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OF 241744Z OCTOBER 90
INFO ROUTINE EC POSTS, UKDEL OECD, UKDEL IMF/IBRD
INFO SAVING BERLIN AND CONSULATES-GENERAL IN THE FRG

FRAME GERMANY

THE FRG ECONOMY POST-UNIFICATION

SUMMARY

1. LATEST FORECAST OF ECONOMIC GROWTH NEXT YEAR LESS OPTIMISTIC THAN THAT OF THE GOVERNMENT. THE INTERNAL DEBATE ABOUT THE EFFECT OF UNIFICATION ON THE ECONOMY AND THE COST OF DEALING WITH IT HAS BEGUN TO HOT UP IN ANTICIPATION OF THE ELECTIONS.

DETAIL

2. ON 22 OCTOBER THE FIVE LEADING ECONOMIC INSTITUTES IN THE FEDERAL REPUBLIC PUBLISHED THEIR BI-ANNUAL REPORT AND FORECAST ON THE GERMAN ECONOMY (DETAILS BY BAG TO FCO AND TREASURY). THE REPORT ACKNOWLEDGES THE DIFFICULTY OF FORECASTING THE ECONOMY IN THE FORMER GDR, BUT WARNS THAT THE FIVE EASTERN LAENDER WILL EXPERIENCE A NOMINAL DECLINE OF 16 PER CENT THIS YEAR AND HALF AS MUCH IN 1991. IT ALSO POINTS TO SIGNS OF AN ECONOMIC SLOWDOWN IN THE WESTERN PART OF GERMANY AND CLAIMS THAT ALL-GERMAN ECONOMIC GROWTH NEXT YEAR WILL BE ONLY 1.5 PER CENT IN REAL TERMS. IN ADDITION, IT FORECASTS THAT UNEMPLOYMENT IN THE EAST WILL RISE TO 1.4 MILLION (NOT INCLUDING SHORT TIME WORKERS) WHICH, COMBINED WITH A SLIGHT INCREASE IN THE WEST, WILL PUSH UP THE ALL-GERMAN RATE FROM 6 PER CENT THIS YEAR TO 9.5 PER CENT IN 1991.

3. THE INSTITUTES ESTIMATE THAT DM 71 BILLION WILL NEED TO BE BORROWED ON THE CAPITAL MARKETS THIS YEAR, RISING TO DM 90 BILLION NEXT YEAR OR 3 PER CENT OF GNP. THEY ARGUE STRONGLY AGAINST THE USE OF TAX INCREASES TO LIGHTEN THE BURDEN, SAYING THAT THE GOVERNMENT SHOULD LOOK FOR SAVINGS. THEY CALL FOR STRICT PUBLIC EXPENDITURE DISCIPLINE, CUTS IN SUBSIDIES AND TAX RELIEFS, PARTICULARLY TO FORMER BORDER AREAS, AND A REDUCTION IN DEFENCE SPENDING.

4. THE REPORT WAS CRITICISED BY THE FEDERAL ECONOMICS MINISTER, HAUSSMANN, WHO REPEATED THE GOVERNMENT'S FORECAST THAT GROWTH WOULD

BE BETWEEN 2.5 AND 3 PER CENT NEXT YEAR. HE RECEIVED SOME SUPPORT FROM FINANCIAL AND INDUSTRIAL ORGANISATIONS, WHICH SAID THAT THE INSTITUTES HAD EXAGGERATED THE PRESSURES OF UNIFICATION. BUT THE OPPOSITION AND THE TRADES UNIONS SAID THE REPORT VINDICATED THEIR CLAIM THAT THE GOVERNMENT HAS NO POLICY ANSWER FOR THE ECONOMIC COLLAPSE AND RISING UNEMPLOYMENT IN THE FIVE EASTERN LAENDER. THE REPORT ALSO RECEIVED SOME INDIRECT SUPPORT FROM BUNDESBANK DIRECTOR, TIETMEYER, WHO YESTERDAY REPEATED THAT INCREASED BORROWING COULD DE-STABILISE CAPITAL MARKETS AND CALLED INSTEAD FOR RADICAL CUTS IN SPENDING.

COMMENT

5. THESE REGULAR REPORTS USUALLY ATTRACT LITTLE INTEREST, BUT THIS IS THE FIRST TO APPEAR SINCE UNITY AND IT HAS RECEIVED FRONT-PAGE TREATMENT. IN TRUTH, THE DATA ON WHICH IT IS BASED (COLLECTED BY A WEST BERLIN INSTITUTE) ARE PROBABLY NO BETTER THAN THE OFFICIAL ESTIMATES, AND IT IS HARD TO KNOW WHICH ARE MORE ACCURATE, THOUGH UP TO NOW THE PESSIMISTS HAVE TENDED TO BE PROVED RIGHT BY EVENTS. IN THE FORTHCOMING ELECTION CAMPAIGN, THE OPPOSITION CAN BE EXPECTED TO MILK THE INSTITUTES' GLOOMY ANALYSIS FOR ALL IT IS WORTH.

6. THE INSTITUTES HAVE ADDED THEIR VOICES TO THOSE (INCLUDING THE BUNDESBANK) WHO ARE CONCERNED THAT THE FEDERAL GOVERNMENT HAS TURNED TOO QUICKLY AND TOO OFTEN TO THE CAPITAL MARKETS. THIS ISSUE IS ALSO LIKELY TO BE PROMINENT IN THE ELECTION CAMPAIGN, THOUGH AS YET THE OPPOSITION APPEARS TO HAVE NO CREDIBLE ALTERNATIVE TO THE GOVERNMENT'S STRATEGY.

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