



By: TA | AP Insight

Will Merz's sweeping reform put Germany back on track?



German Chancellor Friedrich Merz and his government coalition partners presented a comprehensive reform package Thursday with the goal of getting the country's sluggish economy back on track.

The 34 measures include cuts to income tax for low- and middle income families, an overhaul of the **creaking pension system**, tougher rules for employees' sick leave and a reduction of the country's stifling bureaucracy.

"These reforms all have one goal: We're setting out into the future," Merz said Thursday. "We're strengthening ourselves so that we can live well in these new times."

Merz's coalition of center-right and center-left parties **took office** just over a year ago with pledges to reform and turn around Germany's sluggish economy, **Europe's biggest**.

It has since become deeply unpopular, in part because of perceptions that it has squabbled but so far achieved little.

Merz is trying to cut his government coalition free from that negative reputation.

"From the very beginning, we set an agenda with a single goal in mind: We want to get Germany back on track. It is now clear that this is possible," the conservative chancellor said.

Deep-seated problems include energy costs and lagging investment

Germany's economy returned to **modest growth** last year after shrinking for two years in a row.

The government expects underwhelming growth of 0.5% this year, a figure that has been pushed down by the fallout from the war in Iran.

The country of 83.5 million people already faced increasing competition from Chinese

companies, higher energy costs following Russia's full-scale invasion of Ukraine and issues including U.S. President Donald Trump's tariffs and trade threats.

On top of that, it has deeper problems such as high production costs, lagging private investment and increasingly costly health and pension systems caused by an aging population.

On Thursday, the government coalition leaders said that the tax cuts, once fully implemented in 2028, would give an annual tax break of about 600 euros (\$64.40) for a family with two working parents, two children and a total taxable income of 60,000 euros (\$64,416).

Merz had repeatedly complained that the rate of sick leave is too high in Germany, harming productivity

The total tax relief provided by the reform amounts to approximately 10 billion euros (\$11.4 billion) per year.

The pension system reform would include gradually raising the retirement age, currently between 65 and 67 years depending on the number of years worked, in line with life expectancy.

The coalition leaders said they would implement the recommendations presented by a government-mandated panel of experts and politicians last month to stabilize the pension system.

The aim is to prevent the level of pensions from falling and ward off the need for a big, long-term increase of the levy employees pay into the pension system.

The tougher rules for sick leave would no longer allow employees to call in sick to work for up to three days without seeing a doctor or call up the doctor and ask for a sick leave letter of one week without actually seeing the doctor.

Instead, employers would be able to ask for a doctor's certificate from the first day a person is on sick leave.

Merz had repeatedly complained that the rate of sick leave is too high in Germany, harming productivity.

Far-right party pours cold water on the reforms

When it comes to Germany's runaway bureaucracy, various reporting and documentation requirements are to be eliminated, and data protection is to be reduced to the European minimum, the government said, adding that there would also be less red tape when it comes to filing tax returns.

Alice Weidel, the co-leader of the far-right Alternative for Germany party, which placed **second in national elections** last year, derided the reform package.



The fact that this is being sold as a 'breakthrough' shows only one thing: this government's complete inability to reform - Alice Weidel

On X, she called the measures an “even more left-wing redistribution, and minimal compromises that don't deserve to be called ‘reforms’.”

“The fact that this is being sold as a ‘breakthrough’ shows only one thing: this government's complete inability to reform,” she wrote.

Nonetheless, Merz appealed to all Germans to support the package.

“We know that you, ladies and gentlemen – the citizens of our country – want decisions, and you don't want conflict. And that is exactly what we have delivered,” he said at the chancellery's garden in Berlin as the reforms were presented to the public.

“Join us; support us in carrying out the reforms that are now necessary.”