Federation will continue to support the Länder in this beyond 2024. A contribution towards greater female labour participation is also to be made by phasing out the tax class combination III/V and treating these couples according to the factor-based method in tax class IV. Together with the Länder, the Federal Government will review how this can be implemented as quickly as possible, and much earlier than the previously envisaged date of 2030.

22. Strengthen financial advantages from taking up employment and increasing the number of hours worked: Work must be worthwhile. In order to strengthen the incentives to work, it is therefore important to leave a significant proportion of each additional euro of gross earnings with the employee, including in those areas of income in which transfer payments are reduced in the various transfer systems. This is however frequently not the case. The Federal Government is addressing this problem via the following measures to boost incentives to work:

- a. A high marginal burden resulting from transfer withdrawal rates is often a major barrier preventing those receiving transfers from working. In order to counter this and to provide a strong positive incentive for the transition to jobs which are subject to social security contributions and provide income which covers the person's needs, the Federal Government will introduce primer financing as part of the citizen's benefit. The money will be paid out as a bonus. The primer financing is to be paid to the long-term unemployed once they are no longer entitled to claim basic income support. It is not to be deducted as income from other benefits (basic child allowance, housing benefit). If primer financing has been granted, there is a waiting period of at least 24 months before primer financing can again be granted. In general, a recipient must not have been in previous employment and must not resign from the job. The Federal Government expects this new arrangement to result in overall terms in financial relief for the public sector. We will evaluate this instrument after two years.
- b. Further to this, the Federal Government will consider further steps to reduce the transfer withdrawal rates. Here, it is important to take account of the different transfer systems: housing benefit, citizen's benefit and costs of accommodation, child benefit and the child supplement. It is important to identify potential to smooth out the transfer withdrawal rates and jumps in such withdrawals, if possible without this causing additional burdens for the federal budget or increasing the number of people receiving transfers. It may be the case that submitting applications is too complex or stigmatising for people in employment who are entitled to a top-up citizen's benefit. The Federal Government will therefore examine whether a right to opt instead for housing benefit/child supplement could be an attractive alternative.
- c. In the case of the survivor's pension, the Federal Government will introduce changes without delay: many people receiving the survivor's pension, particularly if they are relatively young, wish to work. However, the current arrangement for offsetting income from work against the pension makes work relatively unattractive. The Federal Government will therefore reform the limits for additional earnings in the survivor's pension:

in addition to the amounts that currently do not have to be offset, €545 per month of the income from work is to be disregarded in future when the earnings are offset from the pension.

23. Strengthen incentives to earn for those receiving citizen's benefit: The welfare transfer benefits have been continuously developed for many years. In order to maintain public acceptance for the benefits, and to lead more of those affected into jobs, it is necessary to once again strengthen the quid pro quo principle.

a. What work is reasonable?

The rules on what offers of work are reasonable should be updated. This applies for example to the journey to work. A longer journey to work should be regarded as reasonable, with a daily commute of 2 1/2 hours given a working day of up to six hours, or of 3 hours given a working day of more than six hours, being deemed acceptable. Also, by way of instruction from the Federal Employment Agency, it should be made very clear that longer routes to work are definitely reasonable. The job centres should seek work within a 50 km radius between where the person lives and works. The rules on moving house contained in Social Code II will be brought into line with the rules in Social Code III. All of these measures should include exemptions for people with children or relatives in need of care. The above rules will be clarified in legislation.

b. Obligations to cooperate:

The quid pro quo principle also means stiffer consequences when the person does not cooperate. Anyone who rejects reasonable work, training or reintegration measures without good cause will have to expect larger cuts in their citizen's benefit.

For this reason, the Federal Government will introduce a uniform degree and duration of reduction of 30% for three months. Where a person fails to report, a reduction of 30% for one month can be imposed. At the same time, there will

not be rigid durations of sanctions; rather, the sanction can be lifted if the person cooperates positively (or signals their intention to do so).

A high, binding series of contacts between recipients of citizen's benefit and the authorities is important for successful job placement, especially for those who are available to the labour market at short notice (i.e. for example not those receiving further training, or with childcare commitments, etc.). In order to increase the job placement success rate, special reporting requirements will be introduced for this group of people. People in this category who are receiving citizen's benefit are to have to report monthly in person to the competent authority. The reporting must be organised with a minimum of administrative effort.

Further to this, a better, automated sharing of data between the Social Code II benefit authorities and other agencies must be organised, so that in particular changes to the place of residence are immediately passed on to the Social Code II benefit authorities. Also, anyone who slips into the citizen's benefit scheme due to a ban being imposed on unemployment benefit I must expect an immediate 30% cut in benefits.

c. Illegal work:

Illegal work and illegal employment destroy jobs and cause massive financial damage. The Federal Government will put legislation in place to enable the job centres to punish illegal work as a violation of duties and to impose benefit cuts (30% for three months).

In order to prevent a large number of cases of benefit fraud from being dropped due to insignificance and to the excessive burden of work facing the prosecution service, the planned legislative procedure to modernise the fight against illegal work will extend the responsibility of the "small state prosecutor" of the Financial Control of Undeclared Work of the customs authority (FKS) to include cases of benefit fraud. The job centres will continue to be obliged to report suspicions of benefit abuse and illegal work to the FKS. Also, the FKS will be obliged to follow up on these reports from the job centres and to inform them of the findings.

In order to fulfil this task, the FKS can use established procedures to share data with other authorities, such as the police and the Federal Employment Agency. In this current legislative project, the Federal Government is creating a legal basis so that further data from these authorities can be included in the FKS's central risk management system.

d. Grace periods for assets exempted from means testing:

In order to make sure that the federal budget and thus the community of solidarity is not burdened with the payment of benefits to people who can basically be expected to cover their own needs, the rules on assets exempt from means testing are to be restricted. Citizen's benefit is intended to cover basic needs, and is not meant to safeguard people's assets. People's assets should generally be used to meet their own needs before citizen's benefit can be claimed. It remains the case that pension provision under section 12(1) no. 3 of Social Code II will not be treated as assets. In detail, the grace period under section 12(3) and (4) of Social Code II will be cut to six months.

e. 1 euro jobs:

The instrument of "1 euro jobs" under section 16d of Social Code II is intended to provide a bridge to the regular labour market. This is of importance in particular for people who repeatedly reject measures to get them into employment. Support can be given to a gradual entry into the labour market for this category of people. Greater use will be made of 1 euro jobs for this group of people.

24. Expand possibilities for work and incentivise employment for older people:

In order to facilitate continued employment in retirement age, the Federal Government will introduce new rules governing employment in old age: in order to counter the automatic termination of the employment relationship contained in many employment contracts when a person reaches the standard retirement age, the Federal Government will abolish the "ban on prior employment" for this group. To this end, the Federal Government is introducing an exemption from the ban on prior employment in Social Code VI if the employee can claim a pension

entitlement and the fixed-term contract without an objective reason does not exceed a total duration of eight years or 12 fixed-term contracts. The Federal Government aims to introduce an equivalent arrangement for civil servants. In order to further increase the incentives for people to work after reaching standard retirement age, the Federal Government will also

- a. abolish the employer's contribution towards unemployment insurance for those affected and pay it out to the employee, and
- b. abolish the employer's contribution towards pension insurance for those affected and pay it out to the employee if the employee decides not to make voluntary contributions to pension insurance.

It is to be ensured that the intended positive effect of these measures is not undermined by abuse of the arrangements.

Where people continue working after reaching standard retirement age, the Federal Government will establish a new option for the remuneration of additional years of work in retirement age in order to make work more attractive for older people: in addition to the possibility to obtain monthly supplements to the future pension in return for delaying the commencement of the pension, employees will also be able to opt for a pension delay bonus. Here, the employee receives a one-time payment equivalent to the lost pension payment. Further to this, the employee also receives the contribution to health insurance which is saved by the pension insurance scheme. Also, this pension delay bonus is not to be subject to social security charges.

25. Make the labour market efficient and steer workers into productive employment: In order to further improve the level of qualifications of the workforce, effective funding for further training courses is needed.

We will therefore reduce bureaucratic barriers to certification. Labour market hubs make it easier for employees to change jobs in (corporate) transformation processes, thus avoiding unemployment. The Federal Government will work with

the Federal Employment Agency to support the labour market hubs and in particular to present legally secure possibilities for people to try out employment prior to changing jobs.

Also, the Federal Employment Agency will network its services with the existing structures, such as the networked training spaces and further training agencies, the further training alliances and the regional skills alliances.

Refugees in particular tend not to work in Germany or to work in jobs below their actual level of qualifications. In order to improve the take-up of employment and the career prospects of refugees, the Federal Government will expand the “job turbo” and put it on a permanent footing. This includes improving transparency about opportunities for initial and further training whilst working, having the employment agencies and job centres actively approach people in work, supported by information campaigns in cooperation for example with trade unions and employers’ associations. Also, where people find it more difficult to take up jobs, a combination of 1 euro jobs, compulsory integration internships, further training and language courses will be introduced to ensure the fastest possible and successful integration into the labour market. The possibilities to provide funding to employers will be increased via an expansion of the “passive-active transfer”.

26. Simplify, strengthen and accelerate the immigration of skilled workers: The Federal Government will further simplify the immigration of skilled and other workers into the German labour market. It will extend the period committed to by the Federal Employment Agency for the advance approval in order to cut unnecessary bureaucracy and, in the event that a work permit has yet to be issued, avoid a renewed examination of the case after six months. Furthermore, it will permit immigration of foreign workers for temporary agency work as long as the principle of equal pay is upheld from the first day of employment and a minimum employment period of 12 months is agreed. Attention will be paid to ensuring that the implementation entails little bureaucracy.

Further to this, the Federal Government will accelerate the implementation of the Skilled Immigration Act (e.g. issuing of visas, digitisation). This will necessitate a coordinated approach with all the relevant authorities. Also, the Federal Government will act as quickly as possible to ensure the functioning and availability of the advisory and other services offered via the “Make it in Germany” website, such as the “Working and Living in Germany” hotline, the central initial contact point, the Federal Employment Agency chat services and the Federal Employment Agency job exchange. In order to give more workers from third countries access to the labour market, the Federal Government will extend the arrangements for easier access to the labour market under section 26(2) of the Employment Ordinance to other countries, if possible in the context of migration partnerships, and increase the quotas in force for the existing countries accordingly.

27. Provide tax concessions for people taking up work in Germany: In order to make Germany more attractive for foreign skilled workers, the Federal Government will also introduce tax incentives for people taking up work in Germany: skilled workers who have just migrated to Germany can have 30%, 20% and 10% of their gross wages free of tax in the first three years. Regarding this exemption, we will define a lower and upper threshold for the gross wages. The arrangement will be evaluated after five years.

28. Reduce barriers to the taking up of employment by refugees: In order to improve the labour market integration of refugees, the Federal Government will introduce an assumption that a work permit has been provided by the foreigners authority. The permit will be deemed to have been issued if, following consultation with the Federal Employment Agency, the foreigners authority does not inform the applicant otherwise within two weeks.

Beyond this, the Federal Government will optimise the administrative practice. Furthermore, it will publish additional guidance for administrations to implement labour-market-related rules, and involve the Länder in this. The aim is to bring the administrative practice into line as far as possible (e.g. regular issuing of temporary suspension of deportation on a discretionary basis during the period

spent waiting for employment-related suspension of deportation and for the search for a job when changing job in the context of employment-related suspension of deportation, also regular issuing of temporary suspension of deportation on a discretionary basis during the waiting period for a training-related suspension of deportation or for a training-related residence permit).

IV. An efficient financial centre for a strong economy

An efficient financial market forms the basis for a competitive economy in order to finance investment, hedge against risks and allow young, innovative companies to grow. Through the Future Financing Act and the EU's Listing Act, the Federal Government has already improved the policy environment for the capital market and for innovative startups. The Federal Government will continue to strengthen Germany as a financial centre in the interest of more dynamic growth in Germany, and will in particular improve the financing options for young, dynamic companies. The Federal Government is also preparing a conference on strengthening Germany as a place to do business and as a financial centre.

29. Strengthen Germany as a financial centre, mobilise venture capital: An attractive and efficient financial centre is crucial for the strengthening of our competitiveness; it can mobilise the capital needed for the transformation and enable companies to grow in Germany without needing to go abroad to do so. To this end, as part of the WIN initiative, the following measures in particular are being discussed with a view to implementation:

- a. Improving the tax rules for VC investments, and in particular:
 - changes to the taxation of investments in commercial partnerships by funds which are covered by the Investment Tax Act, and thus also in VC funds;
 - changes to the taxation of profits from sales of holdings in corporations if these are reinvested (roll-overs);
- b. possibility for English-language prospectuses plus a summary, thus facilitating the EU-wide sale of securities;

- c. shortening the prospectus approval procedure to 6-8 weeks;
- d. promotion of investments by public and private institutional investors in more risky classes of investment such as infrastructure and VC projects (e.g. by changing the Investment Regulation).

Also, the ban on deduction of operating expenses in the bank levy is being repealed.

30. Advocate an ambitious Capital Markets Union: The Federal Government will work at EU level, particularly in view of the new European Commission, to promote a more ambitious agenda to realise the Capital Markets Union. In particular this includes

- the revitalization of the securitisation market,
- a removal of bureaucracy from financial market regulation without weakening protection for investors or financial market stability,
- improvement of the convergence and efficiency of the supervision of capital markets throughout the EU, e.g. by enabling the European supervisory agencies to effectively supervise the most systemically relevant cross-border capital and financial market players with a view to strengthening financial integration and ensuring financial stability, simplifying procedures and cutting compliance costs,
- harmonisation of the relevant aspects of insolvency, contract and tax law, and
- making the capital market more attractive for retail customers.

31. Make private pension provision more attractive: The Federal Government will make private pension provision more attractive as the third pillar of pension provision and in particular make state-subsidised private pension provision (previously: “Riester”) more attractive. It will implement the proposal made by the private pension provision focus group for a certified pension investment account which is eligible for support and which can invest in funds or other suitable investment categories without a preservation guarantee. It will still be possible to offer products with guarantees. However, in future the guarantees can be reduced in order to permit higher-yielding investments. In general, the eligible products should be characterised by an easy-to-understand design, high product quality,

low costs and high transparency (comparison platform, certification). In order to boost the competition between products, it should always be possible to switch between products at no or little cost. They should be open to all workers, if possible also to the self-employed. Also, the rules on company pensions will be revised so that, in future, more companies will offer such pensions, with support being available for low-income employees in particular.

32. Strengthen financial education and a share-owning culture: In order to strengthen financial education and thus a share-owning culture, the Federal Government will draw up a national financial education strategy this year with the involvement of the Organisation for Economic Co-operation and Development and will offer financial education via online platforms. The new funding guideline for research into financial education will improve the data basis in Germany. The new insights gained by this will boost financial skills in all areas of education and in all age groups.

33. Speed up the Future Fund: The Federal Government's Future Fund (Zukunftsfonds) is an instrument which is successfully boosting the funding of key enabling technologies. The Federal Government aims to bring about further improvements here, for example:

- a. The Federal Government will advocate – for example using the Growth and Innovation Capital for Germany Initiative (WIN) – greater mobilisation of private venture capital in order to enhance the impact of the Future Fund as it develops according to plan. In coordination with the KfW, the Federal Government will invest up to €500 million of the Future Fund in the next two to three years, bringing this forward via the existing cashflow planning. As we do this, we will adhere to the existing management cost framework for the Future Fund.
- b. KfW Capital is asked to ensure the market entry of the “Direct holdings” module as quickly as possible, certainly by the end of 2024. The Direct holdings module is intended to address the financing gap, particularly in large-scale financing rounds, for startups in strategically important innovation and

transformation fields which already form part of the fund portfolio of KfW Capital.

34. Strengthen exit channels for scale-ups: The European Tech Champions Initiative (ETCI), which was launched in 2023, is successfully improving the financing possibilities for young companies in the growth phase (scale-ups). However, there is a lack of European scope to provide follow-up financing. As a result, the growth of innovative companies in Europe is restricted, or these companies relocate abroad due to better possibilities to obtain finance. The Federal Government is calling at European level for solutions to be developed under the lead responsibility of the EIB Group in order to improve the exit financing of scale-ups.

35. Strengthen the financing of the security and defence industry: The security and defence industry makes an essential contribution to peace in Germany and Europe. Investments in security and defence are therefore sustainable investments in peace and stability. This is true not only of public investment, but also of private-sector investment and financing. In the interest of our national and Alliance defence, we need to strengthen these branches of industry at national and European level. We will need an appropriate policy environment for the entire supply chain. Good and secure financial market access for companies, also going forward, is essential. This includes innovative startups and small innovative companies in particular. The Federal Government will additionally activate the German promotional bank system (including the KfW) to finance the security and defence industry and advocate a corresponding expansion of the activities of the EIB whilst maintaining the latter's refinancing capability. To this end, we are also examining a top-up to the Future Fund for startups which produce genuine military equipment.

36. Make the policy environment for top earners in the financial sector more flexible: The Federal Government will relax protection against dismissal for earners of very high incomes in the financial sector by extending the current rules

for risk-takers in systemically relevant banks to non-systemically relevant banks, insurance companies, securities firms and investment companies. In this way, it will strengthen Germany's financial centre in competition with other European financial centres which do not have such restrictions.

37. Introduce a new legal structure: As envisaged in the coalition agreement, a suitable new legal basis which excludes the possibility of tax-saving arrangements is to be put in place for companies with tied assets. It offers companies in particular further options in the context of the wave of uncertain hand-overs to the next generation. The Federal Government will soon present draft legislation for further discussion in the Bundestag.

V. Efficient energy market for tomorrow's economy

Affordable, safe and environmentally friendly energy is the driving force behind Germany's economy and its attractiveness as a dynamic business location. During the energy price crisis, Germany's economy has proven to be resilient, not least thanks to the stabilisation measures taken by the Federal Government. At the same time, the Federal Government has significantly accelerated the energy transition by adopting the most comprehensive reform package to date and relieved the burden on consumers by abolishing the EEG surcharge. However, there are still challenges on the path to an efficient energy market for the economy of tomorrow: the German economy needs large quantities of low-cost renewable energy. The goal is to increase the number of market participants that benefit from favourable electricity prices in times when there is a lot of wind and sun. Furthermore, grid costs are to be reduced, grid fees stabilised and hydrogen infrastructure built up. The Federal Government has therefore agreed measures to create a reliable investment environment, provide for greater flexibility, reduce the costs of expanding the grid, and create planning and investment security so that the momentum being generated by the energy transition will increase even further.

38. Consolidate and expand the electricity price package: In November, to reduce the burden on the economy, the Federal Government adopted a comprehensive electricity price package which was initially limited until the end of 2025. In order to give companies planning and investment security, the Federal Government will permanently reduce the electricity tax for the current group of beneficiaries to the EU minimum of €0.50/MWh (0.05 ct/kWh). This corresponds to a tax relief of €3.25 billion per year for the economy. The compensation for electricity costs, which was previously limited until 2028, will be extended until 2030; this also corresponds to the duration of the corresponding aid guidelines and an annual relief of €3.9 billion/year for the economy. To date, the area of application of electricity cost compensation is very limited under state aid rules, e.g. parts of the chemical and the glass processing industries are not covered by it. The Federal Government will urge the new European Commission to ensure that this tool can be used to reduce the cost burden on even more sectors of the economy.

39. Utilise the potential of electricity storage systems: Electricity storage systems can reduce the demand for redispatch and thus bring down electricity costs for households and businesses. They contribute to the system integration of renewable electricity and to security of supply. The Federal Government will therefore optimise the policy environment for the use of electricity storage systems so as to create even greater momentum for the expansion of electricity storage capacity and to ensure that the various functions of electricity storage can be optimally utilised for both the electricity market and the electricity grid. Undistorted price signals, time-variable regional grid fees and optimised integration of renewable energy systems play an important role here. The Federal Government welcomes and supports the Bundesnetzagentur's (Federal Network Agency) plan as an independent regulatory authority to further develop the current discounts and exemptions from grid fees for storage with the aim of enhancing cost-efficiency in a way that serves the electricity grid and market, thereby creating long-term planning security in the area of electricity storage. The acceleration of planning and approvals is also to be extended to electricity storage installations. Furthermore, the technology-neutral capacity market additionally

incentivises investments in storage facilities. The Federal Government is committed to achieving better integration and utilisation of pumped storage power plants in Germany and abroad. To this end, the existing trade capacities will be further increased. In this context, cross-border redispatch will be improved.

40. Enable carbon storage: The Federal Government has adopted key points for a Carbon Management Strategy and corresponding amendments to the Carbon Dioxide Storage Act in order to reduce the costs of decarbonisation, increase the competitiveness of German industry and pave the way for achieving climate neutrality. These legislative changes will now be implemented swiftly. This will substantially remove the existing obstacles to the application of CCS/CCU in Germany and enable the offshore storage of carbon dioxide. If one of the Länder decides to adopt pertinent rules under Länder law, it may also store carbon dioxide in its onshore territory of Germany. We ask the Bundestag and the Bundesrat to bring the parliamentary procedure to a swift conclusion. We will implement measures to speed up the development of the required infrastructure.

41. Accelerate the ramp-up of hydrogen: An efficient hydrogen infrastructure, in particular the hydrogen core network, is a key factor for the competitiveness of Germany's industry. By creating a private-sector financing model for the hydrogen core network and adopting the Hydrogen Acceleration Act, the Federal Government has set the course for the rapid development and expansion of the infrastructure required for the production, storage and import of hydrogen. In order to speed up the pace of the development of hydrogen infrastructure, the Federal Government requests the Bundestag and the Bundesrat to swiftly conclude the parliamentary process and pass the Act.

42. Prioritise a new market design for power plants, renewables and flexibility: Our goal is to create an electricity market that ensures a safe, affordable and greenhouse gas-neutral supply of electricity, at least 80% of which will come from renewables by 2030.

- a. Flexibility: The new electricity market needs to provide greater flexibility to the grid as quickly as possible to ensure that market participants can benefit better from the increasingly favourable electricity prices in times when there is a lot of wind and sun. To achieve this, all barriers on the supply and demand side will be removed and incentives will be provided, such as flexible tariffs and a more flexible grid fee structure. These flexibility measures will also help to reduce the costs of controllable capacity and renewable energy installations.

- b. Expansion of renewables: Boosting the further expansion of renewable energy is essential for ensuring the supply of affordable, safe and greenhouse gas-neutral energy and thus Germany's long-term future as a dynamic business location. Renewable energy sources contribute to security of energy supply and free us from dependencies. In this legislative period, decisive steps have therefore been taken to accelerate the expansion of renewable energy and significant, tangible progress has been made. While electricity generation from renewable energy needs to be gradually integrated into the market, the further ramp-up of renewable energy requires a sustainable, reliable and cost-efficient investment environment.

As coal-fired power generation is ended, subsidies for renewables will be phased out. In future, the instrument of financial support for investment costs (separate capacity mechanism) is to be used to promote the expansion of new renewable energy sources, particularly to ensure that the effects of price signals are free from distortions. For this purpose, this instrument and others are quickly being tested in a market environment based on the Regulatory Sandboxes Act. At the same time, a continued high rate of expansion of renewable energy needs to be maintained in order to enable the targets set out in the Renewable Energy Sources Act to be achieved and to quickly provide as much affordable electricity as possible.

In taking this approach, even greater attention will be paid to cost efficiency and market integration. In this context, the options presented as part of the Climate-Neutral Electricity System Platform will be examined and taken into account in the decisions made.

In future, renewables will no longer receive funding support as soon as the electricity market is sufficiently flexible and sufficient storage capacity is available.

In the short term, we will generally suspend subsidies for new installations in times of negative prices, which will apply from as early as 1 January 2025 (except for small installations, as this would be impossible to administer) and lower the threshold above which producers of renewable energy have to market their electricity themselves to 25 KW in three annual steps, starting from 1 January 2025. In parallel to this, we will further lower the threshold for the controllability of renewable energy systems for grid operators. As a result, price signals are able to reach the system operators, which will particularly help to prevent the generation of surplus electricity in times of negative prices, since a fixed feed-in tariff will no longer be paid.

To this end, we will consistently reduce bureaucracy in the self-marketing of electricity and the control of the energy systems, digitalise them and make them fit for mass market use by 1 January 2026 at the latest, so that identification numbers in particular can be provided more quickly, systems can be controlled via smart meters, and data can be exchanged and billed quickly. The Federal Government will take measures to allow for greater flexibility in the use of biomass by optimising the rated capacity and the flexibility supplements, thereby also reducing support costs.

- c. Capacity mechanism/Power Plant Security Act: To ensure security of electricity supply in the long term, we will rapidly drive forward the agreed capacity mechanism so that it will enter into operation by 2028. At the beginning of October this year, the Federal Government will adopt a key

points paper to prepare the pre-notification of a capacity mechanism and submit it for pre-notification in the first half of 2025. The capacity mechanism ensures security of supply through a uniform market which integrates existing subsidies for guaranteed capacity. This technology-neutral and market-based capacity mechanism is to enable competition between run-of-river power plants, pumped storage plants, battery storage, bioenergy plants, other back-up power plants as well as storage and flexible loads, etc. In anticipation of the introduction of the capacity mechanism, additional power plant capacities are to be developed quickly as part of the planned Power Plant Security Act. For this purpose, new power plants with a capacity of 10 GW will quickly be put out to tender. To further advance the decarbonisation of the economy, bids will be invited for 5 GW of hydrogen-capable natural gas power plants, which will fully be operated on hydrogen from the eighth year of their commissioning. In addition, bids will be invited for 5 GW of new gas-fired capacity to ensure security of supply. The first auction is scheduled for the end of this year or early next year at the latest. All power plants for which bids have been submitted ahead of schedule will be integrated into the new capacity market from 2028 in an appropriate manner while ensuring that there is no duplication of financial assistance. The auctions will ensure that power plants are built at locations that are beneficial to the system.

43. Evaluate auctions for offshore wind energy: The accelerated expansion of offshore wind energy plays an important role in ensuring that the energy transition is implemented in an affordable manner.

The Federal Government will carefully evaluate the experience gained from the previous bidding rounds for offshore wind energy with regard to their efficiency, effectiveness, impact on cyber and data security and significance for federal budget revenues. This evaluation will be taken into account in the implementation of the NZIA. Until then, projects will be selected mainly based on the price.

44. Reduce network costs: The Federal Government will present measures aimed at reducing grid costs and stabilising grid fees in order to ease the burden on households and businesses. In taking these measures, we are making a key contribution to stabilising grid fees at their current level. In order to further consolidate this development and provide greater planning security, we will swiftly examine whether and how an amortisation account can be used to stabilise grid fees.

In particular, we will review the payment of ‘avoided grid fees’ to electricity producers in distribution grids, introduce time-variable grid fees for utilising the grid in a way that is beneficial for the system, improve the use of surplus electricity, use ‘virtual powerlines’ and grid equipment and further enhance the use of power plants in a way that serves the overall system. In addition, we are also examining possibilities for the joint procurement of materials needed for expanding the power grid.

Beyond this, it is important to create security for companies that benefit from the application of individual, reduced grid fees pursuant to section 19(2) sentences 1 and 2 Electricity Grid Fee Ordinance and to further develop these in a future-oriented manner. As a step to achieve this, obstacles to flexible electricity consumption are to be removed. Companies should be able to benefit from low electricity prices in times of an abundance of wind and sun. For those companies for which this is not possible, we will extend the existing rules in accordance with section 19(2) sentences 1 and 2 Electricity Grid Fee Ordinance in a manner that is compatible with state aid rules and take measures that prolong the corresponding impact of the relief measures (e.g. through financial assistance/exemption from grid fees for storage facilities).

Many of the measures fall within the responsibility of the Bundesnetzagentur. The Federal Government therefore welcomes the Bundesnetzagentur’s plan, as an independent regulatory authority, to further develop the current discounts and exemptions from grid fees for industry, electrolysers and other new electricity consumers with the aim of enhancing the cost-efficiency of the electricity grid in a way that serves the overall system and the electricity market, and to create long-term planning security.

45. Expand the grid step by step to reduce costs: The Federal Government will implement the measures that have been confirmed in the Network Development Plan in coordination with the transmission system operators and the Bundesnetzagentur in order to optimise the use of resources, while simultaneously avoiding delays and grid bottlenecks, and thus reduce costs.

Priority should be given in particular to projects that are most beneficial for the grid as a whole, and thus offer the greatest potential for cost savings. This graduated approach is also intended to enable an efficient planning of the projects and their implementation.

It is crucial to keep redispatch and grid costs as low as possible so that electricity prices remain affordable both for households and for businesses.

In our review of the expansion of the grid to be carried out as early as 2025 as part of the grid development planning procedure, we will place the focus on the grids' ability to meet demand as well as its cost-effectiveness and efficiency. The Federal Government will continue to enhance the cost efficiency and speed of the expansion of the power grid and use the next Network Development Plans in particular for this purpose. In this process, new findings and regulatory tools, such as the Power Plant Strategy, the planned capacity mechanisms contained therein, plans for the hydrogen core network and the Carbon Dioxide Storage Act will be taken into account.

Under these premises, projects in the Network Development Plan 2024 that were confirmed in the Federal Requirements Plan will continue to be examined in an open-ended manner within the context of the Network Development Plan 2025.

46. Ensure and diversify the supply of natural gas: A sufficient supply of LNG at global level is essential for ensuring a more secure and affordable energy supply. In addition to pipeline-based gas imports from Norway and LNG imports at global market prices, Germany must further diversify its supply of natural gas. The Federal Government is engaged in a dialogue with energy companies on how it

can support them in specific gas projects. It has developed climate strategies that are linked to its foreign trade and investment guarantees as well as sector guidelines for relevant key sectors. In this context, it provides for exemptions for natural gas projects if these are necessary for national security or geostrategic supply security interests, and if implemented in a manner consistent with the 1.5-degree limit and without creating lock-in effects; we will also take into account the additional potential offered by the domestic production of natural gas.

The Federal Government will present a biomass strategy in the near future which will define ways to utilise the potential of biomass in a sustainable and cost-efficient manner. The strategy will also explore the extent to which both domestic and imported bioenergy can contribute to further strengthen the security of gas supply.

47. Promote fusion energy: The Federal Government is developing a Fusion Energy Roadmap, which contains a clear commitment to unleashing the vast potential of fusion energy and to using the related technology in the future once it has been brought to market maturity. It promotes the related research and points the way to the development of a commercial fusion power plant. The aim is to expand Germany's leading role in this technology field.

48. Advocate reimbursement of carbon costs for exports: In order to mitigate the distortion of export prices caused by domestic carbon pricing, carbon costs of exports should be reimbursed. Such reimbursement on the export side would logically complement the newly introduced European Carbon Border Adjustment Mechanism on the import side. The Federal Government will therefore push for the development of a WTO-compatible solution at European level. The introduction of a purely financial reimbursement while maintaining the obligation to purchase emission allowances would not allow any additional emissions within the EU and would therefore not undermine the climate targets.

49. Drive forward the decarbonisation of the heat supply: As we seek to drive forward the decarbonisation of the heat supply, broaden the options for

decarbonised heat supply and accelerate the ramp-up of geothermal energy, the Federal Government, together with KfW and the insurance industry, will provide better insurance cover against the exploration risk of geothermal drilling in Germany. The Federal Government will provide financial backing for 65 relevant geothermal projects to substantially advance the decarbonisation of heating networks in Germany.