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What the German coalition agreement means for business

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CDU/CSU and SPD today agreed on a coalition treaty. The way for a new German government is now paved. The Bundestag will probably elect Mr. Merz, the CDU party head, Chancellor in early May.

We assess the coalition agreement from a business point of view and ask whether there are improvements in problematic areas that, according to surveys, are particularly pressing for companies and that are responsible for the erosion of German competitiveness over the last ten years.

Corporate taxes: Improvements likely, but not immediate

The fact that the business environment has deteriorated so much in recent years is also due to corporate taxes, which have fallen in many other countries, but not in Germany. In this respect, it is positive that the corporate tax rate is to be reduced in five steps of one percentage point each. However, the reduction is not scheduled to begin until 2028 and is subject to financing.

The solidarity surcharge, which many entrepreneurs also pay, is not to be reduced or abolished. The planned 30% depreciation on equipment investments for the years 2025, 2026 and 2027 will encourage short-term investment, but will not provide lasting relief for companies.

However, individual sectors will be subsidized. For example, the VAT on food in restaurants will be permanently reduced to 7%. The agricultural diesel reimbursement will be fully reintroduced.

Reducing bureaucracy: Some concrete steps, but more declarations of intent

Excessive bureaucracy is also a burden for many German companies. The coalition agreement commits to the goal of reducing red tape. In particular, the new government wants to abolish obligations to appoint company representatives and significantly reduce mandatory training and documentation, with small and medium-sized companies in mind. In addition, the national supply chain law will be abolished. This is a positive step, although it is not yet clear whether the German law implementing the European Supply Chain Directive will ultimately be truly 'low-bureaucracy and enforcement-friendly', as promised. Otherwise, the future coalition partners are committed to the goal of reducing the administrative burden on businesses by 25%, although it is not clear how this goal is to be achieved. Here, declarations of intent dominate.

Infrastructure: Really faster approvals?

Many companies suffer from the often dilapidated infrastructure. In this respect, it is welcome that the Bundestag and Bundesrat have now agreed on a special budget ('special fund') for infrastructure in the amount of EUR 500 billion. It is important that these funds are ultimately spent primarily on roads, bridges, railways and schools and not for other purposes.

To ensure that companies benefit from additional funding for infrastructure in the foreseeable future, the new federal government wants to speed up the planning and approval procedures as part of a future infrastructure bill. These projects are to be in the 'overriding public interest', which shortens legal disputes. But it is not clear whether the excessive rights of environmental organizations to participate and take legal action will actually be limited in the end. There is no explicit commitment to this in the coalition agreement.

Non-wage labor costs: Increase not stopped

Non-wage labor costs have risen sharply in recent years. The future coalition partners want to stick to a demographic factor which could dampen pension increases in principle, but are nevertheless maintaining a pension level of 48% until 2031 and a subsidy for early retirement . Given these conditions, non-wage labor costs are likely to continue to rise.

Minimum wage: 15 euros remains the target

As far as the minimum wage is concerned, the minimum wage commission is to be guided by both the development of collective agreements and 60 per cent of the gross median wage of full-time employees. According to the coalition agreement, a minimum wage of 15 euros can be achieved in 2026 by following this path. That would be an impressive increase of 17 percent.

Automotive industry: Openness to technology!

The future coalition partners are committed to openness to technology with regard to the automotive industry. They want to avert fines from the EU due to fleet limits. A general statutory quota for electronic vehicles is rejected.

Energy costs: Some relief

The comparatively high energy costs are also a major issue for many German companies. Here, the coalition partners want to relieve companies of 5 cents per KWh by capping grid fees and reducing the electricity tax. The subsidized industrial electricity price for particularly energy intensive companies will be continued.

Ultimately, however, the economy as a whole will only be helped if politicians reduce the shortage of base-load electricity. With this in mind, the German government wants to create incentives for the construction of up to 20 GW of natural gas-fired power plant capacity by 2030. At last year's capacity utilization, these new power plants would increase electricity production in Germany by around 6%. However, there is no talk of reopening the nuclear power plants.

Conclusion: No broad-based fresh start

The coalition agreement between the CDU/CSU and the SPD contains a few points that will support businesses – such as the planned reduction in the corporate tax rate from 2028 onwards, the abolition of the German Supply Chain Act and relief on electricity costs. But all in all, it is unlikely to represent the fresh start in economic policy that would be needed to address the erosion of Germany's competitiveness that has been going on for years. However, more was not to be expected because the future coalition partners have a different understanding of economic policy.

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