

GRS 460

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FM PARIS

TO PRIORITY FCO

TELNO 948

OF 241711Z SEPTEMBER 86

INFO PRIORITY HM TREASURY, UKREP BRUSSELS, BONN

INFO PRIORITY UKDEL IMF/IBRD WASHINGTON, BANK OF ENGLAND

INFO SAVING TO ATHENS, BRUSSELS, COPENHAGEN, DUBLIN, LISBON

INFO SAVING TO LUXENBOURG, MADRID, ROME, THE HAGUE

FRENCH EXCHANGE CONTROLS : ANNOUNCEMENT DELAYED

SUMMARY

1. AS REPORTED IN FINANCIAL TIMES OF 24 SEPTEMBER, THE MINISTER OF FINANCE HAS PUT OFF THE ANNOUNCEMENT PLANNED FOR TODAY OF A FURTHER RELAXATION OF FRENCH FOREIGN EXCHANGE CONTROLS. HE HAS GOT COLD FEET.

DETAIL

2. BALLADUR IS QUOTED IN THE FRENCH PRESS AS HAVING SAID ON 23 SEPTEMBER THAT HE HAS DELAYED THE ANNOUNCEMENT TO GIVE HIMSELF SOME WEEKS FOR FURTHER THOUGHT ON THE MATTER, AND TO CONSIDER THE SITUATION ON FOREIGN EXCHANGE MARKETS. HIS NEXT ANNOUNCEMENT WOULD REVEAL WHETHER OR NOT THE GOVERNMENT WOULD GO ALL THE WAY IN ABOLISHING CONTROLS.

3. CONTACT WITH THE BANK OF FRANCE AND BALLADUR'S CABINET IN THE LAST TWO WEEKS HAS REVEALED TO US A SERIOUS DISAGREEMENT OVER THE EXTENT TO WHICH CONTROLS SHOULD BE ABOLISHED. THE BANK OF FRANCE HAS BEEN MOST ANXIOUS ABOUT THE EFFECT ON THE BALANCE OF PAYMENTS, WHILE BALLADUR'S CABINET FAVOURED A LARGER MEASURE OF LIBERALISATION. TWO POINTS AT ISSUE HAVE BEEN FREEDOM FOR RESIDENTS TO LEND FRANCS TO NON-RESIDENTS AND FREEDOM FOR INDIVIDUALS TO OPEN ACCOUNTS IN FOREIGN CURRENCIES. THE BANK ARGUES THAT THE FORMER COULD INCREASE SPECULATION AGAINST THE FRANC AND THE LATTER LEAD TO A MASSIVE OUTFLOW OF PORTFOLIO INVESTMENT, SIMILAR TO THAT WHICH HAS OCCURRED IN THE UK. BALLADUR'S CABINET CLAIMED LAST WEEK THAT THE DECISION HAD BEEN TAKEN AGAINST GRANTING THE FIRST AND IN FAVOUR OF GRANTING THE SECOND. THIS SUBSTANTIAL CHANGE WOULD HAVE GIVEN CREDIBILITY TO BALLADUR'S CLAIM, MADE REPEATEDLY IN THE RECENT SPATE OF PUBLICITY ENGINEERED FOR HIM, THAT HE IS A CONVINCED LIBERAL.

4. THERE IS NO DOUBT THAT THIS MEASURE WOULD HAVE MUCH IMPRESSED, AND BEEN HIGHLY POPULAR AMONG, THE UNDER-FORTY-FIVES WHO HAVE NEVER KNOWN FREEDOM FROM EXCHANGE CONTROLS AND WHO FIND IT SHAMING THAT FRENCH CITIZENS DO NOT HAVE THE RIGHT TO DECIDE WHERE TO INVEST THEIR SAVINGS.

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3. SUPPORTERS IN THE ADMINISTRATION OF LIBERALISATION INSIST THAT FURTHER BOLD STEPS WILL BE TAKEN SOONER OR LATER, BUT THE LIKELIHOOD OF FREEDOM FOR INDIVIDUAL SAVERS WOULD SEEM TO HAVE BEEN SUBSTANTIALLY DIMINISHED BY THIS WEEK'S HESITATION. WITH FRANCE'S SURPLUS IN ITS TRADE OF MANUFACTURED GOODS STEADILY DECLINING, THERE IS NO GREAT CONFIDENCE THAT THE RECENT RETURN TO AN OVERALL SURPLUS ON THE TRADE ACCOUNT WILL ENDURE. THIS UNCERTAINTY, COUPLED WITH THE BEHAVIOUR OF THE GERMAN MARK AND GERMAN INTEREST RATES, COMBINE TO CREATE A CLAIM UNFAVOURABLE TO THE COMPLETE DISMANTLEMENT OF SUCH CONTROLS AS NOW REMAIN.

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