

SAVING TELEGRAM

BY BAG

UNCLASSIFIED

FRAME ECONOMIC

FROM PARIS SAVING TELNO 32 OF 5 APRIL 1983 To FCO

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FRANCE : ECONOMIC REPORT FOR MARCH 1983

SUMMARY

1. The continued deterioration of all aspects of the French economy except unemployment has forced the Government into its third devaluation of the French franc since it was elected in May/June 1981, and into a series of austerity measures which are in stark contrast to the inflationary policy with which President Mitterrand began his term of office. The balance of trade deficit continues at the very high level established in 1982, inflation is at least twice that of France's main competitors and likely to overshoot the Government's 8% target for this year, and industrial production remains sluggish.

DETAIL

EXCHANGE RATE AND FRENCH OFFICIAL RESERVES.

2. On 21 March the franc was devalued by 2.5% as part of a general realignment of currencies within the EMS, which included a 5.5% revaluation of the Deutschmark. Over the three tumultuous weeks on the foreign exchanges which preceded the realignment, the Bank of France is estimated by the specialist press to have spent around \$6 billion in defence of the franc.

3. The devaluation of the franc has been seen as inevitable for some time although it was widely predicted that the Government wished to delay it for political reasons until after the second round of the municipal elections on 13 March. The franc had been under pressure since early February but with the strengthening of the Deutschmark following the victory of the Christian Democrats in the West German elections on 6 March the pressure increased dramatically. The Bank of France reacted with skill. On 7 March after appearing determined to defend the franc at its median rate in the EMS it abruptly withdrew from the market allowing the franc to fall to its EMS floor rate, disconcerting speculators and obliging the German Bundesbank, under EMS rules, to support the franc. Pressure slackened for a few days but renewed at the end of the week. In response the Bank of France entered the Euro-franc market borrowing heavily and forcing up short-term interest rates to astronomical levels. By this means it deterred further speculative attacks on the currency until the devaluation on 21 March. At times two-day interest rates on the Euro-franc market were between 4,000% and 6,000% at an annual rate.

4. Now that speculation has ended there has been the almost automatic reverse flow of francs into French reserves. No estimates of the amounts involved are yet available.

AUSTERITY MEASURES

5. To accompany the devaluation of the franc the Government introduced a number of measures designed to eliminate the balance of trade deficit within two years. They include higher taxation, higher public sector tariffs, increased saving and cuts in planned public expenditure. The Minister of Finance has estimated that in 1983 the measures will reduce internal demand by F65 billion, or 2% of GNP. M Delors has acknowledged that some of the measures such as the increases in public sector tariffs will add to inflation and mean that the Government's 8% inflation target for the end of this year may be slightly exceeded.

6. One measure which has been highly unpopular and has to some extent distracted public attention away from the others is the limit of F3,000 (in foreign currency and francs) which Frenchmen may take out of France for the rest of the year as tourists.

7. The ceiling for the growth in M2 money supply in 1983 has been reduced from 10% to 9%.

PRICES

8. In February the rate of inflation fell slightly, the retail price index rising by 0.7%. Over the preceding 12 months the index rose by 9.2% and over the preceding 3 months at an annual rate of 10%. The Government's target for 1983 is 8%.

9. At the end of the month the Government tightened its control over prices by increasing surveillance and sanctions, and immediately penalised the meat and fish retail trade for excessive price rises by increasing the tax on their profits. It had previously expressed concern about the general 0.8% rise in retail food prices when wholesale prices have remained generally unchanged, and about the large number of price increases in private sector services which have contravened existing regulations.

UNEMPLOYMENT AND INDUSTRIAL RELATIONS

10. Unemployment remained virtually unchanged in February at 2,020,100. The unadjusted figure fell by 2.3% to 2,080,100. Over 12 months unemployment has risen by only 3.8% partly as a result of a series of measures introduced by the present Government to contain unemployment, and partly from the effects of the Government's earlier reflationary economic policy. Notified vacancies, seasonally adjusted, fell by 2.9% in February to 112,100, but over the year rose by 54.4%.

11. Labour problems in the car industry continue. Negotiation led to agreement and a return to normal working at Citroen early in the month. On 12 March local labour officials refused applications from Citroen and Renault to dismiss trade union representatives involved in incidents during the recent unrest. Citroen management lodged an appeal, which is still pending, but those involved returned to work and the car industry has since been relatively peaceful. A miners' strike at Carmaux in south west France was resolved on the eve of the municipal elections, Charbonnages de France backing down (on Government instructions) from an earlier refusal to recruit new staff. Other nationalised industries fear

that this may make it more difficult for them to resist similar union demands in the future. Medical students went on strike over changes in their pattern of training and were joined on 22 March by hospital doctors protesting against proposed changes in the organisation of hospitals.

WAGES

12. The minimum legal wage, the SMIC, has been increased with effect from 1 March by 3.6%. An increase in the cost of living index by 2% or more, in this case it was 2.8%, triggers off a rise in the SMIC. The remainder of the 3.6% increase represents the slightly delayed honouring of a Government pledge to increase the purchasing power of the SMIC by 4% in 1982.

13. The increase affects 1,400,000 employees and raises the minimum legal monthly salary based on a 39-hour week to F3,552.33. Since President Mitterrand was elected in May 1981 the SMIC has been increased by 33.3% and its purchasing power by 14.6%.

14. In 1982, principally because of the Government's wages and prices freeze, the 9.3% increase in wages was slightly less than the 9.7% annual rate of inflation. When the wages and prices freeze came to an end in October last year, the Government issued guidelines intended to keep increases in public sector wages within 8%, its target rate of inflation for 1983, and took measures designed to encourage private sector wage settlements to remain within the same limits. Most of the wage agreements subsequently negotiated were within the 8% limit but included a clause providing for a review of wages at the end of 1983 with the implicit intention of allowing an additional increase to compensate for any movement of inflation above the Government's 8% target. At the time the Government accepted these clauses (one with ambiguous wording was included in the civil service pay agreement) but since the new austerity measures have been announced there has been some disagreement among Ministers about whether any catching up increases should be allowed. If they are not, as inflation is likely to exceed the Government target, this is bound to be a source of trade union discontent and the fact that the Government has allowed the SMIC to rise more rapidly than other wages and thus compress wage differentials aggravates the problem.

INDUSTRIAL PRODUCTION AND DEMAND

15. The industrial production index, seasonally adjusted and excluding building, rose one point in January to 127 (in its latest bulletin, INSEE, the Government's statistical office has revised the index for December down one point to 126 on the basis of more recent information). The three month moving average, November to January, remains unchanged at 127. The Bank of France, in its latest monthly survey published on 15 March, reports that the overall index of industrial production was static in February. Production levels in the capital goods, consumer goods and food sector were unchanged. Output of intermediate goods slackened but production in the car industry showed a strong revival after labour conflicts in January. The report also notes that a slight reduction in internal demand evident in January became more pronounced in February. Registration of new cars was 3.1% lower in February 1983 than February 1982.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

16. The seasonally adjusted visible trade deficit for February was F7.6 billion, an improvement on January's F9.6 billion deficit but nevertheless a disappointment for the Government. The total deficit for

January and February, F17.2 billion, represents over a third of the Government's target deficit for the whole year. There is therefore no improvement on the disastrous trend established in 1982 when the annual deficit was F92.7 billion. The figures gave a reminder of how great was the need for strong action if the President's objective of eliminating the trade deficit by the end of next year is to be achieved.

17. In February exports fell by 5.4% to F52.8 billion and imports fell by 7.6% to F60.4 billion. France's balance of trade with European Community countries improved slightly due to a small fall in imports, but French exports, particularly of cars and capital goods, to its important markets in Eastern Europe, the OPEC countries and the Third World, also fell. Compared with February 1982, exports have increased by only 3.5% while imports have increased by 5.8%.

18. The recent fall in oil prices came too late to affect the trade figures for February. It had been generally estimated that it would reduce France's balance of trade deficit in a year by about F25 billion but if the more than 5% appreciation of the dollar against the franc since the EMS realignment persists it will wipe out a large part of this gain.

INTEREST RATES

19. Throughout March the Bank of France kept its intervention rate at 12.5%. The overnight rate remained at 12.87% until lowering slightly to 12.51% on 29 March.

MONETARY POLICY

20. The money supply (M2) fell by 0.1% in December giving an increase of 11.4% for 1982, comfortably below the target range of 12.5%-13.5%.

SHARE PRICES

21. There was little movement in share prices on the Paris stock exchange during the first few days of March as the market waited for the results of the first round of the French municipal elections and of the German Parliamentary elections both on 6 March. Thereafter share prices rose in a haphazard fashion for the rest of the month affected by a number of widely differing factors. In the week ending 11 March the index of French shares rose by 1.75%. Oil companies, which it was thought would benefit from a fall in the oil price, and companies with a strong implantation in the United States benefited most. In the week ending 18 March the index rose by 1.74% a gain which was partially sustained by rumours of the discovery of an important gas field near Maubeuge in north eastern France. During the week ending 25 March the index rose 4.1% partly as a result of the ending of political uncertainty with the formation of the third Mauroy Government, and partly in apparent approval of the austerity measures announced at mid-day on 25 March. During the last few days of the month share prices remained static except for a spectacular 10% gain by the Club Méditerranée, which, as its holidays are payable in francs, will inevitably benefit from extra custom following the strict exchange controls which the Government has imposed as part of its austerity measures on French tourists travelling abroad.

FRANC VALUES IN PARIS IN MARCH

(Weekly average closing rates)

	4/3	11/3	18/3	25/3
US \$	6.82	6.87	6.93	7.24
100 SF	334.14	333.33	335.43	350.62
100 DM	283.66	287.20	289.47	299.85
£	10.34	10.31	10.33	10.57

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WED

THIS TELEGRAM
WAS NOT
ADVANCED

FRENCH ECONOMIC INDICATORS

(Seasonally adjusted, except as noted)

	<u>1982</u>	<u>1983</u>
1. GDP, annual growth	1.5% (1982)	Under revision
2. Industrial production index (base 100: 1970)	129 (January)	127 (January)
3. Total unemployed	1,954,000 (February)	2,020,100 (February)
4. Exports	F51.54 billion (February)	F52.77 billion (February)
5. Imports	F56.82 billion (February)	F60.38 billion (February)
6. Trade balance	-F5.28 billion (February)	-F7.61 billion (February)
7. Balance on current account	-F25.77 billion (1981)	-F78.66 billion (1982)
8. Exchange rate against US \$ (last working day of the month)	F6.26 (March)	F7.27 (March)
9. Official reserves	F311.849 billion (18 March 1982)	F335.070 billion (17 March 1983)
10. Growth in money supply (M2)	0.0% (December)	0.1% (December)
		11.4% (January - December 1982)
11. Rise in retail prices	1.0% (February)	0.7% (February)
		9.2% (Change over 12 months)
12. Rise in hourly wage rates	-	4.2% (Q4)
		12.6% (12 months ending January 1983)
13. Industrial disputes (cumulative totals to end December)		
Stoppages	3,045 (1981)	3,782 (1982)
Working days lost	1,441,800 (1981)	2,257,000 (1982)

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With the compliments of

WESTERN EUROPEAN
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This might be of interest to the
Prime Minister in advance of
her lunch with M. Barre today.

Nickolas Amner 8/14
FOREIGN AND COMMONWEALTH OFFICE,
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