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FRAME ECONOMIC

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OUR TELNO 366 OF 4 APRIL

FRANCE: EMS REALIGNMENT AND ACCOMPANYING MEASURES

SUMMARY

1. FOLLOWING THE DEVALUATION OF THE FRANC AGAINST THE DEUTSCHEMARK OF 5.8 PERCENT, THE GOVERNMENT HAS ANNOUNCED A PACKAGE OF ECONOMIC MEASURES TO MAINTAIN DOWNWARD PRESSURE ON INFLATION AND HELP FRENCH COMPANIES. BOTH THE DEVALUATION AND THE ACCOMPANYING MEASURES HAVE BEEN WELL RECEIVED BY MOST OF THE FRENCH PRESS AND BY INDUSTRY, BUT OPPOSITION LEADERS HAVE CONDEMNED THE DEVALUATION AS UNNECESSARY. TRADE UNION LEADERS ARE CAUTIOUS.

DETAIL

2. THE GOVERNMENT HAS ANNOUNCED THE FOLLOWING ACCOMPANYING MEASURES:
 I) CUTS IN PLANNED GOVERNMENT EXPENDITURE OF F15 BILLION, WHICH HAVE NOT YET BEEN IDENTIFIED.

II) A RELAXATION OF EXCHANGE CONTROLS, WHICH THE PREVIOUS GOVERNMENT HAD ALREADY BEGUN TO DISMANTLE. IMPORTERS WILL BE PERMITTED TO COVER AGAINST EXCHANGE RISKS BY BUYING FOREIGN CURRENCY UP TO 3 MONTHS AHEAD AND EXPORTERS WILL NO LONGER BE OBLIGED TO ANTICIPATE RECEIPTS FROM EXPORTS BY BUYING THE EQUIVALENT AMOUNT OF FOREIGN CURRENCY AHEAD OR DEPOSITING IT WITH THE AUTHORITIES. RESTRAINTS ON COMPANIES INVESTING AND BORROWING ABROAD WILL BE ABOLISHED. PERSONAL FOREIGN EXCHANGE ALLOWANCES AND CEILINGS ON THE USE OF CREDIT CARDS ABROAD ARE BEING INCREASED. IN ADDITION AN UN-NAMED OFFICIAL OF THE FINANCE MINISTRY IS QUOTED AS SAYING THAT THE STOCK EXCHANGE FOREIGN CURRENCY PREMIUM ON THE PURCHASE OF FOREIGN SHARES AND BONDS WILL BE ABOLISHED BY THE END OF THE YEAR.

III) THE CONTROLS REMAINING ON AROUND 10 PERCENT OF INDUSTRIAL PRICES (WITH A FEW EXCEPTIONS) AND THE CONTROLS ON THE MARK-UP OF THREE-QUARTERS OF THE COMPANIES WILL BE REMOVED, BUT THE CONTROLS ON FOOD PRICES AND SERVICES WHICH FORM AN IMPORTANT PART OF THE RETAIL PRICE INDEX WILL REMAN AT LEAST FOR THE TIME BEING. PHARMACEUTICAL PRICES, IMPORTANT FOR GOVERNMENT EXPENDITURE, WILL ALSO REMAIN SUBJECT TO CONTROL.

IV) RESTRICTIONS WILL BE IMPOSED ON PUBLIC SECTOR PAY WHICH AMOUNT TO A FREEZE. THE GOVERNMENT CLAIM THAT THE PURCHASING POWER OF

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PUBLIC SECTOR PAY -EN MASSE- WILL BE MAINTAINED BUT WARN THAT THIS MEANS THERE IS NO SCOPE FOR A GENERAL PAY INCREASE BECAUSE THE GLOBAL PURCHASING POWER OF CIVIL SERVANTS IN 1986 WILL EXCEED THAT OF 1985 BY MORE THAN THE FORECAST RATE OF INFLATION OF 2.4 PERCENT. THE KNOCK ON EFFECTS OF THE STAGED 1985 CIVIL SERVICE PAY INCREASE (WHICH WAS IN LINE WITH 1985 INFLATION) MEAN THAT PAY COSTS IN 1986 WILL BE 2.1 PERCENT HIGHER THAN 1985; WAGE DRIFT (INCLUDING INCREMENTAL INCREASES) ACCOUNTS FOR A FURTHER 0.5 PERCENT RISE IN COSTS. HOWEVER, THE GOVERNMENT HAVE NOT RULED OUT INDIVIDUAL PAY INCREASES.

V) THE PREVIOUS GOVERNMENT'S TARGETTING FOR MONEY SUPPLY GROWTH (M3) IN 1986 OF 5 PERCENT WILL BE RESPECTED. THE PRESS ESTIMATES THAT M3 GROWTH IN 1985, WHICH IS YET TO BE ANNOUNCED, WAS BETWEEN 9 AND 10 PERCENT BUT A SIGNIFICANT PROPORTION OF THIS WAS DUE TO THE INFLUX OF FOREIGN FUNDS ATTRACTED BY THE HIGH INTEREST RATES NECESSARY TO DEFEND THE FRANC.

3. BEFORE THE REALIGNMENT, A NUMBER OF SOCIALIST MINISTERS AND SOME OFFICIALS, WERE ARGUING THAT A DEVALUATION OF THE FRANC WOULD ONLY BE A PALLIATIVE AND WOULD NOT SOLVE FRANCE'S BASIC FOREIGN TRADE PROBLEMS. HOWEVER THERE WERE A NUMBER OF SOLID ARGUMENTS IN FAVOUR. FRENCH EXPORTS WERE SUFFERING IN COMPETITION WITH GERMAN AND OTHER GOODS AND IN THE WEST GERMAN MARKET (FRANCE'S BIGGEST) BECAUSE OF THE 12 PERCENT ACCUMULATED DIFFERENCE IN INFLATION BETWEEN THE 2 COUNTRIES SINCE THE LAST ADJUSTMENT TO THE FRANC/DEUTSCHEMARK PARITY IN MARCH 1983. ALTHOUGH OPPOSITION LEADERS ARE CLAIMING THAT THE FRANC WAS STRONG, IT HAS BEEN SUPPORTED BY HIGH INTEREST RATES, WHICH WERE A CONSTRAINT ON INVESTMENT, AND BY BANK OF FRANCE DIRECT INTERVENTION IN THE FOREIGN EXCHANGE MARKETS. THE TASK OF FRENCH NEGOTIATORS IN THE CURRENT AGRICULTURAL PRICE FIXING ROUND WILL BE FACILITATED AND AN INCREASE IN REVENUE ACCEPTABLE TO FRENCH FARMERS ACHIEVED IF THE MCAS ARE REMOVED. BALLADUR, THE MINISTER OF FINANCE, IS QUOTED IN AN INTERVIEW WITH LE FIGARO AS SAYING THAT HE HAS NOTIFIED THE OTHER MEMBERS OF THE EUROPEAN COMMUNITY THAT FRANCE WILL SEEK A RAPID DISMANTLING OF FRANCE'S NEGATIVE MCA.

4. THE DEVALUATION HAS BEEN GENERALLY WELL RECEIVED IN THE PRESS, EXCEPT FOR THOSE PAPERS CLOSE TO THE OPPOSITION, AND BY INDUSTRY, BUT THE OPPOSITION PARTIES HAVE CRITICISED IT AS THE EASY WAY OUT AND CLAIM THAT IT WAS ENGINEERED BY THE GOVERNMENT. THE TRADE UNIONS ARE CONCERNED ABOUT THE RESTRICTIONS ON PAY. AFP COMMENTS THAT IF THE POUND HAD ENTERED THE EXCHANGE RATE MECHANISM IT WOULD HAVE BEEN PROOF OF BRITISH COMMITMENT TO EUROPE.

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