

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

August 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 July 2005
<b>Expenditure (€ bn)</b>	<b>254.3</b>	<b>164.1</b>
Change on year in %	1.1	2.4
<b>Revenue (€ bn)</b>	<b>232.0</b>	<b>119.7</b>
Change on year in %	9.5	12.1
Tax revenue (€ bn)	190.8	97.7
Change on year in %	2.0	0.7
<b>Financial deficit (€ bn)</b>	<b>- 22.3</b>	<b>- 44.5</b>
Cash shortfall (€ bn)	-	- 11.9
Adjusted for revenue from coin (€ bn)	- 0.3	- 0.1
<b>Net borrowing/current financial market balance (€ bn)</b>	<b>- 22.0</b>	<b>- 32.4</b>

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

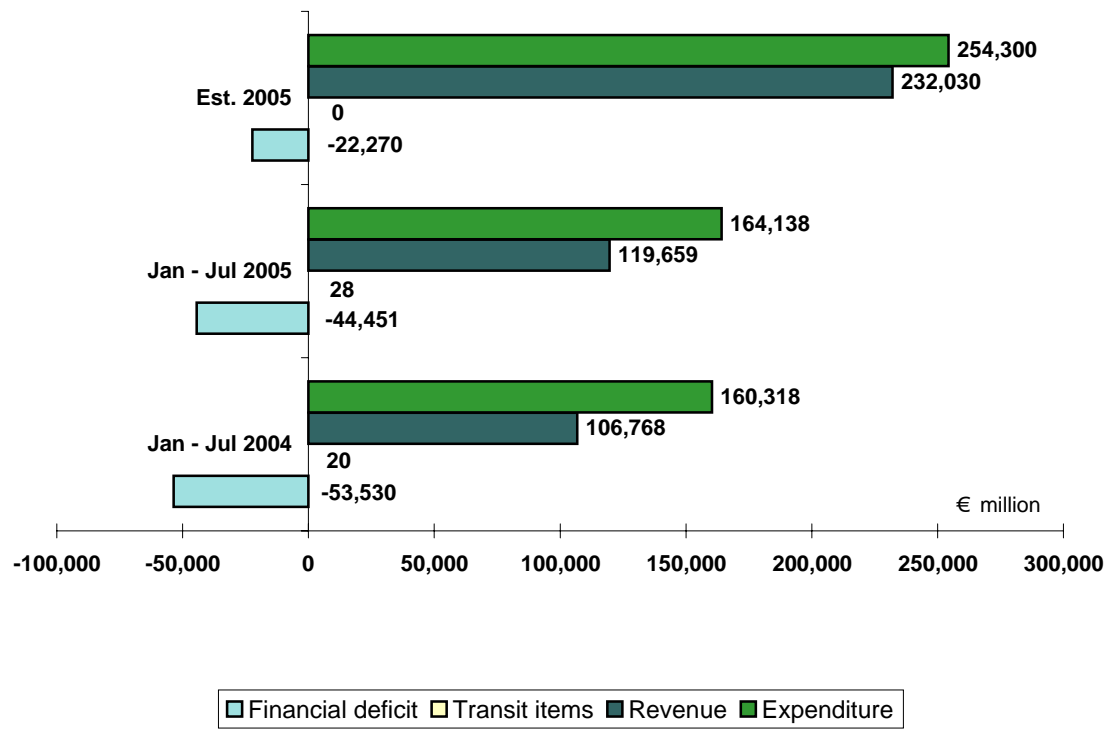
### Notes:

At € 164.1 bn, federal expenditure up to and including July exceeded the pre-year outturn by almost € 3.8 bn (+ 2.4 %). In the course of the year to date, greater labour market costs have had the effect of increasing expenditure.

Aggregate federal revenue up to and including July stood at € 119.7 bn, and was thus 12.1 % up on the pre-year figure. The positive overall trend in revenue on the year is based largely on the trend in federal administrative revenue. This showed a year-on-year increase in July of € 12.2 bn. The main reasons for this are the first-time receipt of the transfer payments from the Federal Employment Agency, the route-based autobahn toll for heavy goods vehicles, and higher revenue from privatisation. At € 97.7 bn, federal tax revenue exceeded the corresponding pre-year figure for the first time this year (+ 0.7%).

The trends in revenue and expenditure to date give rise to a financial deficit of - € 44.5 bn. Due to the increased revenues, this lies well below the comparable pre-year level, despite the higher expenditure on the labour market. However, no reliable conclusions can be drawn as to the final annual outturn from the current balance.

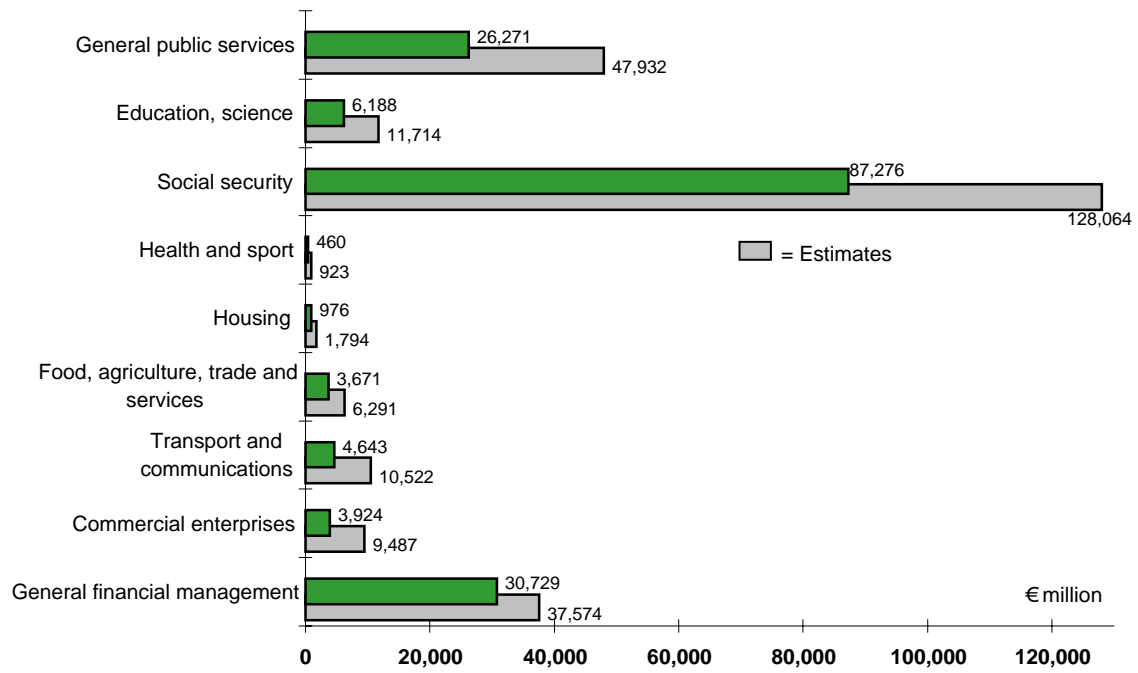
### Calculation of the financial deficit



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

	Est. 2005	Actual January to July				Change on year in %
		2005		2004		
	€ m	€ m	Share in %	€ m	Share in %	
<b>General public services</b>	<b>47,932</b>	<b>26,271</b>	<b>16.0</b>	<b>27,693</b>	<b>17.3</b>	<b>-5.1</b>
Economic cooperation and development	3,802	2,361	1.4	2,370	1.5	-0.4
Defence	27,871	15,056	9.2	16,360	10.2	-8.0
Government, central administration	7,991	4,599	2.8	4,596	2.9	0.1
Revenue administration	3,192	1,618	1.0	1,761	1.1	-8.1
<b>Education, science, research, cultural affairs</b>	<b>11,714</b>	<b>6,188</b>	<b>3.8</b>	<b>6,083</b>	<b>3.8</b>	<b>1.7</b>
Joint activity university construction	925	431	0.3	456	0.3	-5.5
Fed. Education and Training Grants Act	1,026	718	0.4	679	0.4	5.7
Research and development	6,816	3,546	2.2	3,622	2.3	-2.1
<b>Social security, war-related social tasks, indemnification</b>	<b>128,064</b>	<b>87,276</b>	<b>53.2</b>	<b>80,417</b>	<b>50.2</b>	<b>8.5</b>
Social security	75,182	48,953	29.8	48,949	30.5	0.0
Unemployment insurance	4,000	4,820	2.9	7,490	4.7	-35.6
Basic allowance for jobseekers	27,650	19,710	12.0	-	-	-
of which: Unemployment benefit II	14,600	14,577	8.9	-	-	-
Unemployment benefit II, government housing and heating allowances	3,200	1,915	1.2	-	-	-
Housing allowance	850	827	0.5	1,876	1.2	-55.9
Upbringing allowance	2,740	1,682	1.0	1,827	1.1	-7.9
War pensions, war pensioners' welfare	3,011	1,969	1.2	2,175	1.4	-9.5
<b>Health, environment, sport, recreation</b>	<b>923</b>	<b>460</b>	<b>0.3</b>	<b>479</b>	<b>0.3</b>	<b>-4.0</b>
<b>Housing, regional planning and local community services</b>	<b>1,794</b>	<b>976</b>	<b>0.6</b>	<b>1,011</b>	<b>0.6</b>	<b>-3.5</b>
Housing	1,232	836	0.5	805	0.5	3.9
<b>Food, agriculture and forestry as well as energy and water supply, trade, services</b>	<b>6,291</b>	<b>3,671</b>	<b>2.2</b>	<b>3,825</b>	<b>2.4</b>	<b>-4.0</b>
Regional promotion	902	494	0.3	630	0.4	-21.6
Coal-mining	1,645	1,643	1.0	1,814	1.1	-9.4
Guarantees	1,500	592	0.4	565	0.4	4.8
<b>Transport and communications</b>	<b>10,522</b>	<b>4,643</b>	<b>2.8</b>	<b>4,569</b>	<b>2.8</b>	<b>1.6</b>
Roads (excl. Local Transport Finance Act)	5,603	2,350	1.4	2,509	1.6	-6.3
<b>Commercial enterprises, general real property and capital assets</b>	<b>9,487</b>	<b>3,924</b>	<b>2.4</b>	<b>5,684</b>	<b>3.5</b>	<b>-31.0</b>
Federal railways fund	5,250	2,814	1.7	2,906	1.8	-3.2
Railroads of the federation / Deutsche Bahn AG	3,736	884	0.5	1,111	0.7	-20.4
<b>General financial management</b>	<b>37,574</b>	<b>30,729</b>	<b>18.7</b>	<b>30,557</b>	<b>19.1</b>	<b>0.6</b>
German Unity Fund	0	0	0.0	1,315	0.8	-100.0
Interest expenditure	38,875	30,255	18.4	28,832	18.0	4.9
<b>TOTAL EXPENDITURE</b>	<b>254,300</b>	<b>164,138</b>	<b>100</b>	<b>160,318</b>	<b>100.0</b>	<b>2.4</b>

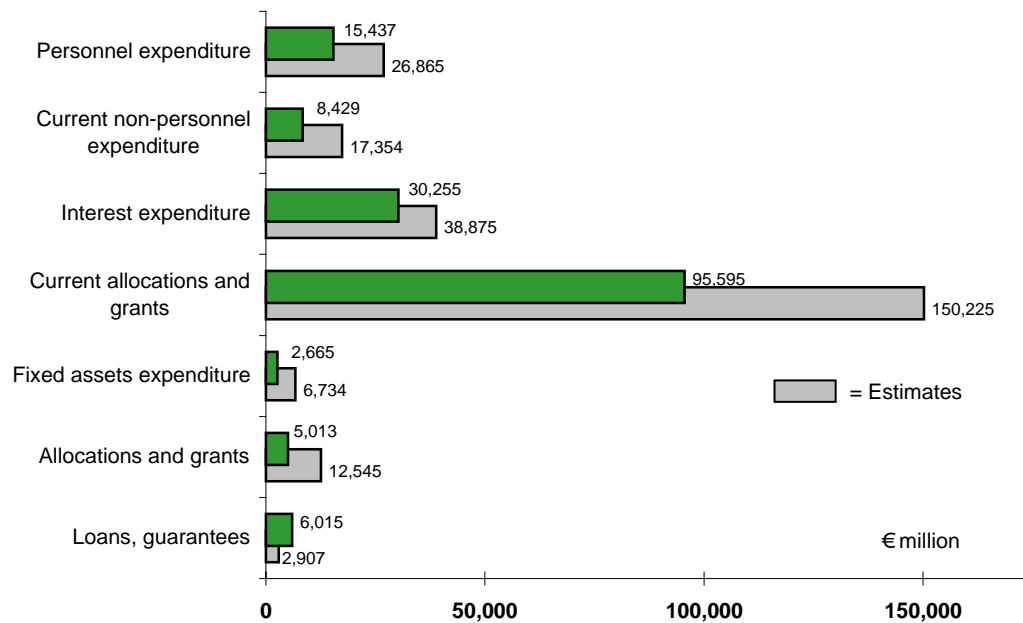
**Federal expenditure by functions  
January to July 2005**



## 1.2. Trends in federal expenditure by economic categories

	Est. 2005	Actual January to July				
		2005		2004		Change on year in %
	€m	€m	Share in %	€m	Share in %	
<b>Consumption expenditure</b>	<b>233,713</b>	<b>149,939</b>	<b>91.3</b>	<b>142,706</b>	<b>89.0</b>	<b>5.1</b>
<b>Personnel expenditure</b>	<b>26,865</b>	<b>15,437</b>	<b>9.4</b>	<b>16,455</b>	<b>10.3</b>	<b>-6.2</b>
- Pay	20,147	11,443	7.0	12,499	7.8	-8.4
- Pensions	6,718	3,994	2.4	3,957	2.5	0.9
<b>Current non-personnel expenditure</b>	<b>17,354</b>	<b>8,429</b>	<b>5.1</b>	<b>8,434</b>	<b>5.3</b>	<b>-0.1</b>
- Administrative expenditure	1,478	671	0.4	698	0.4	-3.9
- Military procurement	8,122	3,483	2.1	4,051	2.5	-14.0
- Other	7,754	4,275	2.6	3,685	2.3	16.0
<b>Interest expenditure</b>	<b>38,875</b>	<b>30,255</b>	<b>18.4</b>	<b>28,832</b>	<b>18.0</b>	<b>4.9</b>
<b>Current allocations and grants</b>	<b>150,225</b>	<b>95,595</b>	<b>58.2</b>	<b>88,756</b>	<b>55.4</b>	<b>7.7</b>
- To authorities	13,015	7,769	4.7	8,439	5.3	-7.9
- Other	137,210	87,896	53.6	80,305	50.1	9.5
of which						
Private enterprises	<b>16,516</b>	<b>7,867</b>	<b>4.8</b>	<b>7,774</b>	<b>4.8</b>	<b>1.2</b>
Pensions, assistance etc.	22,223	19,996	12.2	14,984	9.3	33.4
Social insurance funds	94,560	57,641	35.1	55,406	34.6	4.0
<b>Other capital transfers</b>	<b>395</b>	<b>223</b>	<b>0.1</b>	<b>229</b>	<b>0.1</b>	<b>-2.6</b>
<b>Investment expenditure</b>	<b>22,745</b>	<b>14,199</b>	<b>8.7</b>	<b>17,612</b>	<b>11.0</b>	<b>-19.4</b>
<b>Financial aid</b>	<b>16,011</b>	<b>11,534</b>	<b>7.0</b>	<b>14,754</b>	<b>9.2</b>	<b>-21.8</b>
- Allocations and grants	12,545	5,013	3.1	5,617	3.5	-10.8
- Loans, guarantees	2,907	6,015	3.7	8,646	5.4	-30.4
- Participations, capital contributions	559	506	0.3	490	0.3	3.3
<b>Fixed assets expenditure</b>	<b>6,734</b>	<b>2,665</b>	<b>1.6</b>	<b>2,858</b>	<b>1.8</b>	<b>-6.8</b>
- Building and construction	5,372	2,132	1.3	2,271	1.4	-6.1
- Acquisition of movable property	917	363	0.2	380	0.2	-4.5
- Acquisition of real property	445	170	0.1	207	0.1	-17.9
<b>General reduction/increase in expenditure</b>	<b>- 2,158</b>	<b>-</b>		<b>-</b>		
<b>Total expenditure</b>	<b>254,300</b>	<b>164,138</b>	<b>100.0</b>	<b>160,318</b>	<b>100.0</b>	<b>2.4</b>

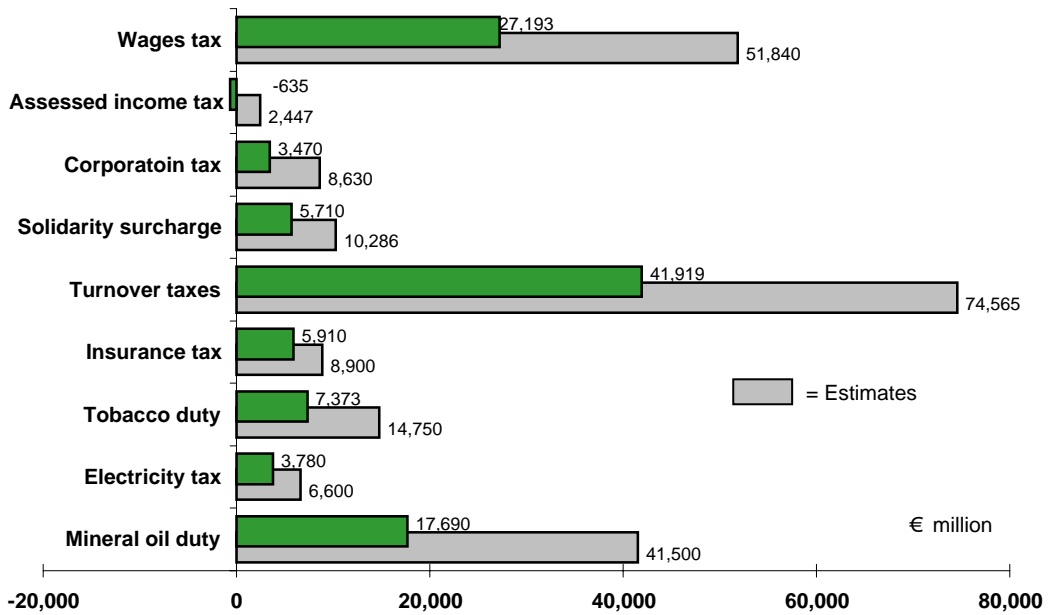
### Trends in federal expenditure by selected economic categories January to July 2005



**1.3. Trends in federal revenue**

	Est. 2005	Actual January to July				
		2005		2004		Change on year in %
	€ m	€ m	Share in %	€ m	Share in %	
<b>I. Tax revenue</b>	<b>190,786</b>	<b>97,717</b>	<b>81.7</b>	<b>97,022</b>	<b>90.9</b>	<b>0.7</b>
Federal share of joint taxes:	146,941	78,607	65.7	76,432	71.6	2.8
revenue from individual and corporate income taxes (incl. interest income deduction)	71,031	36,099	30.2	35,793	33.5	0.9
on which:						
- Wages tax	51,840	27,193	22.7	28,233	26.4	-3.7
- Assessed income tax	2,447	-635	-0.5	-1,773	-1.7	-64.2
- Non-Assessed taxes on earnings	4,880	3,993	3.3	4,090	3.8	-2.4
- interest income deduction	3,234	2,079	1.7	2,087	2.0	-0.4
- Corporation tax	8,630	3,470	2.9	3,155	3.0	10.0
Turnover taxes	74,565	41,919	35.0	40,117	37.6	4.5
Trade tax apportionment	1,345	588	0.5	523	0.5	12.4
Mineral oil duty	41,500	17,690	14.8	18,406	17.2	-3.9
Tobacco duty	14,750	7,373	6.2	6,990	6.5	5.5
Solidarity surcharge	10,286	5,710	4.8	5,668	5.3	0.7
Insurance tax	8,900	5,910	4.9	5,882	5.5	0.5
Electricity tax	6,600	3,780	3.2	3,918	3.7	-3.5
Spirits duty	2,162	1,089	0.9	1,121	1.0	-2.9
Coffee duty	1,040	565	0.5	583	0.5	-3.1
Supplemental grants to Länder	-14,535	-7,250	-6.1	-7,503	-7.0	-3.4
EU GNP own resources	-16,750	-9,852	-8.2	-8,668	-8.1	13.7
EU VAT-based own resources	-3,500	-2,023	-1.7	-2,081	-1.9	-2.8
Allocations to Länder for short-haul	-7,053	-4,114	-3.4	-3,972	-3.7	3.6
<b>II. Other revenue</b>	<b>41,244</b>	<b>21,942</b>	<b>18.3</b>	<b>9,746</b>	<b>9.1</b>	<b>125.1</b>
Revenue from economic activity	2,696	809	0.7	694	0.7	16.6
Interest revenue	326	211	0.2	679	0.6	-68.9
Return on loans, participations	21,460	11,983	10.0	3,203	3.0	274.1
<b>Total revenue</b>	<b>232,030</b>	<b>119,659</b>	<b>100.0</b>	<b>106,768</b>	<b>100.0</b>	<b>12.1</b>

**Federal tax revenue (by selected categories)  
January to July 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	July in € m	Change on the year in %	January to July in € m	Change on the year in %	2005 estimates in € m <sup>4)</sup>	Change on the year in %
<b>Joint taxes</b>						
Wages tax <sup>2)</sup>	10,356	-4.5	67,253	-3.8	118,550	-4.3
Assessed income tax	-1,093	.	-1,495	.	6,600	22.4
Non-assessed taxes on earnings	849	-9.8	7,986	-2.3	9,960	0.4
Interest income deduction	416	-1.1	4,725	-0.3	6,826	0.8
Corporation tax	-191	.	6,939	10.0	16,580	26.3
Turnover taxes	11,078	3.1	78,996	0.4	139,000	1.2
Trade tax apportionment	601	18.4	1,586	12.0	3,294	-1.8
Increased trade tax apportionment	490	12.4	1,181	19.8	2,465	6.9
<b>Total joint taxes</b>	<b>22,505</b>	<b>1.7</b>	<b>167,171</b>	<b>0.7</b>	<b>303,275</b>	<b>0.4</b>
<b>Federal taxes</b>						
Mineral oil duty	3,368	5.4	17,690	-3.9	41,000	-1.9
Tobacco duty	1,264	11.9	7,373	5.5	14,100	3.4
Spirits duty	186	3.4	1,083	-3.3	2,150	-2.0
Insurance tax	430	2.2	5,910	0.5	8,800	0.6
Electricity duty	570	-2.5	3,780	-3.5	6,600	0.1
Solidarity surcharge	660	1.6	5,710	0.7	10,027	-0.8
Other federal taxes	109	2.7	803	-3.1	1,507	0.5
<b>Total federal taxes</b>	<b>6,587</b>	<b>5.1</b>	<b>42,349</b>	<b>-1.1</b>	<b>84,184</b>	<b>-0.4</b>
<b>Länder taxes</b>						
Inheritance tax	303	3.7	2,622	-4.1	3,855	-10.0
Real property transfer tax	385	3.7	2,651	-4.2	4,410	-5.1
Motor vehicle tax	724	4.6	5,214	7.3	8,700	12.4
Lottery and sports betting tax	140	-3.8	1,063	-3.5	1,850	-1.9
Beer duty	77	1.8	448	-1.6	780	-0.9
Other Länder taxes	15	-37.5	324	7.0	382	-11.7
<b>Total Länder taxes</b>	<b>1,645</b>	<b>2.7</b>	<b>12,322</b>	<b>0.8</b>	<b>19,977</b>	<b>1.0</b>
<b>EU own resources</b>						
Customs duty	261	0.1	1,782	4.4	3,150	3.0
VAT-based own resources	225	-15.9	2,023	-2.8	3,500	17.2
GDP-based own resources	1,082	-13.3	9,852	13.7	16,550	21.7
<b>Total EU own resources</b>	<b>1,568</b>	<b>-11.7</b>	<b>13,657</b>	<b>9.6</b>	<b>23,200</b>	<b>18.1</b>
<b>Federation <sup>3)</sup></b>	<b>14,034</b>	<b>7.5</b>	<b>97,975</b>	<b>0.7</b>	<b>187,248</b>	<b>0.2</b>
<b>Länder <sup>3)</sup></b>	<b>13,727</b>	<b>0.0</b>	<b>99,921</b>	<b>-1.0</b>	<b>177,661</b>	<b>-1.2</b>
<b>EU</b>	<b>1,568</b>	<b>-11.7</b>	<b>13,657</b>	<b>9.6</b>	<b>23,200</b>	<b>18.1</b>
<b>Municipalities' share of income tax and value-added tax</b>	<b>1,669</b>	<b>-1.0</b>	<b>12,071</b>	<b>0.1</b>	<b>22,477</b>	<b>-2.5</b>
<b>Total tax revenue (excluding local authority taxes)</b>	<b>30,998</b>	<b>2.5</b>	<b>223,624</b>	<b>0.4</b>	<b>410,586</b>	<b>0.3</b>

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

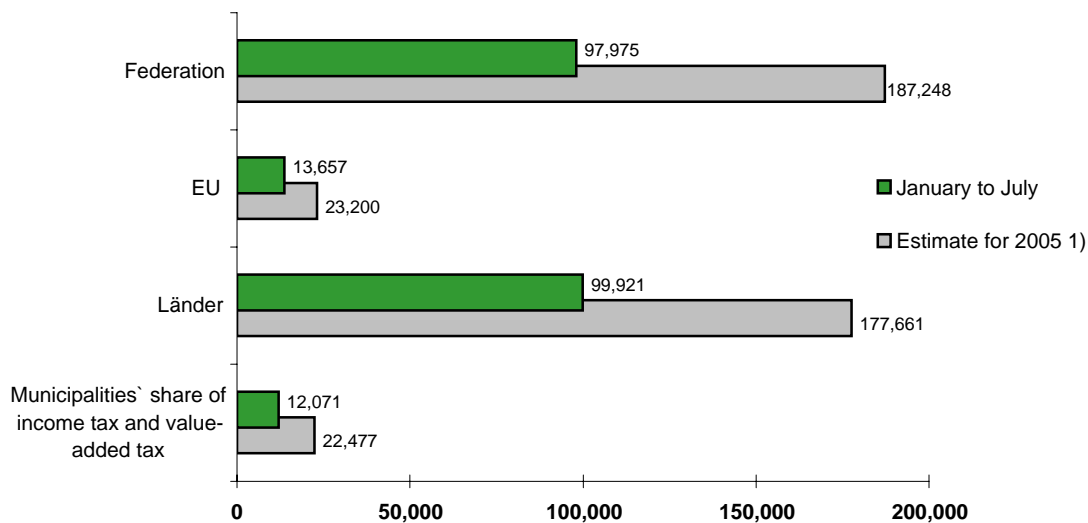
2) After deduction of child benefit refunds by the Bundesamt für Finanzen.

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 July 2005



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

### Notes :

#### Tax revenue in July 2005

Total tax revenue (excluding local authority taxes) rose in July 2005 by + 2.5 %. The upward trend was apparent in receipts from joint taxes (+ 1.7 %) as well as in those from taxes accruing solely to the Federation (+ 5.1 %) and taxes accruing solely to the Länder (+ 2.7 %). This positive trend, especially with regard to the taxes accruing solely to the Federation, must be seen in light of a weak pre-year base.

Federal tax revenue (net of federal supplemental grants), up + 7.5 % in July, showed a marked improvement on the year. This strong increase is mainly a result, in addition to the increase in joint and federal taxes, of reduced payments to the EU budget (- 11.7 %). Viewed cumulatively from January to July 2005, the growth in revenue from federal taxes at + 0.7 % currently exceeds the forecast rate of change for the whole year of 0.2 %.

Wage tax receipts were down on the pre-year level by - 4.5 %. A reason for this more pronounced decrease relative to May and June could be cuts in holiday allowances.

Receipts from assessed income tax was up + € 337 m on the previous year's figure. At the same time, refunds paid from income tax receipts to assessed employees were down - € 272 m, a reduction which can be ascribed, at least in part, to the ongoing backlog of assessment cases. The figures for investment grants and the owner-occupied homes premium were also lower, at - € 34 m and - € 29 m, respectively. Gross receipts from assessed income tax thus remain practically unchanged in relation to the pre-year level (+ € 2 m).

Revenue from non-assessed taxes on earnings registered a decrease in comparison to the pre-year of - 9.8 %. Thus, the mixed trend of strong increases and strong decreases displayed in the previous month continues.

Revenue from the interest income deduction was stagnant in comparison with the pre-year month. This is a welcome result given the simultaneous reduction in current yield on bonds outstanding.

Revenue from corporation tax rose by + € 160 m, although the trends in the individual Bundesländer were rather heterogeneous.

Turnover tax receipts increased by + 3.1 %. "Real" tax revenue in July 2005 was actually even higher, as there was a special case in one Bundesland which meant that tax receipts amounting to approximately € 200 m had to be postponed for accounting reasons to August.

Taxes accruing solely to the Federation increased by + 5.1 % on the year. Here, almost all taxes registered positive trends. Thus, for example, revenue from mineral oil duty was up

+ 5.4 %, despite higher oil prices. The main reason for this is the increase in receipts from mineral oil duty on heating oil (+ 66.9 %) and natural gas (+ 76.6 %). Developments with regard to tobacco duty were also surprisingly positive, up + 11.9 %. Revenue from insurance tax increased by 2.2 % on the year, receipts from the solidarity surcharge by + 1.6 %. The only negative trend was in relation to electricity duty, which posted a 2.5 % reduction on the year.

Income from taxes accruing solely to the Länder increased year-on-year by 2.7 %. Here, too, most taxes displayed a positive trend. Thus receipts from both inheritance tax and real property transfer tax rose by + 3.7 %. As a result of tax legislation, there was an increase of + 4.6 % in revenue from motor vehicle tax. Beer duty receipts rose by 1.8 % whereas revenue from betting and lottery tax sank by - 3.8 %.

### 3. Federal borrowing and market resources

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

	As at: 6/30/2005	Increase	Decrease	As at: 07/31/2005 <sup>1)</sup>
	- €m -			
Federal bonds	515,300	12,000	0	527,300
Special federal bonds	176,699	0	0	176,699
Federal savings bonds	11,179	72	66	11,185
Federal treasury notes	108,000	5,000	0	113,000
Treasury discount paper	35,842	5,937	5,937	35,842
Treasury financing paper	1,110	44	63	1,091
Loans against borrowers' notes	31,898	236	723	31,411
Treuhand medium-term notes	342	0	0	342
<b>Total outstanding debt</b>	<b>880,371</b>			<b>896,870</b>

#### By remaining term

	As at: 6/30/2005		As at: 07/31/2005 <sup>1)</sup>
	- €m -		
Short term (up to 1 year)	166,277		165,866
Medium term (1 year to 4 years)	267,649		304,025
Long term (over 4 years)	446,445		426,978
<b>Total outstanding debt<sup>1)</sup></b>	<b>880,371</b>		<b>896,870</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 -		
Export	117.0	103.5	104.4
International financial institutions	46.6	40.3	40.3
Capital investment and other foreign trade and payments applications, including co-financing of bilateral financial cooperation projects	42.0	29.0	30.5
Domestic guarantees (including food stockpiling and Treuhandanstalt successor organisations)	103.0	61.1	62.3

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

<u>Reporting period</u>	<u>Monthly Report</u>	<u>Publication date</u>
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>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>Joint IMF and World Bank Annual Meeting in Washington</b>	23-25 September 2005
<b>Euro Group and ECOFIN in Luxembourg</b>	10 - 11 October 2005
<b>G20 Meeting of Finance Ministers and Central Bank Governors in Peking</b>	14 - 16 October 2005
<b>European Council in Brussels</b>	27 - 28 October 2005

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**Federal Ministry of Finance**