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SAVING TELEGRAM

FROM BONN

FRAME ECONOMIC

TO FCO TELNO 9 SAVING OF 14 July 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.

FRG ECONOMY

SUMMARY

1. Draft 1990 Federal budget allows for spending to increase by 3.4% to DM 301.35 billion. Federal borrowing to increase to DM 33.67 billion, but it is expected to fall in subsequent years. (Paras. 7 to 9)
2. Unemployment continues to fall and remains under 2 million at 1.91 million. Vacancies continue to climb. (Para. 10)
3. The May survey of the business climate recorded a further improvement but the consumer climate index fell. New orders fell by 3%, mainly through seasonal factors, although foreign demand remained high. Production also fell for the same domestic reasons while the two-monthly comparison shows a sharp increase year-on-year, indicating the underlying strength of output. Construction activity continued to fall from recent high levels and there were indications of skilled labour shortages. (Paras. 11 to 14)
4. Retail turnover rose 3.1% in May compared to a year earlier but private consumption is still expected to contribute no more than 2% growth during the year. Inflation, cost of living index, was revised upwards for June to 3.1%, the same as in May. (Paras. 15 to 17)
5. The growth of the money supply continued to slow with M3 rising by 5.4% on Q4 1988. Interest rates were nevertheless raised by 0.5%. On the foreign exchanges, the dollar took centre stage, falling sharply below DM 1.90. German stock markets remained strong and figures for the first half of the year show turnover markedly higher than the same period last year. (Paras. 18 to 22)
6. The current account surplus rose in May to DM 8.6 billion, while the surplus on visible trade grew to DM 10.5 billion. The reverse of strong capital outflows following the withdrawal of the domestic withholding tax, served to bring the capital account almost to balance. FRG imports from the UK in the twelve months to March rose by 6.4% while exports to the UK increased by 18% to give a trade gap in favour of the FRG of DM 24.4 billion. (Paras. 23 to 27)

FRAME ECONOMIC

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MR RATFORD.

DETAIL

DRAFT 1990 FEDERAL BUDGET

7. The draft 1990 Federal budget was approved by Cabinet on 5 July. Overall Federal spending will increase by 3.4%. Within that the rate of increase for individual ministerial votes differs appreciably. The two largest spending ministries, Labour and Social Affairs and Defence, rise by 4.4% and 3.3% respectively. But the Post and Telecommunications budget increases by a massive 353%, DM 286.8 million in nominal terms, in order to cope with additional investment needed following the reorganisation of the Bundespost.

8. On the revenue side, total revenue will increase from DM 263.5 billion this year to DM 267.7 billion, with the Federal share of tax revenue alone rising from DM 241.4 billion to DM 242.1 billion. Federal borrowing in 1990 will reach DM 33.7 billion compared with DM 27.8 billion this year. In the five year financial plan, agreed at the same time as the budget, borrowing is expected to fall gradually.

FINANCE PLAN 1989-1993					
	Plan 89	Draft 90	1991	1992	1993
	in DM billion				
I. Expenditure	291.31	301.35	311.4	320.0	329.0
% increase on previous year	+ 5.8	+ 3.4	+ 3.3	+ 2.8	+ 2.8
II. Revenue	263.49	267.68	279.2	292.5	303.4
1. Tax revenue ...	241.40	242.07	253.5	266.8	277.7
2. Admin revenue ..	22.09	25.61	25.7	25.7	25.7
of which:					
- Bundesbank ..	5.00	7.00	7.0	7.0	7.0
- Privatisation	0.20	0.50	-	-	-
- Mint revenue	0.80	0.90	0.8	0.8	0.8
3. Borrowing Requirement ...	27.83	33.67	32.2	27.5	25.6

Source: BMF

9. Introducing the budget, the Federal Finance Minister, Waigel, emphasised the strong performance of the economy. The opposition claimed rather lamely that the budget was unconstitutional because of the increased borrowing. The draft budget will be debated in the Bundestag after the summer break before moving on to the committee stage for line-by-line examination.

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FRG ECONOMY: JUNE SUMMARY REPORT

SUMMARY

1. JUNE INFLATION FIGURES SUGGEST SOME EASING OF PRESSURE ON PRICES, BUT THE CONTINUED WEAKNESS OF THE D-MARK AGAINST THE US DOLLAR AND SIGNS OF CAPACITY CONSTRAINTS BROUGHT A WARNING OF OVERHEATING FROM THE BUNDESBANK AND A DECISION TO RAISE INTEREST RATES BY A FURTHER 0.5 PER CENT.

2. RECENT INDUSTRIAL ECONOMIC FORECASTS HAVE CONFIRMED THE CONTINUED STRENGTH OF ECONOMIC GROWTH, PARTICULARLY INVESTMENT AND FOREIGN DEMAND, BUT THERE IS LESS CONSENSUS OVER DEVELOPMENTS NEXT YEAR.

3. THE DRAFT 1990 FEDERAL BUDGET WILL BE DISCUSSED IN CABINET LATER THIS WEEK. SPENDING IS SET TO RISE BY 3.4 PER CENT.

DETAIL

ECONOMIC DEVELOPMENTS

4. PROVISIONAL JUNE INFLATION FIGURES INDICATED AN EASING OF PRESSURE ON PRICES TO AN ANNUAL RATE OF 2.9 PER CENT, SLIGHTLY DOWN ON THE MAY FIGURE OF 3.1 PER CENT. IN ITS LATEST MONTHLY REPORT THE BUNDESBANK ATTRIBUTED MUCH OF THE INCREASE IN THE COST OF LIVING TO HIGHER IMPORT PRICES, UP 7.1 PER CENT IN THE 12 MONTHS TO MAY, EXACERBATED BY THE WEAKER D-MARK. THE BUNDESBANK ALSO POINTED TO SIGNS OF OVERHEATING IN THE ECONOMY, WITH STRONG FOREIGN DEMAND AND HIGH CAPACITY UTILISATION LEADING TO SUPPLY BOTTLENECKS. REPORTS FROM THE REAL ECONOMY INDICATE THAT ACTIVITY IS RUNNING AT A HIGH LEVEL. THE LATEST MONTHLY BUSINESS CLIMATE INDEX FROM THE MUNICH-BASED IFO ECONOMIC INSTITUTE CLIMBED FURTHER IN MAY, REACHING 114.3 (113.9 IN APRIL). COMPANIES REPORTED CONTINUED FIRM FOREIGN DEMAND. PRODUCTION WAS GENERALLY PLANNED TO EXPAND. SOME EASING OF PRESSURE FOR PRICE RISES WAS ALSO REPORTED. THE CONSTRUCTION SECTOR REMAINED PARTICULARLY STRONG. A TRADE ASSOCIATION REPORT FORECAST 5 PER CENT GROWTH DURING THE YEAR. IN THE FIRST FOUR MONTHS ALONE,