

## Public finance

### Central, regional and local authorities

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#### Trends since the beginning of the year

In the first quarter of 1998 the financial situation of the central, regional and local authorities developed slightly more favourably than in the comparable period last year; the budget plans for the entire year also provide for an improvement compared with 1997. The combined deficit of the Federal Government, the Länder Governments and the special funds (no information is available on the local authorities so far) came to DM 33 ½ billion and was thus DM 1 ½ billion lower than a year before. The main reason for this was that revenue had increased by about 4 ½ %, primarily as a result of extensive sales of assets by the Federal Government; tax revenue, by contrast, continued to be low. Spending expanded by about 3 %. Trends at the various levels of government developed along very different lines.

*Basic trends*

In the first few months of this year, tax receipts<sup>1</sup> were 1 % greater than in the corresponding period last year; overall, they rose just as moderately as in the last quarter of 1997 and still failed to keep pace with nominal economic growth. On the one hand, revenue growth was moderated at the beginning of the year by the decrease in the solidarity surcharge from 7 ½ % to 5 ½ % and by the further increase in the basic income tax allowance. On the other hand, it was virtually no longer affected – in contrast to last year –

*Taxes*

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<sup>1</sup> Including the EU shares in German tax revenue, but excluding receipts from local authority taxes, which are not yet known.

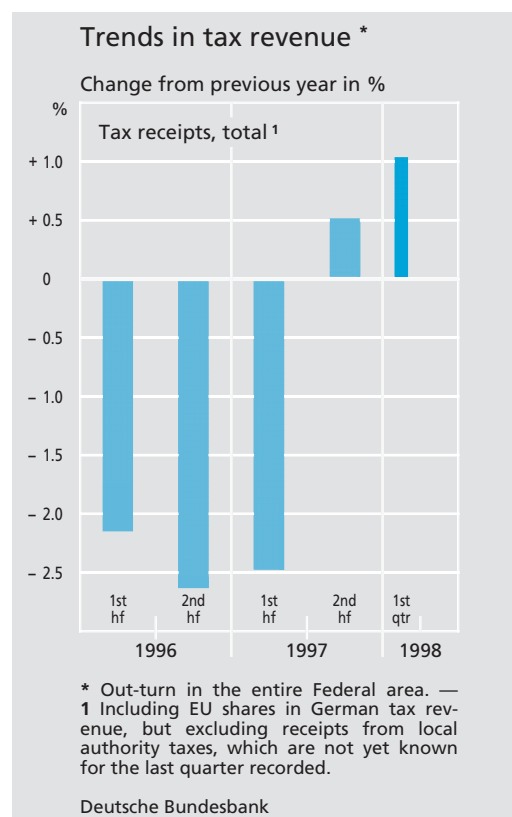
by the abolition of wealth tax and the increase in child benefit, which had contributed substantially to the unfavourable trend in revenue last year.

*Wage tax*

In respect of taxes on income, wage tax in the first quarter yielded just over 2 ½ % more than a year before; in 1997 its revenue had decreased perceptibly, owing to the increase in child benefit which was introduced at that time and which is now booked to the debit of that tax. The result continued to be affected by the moderate increase in actual earnings and the further decline in employment. In addition, the increase in revenue was slightly checked by the raising of the basic allowance (by DM 270 for single persons and twice that amount for married couples) at the beginning of the year. On the other hand, revenue may have been boosted by the fact that, in view of the lowering of the solidarity surcharge, some special payments were postponed until 1998.

*Assessed income tax*

Trends in respect of assessed taxes were disparate. Regarding assessed income tax, tax receipts were DM ¾ billion below the value of the outpayments financed by that tax, whereas a year before a revenue surplus of DM 2¼ billion had been recorded. However, this is principally attributable to the fact that the allowance for the purchase of owner-occupied dwellings reduced receipts from assessed income tax far more than a year before. The reason is that each year a further group of beneficiaries benefits from this promotion scheme which was introduced in 1996 and which – just as in the case of the previous special allowance under section 10e



of the Income Tax Act<sup>2</sup> – is granted for a period of eight years. In addition, tax refunds (which are paid mainly to wage and salary earners) also rose steeply. These revenue-reducing factors hide the fundamental improvement, which appeared likely as early as the fourth quarter of 1997, in the form of considerably larger advance payments by taxpayers.

In the first quarter, corporation tax revenue was just over 10 % greater than in the corresponding period last year. Apparently, the key factor for this steep growth was that, owing

*Corporation tax*

<sup>2</sup> The previous tax incentive scheme to encourage the purchase of owner-occupied dwellings was taken into account during the wage tax deduction procedure, whereas the allowance for the purchase of owner-occupied dwellings is financed by assessed income tax; in the first quarter of the year allowances are of particular importance, since March is the main payment month for them.

to the favourable trend in profitability, the prepayments for many enterprises were raised considerably – some were even back-dated. By contrast, the way in which enterprises distributed dividends had a retarding effect. Some enterprises used a transitional regulation – agreed in connection with the tax rate reductions of 1994 – which until the end of this year offers the possibility to make distributions from the “EK 50” and thus to reduce corporation tax (which was previously paid on retained profits) by 20 percentage points.<sup>3</sup> However, the major part of the short-falls thus incurred was offset by higher revenue from investment income tax on dividends.<sup>4</sup>

*Turnover tax*

Turnover tax was marked by a persistent weakness in revenue and actually yielded just over ½ % less in the first quarter than in the corresponding period last year. This reflected not only the continued restraint in private consumer demand, but also the reduction in government purchases of fixed assets (which are subject to value added tax) as a result of the necessary consolidation efforts. On the other hand, revenue in the first quarter apparently still showed no significant anticipatory effects on turnover of the raising of the standard rate of VAT on April 1.

*Federal fiscal position*

The Federal fiscal position improved in the first quarter. Compared with its – admittedly very high – level in the previous year, the deficit decreased by almost DM 4 billion to DM 26 billion. This was primarily attributable to the steep growth in revenue (+ 7 %). It is true that tax receipts were 2 ½ % lower, but it has to be borne in mind that the trend was ad-

**Trend in the revenue from major taxes**

Type of tax	Revenue in DM billion		Change against previous year in %
	First quarter		
	1997	1998	
Wage tax	56.9	58.4	+ 2.6
Assessed income tax	2.3	- 0.7	.
Corporation tax	8.1	8.9	+ 10.3
Turnover tax	59.9	59.5	- 0.7

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versely affected by large transfers to the EU, which were deducted from the tax revenue of the Federal Government. However, this was partly offset by considerable additional income from the sales of assets. For example, about DM 8 billion accrued to the Federal Government from sales of Deutsche Telekom shares to the Reconstruction Loan Corporation, and sales of fixed assets came to just

<sup>3</sup> On January 1, 1999, the capital category EK 50 – which concerns revenue reserves built up before 1994 – will be transformed into EK 45; as a result, the entitlement to a tax reduction in respect of the 30 % payout rate will be reduced in the case of later dividend payments from 20 percentage points to 15 percentage points.

<sup>4</sup> The corporation tax reduction entitlement of 20 percentage points mentioned above is partly offset by the positive effect of 17 ½ percentage points in respect of investment income tax on dividends (which is raised at a rate of 25 % on the dividends remaining after taking into account the corporation-tax-related payout rate of 30 %). Mainly as a result of the special dividends paid out, the non-assessed yields taxes produced almost DM 2 billion (or just over 57 %) more than a year before.

over DM 2 billion; in the first quarter of 1997 sales of participating interests and fixed assets, taken together, had yielded no more than just over DM 2 billion.

In the first quarter expenditure increased by almost 2 %. Transfers to the statutory pension insurance scheme rose by just under 6 %, a rise which was mainly attributable to the fact that, for the calculation of the Federal grant for 1998, a notional increase of the contribution rate to the statutory pension insurance scheme to 21% (i.e. the percentage rate which would have resulted without the refinancing measures) was assumed.<sup>5</sup> Labour-market-related expenditure, too, grew at an above-average rate. The transfers to the Federal Labour Office and expenditure on unemployment assistance, which is financed direct through the Federal budget, increased by 8 % and 12 %, respectively.<sup>6</sup> Interest expenditure incurred by the Federal Government actually increased by 18 %, owing to the accumulation of payment dates. By contrast, actual expenditure on goods and services was reduced, compared with the – albeit very high – level reached in the previous year. Expenditure on personnel also declined (– 5 %). This probably reflected, firstly, the reduction in staff levels effected last year; secondly, the public sector wage agreement was not concluded until April, with the result that the 1½ % increase in wages and salaries, backdated to the beginning of the year, will not start to make itself felt until the second quarter. In addition, transfers to the special funds were reduced considerably, namely by more than 20 %. This concerned mainly the Redemption Fund for Inherited Liabilities,

which in the current year will receive DM 5½ billion less than originally planned.<sup>7</sup>

In the first three months of the year, the special funds of the Federal Government incurred a deficit of just over DM 2 billion, whereas in 1997 they had still been running a slight surplus. This unfavourable trend resulted, firstly, from the lowering of Federal transfers to the Redemption Fund for Inherited Liabilities, with the result that the fund just managed to be in balance in the first quarter, whereas it had run a surplus of DM 2 billion a year before. Secondly, the deficit of the ERP special fund increased by DM ½ billion to just over DM 1 billion; this is attributable to the granting of loans which had become perceptibly more buoyant.

*Special funds*

In the first three months of the current year the Länder Governments incurred a deficit of just over DM 5 billion; the result was therefore more or less the same as in the comparable period last year. Both revenue and expenditure rose by about 1 % compared with the first quarter of 1997. In this context, the situation in the old Länder (including Berlin) differed from that in the new Länder. In the old Länder the deficits could be reduced by DM 1½ billion to just over 5½ % billion. Revenue grew by just under 3½ %, and tax rev-

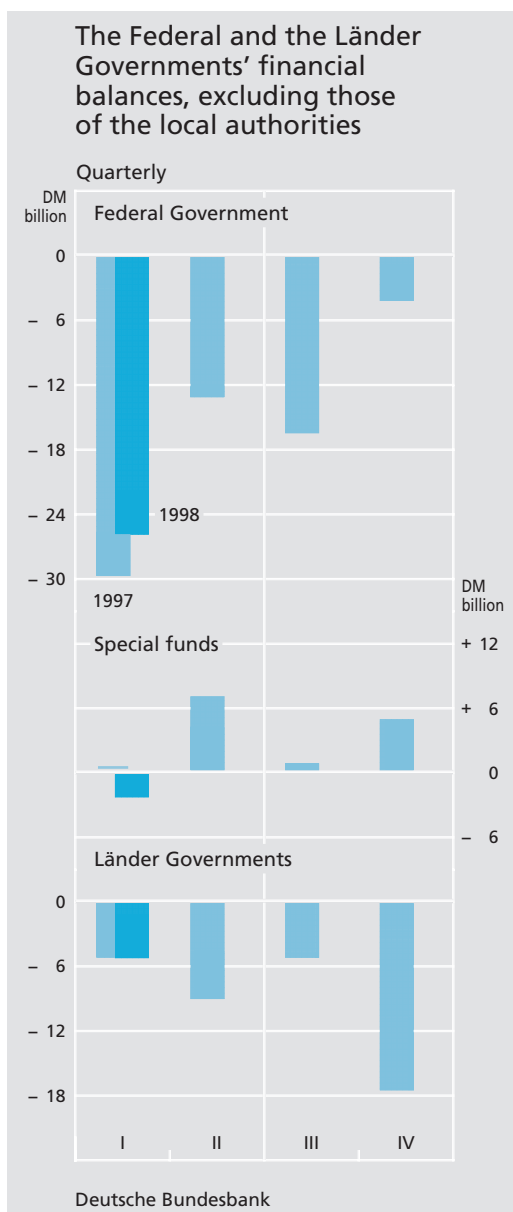
*Länder  
Governments*

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<sup>5</sup> The transfers to the statutory pension insurance scheme made as part of the refinancing measures are now also being increased by additional income arising from the raising of the standard rate of value added tax on April 1, 1998.

<sup>6</sup> Owing to the postponement of payments, the grant to the Federal Labour Office was higher than would have been necessary to cover the deficit of the Federal Labour Office.

<sup>7</sup> The DM 6 billion reductions in Federal grants agreed in 1997 did not become effective until the second half of the year.



enue by just over 2 ½ %. The most significant factor here was the more favourable development in Länder taxes. It was additional income arising from the reform of inheritance tax, which came into force at the beginning of last year in order to compensate for the abolition of wealth tax, as well as the increase in the tax on the acquisition of land and buildings that now made themselves felt more strongly. Expenditure grew by about

1½ %, with expenditure on personnel remaining almost unchanged. The budgets of the new Länder were virtually in balance, whereas in 1997 they had still been running a surplus of DM 2 billion. In this context, it was particularly the decline in tax receipts by just under 9 % which made itself felt. However, this unfavourable trend was probably attributable to the sometimes quite sharp fluctuations in the course of the year; an increase in tax receipts for the year as a whole is to be expected for the new Länder, too. Expenditure decreased by 2 %, although special factors played a considerable role in one of the Länder.

In view of the persistently high level of financial deficits, the central, regional and local authorities drew heavily on the credit markets during the first few months of the year. In the first quarter their new borrowing came to DM 29 billion, and in April total debt rose by DM 17 billion. In the first four months, taken together, securitised debt increased by DM 20 ½ billion, and liabilities arising from loans against borrowers' notes by just over DM 17 billion; money market loans, too, were increased by DM 8 ½ billion.

*Net borrowing*

The main borrower was the Federal Government, whose net borrowing amounted to DM 36 ½ billion from January to April. Here, it was mainly new borrowing through bonds (+ DM 23 billion) and Treasury notes (+ DM 8 billion) as well as funds raised in the money market (+ DM 12 billion) that made themselves felt. By contrast, there was a reduction in the liabilities arising from five-year special Federal bonds (– DM 3 ½ billion), Federal sav-

ings bonds (– DM 1½ billion) and loans against borrowers' notes (– DM 1 billion). The special funds reduced their indebtedness by DM 3½ billion; debentures amounting to DM 8 billion were repaid whereas funds were obtained mainly through bonds (+ DM 3½ billion). Net borrowing by the Länder Governments came to DM 11½ billion, the increase in loans against borrowers' notes (+ DM 16 billion) being a particularly important factor in this; by contrast, short-term bridging loans from banks (– DM 3½ billion) and Länder Government bonds (– DM 1½ billion) were redeemed, on balance. At the local authority level new borrowing came to an estimated DM 1½ billion in the first four months of the year.

#### Trends in 1998 as a whole and future prospects

*Budget estimates largely realistic*

From the present perspective, the budget plans of the Federal Government and the Länder Governments for the current year generally appear realistic. In contrast to the previous few years, no dramatic tax shortfalls appear likely at present. As far as trends on the revenue side are concerned, however, the extent to which the large-scale sales of assets envisaged in the budgets are actually realised in the course of the year will also be important. On the expenditure side no major deviations from the estimates are apparent in the plans of the central, regional and local authorities either; this applies particularly to labour-market-related expenditure. Provision has probably also been made generally for expenditure on personnel, on the basis of the

#### Net borrowing in the market by the central, regional and local authorities

Period	Total	of which		Memo item Purchases of public debt instruments by non-residents
		Securities	Loans against borrowers' notes 1	
1987	+ 50.0	+ 46.8	+ 3.6	+ 18.8
1988	+ 54.0	+ 42.1	+ 12.2	+ 6.6
1989	+ 25.8	+ 32.9	– 6.8	+ 18.8
1990 2	+ 112.2	+ 90.9	+ 21.7	+ 15.1
1991 3	+ 106.8	+ 71.3	+ 35.8	+ 50.9
1992	+ 102.4	+ 95.0	+ 7.9	+ 59.4
1993	+ 159.1	+ 120.3	+ 39.3	+ 109.1
1994 4	+ 85.8	+ 45.6	+ 40.6	– 20.9
1995 5	+ 97.6	+ 32.6	+ 81.4	+ 62.1
1996	+ 123.3	+ 65.2	+ 73.7	+ 57.3
1997 <i>pe</i>	+ 94.2	+ 65.9	+ 38.5	+ 77.2
of which				
Jan.–Apr. <i>pe</i>	+ 43.6	+ 39.7	+ 8.6	.
1998				
Jan.–Apr. <i>pe</i>	+ 46.0	+ 20.4	+ 25.6	.

1 Including cash advances and money market loans. — 2 Including GDR state budget (July 1 to October 2, 1990). — 3 From 1991, including east German Länder Governments and local authorities. Excluding the debt of the Federal Railways assumed by the Federal Government. — 4 From 1994, including Federal Railways Fund. — 5 From 1995, including Redemption Fund for Inherited Liabilities.

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moderate wage agreement concluded in the public sector.

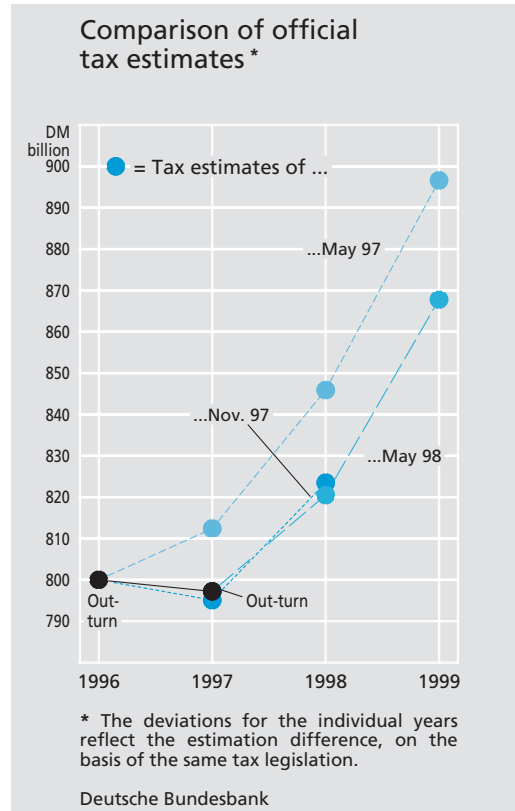
According to the new official forecast prepared in May, a 2.9% increase in tax revenue is expected in the current year. This means that expectations have been reduced by DM 3 billion, compared with the comparable estimate made in the autumn (i.e. adjusted for the increase in turnover tax which had not been taken into account at that time). After the dramatic corrections made in the past few years, however, this must be regarded as a sign that revenue trends are gradually stabilising. The main reason for the slight reduction, compared with earlier forecasts, is the fact that growth in GDP is now estimated to be somewhat lower than forecast in the autumn of last year (4% nominally, compared

*Result of the most recent tax estimate*

with almost 4½%).<sup>8</sup> The important point here as far as wage tax revenue is concerned is that the increase in actual earnings will presumably be somewhat slower than expected at that time. In addition, there will be shortfalls in turnover tax, which are attributable to the fact that domestic demand will grow slightly more slowly than assumed in the autumn of last year. On the other hand, particularly expected revenue from corporation tax and the non-assessed taxes on yields (which comprise mainly investment income tax on dividends) have been revised upwards on the grounds that up to April revenue trends exceeded expectations.

Nevertheless, the overall increase in tax receipts in the current year will still not keep pace with nominal economic growth. According to the new official estimates, the overall tax ratio will decrease, instead, by another ¼ percentage point to just under 21.7% (as defined in the financial statistics) even though the effects of the increase in turnover tax and the decrease of the solidarity surcharge as well as the raising of the basic income tax allowance virtually cancel each other out this year. One reason for the less-than-proportionate increase in tax receipts is probably that countermeasures to offset losses arising from the abolition of the trading capital tax – mainly by reducing the scope for enterprises to make provisions – will take some time before they affect revenue.

This year's Federal budget provides for a reduction of DM 7 billion in the financial deficit, compared with 1997, to DM 56½ billion. According to the most recent tax estimates, tax



shortfalls will come to no more than about DM 1½ billion compared with the budget estimates (a year before, reductions of DM 9 billion in tax revenue had appeared likely). It remains to be seen whether receipts from sales of assets will be fully realised. Sales of participating interests and of fixed assets were together estimated to be worth DM 36½ billion, whereas in 1997 only DM 13 billion had been acquired. The major part of this year's estimate is attributable to sales of Federal shares in Deutsche Telekom AG to the Reconstruction Loan Corporation. In contrast to the previous year, no labour-market-related burdens not foreseen in the plans ap-

<sup>8</sup> According to the latest assumptions made by the Federal Ministry of Economics (which form the basis of the official tax estimates), real economic growth in 1998 will be between 2½% and 3% compared with the 3% growth rate expected in the autumn of last year.

pear likely on the expenditure side. The measures for promoting employment recently agreed by the Federal Government will probably not raise overall expenditure either; instead, the disbursement of funds already planned in the budget is to be guaranteed or the funds are to be redistributed within the expenditure estimates. The reduction in the transfer of funds to the "German Unity" Fund recently adopted by the Bundesrat and the Bundestag will reduce the burden on the Federal Government by just over DM 1 billion.<sup>9</sup> In this context, the originally fixed annuities, which would have made it possible to redeem the debt lodged in this fund more rapidly given the low interest rate level, were reduced by a legislative amendment – in line with the procedure used in the case of the Redemption Fund for Inherited Liabilities in 1997 and 1998.

*Special funds*

The special funds, taken together, will come off substantially better in 1998 than they did last year when they ran a surplus totalling about DM 13 billion. The main reason for this is that in the current year DM 17 billion, compared with just under DM 2 billion last year, will accrue to the Redemption Fund for Inherited Liabilities, owing to the exceptionally large Bundesbank profit. This is offset, however, by the cuts in the Federal transfers mentioned above. In addition, special receipts in connection with the equalisation claims allocated in the past will probably decrease in importance. On the expenditure side, the special funds, which, taken together, are responsible for almost one-quarter of public debt, will benefit from the fact that the interest rate level continues to be low.

The budget plans of the Länder Governments provide for a reduction of approximately DM 7 billion in the deficits to about DM 30 billion. According to the most recent tax estimate, it appears likely that there will be shortfalls of DM 1½ billion, compared with the estimates which were made in the autumn and on which most of the plans were based. In addition, it is of considerable importance for the Länder, too, that the massive sales of assets included in the budgets can be realised. A 1% increase is estimated on the expenditure side. This will probably take account of much of the increase in expenditure arising from the wage agreement for the public sector. However, it will be necessary overall to exercise very strict restraint in spending in order to comply with the budget estimates. Nevertheless, the burden on the west German Länder will be eased as a result of the above-mentioned cut in the transfers to the "German Unity" Fund.

*Länder  
Governments*

The financial situation of the local authorities will presumably deteriorate somewhat compared with last year when they incurred a deficit of DM 6½ billion. In view of the continued restraint in respect of the transfers made by the Länder, receipts will probably expand only slightly whereas on the expenditure side a somewhat sharper increase is to be expected. *Inter alia* this reflects the fact that additional relief in respect of social assistance expenditure will no longer result from the introduction of the nursing insurance

*Local  
authorities*

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<sup>9</sup> The burden on the west German Länder and local authorities will be eased by almost DM 2 billion in 1998. Overall, transfers to the "German Unity" Fund will be reduced by DM 3 billion in each of the coming two years.



scheme. This type of expenditure will therefore presumably increase again, whereas it declined in 1997. Investment expenditure will probably decrease further in the current year, too, although the downward trend is likely to become weaker than it was last year.

*Considerable reduction in deficits as defined in budget*

The central, regional and local authorities will considerably reduce their deficits – as defined in the budget (financial statistics) – in the current year compared with the previous year (about DM 95 billion); in addition to the Federal Government and the Länder Governments, the special funds will contribute to this trend. Furthermore, the financial situation of the social security funds, which in 1997 ran surpluses totalling just over DM 5 billion, will improve perceptibly once again. This applies in particular to the statutory pension insurance scheme, which will receive the additional Federal grant financed by the raising of value added tax. Overall, the public sector deficits, as defined in the financial statistics, might decrease by a sum in the order of DM 30 billion. However, this considerable reduction in public sector deficits should not conceal the fact that substantial consolidation efforts on a sustained basis are still necessary. The decrease in the deficits compared with last year results mainly from one-off receipts, which will not lead to any sustained improvement in the public financial situation.

*Perceptibly smaller improvement according to the national accounts*

In terms of the national accounts, in fact, the trend in the public sector budgets is perceptibly less favourable. In contrast to that of the financial statistics, this statistical concept – which also forms the basis of the Maastricht Treaty – captures, in particular, revenue and

expenditure which result merely from a shift in financial assets (such as sales of participating interests or the granting of loans) without affecting the deficit. Thus, the government's substantial privatisation proceeds in the current year or the additional income of the Redemption Fund for Inherited Liabilities arising from the revaluation of the Bundesbank's foreign exchange reserves are not booked in the national accounts as deficit-reducing receipts.

This makes it clear that it is absolutely mandatory to continue the reduction of the public sector spending ratio initiated last year over the medium term, a course which is also necessary in order to provide scope for mitigating the heavy burden of levies. In addition, the Stability and Growth Pact, adopted on the initiative of Germany, necessitates the achievement of a budgetary position – as defined in the national accounts – which is almost in balance or in surplus in a normal economic situation. The importance of this objective was once again emphasised by the supplementary statement of the European Council which was published at Germany's request on the occasion of the selection of the countries to participate in monetary union.

*Sustained consolidation required*

## Social security funds

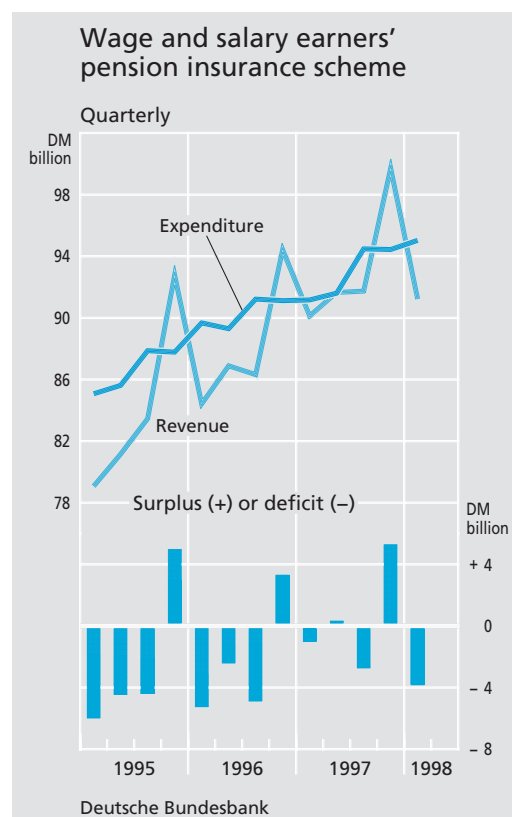
In the first quarter of 1998 the wage and salary earners' pension insurance scheme ran a deficit of DM 3.8 billion, compared with one of DM 1.0 billion in the same period last year. This perceptible deterioration is not in keeping with the trend to be expected for the en-

*Wage and salary earners' pension scheme*

tire year, however. Firstly, the result achieved in the first quarter of 1997 was particularly favourable, since the shortening of payment periods at that time had provided for one-off additional contribution receipts in January. Secondly, the additional Federal grant financed by the raising of value added tax, which served to avoid the – otherwise necessary – further increase in the contribution rate in the current year, has only been paid since April.

In the first quarter, expenditure on pensions in western Germany grew by just under 4 %, and thus substantially faster, owing to the further increase in the number of pensions paid, than would have been consistent with the 1.65 % pension adjustment in mid-1997. In eastern Germany the increase in the expenditure on pensions was 5 %, which was therefore below the pension adjustment of 5.55 %. In this context, the further decrease in the “replenishing amounts”, i.e. the pension components granted for a transitional period, which are not covered by pan-German pensions legislation, had an expenditure-reducing effect. Overall, expenditure by the pension insurance scheme increased by just over 4 %. By contrast, receipts were only just over 1 % more than a year before, particularly as a result of the weak trend in contribution payments.

In line with last year’s trends in net wages, pensions will be raised on July 1, 1998 by 0.44 % in the west and by 0.89 % in the east; thus, adjustments are perceptibly lower than last year. The east German standard net pension will therefore increase from 85.2 % to



85.5 % of the western level. On the same date the improvements in taking periods of child-rearing into account when assessing pension rights will come into force and will apply to the entire number of pensions paid: in future, periods of child-rearing will be taken into account in addition to any simultaneous contribution period arising from gainful employment; moreover, the remuneration to be assumed for the child-rearing periods will be increased from 75 % to 85 % of the average remuneration.<sup>10</sup> The resulting additional burden on the pension insurance scheme is estimated to come to DM 1 billion in 1998.

<sup>10</sup> This rate will be raised in mid-1999 to 90 % and in mid-2000 to 100 %.



In 1998 as a whole the pension insurance scheme is likely to run a considerable surplus, particularly as a result of the payment of the additional Federal grant, whereas last year it ended up almost in balance. However, the objective of increasing the fluctuation reserve to the statutorily prescribed minimum level of one month's expenditure by the end of the year will probably not be fully achieved, particularly as a result of the persistent weakness

in contributions. It will therefore be necessary to aim at a surplus for 1999, although it may be considerably smaller than in 1998.

In the first quarter of the year the financial position of the Federal Labour Office was substantially affected by one-off factors. The deficit incurred during that period came to no more than DM 1.4 billion, compared with DM 5.1 billion in the first quarter of 1997. The main reason for this was that since the beginning of 1998 all payments for wage substitutes are made monthly – and, what is more, at the beginning of the following month – instead of fortnightly.<sup>11</sup> This is the main reason why expenditure decreased by 17% in the first quarter, in spite of the fact that unemployment had risen further, compared with the previous year. On the other hand, receipts also declined by almost 3½%, a trend which was fostered not only by the weakness in contribution receipts but also by the perceptibly lower level of other receipts.

*Federal Labour Office*

Efforts are being made in the current year to increase the deployment of measures aimed at encouraging employment following the situation last year when the funds budgeted for that purpose were not fully utilised and the number of participants in promotional schemes declined perceptibly. A more flexible implementation of the budget and the provision of additional funds for cofinancing job creation measures, particularly for local authorities and charitable bodies in eastern Germany, are meant to guarantee the full utilisation of the facilities available to create jobs,

<sup>11</sup> The payment interval had already been extended for new claims which arose after mid-1997.

which implies a steep increase in the use of funds earmarked for these purposes during the rest of the year. The budget of the Federal Labour Office provides for a 2 % increase in expenditure compared with 1997 for the payment of unemployment benefit, assuming that the number of unemployed persons will more or less remain the same on an annual average. In view of the recent improvement in the labour market, it is unlikely that the estimate will be overshot. Overall, the budget provides for a deficit, to be financed by the Federal Government, of just over DM 14 billion; last year expenditure exceeded receipts by DM 9½ billion.

*Statutory  
health  
insurance  
institutions*

At the beginning of the year the financial situation of the statutory health insurance institutions was marked by the cost-cutting measures in the health sector which came into force in mid-1997 and whose main thrust is a rise in the contributions towards the costs that insured persons have to meet themselves. In the first quarter of 1998, ac-

ording to the initial basic data, total expenditure therefore decreased by about ½ %. By contrast, receipts grew by 2 ½ %, a development which was partly attributable to the fact that the average contribution rate was somewhat higher than a year before. During the first few months of this year this rate was 13.6 % of eligible income in western Germany and 14.0 % in eastern Germany. Thus, in the first quarter the statutory health insurance institutions achieved perceptibly more favourable results than a year before, their deficit being no more than DM ½ billion, compared with DM 2 ½ billion in the corresponding period last year. It is true that in the second half of 1998 the improvement which was brought about by the cost-cutting measures will not continue; but, seen over the entire year, the health insurance institutions will probably tend to achieve a higher surplus, compared with last year, when this surplus came to about DM 1 billion. For the time being, this wards off the danger of another increase in the contribution rates.