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INFO SAVING CONSULATES GENERAL FRANCE

(CULL)

MIPT: THE FRENCH ECONOMY

SUMMARY

1. A GENERAL IMPROVEMENT IN THE ECONOMIC PICTURE HAS STRENGTHENED ROCARD'S POSITION AND MADE POSSIBLE A 1989 BUDGET THAT IS LIKELY TO GO DOWN WELL WITH THE ELECTORATE. BUT NOT ALL THE RECENT NEWS HAS BEEN GOOD AND THERE REMAIN MAJOR ECONOMIC CHALLENGES FOR THE GOVERNMENT.

DETAIL

2. AS ROCARD AND HIS MINISTERS GET BACK TO SERIOUS BUSINESS AFTER THE SUMMER BREAK THEY FIND THAT THEIR POSITION HAS BEEN STRENGTHENED BY A GENERAL IMPROVEMENT IN THE ECONOMIC PICTURE. THE LATEST OFFICIAL FORECAST UNDERLINES THE RECENT STRENGTH OF THE FRENCH ECONOMY. 1988 GDP GROWTH ESTIMATES HAVE BEEN REVISED UPWARDS TO 3.4 - 3.5 PERCENT, THANKS IN PART TO HIGHER THAN EXPECTED INVESTMENT AND STOCK FORMATION. TOTAL INVESTMENT IS EXPECTED TO SHOW A YEAR-ON-YEAR INCREASE OF 10 PERCENT AND INDUSTRIAL INVESTMENT AN INCREASE OF AT LEAST 14 PERCENT, WHICH MAY PROVE TO BE THE HIGHEST IN EUROPE.

3. THE BOOM HAS BEEN GENERATING HIGHER TAX RECEIPTS, NOTABLY FROM VAT AND CORPORATION TAX. REVENUES ARE UP 7.4 PERCENT IN THE FIRST 6 MONTHS OF 1988 OVER THE CORRESPONDING PERIOD IN 1987. THIS MEANS THAT THE GOVERNMENT CAN EASILY MEET ITS 1989 BUDGET TARGET OF A FF 15 BILLION CUT IN THE GOVERNMENT BORROWING REQUIREMENT (FF 100 BILLION) WHILE INCREASING NOMINAL SPENDING BY 4.6 PERCENT AND CUTTING TAXES BY FF 10 - 12 BILLION. OTHER FEATURES OF THE BUDGET (WHICH WILL BE FINALISED ON 21 SEPTEMBER) ARE LIKELY TO INCLUDE:

- A) TOTAL SPENDING OF FF 1130 BILLION APPROX (PDS STG 106 BILLION).
- B) 12 PERCENT INCREASES IN SPENDING ON EMPLOYMENT, CULTURE AND OVERSEAS TERRITORIES (THE RESULT MAINLY OF ADDITIONAL AID

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COMMITMENTS FOR NEW CALEDONIA) AND SIGNIFICANT INCREASES FOR RESEARCH, EDUCATION, COOPERATION AND TRANSPORT.

- C) CUTS IN VAT (INCLUDING THE REDUCTION OF 5.5 PERCENT OF ALL ITEMS CURRENTLY TAXED AT 7 PERCENT).
- D) A CUT IN CORPORATION TAX ON UNDISTRIBUTED PROFITS FROM 42 PERCENT TO 39 PERCENT.
- E) CHANGES TO EMPLOYER CONTRIBUTIONS TO FAMILY ALLOWANCES WHICH WILL REDUCE THE COST OF EMPLOYING LOWER PAID WORKERS WHILE INCREASING THE COSTS AT THE HIGHER END OF THE PAY SCALE.

4. HOWEVER, NOT ALL THE RECENT NEWS HAS BEEN GOOD. THE JULY UNEMPLOYMENT FIGURES SHOWED A RISE TO 2.6 MILLION (10.4 PERCENT OF THE WORKFORCE). THE BALANCE OF TRADE IN JULY WAS IN DEFICIT BY FF 3.4 BILLION (WITH THE DEFICIT ON INDUSTRIAL GOODS AT FF 4.1 BILLION) AND IS EXPECTED TO TURN OUT AT MINUS FF 25 BILLION FOR THE YEAR AS A WHOLE. THE RISE IN GERMAN INTEREST RATES ON 25 AUGUST OBLIGED THE FRENCH TO FOLLOW SUIT IN ORDER TO MAINTAIN THE 1.5 DIFFERENTIAL WHICH THEY CONSIDER AN ESSENTIAL UNDERPINNING TO CURRENT FRANC-DM PARITIES. -2400 m.
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5. THESE FIGURES WILL HAVE SERVED TO REMIND ROCARD AND HIS TEAM OF SOME OF THE FUNDAMENTAL CHALLENGES FACING THEM. UNEMPLOYMENT HAS BEEN RISING STEADILY THROUGHOUT THE 80'S AND GIVEN DEMOGRAPHIC TRENDS IT IS JUDGED POSSIBLE BY THE IMF IN THEIR MOST RECENT ARTICLE IV CONSULTATION ASSESSMENT THAT IT COULD REACH BETWEEN 12 AND 14.5 PERCENT BY 1992. THE FRENCH SERVICES SECTOR HAS BEEN PROVING LESS PRODUCTIVE OF JOBS THAN THIS SECTOR IN THE UK AND US (61.3 PERCENT OF TOTAL EMPLOYMENT IN 1986 AGAINST 66.6 PERCENT AND 69.3 PERCENT). THE TRADE DEFICIT IN INDUSTRIAL GOODS THAT HAS BEEN A FEATURE OF THE LAST 3 YEARS CONTRASTS WORRYINGLY IN FRENCH EYES WITH THE SURPLUS THAT WAS THE NORM BETWEEN 1971 AND 1984. SOCIAL WELFARE SPENDING, PARTICULARLY ON PENSIONS (FINANCED OUTSIDE THE GOVERNMENT BUDGET IN FRANCE), LOOKS SET TO CONTINUE TO OUTSTRIP RECEIPTS UNLESS SIGNIFICANT REFORM OF THE SYSTEM IS ACHIEVED IN THE NEAR FUTURE.

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