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THE FRENCH ECONOMY

SUMMARY
1. BUOYANT ECONOMIC PERFORMANCE, BUT ATTENDANT POLITICAL DIFFICULTIES FOR THE GOVERNMENT AS PUBLIC SECTOR WORKERS SEEK JAM TODAY. LONGER TERM WORRIES PERSIST OVER WHETHER FRENCH INDUSTRY COMPETITIVE ENOUGH TO DENT ADVERSE BALANCE OF PAYMENTS AND UNEMPLOYMENT FIGURES.

DETIAL
2. AGAINST THE BACKGROUND OF SERIOUS AND ENDEMIC INDUSTRIAL UNREST DURING THE AUTUMN, THE ECONOMY NONETHELESS REMAINS ON A POSITIVE COURSE. GROWTH IN 1988 AT ABOUT 3.5 PERCENT, INDUSTRIAL PRODUCTION UP BY SOME 5.5 PERCENT, PRODUCTIVE INVESTMENT BY 8 PERCENT (AND IN THE COMPETITIVE SECTOR BY UP TO 12 PERCENT) AND EXPORTS UP BY 8 PERCENT ARE ALL MUCH HIGHER THAN EXPECTED EARLIER IN THE YEAR. INFLATION, AT 2.7 PERCENT IS ON AN UPWARD TREND BUT UNDER CONTROL. ADDITIONAL TAX REVENUE, LINKED TO FASTER GROWTH, HAS ALLOWED THE GOVERNMENT, IN ITS TRADITIONAL END OF YEAR BUDGET AMENDMENT, TO REDISTRIBUTE F 37 BILLION WHILE HOLDING TO THE F 115 BILLION DEFICIT TARGET. PROSPECTS FOR 1989 LOOK SATISFACTORY TOO, WITH GDP GROWTH ESTIMATES ADVERAGING AROUND 2.5, AND THE GOVERNMENT EVEN TALKING OF 3.0 PERCENT.

3. THIS RELATIVE SUCCESS IS, HOWEVER, BRINGING ITS OWN PROBLEMS IN PARTICULAR, PUBLIC SECTOR WORKERS HAVE BEEN DISRUPTING FRENCH LIFE FOR SOME WEEKS IN PURSUIT OF HIGHER WAGE SETTLEMENTS, ARGUING FOR A LARGER SHARE OF THE FRUITS OF GROWTH. THERE HAVE BEEN CONSTANT CRITISISUM THAT THE ROCARD GOVERNMENT LACKS GRIT, BUT SO FAR THE GOVERNMENT HAS STOOD REASONABLY FIRM, THOUGH THE CONTINUING DISRUPTION, PARTICULARLY IN PARIS IS WEARING PEOPLE DOWN AND HAS ADVERSELY AFFECTED THE GOVERNMENT'S INITIAL POPULARITY.

4. THERE ARE OTHER BLACK CLOUDS BEHIND THE SILVER LININGS. THE POOR OCTOBER TRADE FIGURES (DEFICIT OF F 4 BILLION: 1988 DEFICT OF F 33 BILLION LIKELY), AND ESPECIALLY THE POOR INDUSTRIAL TRADE FIGURES, HIGHLIGHT A PERENNIAL WORRY - THE NEED FOR FRENCH INDUSTRY TO BE

MORE COMPETITIVE IN ITS EXPORT MARKETS, NOT LEAST WITHIN THE EC. THE UNEMPLOYMENT PICTURE REMAINS DEPRESSING TOO: THE UPWARD TREND SEEMS TO HAVE STABILISED AT AROUND 10.4 PERCENT AND 150,000 NEW JOBS SHOULD BE CREATED THIS YEAR. BUT EVEN WITH 3 PERCENT GDP GROWTH NEXT YEAR, THERE SEEMS UNLIKELY TO BE MUCH DENT IN THE JOBLESS TOTAL. FINALY, THERE IS THE EVER PRESENT SPECTRE OF A DECLINING DOLLAR PUTTING PRESSURE ON THE FRANC'S EMS PARITY - WHICH BEREGOVOY IS FIRMLY COMMITTED TO MAINTAINING.

5. SOCIAL UNREST APART, THE FINANCIAL ISSUE CATCHING ATTENTION IS THE ESSENTIALLY PERIPHERAL ONE OF THE REDISTRIBUTION OF QUOTE CORE UNQUOTE SHAREHOLDINGS IN THE BANKS AND COMPANIES PRIVATISED BY BALLADUR, WITH THE BATTLE CENTRING ON THE PRIVATISED BANK SOCIETE GENERALE. THIS IS TURNING INTO A BALLADUR/BEREGOVOY BATTLE (WITH THE LATTER NOW PROPOSING LEGISLATION TO UNDO SOME OF THE CONSEQUENCES OF THE FORMER'S 1986 PRIVATISATION ACT) AND MAY EXPLAIN BEREGOVOY'S HESITATION ABOUT SEEING THE CHANCELLOR IMMEDIATELY AFTER HIS PARTICIPATION BALLADUR'S PRIVATISATION SEMINAR. BUT IT HAS LITTLE ECONOMIC SIGNIFICANCE BEYOND DENTING PARIS'S REPUTATION AS A FINACIAL CENTRE.

COMMENT

6. FORMER FINANCE MINISTER BALLADUR, WHEN THE CHANCELLOR SEES HIM ON 15 DECEMBER, WILL NO DOUBT ATTRIBUTE THE COMFORTABLE POSITION OUTLINED IN PARAGRAPHS 1 AND 2 ABOVE PARTLY TO THE BUOYANCY OF THE WORLD ECONOMY, WITH ITS POSITIVE EFFECT ON THE DEMAND FOR FRENCH EXPORTS, BUT IN GOOD PART TOO TO THE MEASURES HE TOOK TO LIBERALISE THE OVER-REGULATED FRENCH ECONOMY BETWEEN 1986 AND MAY 1988. BEREGOVOY, HAD HE NOT POSTPO9NED HIS MEETING WITH THE CHANCELLOR, WOULD NO DOUBT HAVE AGREED ABOUT WORLD GROWTH BUT TRACED THE CHANGE IN FORTUNE BACK TO THE POLICIES HE INITIATED DURING HIS FIRST SPELL AS FINCANCE MFINISTER BETWEEN 1984 AND 1986, AFTER THE DISASTROUSLY INTERVENTIONIST AND INFLATIONARY EARLY MITTERRAND POLICIES OF 1981 - 1983. BOTH WOULD BE RIGHT: FRANCE IS NOW BENEFITTING FROM A COMINATION OF A FAVOURABLE INTERNATIONAL ECONOMIC CLIMATE PLUS THE EFFECT OF BROADLY CONSISTENT COUNTER-INFLATIONARY MARKET ORIENTED, DOMESTIC POLICIES FOLLOWED SINCE 1983, FIRST BY BEREGOVOY THEN - MORE INTEUSELY AND WITH AN IMPRESSIVE PRIVATISATION PROGRAMME - BY BALLADUR BETWEEN 1986 - 88, AND LATELY AGAIN BY GEREGOVOY.

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FRANCE: ECONOMIC REPORT FOR NOVEMBER 1988

SUMMARY

- 1988 growth firming at around 3.5% with continued expectations of high levels of economic activity (paras 1 and 19).

- October trade balance back in the red: deficit of F4 billion. Annual trade deficit of F33 billion (about 3% of external trade) on the cards (para 3).

£10bn

- Inflation 0.2% in October (3% since October 1987) (para 5).

- Franc survives EMS pressure when dollar slides after US election (para 7).

- 1989 Budget passes through first reading in Assembly comparatively unscathed. Amendments to 1988 Budget due to higher than expected tax receipts: small inroad into future Government debt (paras 15-16).

- Public sector industrial unrest continuing, particularly in transport sector. Turning into political test of muscle by Communist union leaders (para 17).

- Bourse reaches plateau. The focus of attention in the financial markets is the attack on Société Générale by Marceau Investissements (paras 21 - 24).

- Growth expected to moderate in 1989, with underlying balance of payments and unemployment difficulties persisting (paras 12 - 14, 29 - 30).

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I. FRENCH MACROECONOMIĆ PERFORMANCE

Growth

1. Third quarter figures from INSEE suggested an increase in French market GDP of 3.5% in 1988 (in volume terms, 1980 prices). The components of GDP included in this scenario were:

(i) A 5.5% increase in total industrial production in 1988. Manufactured products up 5% in the third quarter over third quarter 1987; consumer goods up 4%; intermediate goods up almost 5%.

(ii) Total internal demand (including stocks) rising by 7% in the third quarter over third quarter 1987 with household consumption up by 4.5%; productive investment thought to be up by at least 8% for all companies in 1988 as a whole (and up by 11-12% in the competitive industry sector).

(iii) External demand also at a high level (manufactured exports up by 7.5% in the third quarter over third quarter 1987 - with the automobile sector doing particularly well (11%) and household goods up 8%).

Balance of Payments

2. Manufactured imports, however, were also running high, with sustained demand likely to lead to a 12% increase over 1988 as a whole. Capital goods in particular were being imported at a high level : an increase of more than 20% over the year. The trade deficit forecast by INSEE for the whole of the year was F33 billion (about 3% of external trade).

3. In October the seasonally adjusted balance of trade went back into the red, with a deficit of F4 billion, following September's slight (revised) surplus of F0.6 billion. Exports in October were F 84.2 billion : imports F88.3 billion. The seasonally adjusted cumulative trade deficit for 1988 rose to F27.3 billion, compared with a comparable figure of F29.8 billion in 1987. (NB. Customs authorities warned that postal strikes may have distorted the October figures).

4. The Prime Minister M. Rocard, commenting on the figures, said that the running trade deficit was a worrying area of weakness in the 1992 context. "The figures lead us to fear that companies are not ready to take the market shares which are available".

Inflation

5. The retail price index rose by 0.2% in October (an increase of 3% over October 1987). Food products rose by 0.4%, (2.1%), manufactured products by 0.2% (2.4%) and services by 0.6% (4.7%). INSEE reported a 25% increase in primary material import costs (in francs) between July 1987 and June 1988. Although the rate of increase had halted, the effects were still working through the economy: the third quarter industrial survey was showing a higher rate of sales prices from industry, up from an average of 0.2% per month in 1987 to 0.3% since the beginning of 1988 and likely to be 0.4% by the end of 1988.