

UNCLASSIFIED
SAVING TELEGRAM

FROM BONN

FRAME ECONOMIC

TO FCO TELNO 07 SAVING OF 19 MAY 1989. Info. Brussels,
Luxembourg, The Hague, Paris, Rome, UKRep Brussels,
UKDEL OECD, UKMis Geneva, All Consulates-General in
the Federal Republic and West Berlin, Washington,
Tokyo, Vienna.

FEDERAL GERMAN ECONOMY

SUMMARY

1. The Government announced the abolition of the domestic 10% withholding tax. The expected fall in unemployment below 2 million did not happen, but at 2.03 million unemployment is 10% lower than a year earlier.
2. The business climate survey for March indicated a slight fall in confidence, but overall prospects remain good. New orders increased strongly, by 3.5% compared with February. Production levels fell in seasonally adjusted terms by 1%. Construction output remains strong, rising by 24.3% on a two-month comparison with February and March last year. Private consumption appears to be faltering with retail turnover growing by only 1.7% in real terms in Q1. Inflation reached 3% in April.
3. Detailed foreign trade figures for 1988 reveal that 70% of German exports went to western European countries. EC member states alone accounted for DM 308.2 billion of German exports. Current account figures for March indicate a rise in the surplus to DM 9 billion. The visible trade surplus reached DM 12.8 billion. On the current account, long-term capital outflows accelerated to DM 14.4 billion.
4. Activity was subdued on German stock markets in April/May with concern over higher interest rates and the strength of the US dollar. Market interest rates have reached a new high point, but the Central Bank Council left official interest rates unchanged at its latest meeting. Money supply growth eased in March.

DETAIL

5. The Government announced the abolition of the domestic withholding tax with effect from 1 July 1989. At the same time, thresholds for income tax on income from savings will be doubled, the amendment to be back-dated to 1 January 1989. The necessary legislation received its first reading in the Bundestag (lower house) on 12 May. The Federal Finance Minister announced that the short-fall in public sector revenue from abolition of the tax will be compensated for by higher than expected tax receipts this year. The latest assessment by the working group on tax estimates suggested that revenue will be DM 6.1 billion higher than expected because of strong economic activity.

LABOUR AND SOCIAL AFFAIRS

6. The much heralded fall in unemployment to below 2 million failed to materialise in April. The number of people out of work fell by 143,100 (7%) to 2,035,100 with the unemployment rate declining to 7.9% from 8.4%. Compared with a year earlier there are now 226,600 or 10% fewer people unemployed. According to Franke, President of the Federal Labour Institute, the lower than expected fall in unemployment in April was above all due to the favourable development in the earlier months of the year when fewer people than usual had been laid off. The slight increase in the seasonally adjusted figure was also a reflection of this. The fall below 2 million has now been confidently predicted for May. Provisional figures on employment for March show a rise on a year earlier of 286,000

** UNEMPLOYMENT **	April 88	March 89	April 89
a) Unemployment total - rate (%)	2,261,672 (8.9%)	2,178,164 (8.4%)	2,035,104 (7.9%)
b) Adjusted total	2,265,000	2,010,000	2,023,000
c) Short-time working	260,848	185,918	200,221
d) Unfilled Vacancies	193,065	232,546	237,988
e) Total men in a)	1,218,789	1,190,906	1,071,437
f) Total women in a)	1,042,883	987,258	963,667

