141552
MDHIAN 3671

RESTRICTED
FM PARIS
TO IMMEDIATE FCO
TELNO 228
OF 221548Z FEBRUARY 89
INFO ROUTINE WASHINGTON, ROME, BONN, TOKYO, OTTAWA, UKREP BRUSSELS

MIPT: THE FRENCH ECONOMCY

SUMMARY

1. INVESTMENT-LED GROWTH CONTINUING. SOME POSSIBLE DAMPENING OF DOMESTIC DEMAND, PROMPTED BY CONTINING POOR TRADE FIGURES. GDP FORECAST TO CONTINUE TO GROW AT GOOD RATE UP TO 1992, WITH LOW INFLATION, BUT STILL NOT ENOUGH TO ELIMINATE MANUFACTURING DEFICIT OR BRING DOWN UNEMPLOYMENT.

DETAIL

2. STRONG ECONOMIC ACTIVITY IS CONTINUING. AFTER GDP GROWTH LAST YEAR (PROVISIONALLY 3.5 PERCENT) THE HIGHEST SINCE 1976, ALL THE SIGNS ARE OF CONTINUING HIGH LEVELS OF PRODUCTION AND INVESTMENT WELL INTO 1989. BUSINESS CONFIDENCE IS GOOD. FORECASTERS ARE EXPECTING GROWTH WITHIN A RANGE OF 2.5 PERCENT TO 3 PERCENT FOR 1989.

3. INDEED THERE MAY EVEN BE THE ODD TOUCH OF THE BRAKE. AFTER FURTHER POOR BALANCE OF TRADE FIGURES IN DECEMBER (BRINGING THE 1988 TRADE DEFICIT UP TO F33 BILLION) THE GOVERNMENT ASKED FOR A F10 BILLION FREEZE ON PUBLIC EXPENDITURE, PARTLY TO DAMPEN DEMAND. THERE IS ALSO TALK OF FURTHER TIGHTENING OF MONETARY POLICY, AS NECESSARY, PLUS ACTION TO STIMULATE DOMESTIC SAVINGS.

4. THE 1988 TRADE DEFICIT, AND IN PARTICULAR THE DETERIORATION IN THE INDUSTRIAL ACCOUNT (THE DEFICIT ALMOST DOUBLING OVER THE YEAR) HAS PROVOKED CONTINUING CONCERN ABOUT THE LACK OF COMPETITIVITY OF FRENCH EXPORTS, PARTICULARLY IN THE EUROPEAN MARKET. THIS IN TURN HAS REINFORCED THE GOVERNMENT'S DETERMINATION TO DRIVE DOWN INFLATION AND FORCE COMPETITION UPON FRENCH INDUSTRY BY TYING THE FRANC TO THE DM WITHIN THE ERM. THE INFLATION OUTTURN FIGURE FOR 1988 (3.1 PERCENT) WAS THE SAME AS IN 1987. BUT THE GAP WITH GERMANY WAS CUT FROM 2.1 PERCENT TO 1.5 PERCENT. AND IF GERMAN RATES CONTINUE TO RISE THIS YEAR, IT WILL BE CUT FURTHER. THE CONSEQUENT EFFECT OF A SERIES OF FRENCH INTEREST RATE RISES SINCE LAST SUMMER

IN LINE WITH THOSE OF GERMANY SEEMS NOT SO FAR TO HAVE HURT INDUSTRY.

5. AN ECONOMIC FORECAST IN CONNECTION WITH THE 1989-1992 PLAN, JUST ISSUED, PREDICTS FRENCH GROWTH RUNNING AT 3.1 PERCENT TO 3.9 PERCENT IN THE PERIOD 1990-1992. INFLATION SHOULD CONTINUE TO BE UNDER CONTROL. AND INVESTMENT SHOULD BE MAINTAINED AT A HIGH LEVEL, WELL ABOVE THE GROWTH IN DOMESTIC DEMAND. ALL THE SAME, EVEN UNDER THESE FAVOURABLE CONDITIONS, THE FORECAST SUGGESTS FRANCE GOING INTO 1992 WITH A SIZEABLE MANUFACTURING DEFICIT (AFTER RUNNING A SURPLUS FOR MANY YEARS UP TO 1986), AND ALSO FRANCE FACING 1992 WITH UNEMPLOYMENT LEVELS HARDLY DIFFERENT FROM TODAY (10.1 PERCENT AT THE END OF DECEMBER) - WITH ONE AGENCY EVEN FORECASTING A SLIGHT RISE. TAKEN WITH THE CONUNDRUM FOR THE GOVERNMENT OF REFORMING THE FRENCH TAXATION SYSTEM, CUTTING THE BUDGET DEFICIT AND STILL FINDING MONEY FOR EXPENDITURE-SIDE POLICIES (PARTLY ALSO CREATED BY THE ADVENT OF THE SINGLE MARKET), THERE WILL STILL BE PLENTY TO DO BEFORE 1992 - EVEN IF ECONOMIC GROWTH PERSISTS.

FERGUSSON

YYYY

DISTRIBUTION 104

MAIN 101

ANGLO-FRENCH SUMMIT	PROTOCOL D
LIMITED	SCD
WED	SEC POL D
EED	SOVIET
ERD	PS
ECD (I)	PS/MRS CHALKER
ECD (E)	PS/PUS
MAED	PS/SIR J FRETWELL
SEND	MR BAYNE
NENAD	MR RATFORD
NEWS	MR KERR
PLANNERS	MR GOULDEN

ADDITIONAL 3

141552
MDHIAN 3671

MR P J WESTON CABINET OFFICE HM TREASURY
MR L PARKER CABINET OFFICE

NNNN

mb

SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TEL. NO.6 OF 13 FEBRUARY 1989
TO FCO
REPEATED FOR INFORMATION TO: BONN, BRUSSELS, DUBLIN, THE HAGUE, COPENHAGEN, ROME LUXEMBOURG, UKREP BRUSSELS, MADRID, WASHINGTON, LISBON, TOKYO, UKDEL OECD, UKDEL STRASBOURG, CONSULATES GENERAL FRANCE.

FRANCE: ECONOMIC REPORT FOR JANUARY 1989

SUMMARY

- Evidence of continuing strong economic activity, expected to persist well into 1989.

- Slight worsening of unemployment position in December (up to 10.1%), but overall 1988 figure down on 1987.

- End 1988 inflation figure of 3.1% same as 1987.

- December trade deficit (F4.1 billion) worse than expected. Brings 1988 deficit up to F33 billion. £3.3bn

- Bank of France raises interest rates by further 0.5% in January.

- Government signals possible further action to curb growth in credit and stimulate savings during 1989. In the meantime, freeze on F10 billion of 1989 budget expenditure presented as partly to dampen demand.

- Financial markets overshadowed by Pechiney/Triangle and Société Générale affairs. COB finds evidence of insider dealing in former. Resignation of Bérégovoy's Directeur de Cabinet. Powers of the COB to be strengthened. Bourse continues upward movement.

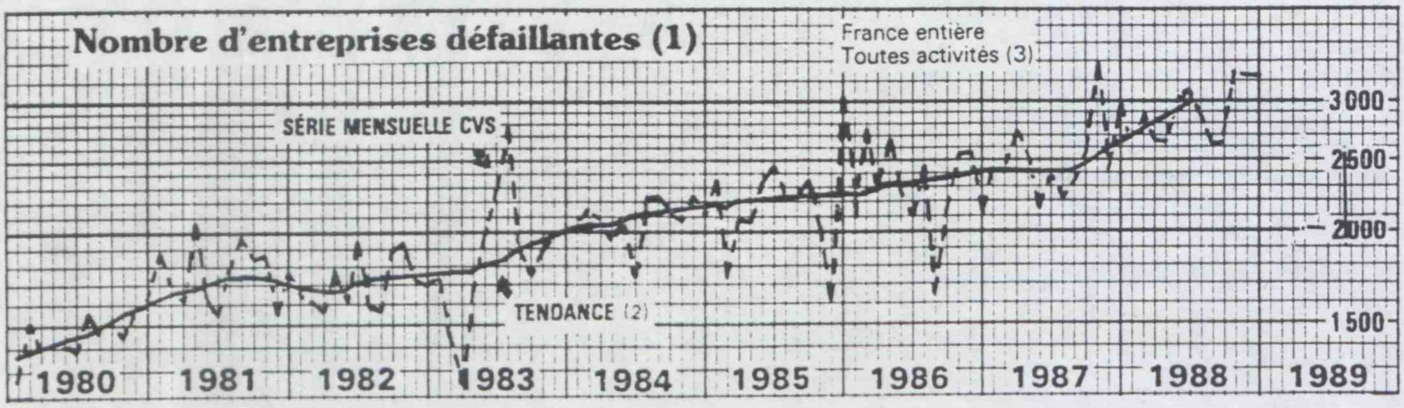
DETAIL

I. ECONOMIC ACTIVITY

1. No new growth statistics were issued (i.e. the latest figures are December's provisional final quarter results, suggesting a 1988 market GDP rise of 3.5%). However, investment and output indicators showed continuing strong activity. An INSEE study revised upwards the total growth of industrial investment in value terms to 13% in 1988 (10% in volume terms), and suggested that in 1989 investment would continue to increase by about 9% (with particular growth in the automobile sector). Industrial production in November rose by 3.8% over October (after the drop in October, due to industrial unrest).

2. The Bank of France also reported increased production continuing in all sectors in its December business survey. The impact of the normal annual December closures was in many cases offset by overtime or the introduction of new equipment. Internal and external demand was high. Order books were continuing to fill. Investment expenditure would remain strong into 1989.

3. The level of company failures, however, also continued to rise at the end of 1988, with the figure close to the 1987 record (see chart below):



II. BUSINESS CONFIDENCE

4. The Bank of France survey found that business leaders expected that production was likely to continue at current levels at least through the first quarter of 1989, with many confident about longer term prospects.

III. LABOUR MARKET

5. Unemployment (seasonally adjusted) rose slightly in December to 2,543,000 (10.1% of the workforce). Although the rise over the November figure (10%) was unwelcome and unexpected - the first December rise for five years - the end year figure was nonetheless down on 1987 by 29,600.