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THE FRENCH ECONOMY

SUMMARY

1. ECONOMIC INDICATORS CONTINUING TO LOOK FAVOURABLE, BUT GOVERNMENT CAUTIOUSLY MAINTAINING POLICY OF COMPETITIVE DISINFLATION AND SUPPLY SIDE RIGOUR. 1990 BUDGET THE NEXT MAJOR TEST.

DETAIL

2. THERE ARE CONTINUING SIGNS THAT THE FRENCH ECONOMY IS DOING WELL, ALTHOUGH GROWTH IS EXPECTED TO BE LESS STRONG THIS YEAR AND IN 1990 THAN LAST YEAR. THE UNEMPLOYMENT TOTAL WAS DOWN TO 10 PER CENT FEBRUARY, INFLATION IN FEBRUARY WAS 0.3 PER CENT (AN ANNUAL RATE OF 3.4 PER CENT), THE GROWTH OF M2 IS RUNNING BELOW THE TARGET RANGE AND THE 1988 BUDGET DEFICIT LOOKS LIKE BEING ON TARGET (F115 BILLION). THE BOURSE INDEX IS CREEPING BACK NEAR ITS HISTORICAL HIGH.

3. IN REVIEWING THE NATIONAL ACCOUNTS RECENTLY, THE GOVERNMENT FORECAST A GROWTH OF MARKET GDP OF 3.1 PER CENT IN 1989 AND 2.7 PER CENT IN 1990. HOUSEHOLD CONMSUMPTION WOULD GROW BY 2.5 PER CENT AND 2.2 PER CENT BUT INDUSTRIAL INVESTMENT BY 7.1 PER CENT AND 6 PER CENT. THIS INVESTMENT-LED GROWTH WOULD LED TO A SLIGHT INCREASE IN THE TRADE DEFICIT OVER 1988 BEFORE IT FELL BACK IN 1990. INFLATION WOULD REMAIN BELOW 3 PER CENT.

4. THIS ROSY SCENARIO IS NOT UNIVERSALLY ACCEPTED. FORECASTERS AT THE BANK BNP - STOUTLY CONTESTED BY BEREGOVOY - HAVE SUGGESTED THE TRADE DEFICIT MIGHT VIRTUALLY DOUBLE THIS YEAR TO F60 BILLION. AND ECONOMIC OPTIMISM BRINGS ITS OWN PROBLEMS AS THE GOVERNMENT CONTINUES TO INSIST ON WAGE RESTRAINT AND BUDGETARY RIGOUR. BEREGOVOY IS REPORTED AS SAYING THAT THE FRENCH PEOPLE WILL ONLY RECEIVE THE FRUITS OF RECOVERY WHEN EXTERNAL TRADE IS IN BALANCE, UNEMPLOYMENT IS SERIOUSLY COMING DOWN AND INFLATION REMAINS UNDER CONTROL. HE WILL MAINTAIN HIS TWIN POLICIES OF COMPETITIVE DISINFLATION (OF WHICH THE KEY IS THE STABILITY OF THE FRANC) AND A COMPETITIVE SUPPLY SIDE, INVOLVING ENCOURAGING PUBLIC AND PRIVATE

INVESTMENT AND CONTROLLING DEMAND.

5. THE NEXT MAJOR TEST OF THE GOVERNMENT'S RESOLVE WILL BE THE 1990 BUDGET, ON WHICH DEBATE IS JUST BEGINNING (FINAL DECISIONS BY LATE AUTUMN). IT IS EXPECTED TO BE PARTICULARLY DIFFICULT, SINCE THE GOVERNMENT HAS TO FIND A WAY TO REDUCE THE DEFICIT FURTHER, CUT BOTH DIRECT AND INDIRECT TAXES AND ALSO INCREASE EXPENDITURE ON SOCIAL POLICIES. ROCARD IS REPORTED TO HAVE DESCRIBED THE EXERCISE AS QUOTE DRACONIAN UNQUOTE. BEREGOVOY HAS NONETHELESS CONFIRMED THAT HIS OBJECTIVE REMAINS TO CUT THE DEFICIT TO F90 BILLION (AGAINST F100 BILLION IN 1989).

FERGUSSON

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