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TO PRIORITY FCO

TELNO 559

OF 271488Z JUNE 86

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FRG DRAFT FEDERAL BUDGET FOR 1987

SUMMARY

1. TODAY STOLTENBERG GAVE HIS MINISTERIAL COLLEAGUES THE DRAFT OF THE 1987 FEDERAL BUDGET AND THE DRAFT FINANCIAL PLAN FOR 1986-90 FOR THEIR CONSIDERATION PRIOR TO A FULL CABINET MEETING ON 1 JULY. NO MAJOR CHANGES ARE ANTICIPATED.

DETAIL

2. THE DRAFT BUDGET UNDERLINES THE GOVERNMENT'S MEDIUM TERM FINANCIAL OBJECTIVE OF BUDGETARY CONSOLIDATION WITH PLANNED EXPENDITURE GROWTH OF 2.9 PER CENT (NOMINAL) ON 1986. THE FINANCIAL DEFICIT IS EXPECTED TO RISE SLIGHTLY TO DM 24.29 BILLION AFTER DM 23.5 BILLION THIS YEAR. STOLTENBERG HAS HIGHLIGHTED THE PROBLEMS ON THE REVENUE SIDE WHICH HAVE BEEN OBSERVED IN THE FIRST FIVE MONTHS OF THIS YEAR RESULTING FROM THE APPRECIATION OF THE DM AGAINST THE US DOLLAR AND THE EFFECTS OF LOWER INTEREST RATES WHICH WILL REDUCE THE BUNDESBANK'S WIND-FALL PROFIT TO DM 7 BILLION IN 1987 (AFTER DM 12.5 BILLION IN 1986).

3. WE UNDERSTAND FROM CONTACTS AT THE FEDERAL MINISTRY OF FINANCE THAT THE GOVERNMENT ASSUME GROWTH OF APPROXIMATELY 3 PER CENT REAL GNP IN 1987 (GNP DEFLATOR ABOUT 1.5 PER CENT) AND THAT UNEMPLOYMENT IS ASSUMED TO BE AROUND 9 PER CENT (ANNUAL AVERAGE). THE FRAMEWORK FOR THE 1986 BUDGET AND THE FIVE YEAR PLAN IS AS FOLLOWS:

FINANCE PLAN 1986-1990

	1986	DRAFT 87	1988	1989	1990
	IN DM BILLIONS (NOMINAL)				
I. EXPENDITURE	263.48	271.00	278.8	286.8	295.0
% INCREASE ON PREVIOUS YEAR	+ 2.5	+ 2.9	+ 2.9	+ 2.9	+ 2.9
II. REVENUE	239.82	246.71	252.8	261.7	272.7
1. TAX REVENUE	211.80	221.30	228.5	239.5	251.1
2. ADMIN REVENUE	27.69	25.02	23.9	21.8	21.2
BUNDESBANK	12.50	7.00	7.0	6.0	5.0
PRIVATISATION	0.50	3.00	1.5	-	-

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3. MINT REVENUE	0.33	0.39	0.4	0.4	0.4
4. BORROWING REQUIREMENT	<u>23.66</u>	<u>24.29</u>	<u>26.0</u>	<u>25.1</u>	<u>22.3</u>

4. ONCE AGAIN THE LARGEST MINISTERIAL VOTE REMAINS LABOUR AND SOCIAL AFFAIRS WITH DM 59.5 BILLION (A 1.8 PER CENT INCREASE) WHILE DEFENCE EXPENDITURE WILL RISE BY 2.8 PER CENT TO DM 51.3 BILLION. THE BUDGET ALSO INCLUDES PROVISION OF DM 0.4 BILLION FOR THE NEW ENVIRONMENT MINISTRY. THE DETAILED MINISTERIAL VOTES ARE AS FOLLOWS:

VOTE	PLAN 86	DRAFT 87	%CH. 87/86
	IN DM MILLION (NOMINAL)		
01 FEDERAL PRESIDENT'S OFFICE	19.6	20.7	11.3%
02 BUNDESTAG	474.3	514.5	8.5%
03 BUNDESRAT	12.6	12.3	-2.4%
04 FEDERAL CHANCELLOR'S OFFICE	501.6	514.5	2.6%
05 FOREIGN OFFICE	2,470.6	2,587.6	4.7%
06 INTERNAL AFFAIRS	3,467.7	3,715.3	7.1%
07 JUSTICE	385.8	424.7	10.1%
08 FINANCE	3,465.6	3,543.2	2.2%
09 ECONOMY	4,771.7	5,612.3	17.6%
10 FOOD, AGRICULTURE	6,924.2	7,823.9	13.0%
11 LABOUR AND SOCIAL AFFAIRS	58,489.9	59,546.8	1.8%
12 TRANSPORT	25,411.9	25,588.0	0.7%
13 POST AND TELECOMMUNICATIONS	15.4	32.5	111.0%
14 DEFENCE	49,911.1	51,300.0	2.8%
15 YOUTH FAMILY AND HEALTH	18,214.2	19,023.6	4.4%
16 ENVIRONMENT	358.6	427.5	19.2%
19 FED. CONSTITUTIONAL COURT	13.5	14.4	6.7%
20 FEDERAL AUDIT COURT	41.7	44.3	6.2%
23 OVERSEAS AID	6,787.2	6,975.0	2.8%
25 CONSTRUCTION	5,799.2	6,019.2	3.8%
27 INNER GERMAN RELATIONS	769.1	809.5	5.3%
30 RESEARCH AND TECHNOLOGY	7,410.9	7,560.0	2.0%
31 EDUCATION AND SCIENCE	4,057.8	3,957.7	-2.5%
32 FEDERAL DEBT	34,158.6	35,159.1	2.9%
33 SUPPLY	9,550.1	9,522.5	-0.3%
35 DEFENCE BURDENS	1,767.2	1,834.3	3.9%
36 CIVIL DEFENCE	851.6	866.3	1.7%
60 GENERAL FIN. ADMINISTRATION	17,379.0	17,550.3	1.0%
TOTAL	<u>263,480.0</u>	<u>271,000.0</u>	<u>2.9%</u>

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5. THE GOVERNMENT'S COMMITMENT TO PRIVATISATION HAS BEEN HIGHLIGHTED BY STOLTENBERG'S ANNOUNCEMENT THAT REVENUE WILL BE INCREASED BY DM 3 BILLION IN 1987 AND A FURTHER DM 1.5 BILLION IN 1988 AS A RESULT OF PRIVATISATION PLANS (DETAILS ARE NOT YET AVAILABLE). WE WILL REPORT THESE DETAILS AND ANY CHANGES IN THE DRAFT AFTER THE CABINET MEETING ON 1 JULY.

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FCO PLEASE ADVANCE TO: PS/CHANCELLOR OF THE EXCHEQUER
HM TSY/DOLPHIN
ESID/ROLLO
WED/DAIN (AND SIR J BULLARD)
3/ENGLAND/KIRBY

FCO PLEASE PASS TO SAVING ADDRESSEES

BPLNAN 1790

FINANCIAL
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-3-
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