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INFO SAVING EC POSTS, UKDEL OECD, UKMIS GENEVA, WASHINGTON,  
TOKYO, VIENNA, CONSULATE-GENERALS IN THE FRG

FRG: DRAFT FEDERAL BUDGET FOR 1985

SUMMARY

1. THE CABINET TODAY AGREED THE DRAFT FEDERAL BUDGET FOR 1985 AND THE FINANCIAL PLAN 1984-88 (IE NOT INCLUDING STATE AND LOCAL AUTHORITY EXPENDITURE WHICH ACCOUNTS FOR 57 PER CENT OF ALL EXPENDITURE). PARLIAMENT WILL DISCUSS IN SEPTEMBER AND THE BUDGET WILL BE VOTED ON AT THE END OF 1984 OR EARLY 1985. THE GOVERNMENT'S MEDIUM TERM FINANCIAL OBJECTIVE IS TO REDUCE THE BUDGET DEFICIT FROM AROUND DM 29.5 BILLION IN 1984 (PROJECTED OUT-TURN) TO DM 22.4 BILLION IN 1988. RECENT REVISIONS OF ESTIMATES OF THE NUMBER OF UNEMPLOYED AND OF DEBT INTEREST PAYMENTS HAVE ALLOWED THE GOVERNMENT TO REDUCE THE ORIGINAL BUDGET DEFICIT FORECAST FOR 1984 DOWNWARDS FROM THE DM 33.6 BILLION FORESEEN IN JANUARY. TOTAL EXPENDITURE IN 1985 WILL RISE BY ABOUT 2.4 PER CENT IN NOMINAL TERMS (GDP DEFLATER 3 PER CENT) AS COMPARED WITH 1984 IE A CHANGE IN REAL TERMS OF 0.6 PER CENT. REVENUE WILL INCREASE BY 6.6 PER CENT NOMINAL.

2. INDIVIDUAL MINISTERIAL BUDGETS HAVE ALSO BEEN AGREED. THE FEDERAL MINISTRY OF DEFENCE VOTE WILL INCREASE BY A NOMINAL 3.7 PER CENT (FIGURES ON NATO DEFINITION ARE NOT YET KNOWN) TO AROUND DM 49.3 BILLION. THE BUDGET OF THE FEDERAL MINISTRY OF LABOUR AND SOCIAL AFFAIRS WILL DECREASE BY ABOUT 3 PER CENT AS A RESULT OF FALLING COSTS OF UNEMPLOYMENT BENEFITS TO DM 57.6 BILLION.

DETAIL

3. FINANCE MINISTER STOLTENBERG'S DRAFT BUDGET FOR 1985 AND THE FINANCIAL PLAN FOR 1984-88 WERE AGREED BY CABINET ON 3 JULY. THE FULL DETAILS WILL BE PUBLISHED IN ABOUT A MONTH'S TIME. THE BUDGET REQUIRES PARLIAMENTARY CONSENT, WHEREAS THE PLAN IS ONLY AN EXPRESSION OF THE GOVERNMENT'S CURRENT INTENTIONS. THE BUDGET WILL BE SUBMITTED TO PARLIAMENT IN EARLY SEPTEMBER FOR SCRUTINY BY BOTH HOUSES AND DETAILED EXAMINATION ON COMMITTEE. MINOR CHANGES IN INDIVIDUAL DEPARTMENTAL VOTES ARE TO BE EXPECTED. THE BUDGET IS LIKELY TO BE PASSED BY THE END OF 1984 OR EARLY IN 1985.

4. FOR PLANNING PURPOSES THE GOVERNMENT ASSUME THAT GNP WILL GROW BY 2.5 PER CENT IN REAL TERMS IN 1985 AND AT THE SAME RATE IN THE YEARS 1986-88. THE PLAN ASSUMES THAT INFLATION WILL RUN AT 3 PER CENT THROUGHOUT THE PERIOD. THE NUMBER OF UNEMPLOYED IN 1985 IS EXPECTED TO BE 2.1 MILLION ON ANNUAL AVERAGE AFTER 2.2 MILLION IN 1984.



5. THE FRAMEWORK FOR THE 1985 BUDGET AND THE FIVE YEAR PLAN IS AS FOLLOWS:  
 FRAMEWORK FEDERAL BUDGET 1983-85 (DM BILLION) (IN NOMINAL TERMS)

	OUTTURN 84	PLAN 85	PLAN 86	PLAN 87	PLAN 88
EXPENDITURE	254.0	260.2	268.0	276.0	284.0
% INCREASE ON PREVIOUS YEAR	2.9%	2.4%	3.0%	3.0%	2.9%
% INCREASE ON PREVIOUS YEAR PLAN		1.2%			
REVENUE					
TAX REVENUE	199.0	211.7	218.5	231.3	241.8
ADMINISTRATION REVENUE	25.5	24.2	23.1	21.1	19.4
OF WHICH:					
BUNDESBANK PROFIT	11.4	10.5	9.0	7.0	5.0
MINT REVENUE	0.3	0.3	0.4	0.4	0.4
FEDERAL PSBR	29.5	24.0	26.0	23.2	22.4
AS% OF GNP	1.7%	1.3%	1.3%	1.1%	1.0%
OUTTURN 84 - FORECAST					

6. THE FOREMOST OBJECTIVE OF THE GOVERNMENT IS TO CONTINUE TO REDUCE THE BUDGET DEFICIT FROM AROUND DM 29.5 BILLION IN 1984 TO DM 22.4 BILLION IN 1988. THE ESTIMATED INCREASE IN THE BUDGET DEFICIT IN 1986 COMPARED WITH 1985 IS DUE TO THE EFFECTS OF THE INTRODUCTION OF THE FIRST STAGE OF TAX REFORM (BONN TELNO 647 OF 29 JUNE). THE ANNUAL COST TO THE FEDERAL GOVERNMENT OF TAX REFORM IS ESTIMATED, IN THE YEARS 1986, 1987 AND 1988, TO BE DM 4.5 BILLION, DM 5.0 BILLION AND DM 8.5 BILLION RESPECTIVELY.

7. THE REDUCTION IN THE 1984 BORROWING REQUIREMENT RESULTS FROM, INTER ALIA A DOWNWARD REVISION IN THE ESTIMATED NUMBER OF UNEMPLOYED FROM 2.5 MILLION TO 2.2 MILLION (SAVING DM 1.5 BILLION) AND LOWER INTEREST PAYMENTS ON THE GOVERNMENT BORROWING REQUIREMENT (SAVING DM 0.5 BILLION).

8. THE REDUCTION IN THE 1985 BORROWING REQUIREMENT WILL BE POSSIBLE AS A RESULT OF INCREASED REVENUE DUE TO AN INCREASE IN REAL GNP GROWTH TO 2.5 PER CENT. IN ADDITION THE ESTIMATED NUMBER OF UNEMPLOYED (ANNUAL AVERAGE) WILL FALL TO 2.1 MILLION WHILE THE BUNDESBANK WINDFALL PROFIT WILL AMOUNT TO AN ESTIMATED DM 10.5 BILLION.

9. IT IS CLEAR THAT THE GOVERNMENT'S EARLIER AMBITION TO REDUCE SUBSIDIES TO THE AILING INDUSTRIES HAS NOT BEEN REALISED. THE FIGURES FOR 1985 INCLUDE NOTABLE INCREASES ON EARLIER ESTIMATES FOR: STEEL, UP DM 225 MILLION TO DM 425 MILLION: SUBSIDIES FOR COKING COAL UP BY DM 450 MILLION TO DM 1 BILLION: PAYMENTS TO THE FEDERAL RAILWAYS UP BY DM 254 MILLION TO DM 13.1 BILLION WHILE UNEMPLOYMENT ASSISTANCE TO THE LONG TERM UNEMPLOYED WILL INCREASE BY DM 1.3 BILLION TO DM 8.5 BILLION. 2



10. CAPITAL EXPENDITURE IN 1985 WILL REACH DM 36.2 BILLION AFTER DM 35.3 BILLION IN 1984. ITS SHARE OF TOTAL EXPENDITURE THUS REMAINS CONSTANT AT 13.9 PER CENT AND, AS STIPULATED IN THE CONSTITUTION, THE LEVEL OF CAPITAL EXPENDITURE REMAINS ABOVE THE BORROWING REQUIREMENT.

11. THE INDIVIDUAL MINISTERIAL VOTES PROPOSED SHOW, INTER ALIA NOMINAL INCREASES OF 3.7 PER CENT FOR THE MINISTRY OF DEFENCE VOTE (NATO FIGURES NOT YET KNOWN): A DECREASE OF 10 PER CENT FOR THE MINISTRY OF THE ECONOMY: AND INCREASE OF 51 PER CENT FOR THE MINISTRY OF POSTS AND TELECOMMUNICATIONS DUE TO EXPENDITURE ON CABLE TELEVISION: AN INCREASE IN THE AID VOTE OF 3.3 PER CENT, WHILE THE MINISTRY OF LABOUR AND SOCIAL AFFAIRS VOTE DECLINES BY 3.1 PER CENT AS A RESULT OF LESS UNEMPLOYMENT BENEFIT (ALTHOUGH UNEMPLOYMENT ASSISTANCE INCREASES) REFLECTING THE TREND TOWARDS HIGHER LONG TERM UNEMPLOYMENT.

FCO PLEASE ADVANCE TO:  
BOTTERILL, TREASURY  
KIRBY, BANK OF ENGLAND  
ROLLO, ESID, FCO  
AND PLEASE PASS SAVINGS EXCEPT TO CGS IN THE FRG. (ADVANCED AS REQUESTED)

MALLABY

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