

# Abstract of the Federal Ministry of Finance`s Monthly Report

July 2005

## Federal budget and fiscal policy figures and information

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## 1. Trends in the federal budget

	Estimated 2005	Provisional outturn <sup>1)</sup> January to June 2005
<b>Expenditure (€ bn)</b>	<b>254.3</b>	<b>136.1</b>
Change on year in %	1.1	3.9
<b>Revenue (€ bn)</b>	<b>232.0</b>	<b>96.6</b>
Change on year in %	9.5	7.1
Tax revenue (€ bn)	190.8	82.6
Change on year in %	2.0	- 0.3
<b>Financial deficit (€ bn)</b>	<b>- 22.3</b>	<b>- 39.4</b>
Cash shortfall (€ bn)	-	- 25.7
Adjusted for revenue from coin (€ bn)	- 0.3	- 0.1
<b>Net borrowing/current financial market balance (€ bn)</b>	<b>- 22.0</b>	<b>- 13.6</b>

<sup>1)</sup> As per accounts.

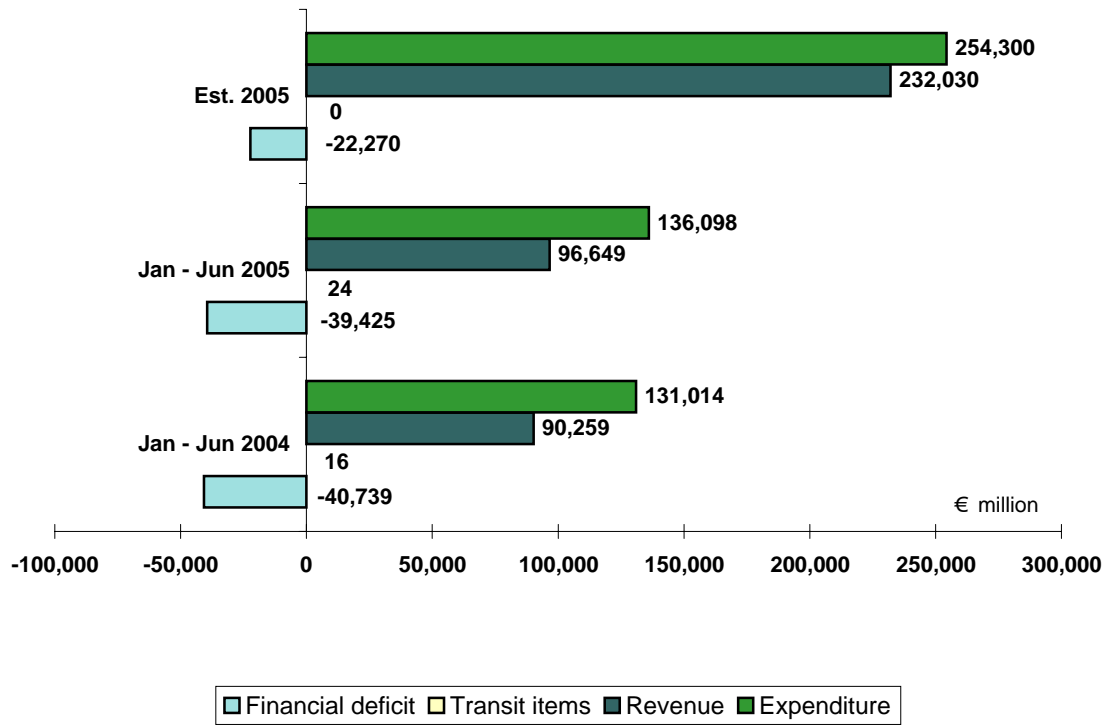
### Notes:

At €136.1bn, federal expenditure up to and including June exceeded the pre-year outturn by almost €5.1 bn (+ 3.9 %). The rise in expenditure continues to be attributable to higher labour market spending. The trend in labour market spending in turn is decisively affected by the basic allowance for jobseekers.

Federal revenue in total for the period up to and including June was €96.6bn. It exceeds the pre-year outturn by 7.1%. The positive overall trend in revenue on the year is based largely on the trend in federal administrative revenue. Federal tax revenue at € 82.6 bn was only slightly below the pre-year figure (- 0.3 %).

The trends of expenditure and revenue to date give rise to a financial deficit of - € 39.4 bn. This reflects the current burdens on budget execution such as reduced tax revenues and increased labour market expenditure. Taking into account the expenditure and revenue discernible at present, it would appear that the federal budget has to absorb a risk of € 10 bn to € 12 bn. However, no reliable conclusions can be drawn as to the annual outturn from the current balance.

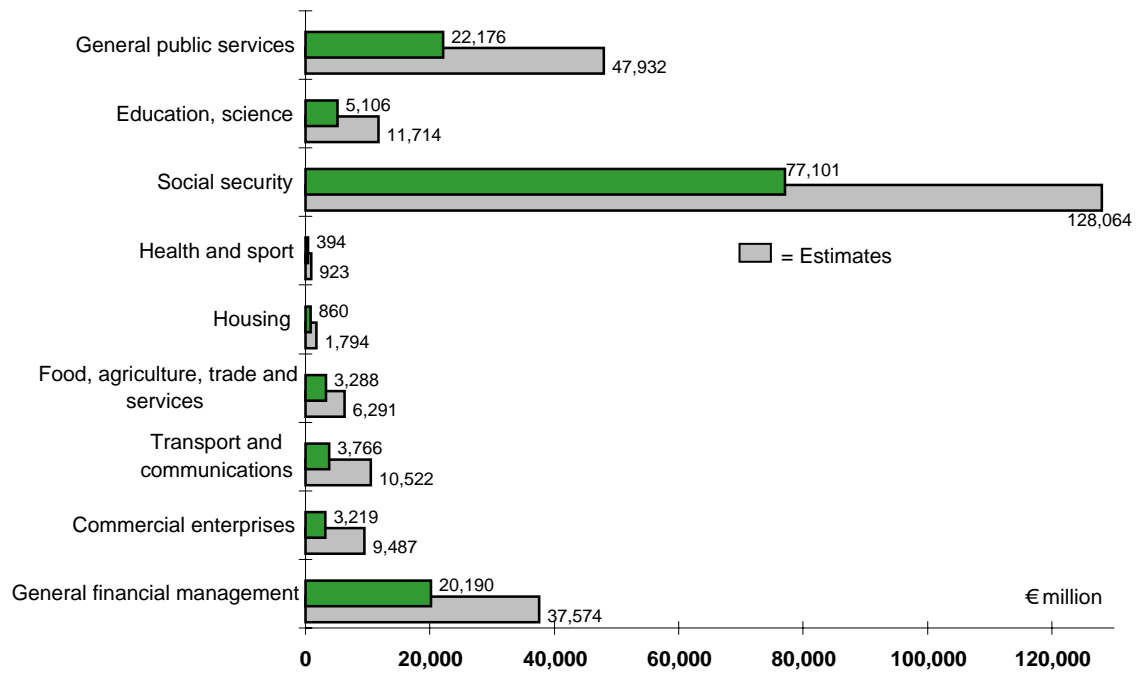
**Calculation of the financial deficit**



**1.1. Trends in federal expenditure by functions**

	Est. 2005	Actual January to June				Change on year in %
		2005		2004		
	€ m	€ m	Share in %	€ m	Share in %	
<b>General public services</b>	<b>47,932</b>	<b>22,176</b>	<b>16.3</b>	<b>23,000</b>	<b>17.6</b>	<b>-3.6</b>
Economic cooperation and development	3,802	2,080	1.5	2,094	1.6	-0.7
Defence	27,871	12,618	9.3	13,397	10.2	-5.8
Government, central administration	7,991	3,928	2.9	3,902	3.0	0.7
Revenue administration	3,192	1,384	1.0	1,491	1.1	-7.2
<b>Education, science, research, cultural affairs</b>	<b>11,714</b>	<b>5,106</b>	<b>3.8</b>	<b>4,974</b>	<b>3.8</b>	<b>2.7</b>
Joint activity university construction	925	358	0.3	387	0.3	-7.5
Fed. Education and Training Grants Act	1,026	641	0.5	586	0.4	9.4
Research and development	6,816	2,834	2.1	2,867	2.2	-1.2
<b>Social security, war-related social tasks, indemnification</b>	<b>128,064</b>	<b>77,101</b>	<b>56.7</b>	<b>70,108</b>	<b>53.5</b>	<b>10.0</b>
Social security	75,182	42,700	31.4	42,669	32.6	0.1
Unemployment insurance	4,000	5,755	4.2	7,190	5.5	-20.0
Basic allowance for jobseekers	27,650	16,821	12.4	-	-	-
of which: Unemployment benefit II	14,600	12,422	9.1	-	-	-
Unemployment benefit II, government housing and heating allowances	3,200	1,640	1.2	-	-	-
Housing allowance	850	410	0.3	1,303	1.0	-68.5
Upbringing allowance	2,740	1,447	1.1	1,567	1.2	-7.7
War pensions, war pensioners' welfare	3,011	1,704	1.3	1,906	1.5	-10.6
<b>Health, environment, sport, recreation</b>	<b>923</b>	<b>394</b>	<b>0.3</b>	<b>420</b>	<b>0.3</b>	<b>-6.2</b>
<b>Housing, regional planning and local community services</b>	<b>1,794</b>	<b>860</b>	<b>0.6</b>	<b>915</b>	<b>0.7</b>	<b>-6.0</b>
Housing	1,232	749	0.6	740	0.6	1.2
<b>Food, agriculture and forestry as well as energy and water supply, trade, services</b>	<b>6,291</b>	<b>3,288</b>	<b>2.4</b>	<b>3,213</b>	<b>2.5</b>	<b>2.3</b>
Regional promotion	902	448	0.3	479	0.4	-6.5
Coal-mining	1,645	1,642	1.2	1,627	1.2	0.9
Guarantees	1,500	540	0.4	499	0.4	8.2
<b>Transport and communications</b>	<b>10,522</b>	<b>3,766</b>	<b>2.8</b>	<b>3,745</b>	<b>2.9</b>	<b>0.6</b>
Roads (excl. Local Transport Finance Act)	5,603	1,800	1.3	1,999	1.5	-10.0
<b>Commercial enterprises, general real property and capital assets</b>	<b>9,487</b>	<b>3,219</b>	<b>2.4</b>	<b>4,453</b>	<b>3.4</b>	<b>-27.7</b>
Federal railways fund	5,250	2,378	1.7	2,486	1.9	-4.3
Railroads of the federation / Deutsche Bahn AG	3,736	680	0.5	898	0.7	-24.3
<b>General financial management</b>	<b>37,574</b>	<b>20,190</b>	<b>14.8</b>	<b>20,186</b>	<b>15.4</b>	<b>0.0</b>
German Unity Fund	0	0	0.0	1,127	0.9	-100.0
Interest expenditure	38,875	19,776	14.5	18,739	14.3	5.5
<b>TOTAL EXPENDITURE</b>	<b>254,300</b>	<b>136,098</b>	<b>100</b>	<b>131,014</b>	<b>100.0</b>	<b>3.9</b>

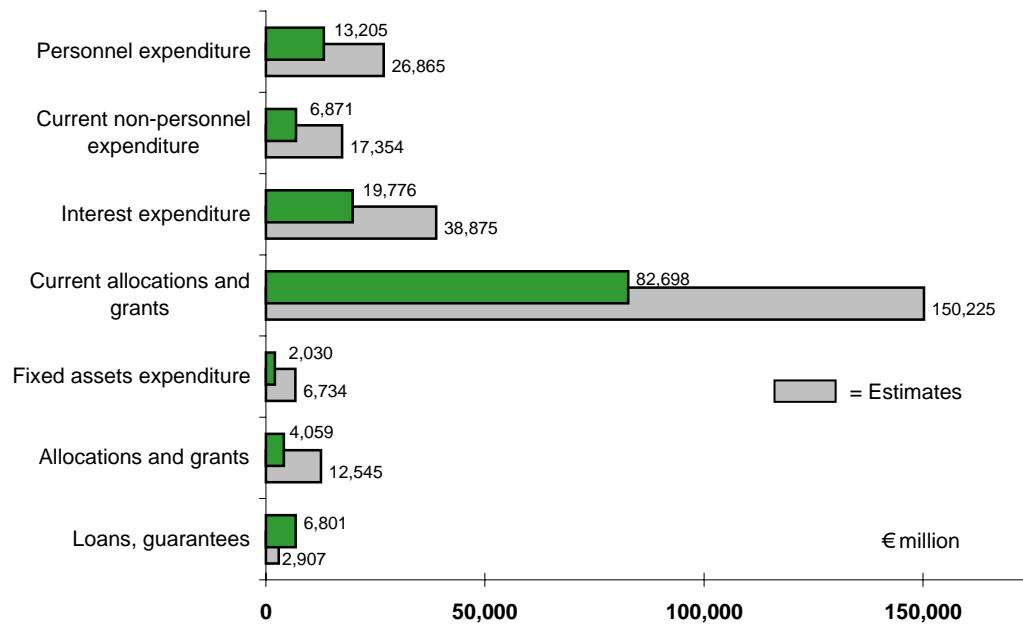
**Federal expenditure by functions  
January to June 2005**



## 1.2. Trends in federal expenditure by economic categories

	Est. 2005	Actual January to June				
		2005		2004		Change on year in %
	€m	€m	Share in %	€m	Share in %	
<b>Consumption expenditure</b>	<b>233,713</b>	<b>122,724</b>	<b>90.2</b>	<b>115,566</b>	<b>88.2</b>	<b>6.2</b>
<b>Personnel expenditure</b>	<b>26,865</b>	<b>13,205</b>	<b>9.7</b>	<b>13,338</b>	<b>10.2</b>	<b>-1.0</b>
- Pay	20,147	9,743	7.2	9,936	7.6	-1.9
- Pensions	6,718	3,462	2.5	3,402	2.6	1.8
<b>Current non-personnel expenditure</b>	<b>17,354</b>	<b>6,871</b>	<b>5.0</b>	<b>7,170</b>	<b>5.5</b>	<b>-4.2</b>
- Administrative expenditure	1,478	561	0.4	572	0.4	-1.9
- Military procurement	8,122	2,698	2.0	3,544	2.7	-23.9
- Other	7,754	3,612	2.7	3,054	2.3	18.3
<b>Interest expenditure</b>	<b>38,875</b>	<b>19,776</b>	<b>14.5</b>	<b>18,739</b>	<b>14.3</b>	<b>5.5</b>
<b>Current allocations and grants</b>	<b>150,225</b>	<b>82,698</b>	<b>60.8</b>	<b>76,146</b>	<b>58.1</b>	<b>8.6</b>
- To authorities	13,015	6,305	4.6	6,862	5.2	-8.1
- Other	137,210	76,572	56.3	69,393	53.0	10.3
of which						
Private enterprises	<b>16,516</b>	<b>6,761</b>	<b>5.0</b>	<b>6,240</b>	<b>4.8</b>	<b>8.3</b>
Pensions, assistance etc.	22,223	17,347	12.7	12,917	9.9	34.3
Social insurance funds	94,560	50,381	37.0	48,366	36.9	4.2
<b>Other capital transfers</b>	<b>395</b>	<b>174</b>	<b>0.1</b>	<b>173</b>	<b>0.1</b>	<b>0.6</b>
<b>Investment expenditure</b>	<b>22,745</b>	<b>13,374</b>	<b>9.8</b>	<b>15,448</b>	<b>11.8</b>	<b>-13.4</b>
<b>Financial aid</b>	<b>16,011</b>	<b>11,344</b>	<b>8.3</b>	<b>13,175</b>	<b>10.1</b>	<b>-13.9</b>
- Allocations and grants	12,545	4,059	3.0	4,537	3.5	-10.5
- Loans, guarantees	2,907	6,801	5.0	8,191	6.3	-17.0
- Participations, capital contributions	559	484	0.4	447	0.3	8.3
<b>Fixed assets expenditure</b>	<b>6,734</b>	<b>2,030</b>	<b>1.5</b>	<b>2,273</b>	<b>1.7</b>	<b>-10.7</b>
- Building and construction	5,372	1,587	1.2	1,786	1.4	-11.1
- Acquisition of movable property	917	293	0.2	308	0.2	-4.9
- Acquisition of real property	445	150	0.1	180	0.1	-16.7
<b>General reduction/increase in expenditure</b>	<b>- 2,158</b>	<b>-</b>		<b>-</b>		
<b>Total expenditure</b>	<b>254,300</b>	<b>136,098</b>	<b>100.0</b>	<b>131,014</b>	<b>100.0</b>	<b>3.9</b>

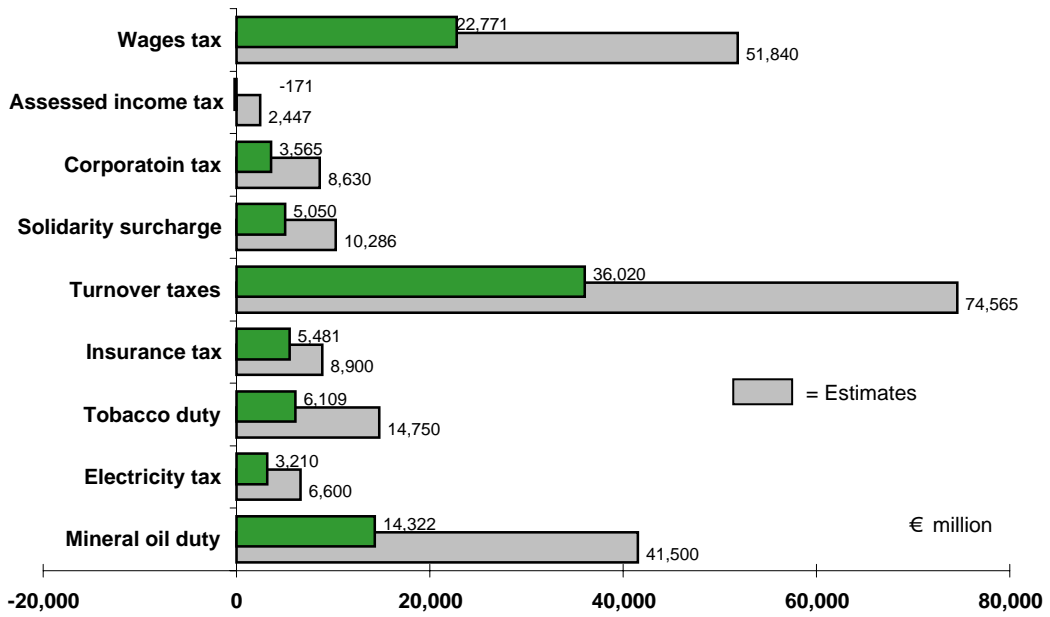
**Trends in federal expenditure by selected economic categories  
January to June 2005**



**1.3. Trends in federal revenue**

	Est. 2005	Actual January to June				
		2005		2004		Change on year in %
	€ m	€ m	Share in %	€ m	Share in %	
<b>I. Tax revenue</b>	<b>190,786</b>	<b>82,608</b>	<b>85.5</b>	<b>82,861</b>	<b>91.8</b>	<b>-0.3</b>
Federal share of joint taxes:	146,941	68,190	70.6	66,454	73.6	2.6
revenue from individual and corporate income taxes (incl. interest income deduction)	71,031	31,744	32.8	31,427	34.8	1.0
on which:						
- Wages tax	51,840	22,771	23.6	23,741	26.3	-4.1
- Assessed income tax	2,447	-171	-0.2	-1,165	-1.3	-85.3
- Non-Assessed taxes on earnings	4,880	3,682	3.8	3,620	4.0	1.7
- interest income deduction	3,234	1,896	2.0	1,901	2.1	-0.3
- Corporation tax	8,630	3,565	3.7	3,331	3.7	7.0
Turnover taxes	74,565	36,020	37.3	34,629	38.4	4.0
Trade tax apportionment	1,345	426	0.4	397	0.4	7.3
Mineral oil duty	41,500	14,322	14.8	15,211	16.9	-5.8
Tobacco duty	14,750	6,109	6.3	5,860	6.5	4.2
Solidarity surcharge	10,286	5,050	5.2	5,019	5.6	0.6
Insurance tax	8,900	5,481	5.7	5,462	6.1	0.3
Electricity tax	6,600	3,210	3.3	3,334	3.7	-3.7
Spirits duty	2,162	902	0.9	940	1.0	-4.0
Coffee duty	1,040	491	0.5	508	0.6	-3.3
Supplemental grants to Länder	-14,535	-7,250	-7.5	-7,503	-8.3	-3.4
EU GNP own resources	-16,750	-8,770	-9.1	-7,419	-8.2	18.2
EU VAT-based own resources	-3,500	-1,798	-1.9	-1,814	-2.0	-0.9
Allocations to Länder for short-haul	-7,053	-3,527	-3.6	-3,405	-3.8	3.6
<b>II. Other revenue</b>	<b>41,244</b>	<b>14,041</b>	<b>14.5</b>	<b>7,398</b>	<b>8.2</b>	<b>89.8</b>
Revenue from economic activity	2,696	800	0.8	555	0.6	44.1
Interest revenue	326	167	0.2	375	0.4	-55.5
Return on loans, participations	21,460	5,786	6.0	2,213	2.5	161.5
<b>Total revenue</b>	<b>232,030</b>	<b>96,649</b>	<b>100.0</b>	<b>90,259</b>	<b>100.0</b>	<b>7.1</b>

**Federal tax revenue (by selected categories)  
January to June 2005**



## 2. Trends in general government tax revenue

### 2.1 Development of tax revenue in total public budgets in the current year <sup>1)</sup>

Tax revenue excluding local authority taxes (provisional results)

2005		Change on the year	January to June	Change on the year	2005 estimates	Change on the year
	in € m	in %	in € m	in %	in € m <sup>4)</sup>	in %
<b>Joint taxes</b>						
Wages tax <sup>2)</sup>	9,769	-2.3	56,897	-3.7	118,550	-4.3
Assessed income tax	5,062	-3.3	-402	.	6,600	22.4
Non-assessed taxes on earnings	883	-38.7	7,138	-1.3	9,960	0.4
Interest income deduction	333	9.7	4,309	-0.3	6,826	0.8
Corporation tax	3,965	1.9	7,130	7.1	16,580	26.3
Turnover taxes	11,037	2.3	67,917	0.0	139,000	1.2
Trade tax apportionment	3	-72.6	985	8.5	3,294	-1.8
Increased trade tax apportionment	2	3.0	691	25.7	2,465	6.9
<b>Total joint taxes</b>	<b>31,053</b>	<b>-2.0</b>	<b>144,665</b>	<b>0.5</b>	<b>303,275</b>	<b>0.4</b>
<b>Federal taxes</b>						
Mineral oil duty	3,313	-4.0	14,322	-5.8	41,000	-1.9
Tobacco duty	1,143	11.8	6,109	4.2	14,100	3.4
Spirits duty	191	10.8	897	-4.6	2,150	-2.0
Insurance tax	486	-2.5	5,481	0.3	8,800	0.6
Electricity duty	863	-3.0	3,210	-3.7	6,600	0.1
Solidarity surcharge	1,179	-3.2	5,050	0.6	10,027	-0.8
Other federal taxes	112	-6.7	694	-3.9	1,507	0.5
<b>Total federal taxes</b>	<b>7,288</b>	<b>-1.2</b>	<b>35,763</b>	<b>-2.1</b>	<b>84,184</b>	<b>-0.4</b>
<b>Länder taxes</b>						
Inheritance tax	381	-36.6	2,319	-5.1	3,855	-10.0
Real property transfer tax	369	4.7	2,266	-5.5	4,410	-5.1
Motor vehicle tax	779	10.2	4,491	7.8	8,700	12.4
Lottery and sports betting tax	160	0.2	923	-3.4	1,850	-1.9
Beer duty	73	4.2	370	-2.2	780	-0.9
Other Länder taxes	84	.	309	11.0	382	-11.7
<b>Total Länder taxes</b>	<b>1,846</b>	<b>-3.2</b>	<b>10,677</b>	<b>0.6</b>	<b>19,977</b>	<b>1.0</b>
<b>EU own resources</b>						
Customs duty	255	5.3	1,521	5.2	3,150	3.0
VAT-based own resources	225	-15.9	1,798	-0.9	3,500	17.2
GDP-based own resources	1,082	-13.3	8,770	18.2	16,550	21.7
<b>Total EU own resources</b>	<b>1,562</b>	<b>-11.1</b>	<b>12,089</b>	<b>13.2</b>	<b>23,200</b>	<b>18.1</b>
<b>Federation <sup>3)</sup></b>	<b>18,929</b>	<b>0.3</b>	<b>83,942</b>	<b>-0.3</b>	<b>187,248</b>	<b>0.2</b>
<b>Länder <sup>3)</sup></b>	<b>17,457</b>	<b>-3.1</b>	<b>86,195</b>	<b>-1.2</b>	<b>177,661</b>	<b>-1.2</b>
<b>EU</b>	<b>1,562</b>	<b>-11.1</b>	<b>12,089</b>	<b>13.2</b>	<b>23,200</b>	<b>18.1</b>
<b>Municipalities' share of income tax and value-added tax</b>	<b>2,494</b>	<b>-2.0</b>	<b>10,401</b>	<b>0.2</b>	<b>22,477</b>	<b>-2.5</b>
<b>Total tax revenue (excluding local authority taxes)</b>	<b>40,441</b>	<b>-1.8</b>	<b>192,626</b>	<b>0.1</b>	<b>410,586</b>	<b>0.3</b>

1) Method: individual taxes by cash results; statistical allocation to the levels

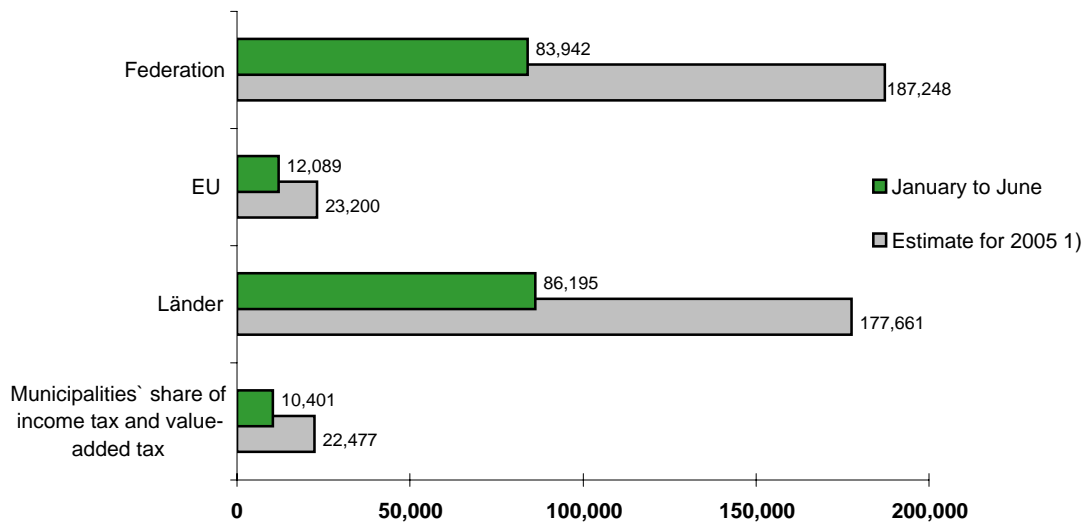
2) After deduction of child benefit refunds by the Bundesamt für Finanzen.

3) After supplementary grants; deviation from Table 1.3 on account of the method

4) Result of the Working Party on Tax Revenue Estimates in May 2005.

## Tax revenue excluding local authority taxes

January to June 2005



1) Result of WP on Tax Estimates (May 2005).

### Notes :

#### Tax revenues in June 2005

Total tax revenue (excluding local authority taxes) declined in June 2005 by 1.8 %. The downward trend was apparent in receipts from joint taxes (- 2.0 %) as well as in those from taxes accruing solely to the Federation (- 1.2 %) and taxes accruing solely to the Länder (- 3.2 %).

Federal tax revenue (net of federal supplemental grants) in June up + 0.3 % showed only a minimal improvement on the year. Decreased EU contributions (- 13.7 %, or € 208 bn) and an increased value-added tax share, on the one hand, and lower revenues from local authority and federal taxes, on the other, largely cancelled each other out.

In view of the tax rate cuts in force since the beginning of the year, the decline in wage tax receipts in June of - 2.3 % was moderate.

In June, the month in which most prepayments are made for the assessment year 2005, revenue from assessed income tax was down - 3.3 %, or - € 172 m, on the year. In gross terms, i.e. before deducting refunds to assessed wage-earners, investment grants and owner-occupied home premiums, the decline in revenue at - 2.8 % was slightly lower. This is a result of the tax rate cut in force since 1 January 2005.

There was only a slight improvement in corporation tax of + 1.9 %, or just under € 75 m, in the second prepayment date of the year. However, the pre-year base was also exceptionally high.

Following a strong performance in May, where revenue from non-assessed taxes yielded almost twice as much income as in the previous year, June disappointed with a decline of - 38.7 %. When both months are viewed together, however, revenue from non-assessed taxes represents a good € 0.5 bn, or + 20.3 %, more than the comparable pre-year figure.

The positive trend over the past three months of revenue from interest income deduction continued strongly in June with an increase of + 9.7 %.

Turnover tax receipts rose by + 2.3 % and, together with the recent positive reports on retail trade, allow for a revival in private domestic consumption to be concluded.

Taxes accruing solely to the Federation declined by - 1.2 % on the year. Although tobacco duty registered a dynamic increase of 11.8 % as a result of the tax increase, this extra revenue was not enough to offset declines in almost all other taxes accruing to the Federation. The high oil prices and the accompanying strong decrease in consumption figures with regard to light fuel-oil, diesel and heating oil made their presence felt in the decline in revenue from mineral oil duty (- 4.0 %). Due to the weak trend in its tax base, the solidarity surcharge was also down (- 3.2 %). Revenue from electricity duty declined in a year-on-year comparison by - 3.0 %, while receipts from insurance tax fell - 2.5 %.

Taxes accruing solely to the Länder registered a base-related decline of - 3.2 %. In the preceding year, revenue from inheritance tax was exceptionally high due to a special effect, the decrease of - 36.6 % in June 2005 saw it return to a normal level. All other taxes accruing to the Länder improved on the year. Motor vehicle tax rose as a result of tax legislation by 10.2 %, real property transfer tax, beer duty, and betting and lottery tax all rose by + 4.7 %, + 4.2 % and + 0.2 %, respectively.

### 3. Federal borrowing and market resources

#### 3.1. Federal market resources after absorption of special fund debts

	As at: 5/31/2005	Increase	Decrease	As at: 06/30/2005 <sup>1)</sup>
- €m -				
Federal bonds	507,627	7,673	0	515,300
Special federal bonds	170,949	5,750	0	176,699
Federal savings bonds	11,118	76	15	11,179
Federal treasury notes	112,000	8,000	12,000	108,000
Treasury discount paper	35,837	5,942	5,937	35,842
Treasury financing paper	1,124	42	56	1,110
Loans against borrowers' notes	32,929	53	1,084	31,898
Treuhand medium-term notes	342	0	0	342
<b>Total outstanding debt</b>	<b>871,926</b>			<b>880,370</b>

#### By remaining term

	As at: 5/31/2005		As at: 06/30/2005 <sup>1)</sup>
- €m -			
Short term (up to 1 year)	162,153		166,277
Medium term (1 year to 4 years)	274,508		267,649
Long term (over 4 years)	435,266		446,444
<b>Total outstanding debt<sup>1)</sup></b>	<b>871,926</b>		<b>880,370</b>

<sup>1)</sup> Provisional.

**3.2. Guaranteed debt**

	Authorisation scope	Take-up as at	Take-up as at
	2005	30-Jun-05	30-Jun-04
	- €bn -		
<b>Export</b>	<b>117.0</b>	<b>103.5</b>	<b>104.4</b>
<b>International financial institutions</b>	<b>46.6</b>	<b>40.3</b>	<b>40.3</b>
<b>Capital investment and other foreign trade and payments applications, including co-financing of bilateral financial cooperation projects</b>	<b>42.0</b>	<b>29.0</b>	<b>30.5</b>
<b>Domestic guarantees (including food stockpiling and Treuhandanstalt successor organisations)</b>	<b>103.0</b>	<b>61.1</b>	<b>62.3</b>

**4. Publication schedule of the Monthly Reports**

<u>Reporting period</u>	<u>Monthly Report</u>	<u>Publication date</u>
July 2005	August 2005	19 August 2005
August 2005	September 2005	21 September 2005
September 2005	October 2005	20 October 2005
October 2005	November 2005	21 November 2005
November 2005	December 2005	22 December 2005

## 5. Key dates on the fiscal policy agenda

<b>36th Franco-German Economic and Financial Consultations in Kassel</b>	30 August 2005
<b>G20 Deputy meeting in Dalian (Liaoning Province/China)</b>	1/2 September 2005
<b>Financial Stability Forum in London</b>	8/9 September 2005
<b>Informal ECOFIN in Manchester</b>	9/10 September 2005
<b>IMF Annual Meeting in Washington</b>	23-25 September 2005

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