

FOR PARIS TRIP
 Davidson

FRANCE

You were asking this morning about economic developments in France. After coming into power in 1980, the Mitterrand regime embarked on expansionary policies. They had some impact in raising the growth of output in 1982 but by early 1983 the financial framework was deteriorating and the exchange rate was falling rapidly. In March last year the package of austerity measures was introduced, including a 1 per cent "solidarity tax" to finance social security expenditure. This will be maintained in 1984. In addition direct taxation (a compulsory loan subscription and a levy of 1 per cent on taxable income) was increased. With the economy weakening, this has not been enough to prevent the budget deficit (general government) from rising. The OECD Economic Output is projecting that this will rise from 2½ per cent of GDP in 1982 to 3½ per cent in 1983 and possibly a bit more in 1984. As the budget was in small surplus in 1980, this represents a significant deterioration and a move entirely in the opposite direction to that of the United Kingdom. In recent months monetary policy has been tight, with growth close to the target of 9 per cent. Short-term interest rates are around 12¼ per cent, compared with 9½ per cent in this country.

Although output held up in the recession better than in many other industrial countries, it fell sharply in the second half of 1983 and only a weak recovery is projected in 1984. The figures are set out in the table below.

	<u>Growth of GDP</u>				
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u> (forecast)
UK	- 2.6	- 1.3	2.0	2½	2¼
France	1.1	0.3	1.9	½	0
OECD	1.2	2.0	-0.3	2¼	3½

/Unemployment

Unemployment is currently flat at about 8½ per cent but is projected by OECD to rise a further 1 per cent. United Kingdom unemployment, though higher at 11½ per cent (on a standardised basis) is expected to remain constant.

The current balance deteriorated sharply in the first half of 1983, showing a deficit of nearly \$5 billion. However, it has responded sharply to the austerity measures and is projected to be close to balance in the first half of 1984.

In 1983 the growth of wages was around 11 per cent but under the impact of a stringent pay policy in the public sector and the adverse labour market conditions, it is projected to slow to around 8 per cent. The rate of inflation is currently about 10 per cent but this is projected to fall to around 7 per cent in 1984.

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