

*Sheplear*

FROM: Sir Kenneth Cousins  
DATE: 5 February 1982

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THE FRENCH AND US PSBRs

You will recall that Mr Appleyard and his predecessors in Paris have for the years since 1977 compiled with considerable labour, figures of French public borrowing which are as nearly as possible on a basis comparable to our own PSBR. Towards the end of last year Mr Appleyard was able (with all the usual reservations about the comparability of the material) to add figures for French public borrowing in 1980 to the series, together with some trailers for 1981 and 1982. The figures for GDP shares we now have, with British figures compared, are as follows:-

	<u>France</u>		<u>UK</u>
1977	4.25%	1977/8	3.7%
1978	5.1%	1978/9	5.5%
1979	5.5%	1979/80	4.9%
1980	6.0%	1980/81	5.7%
1981 (over 6%)		1981/82	4.0%

2. Mr Appleyard's table showing how the 1980 French PSBR builds up and how it was financed is attached. In 1980 the "central government borrowing requirement" represented less than 20% of the total. That was a year in which the French social security system was (temporarily) in strong surplus - 27 billion francs or over £2½ billion. It is now back in deficit. On the financing side there is the now usual substantial contribution from foreign borrowing, and the usual rough equation between the small savings receipts of the Caisse Des Depots and requirements for housing. Mr Appleyard's remarks that

public sector borrowings on the French capital market rose sharply from a gross figure of 65 billion francs in 1979 to 93 billion francs in 1980. This represented 83% of total borrowings on the French capital market of 111 billion francs in that year.

3. For 1981 and 1982 we have figures only for the general government borrowing requirement. Those for 1981 have been published, that for 1982 is a confidential forecast from the Tresor. The series runs:

	<u>Amount</u> (billion francs)	<u>GDP Share</u>
1980	+ 10	+0.4%
1981	- 74	-2.4%
1982	-120	-3.3%

4. The broad picture is that over the 4 years 1977-1980 French and British public borrowing were remarkably similar as a proportion of GDP, and on a closely comparable upward trend. In 1981, and no doubt in 1982, comes a sharp divergence: the British figure turns down and the French are probably continuing upwards.

5. United States: an article in the January edition of The Banker stressed that the US budget deficit was only a part of the federal borrowing programme. A table included in that article is attached. The borrowing of off-budget federal entities would fall squarely within our PSBR definition. The Government-guaranteed and sponsored borrowing would only fall within our PSBR definition if the borrower were themselves public bodies. Some of the federally-sponsored bodies making housing loans do indeed look nearer to UK public sector bodies in this business, like local authorities or the Housing Corporation, than to our building societies. At all events, there is in the US scene a great deal more guaranteeing and sponsoring outside the budget than there is in ours.

6. A complete picture of the US PSBR would show borrowing by State and local governments, but almost all are required by their constitution to avoid deficit financing. They are permitted to borrow only for specific purposes and for specific time periods. The aggregate of their individual surpluses, however, does somewhat reduce the total deficit for all levels of government combined.

President Reagan's "new Federalism" proposals for increasing the responsibilities of State governments are supposed to ensure that the federal government provides the States with all the funds needed to discharge the added responsibilities. But until the arrangements are in place there will be some uncertainty on this score.

7. The Banker article referred to above points to one other difference between US and UK circumstances: private individuals are still by far the largest group of holders of US debt. Institutional investors are very minor holders; foreign central banks are much more important. And only 10% of the total US national debt in mid-1981 had a maturity exceeding 10 years.

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THE FRENCH PUBLIC SECTOR BORROWING REQUIREMENT

1980 FIGURES IN F BILLION

<u>PSBR</u>		<u>Method of Financing</u>	
*Net central government borrowing requirement	27.65	Capital markets (net)	80.00
Nationalised industry	43.95	†CDC Direct lending (including housing)	51.77
Other public sector organisations	44.20	Treasury bonds	0.87
Housing and others	47.01	Treasury bills	8.17
		Foreign borrowing	22.00
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	162.81		162.81
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\* Comprising central administrations, local authorities and social security

† Caisse de Dépôts et Consignations: public sector organisation which principally disposes of the funds of the private and public sector savings banks

EXTRACT FROM 'THE BANKER'

DATE JANUARY 1982

Reference .....

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USDEBT

US FEDERAL BORROWING		
US\$ billion	1980	1981
Budget deficit	-60	-59
Off-budget federal entities	-14	-25
	-74	-84
Other financing	+3	+2
Borrowing from public	-71	-82
Net govt. guaranteed borrowing	-32	-50
Net govt. sponsored borrowing	-21	-25
Federal & federally-assisted borrowing	-124	-157