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K&L Alert - Relevant Aspects of the German Stimulus Package II

Responding to the unexpected and powerful deterioration in the economic outlook, the German Parliament adopted the "Pact for employment and stability in Germany" (*Gesetz zur Sicherung der Beschäftigung und Stabilität in Deutschland*) on 2 March 2009.

Following the Financial Market Stabilisation Act (*Finanzmarktstabilisierungsgesetz*), enacted in October 2008, this second stimulus program has been designed to stabilise the German economy and targets five core areas: the easing of the credit market, public investment, employment and skills, tax reduction and sustainable fiscal policy.

Credit and Guarantee Program

The main objective of the new program is the extension of the credit and guarantee program offered by German KfW bank, a development bank owned jointly by the Federal Republic (*Bund*) and the states (*Länder*). In order to safeguard supply of credits to companies, the Federal Republic through KfW will assist private banks in the provision of loans.

Under the new program, KfW will guarantee up to 80% of the loan value to businesses which find it difficult to obtain credit from private banks. Companies taking advantage of the program will apply for loans in the usual way and then apply to KfW for a guarantee. Protecting lenders from the default risk to a large degree, the guarantee is intended to facilitate the extension of credit to commercially robust and profitable businesses that are currently facing difficulties in obtaining capital to maintain their required level of liquidity. A total of EUR 100 billion has been earmarked for such guarantees.

The new program also makes more flexible the conditions for participation in the "KfW Special Program 2009", which was introduced with the first stimulus package already last year to assist small- and medium-sized companies with the financing of both innovation projects as well as machines and equipment. Additionally, larger companies (i.e., companies with more than 1,000 employees) will be able to apply to KfW for loans with a term of at least one year in order to bridge short-term liquidity shortfalls. Application forms are available on KfW's website.

Investments in Infrastructure

The new program also provides for a simplification of the public procurement process for building work and services planned for a limited period of time by temporarily raising the thresholds for "single tendering" (awarding of contracts without public invitation to tender) and "limited invitations to tender" (invitations to tender made to a limited group of companies). The program also specifically targets investments in the expansion of broadband communications networks.

The new program also intends to encourage car sales by extending the already ubiquitous „eco-premium“ (*Ökoprämie*) to the exchange of older cars for new ones (*Abwackprämie*).

Safeguard Jobs

To safeguard jobs and avoid discharge of workforce, the new program facilitates the possibility of so-called „short-time“ work (*Kurzarbeit*). Short-time compensation for such work will be paid by the Federal Employment Office for a period of up to 18

months. Companies shall use this short-time work to invest in the qualification of their workforce and will receive subsidies for advanced training and education of their employees.

Other measures in the new program focus on providing relief to private households and increasing consumer demand intending to boost the German economy.

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