SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TELNO 5 OF 12 FEBRUARY 1987
TO FCO
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FRANCE: ECONOMIC REPORT FOR JANUARY 1987

SUMMARY

1. January saw the publication of some figures for the economy in 1986 as a whole. The Government published an estimate which shows that the rate of GDP growth doubled in 1986 to 2.1% chiefly because of a marked increase in consumer spending. Inflation fell to its lowest level for 22 years, company finances improved substantially and industrial production was up by around 2%. But total investment in the economy rose only modestly by 2.5% (according to a leading French Bank), BNP, foreign trade performance was poor and unemployed increased steadily.

2. BNP agrees with Government forecasts that in 1987 investment will replace private consumption as the main motor in the economy but the Government is scaling down its forecast for GDP growth in 1987 having once forecast 3% its spokesmen now speak of 2% to 2.5% range.

3. The annual rate of inflation fell to 2.1% in 1986 from 4.7% in 1985 chiefly as a result of the fall in energy prices. Following the removal of almost all the remaining price controls there have been complaints of sharp price increases in some sectors.

4. In the autumn, industrial production stabilised following an increase in 1986 H1 and sales in the retail trade diminished following a buoyant 12 months.

5. Foreign trade is provisionally estimated to have recorded an exiguous surplus in 1986, after a deficit of almost F30 billion in 1985. But the improvement was due entirely to lower oil prices and it masks a very serious deterioration in the balance of trade in manufactured goods. INSEE forecasts a further deterioration in this sector.

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6. Unemployment rose by around 135,000 in 1986 to almost 2.6 million and a new forecast by INSEE predicts it will rise to 3.4 million by 1991.

7. Monsieur Raymond Barre has cast doubts on the Government's ability to keep its commitments on reductions in tax and public expenditure.

8. The Government's privatisation programme has got off to an excellent start with the sale of St Gobain and Paribas.

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