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TO ROUTINE FCO

TELEGRAM NUMBER 1217 OF 24 DECEMBER 1982

AND TO ROUTINE JEDDA, UKDEL INF/IBRD, UKREP BRUSSELS,
WASHINGTON AND BONN

INFO SAVING TO OTHER EC POSTS, CGS IN FRANCE, UKDEL OECD

FRENCH ECONOMY: HEALTH OF THE FRANC
SUMMARY

MITTERRAND'S XMAS STOCKING IS STUFFED A BIT TOO FULL OF
LOANS. MORE AND MORE HIS CRITICS FORETELL AN EARLY BOUT OF
INDIGESTION FOR THE FRANC. THEY FEAR THAT THE LARGE AMOUNTS OF
BORROWED FOREIGN CURRENCY WHICH ARE BEING SPENT ON SUPPORTING
THE FRANC AGAINST THE DEUTSCHMARK WILL BE WASTED BECAUSE
DEVALUATION IS INEVITABLE. NOR ARE THERE ENOUGH SIGNS THAT
MITTERRAND IS READY TO ADOPT A DEGREE OF RIGOUR THAT MIGHT
STEM THE TIDE OF SPECULATION, BUT HE MAY NOT BE ABLE TO
POSTPONE THE DECISIVE MOMENT, AS HE HOPED, UNTIL AFTER THE
MARCH MUNICIPAL ELECTIONS.

DETAIL

2. ON THE RETURN OF M DELORS FROM RIYADH, THE MINISTRY OF
THE ECONOMY AND FINANCE HAS ALLOWED THE VEIL OF DISCRETION
THAT HAS OBSCURED ITS NEGOTIATIONS FOR SAUDI FINANCIAL
ASSISTANCE (PARIS TELNO 1175 OF 11 DECEMBER) TO DROP JUST A
FRACTION OF AN INCH. IT ISSUED A COMMUNIQUE YESTERDAY
CONTAINING LANGUAGE THAT APPEARED TO CONFIRM (BUT ONLY IN THE
MOST GENERAL TERMS) PRESS REPORTS OF AN AGREEMENT BY THE
SAUDIS TO MAKE AVAILABLE TO FRANCE FUNDS OF THE ORDER OF
4 BILLION, IN TWO OPERATIONS OF 2 BILLION.

3. ASSUMING THE REPORTS ARE CORRECT, THIS BRINGS TO THE US
8 BILLION DOLLARS THE SUM WHICH, SINCE SEPTEMBER, FRANCE HAS
ARRANGED TO BORROW, APPARENTLY FOR THE SOLE PURPOSE OF
SUPPORTING THE FRANC AGAINST THE DEUTSCHMARK IN THE EMS.
UP TO US 3 BILLION APPEARS TO HAVE BEEN DRAWN ALREADY,
ALTHOUGH PROBABLY NOT ALL OF THIS HAS BEEN SPENT. PUBLIC
CRITICISM IS STARTING, ON THE GROUNDS THAT IF THE FRANC IS
EVENTUALLY DEVALUED THE MONEY SPENT IN SUPPORTING IT WILL
HAVE BOUGHT NOTHING OF LASTING VALUE. IT IS NOW ASSUMED
BY ALL NON-GOVERNMENTAL EXPERTS WHOSE VIEWS ARE KNOWN TO
US THAT THE FRANC WILL INDEED BE REALIGNED AGAINST THE
DEUTSCHMARK IN 1983, AND SOME PEOPLE (INCLUDING, IN PRIVATE,
THE FORMER PRIME MINISTER, RAYMOND BARRE) ARE SAYING THAT
THIS WILL HAPPEN BEFORE THE MUNICIPAL ELECTIONS IN MARCH.

4. DELORS PROFESSES IN PUBLIC TO SEE NO NEED FOR ANY CHANGE
OF PARITY NOW, NOR FOR ANY EARLY MOVE TO A MORE RIGOROUS
ECONOMIC POLICY SUCH AS MIGHT STEM THE TIDE OF SPECULATION
AGAINST THE CURRENCY BUT ADDS THAT

HE WILL NOT HESITATE TO RECOMMEND THAT THE SCREW MARKED
RIGOUR BE GIVEN ANOTHER TWIST, IF IT BECOMES NECESSARY LATER.
WHATEVER DELORS' REAL VIEWS ON THE MATTER, THERE IS CLEARLY NO

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GOVERNMENT CONSENSUS FOR GREATER RIGOUR NOW . JEAN BOISSONAT, THE INFLUENTIAL EDITOR OF "L'EXPANSION" CAME AWAY FROM A RECENT INTERVIEW WITH MITTERRAND CONVINCED THAT THE PRESIDENT HIMSELF WAS FAR FROM READY TO CHOOSE BETWEEN THE ADVICE TENDERED BY THOSE LIKE DELORS WHO FAVOUR GREATER RIGOUR ("LES AUSTERES") AND BY THOSE ("LES VOLUNTERRISTES") LIKE CHEVENEMENT, THE MINISTER OF RESEARCH AND INDUSTRY, WHO, WITH EBULLIENT FAITH IN THEIR OWN POLICIES, BELIEVE THAT TOMORROW'S GROWTH WILL PAY OFF TODAY'S DEBTS.

5. ACCORDING TO THE FORECASTS FOR FRANCE AND FOR THE WORLD ECONOMY IN 1983 JUST PUBLISHED BY OECD AND INSEE THAT TOMORROW IS NOT JUST AROUND THE CORNER. OVER THE NEXT SIX MONTHS, THE PURCHASING POWER OF HOUSEHOLDS IS EXPECTED TO DECLINE, INDUSTRIAL PRODUCTION MAY DECLINE ALSO, UNEMPLOYMENT IS LIKELY TO START RISING AGAIN, AND COMPANY FINANCES WILL DETERIORATE FURTHER. INFLATION WILL PROBABLY STAY ABOVE 9 PER CENT. A LOWER DOLLAR WILL CUT THE ENERGY IMPORT BILL BUT EXPORTS WILL GROW ONLY SLOWLY AND THE TRADE DEFICIT WILL IMPROVE ONLY GRADUALLY. IN PUBLIC, THE PRESIDENT AND DELORS MAKE GENERALISED BUT INSISTENT REFERENCES TO THE HELP THAT THE GERMANS OWE TO FRANCE IN ITS EFFORTS TO CUT ITS TRADE DEFICIT AND AVOID A THIRD DEVALUATION, BUT SCEPTICAL FRENCHMEN (AND EVEN THE GERMAN AMBASSADOR HERE) DOUBT GERMAN WILLINGNESS TO MAKE GREAT SACRIFICES TO SUPPORT THE GOVERNMENT WHICH IS NOT PREPARED TO CALL ON PEOPLE TO MAKE THE PAINFUL ADJUSTMENTS THEIR NEIGHBOURS ARE MAKING.

6. ON THE OCCASION OF THE 1981 AND 1982 DEVALUATIONS MITTERRAND ACTED TOO LITTLE AND TOO LATE. HIS RESOLVE TO BE A "FORCE TRANQUILLE" SEEMED TO MAKE IT HARD FOR HIM TO READ THE SIGNS SOON ENOUGH. CONCERN TO GET PAST THE MARCH MUNICIPAL ELECTIONS MAY REINFORCE THIS TENDENCY. 1983 WILL SHOW WHETHER HE, AND HIS ADVISERS, HAVE LEARNT THEIR LESSONS OF EXPERIENCE. BUT THE EVIDENCE SO FAR IS NOT REASSURING.

FCO PLEASE PASS SAVING TO EC POSTS.

PETRIE.

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