PA

135463
MDLIAN 5588

RESTRICTED
FM PARIS
TO ROUTINE FCO
TELNO 1675
OF 191612Z DECEMBER 89
INFO ROUTINE WASHINGTON, BONN, ROME, TOKYO, OTTAWA, UKREP BRUSSELS

THE FRENCH ECONOMY

SUMMARY

1. THE FRENCH ECONOMY ENDS THE YEAR CONTINUING TO LOOK HEALTHY, ALTHOUGH UNEMPLOYMENT SHOWS LITTLE SIGN OF IMPROVEMENT. THE PLEDGE TO LIFT REMAINING CAPITAL CONTROLS EARLIER THAN EXPECTED A TESTAMENT TO THE POLICY OF DISINFLATIONARY RIGOUR. MAIN SOURCE OF UNCERTAINTY NOW THE EXTERNAL ECONOMIC ENVIRONMENT.

DETAIL

2. FRENCH GROWTH HAS CONTINUED ON A ROBUST PATH SINCE THE BEGINNING OF THE YEAR, WTIH 1989 GDP OUTTURN IN THE REGION OF 3.5 PERCENT LIKELY. PRELIMINARY FIGURES SUGGEST A SLIGHT DECELERATION OF ACTIBVITY IN THE THIRD QUARTER, (BORNE OUT BY REPORTS FROM INDUSTRY) BUT MOST COMMENTATORS REMIAN BULLISH ABOUT CONTINUING STRONG ACTIVITY.

INFLATION

3. THE RISE IN CONSUMER PRICES HAS REMAINED MODERTE THROUGHTOUT 1989, WITH OCTOBER ANNUAL INFLATION RUNNING AT 3.6 PERCENT (AGAINST A RATE OF 3.1 PERCENT AT THE BEGINNING OF THE YEAR). THIS OVERSHOOTS THE OFFICIAL 1989 TARGET OF 2.2 PERCENT, BUT KEEPS THE DIFFERENTIAL WITH THE FRG WILL BELOW ONE PERCENTAGE POINT.

MONETARY POLICY

4. MONEY SUPPLY GROWTH HAS BEEN EITHER BELOW OR WITHIN THE TARGET RANGE FOR M2 (4 - 6 PERCENT) FOR SOME WHILE: THE SEPTEMBER FIGURES SUGGEST M2 GROWING AT 4.6 PERCENT. ON 18 DECEMBER THE BANK OF FRNACE RAISED INTEREST RATES BY HALF A POINT. PARTLY TO SUPPORT THE FRANC AGINST THE STRENGTHENING DM AND PARTLY TO DAMPEN INTERNAL CONSUMPTION. THE INTERVENTION RATE IS THUS NO 10 PERCENT (AGAINST 7.75 PERCENT AT THE BEGINNING OF THE YEAR), THE RISE IN RATES OVER THE YEAR BEING LARGELY DUE TO BEREGOVOY'S DETERMINATION TO MAINTAIN THE LINK BETWEEN THE FRANC AND THE DM. THE RECENT CONFIRMATION THAT REMAINING EXCHANGE CONTROLS WILL BE LIFTED AT THE BEGINNING OF NEXT YEAR (SEE BELOW) IS THE MAJOR NEW POLICY DEVELOPMENT.

LABOUR MARKET

5. THE UNEMPLOYMENT TOTAL FELL BY 0.3 PERCENT IN OCOTBER TO 2,526,000. THE UNEMPLOYMENT RATE REMAINED 9.5 PERCENT. LITTLE IMPROVEMENT IS IN PROSPCET: WHILE SOME 400,000 JOBS WILL HAVE BEEN CREATED THIS YEAR ONLY 159,000 ARE FORECAST BY THE EMPLOYMENT INISTRY TO BE CREATED NEXT YEAR AND 100,000 IN 1991.

EXTERNAL TRADE

6. THE SEPTEMBER FOREIGN TRADE BALANCE SHOWED AN UNEXPECTED OF F2.2 BILLION AFTER THE PARTICULARLY POOR AUGUST DEFICIT OF F9.3 BILION. AIRBUS SALES HELPED. AN OUTTURN DEFICIT OF AT LEAST F40 BILLION FOR 1989 IS ON THE CARDS, WITH SOME COMMENTATORS EXPECTING A WORSE PICTURE NEXT YEAR.

FISCAL POLICY

7. THE GOVERNMENT HAS SUCCEEDED IN PUSHING THROUGH THE PARLIAMENTARY MACHINE THE 1990 BUDGET MORE OR LESS AS SET OUT IN MY TELNO 1246 OF 21 SE3PTEMBER (ALBEIT ONLY AFTER RECOURSE TO THE CONSTITUTIONAL DEVICE ALLOWING IT, AS A MINORITY ADMINISTRATION, TO OVERRIDE THE OPPOSITION PARTIES). THE TARGET DEFICIT OF F90.2 BILLION FOR 1990 HAS THERFORE BEEN MAINTAINED, AS HAS A RANGE OF CUTS IN TAXATION, INCLUDING IMPORTANT REDUCTIONS IN THE TAXATION OF SAVINGS IN THE FACE OF THE LIBERALISATION OF CAPITAL CONTROLS.

PROSPECTS

8. THE PROSPECTS LOOK SET FAIR FOR CONTINUING DISINFLATINARY GROWTH. THE AUTUMN ROUND OF INDUSTRIAL DISPUTES LINKED TO PAY BARGAINING HAS PRODUCTED NO GREAT DIFFICULTIES ALTHOUGH SOME NEGOTIATIONS ARE CONTINUING. THE 1990 BUDGET HAS GOT THROUGH UNSCATHED. FORECASTERS ARE PREDICTING THAT THE ECONOMIC SCENE IN 1990 WILL BE NOT TOO DIFFERENT FROM THAT OF 1989.

9. AS FORESHADOWED IN MY TELNO 1443 IN NOVEMBER, THE FRENCH REVEALED AT THE STRASBOURG EUROPEAN COUNCIL THAT ALL REMAINING CAPITAL CONTROLS WILL BE ABOLISHED IN 1 JANUARY 1990, SIX MONTHS AHEAD OF THE EC TIMETABLE. BECAUSE MOST CONTROLS HAVE ALREADY GONE THE MEASURE HAS MORE SYMBOLIC THAN ECONOMIC CONSEQUENCES. NONETHELESS, IT ILLUSTRATES HOW FAR THE GOVERNMENT HAS COME IN OPENING UP THE ECONOMY TO THE OUTSIDE WORLD, AND HOW CONFIDENT IT REMAINS THAT THE STRONG FRANC POLICY CAN UNDERPIN THE CURRENCY. MEASURES TO ATTRACT INWARD INVESTMENT AFTER CAPITAL LIBERALISATION ARE NOW IN PREPARATION.

10. PERHAPS THE BIGGER QUESTION MARKS ARE OVER THE EXTERNAL ECONOMIC ENVIRONMENT, AND IN PARTICULAR THE ECONOMIC FUTURE OF GERMANY. THER SEEMS TO BE NO CONSENSUS IN FRANCE OVER THE IMPLICATIONS OF CHANGES IN EASTERN EUROPE FOR GERMANY, BUT GIVEN THAT THE TRANSMISSION MECHANISM BETWEEN THE FRENCH AND GERMAN ECONOMIES IS SO STRONG THAT FRENCH WILL INEVITABLY BE AFFECTED BY AN SIGIFICANT CHANGES. THE RISE IN FRENCH INTEREST RATES ON 18 DECEMBER WAS PARTLY THE CONSEQUENCE OF THE IMPACT OF DEVELOPMENTS IN GERMANY ON THE DM.

11. FCO PLEASE ADVANCE TO: ODLING SMEE AND MELLISS HM TREASURY, BAYNE AND BROADBENT FCO AND CROCKETT BANK OF ENGLAND

FERGUSSON

YYYY

DISTRIBUTION 194

MAIN 193

.FRAME ECONOMIC ECD (I)

ADDITIONAL 1

FRAME

NNNN

SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TEL.NO. 43 OF 12 DECEMBER 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 NOVEMBER 1989

SUMMARY

- **Evidence of some slowing of economic activity, although companies and commentators remain bullish.**

- **Unemployment falls slightly in October: rate remains 9.5%.**

- **Consumer prices rise by 0.4% in October: annual inflation rate rises to 3.6%.**

- **External trade surplus of F2.2 billion in September.**

- **Money supply growth in September within target range of 4-6%.**

- **Confirmation that remaining exchange controls to be lifted in January 1990.**

- **1990 Budget adopted in National Assembly: draft amendment to 1989 Budget approved by government.**

- **French companies continue to take leading role in international mergers and acquisitions.**

- -

FRANCE: ECONOMIC REPORT FOR NOVEMBER 1989

DETAIL

I ECONOMIC ACTIVITY

1. Finalised and complete second quarter National Accounts figures were published by INSEE (public sector industrial disputes had prevented earlier publication). The main features, as reported in the previous MER, still stand.

2. Import prices were reported to have risen by 2% in the second quarter, mainly due to increased costs of energy imports. Prices of imported manufactured goods rose by 0.7% during the quarter (prices of capital goods fell by 0.5%, having risen by 2.9% in the first quarter).

3. Export prices rose by 1.8% in the second quarter; prices of exported manufactured goods rising by 1.3%; agro-food prices by 3.7% and transport and telecommunications prices by 3.5%.

4. Producers prices rose by 1% in the second quarter after the 1.2% rise in the first quarter. This was very similar to the rises seen in the previous three quarters. In the civil and agricultural building sector, prices remained unchanged from the first quarter: manufacturers' prices rose by 0.9%, after the 1.6% rise seen in the first quarter. Prices of intermediate goods also rose by 0.9%, after a rise of 2.5% in the first quarter.

5. The savings rate in the second quarter was unchanged at 12.3%. The purchasing power of income from salaries and social security benefits rose by 0.3%.

6. The second quarter industrial production figures (seasonally adjusted) were also released by INSEE in November and showed a 1.6% rise over the first quarter (and a 5.6% rise over the second quarter of 1988). The index (excluding building) rose to 111.3 from 109.5 in the first quarter (1980=100).

7. In September, the seasonally adjusted monthly index of industrial production (excluding building) fell by 2.0% to 111.9 (1980 = 100) after reaching 114.3 (revised) in July and August. The index of industrial production, including building, fell by 2.13% to reach 110.2. The manufacturing index fell from 112.0 in July and August to 109.3 in September.

8. Details of the number of business failures (seasonally adjusted) for the months July, August, September and October were released in November by INSEE. Respectively, the numbers of failures were 2,689, 3,477, 4,710 and 2,974. The failure rate for all sectors

047237
MDLIAN 0241

UNCLASSIFIED
FM PARIS
TO ROUTINE FCO
TELNO 1571
OF 290852Z NOVEMBER 89
INFO ROUTINE DEPARTMENT OF EMPLOYMENT

DE FOR WELCH, CRAKER AND NORTON

FRENCH UNEMPLOYMENT STATISTICS

1. UNEMPLOYMENT FALLS SLIGHTLY.

2. THE NEW UNEMPLOYMENT FIGURES FOR OCTOBER SHOW A FALL OF 0.3 PERCENT (SEASONALLY ADJUSTED) TO 2,526,000 AN UNEMPLOYMENT RATE OF 9.5 PERCENT AGAINST 9.9 PERCENT A YEAR AGO. LONG TERM UNEMPLOYMENT REMAINS A PROBLEM FOR THE GOVERNMENT. 80.8 PERCENT (SOME 800,000 PEOPLE) ARE LONG-TERM UNEMPLOYED (AGAINST 30.2 PERCENT IN OCTOBER 1988: THE AVERAGE LENGTH OF UNEMPLOYMENT IS 359 DAYS, 13 MORE THAN A YEAR AGO. ANOTHER FEATURE OF THE LABOUR MARKET WHICH IS BEGINNING TO ESTABLISH ITSELF (AND WHICH IS TO BE THE SUBJECT OF NEW LEGISLATION TO CONTROL IT) IS THE RISE OF 'PRECARIOUS' WORK: THE PROPORTION OF UNEMPLOYMENT REGISTRATIONS FOLLOWING TEMPORARY OR FIXED TERM WORK HAVE RISEN IN A YEAR BY 14.1 TO 51.8 PERCENT.

FERGUSSON

YYYY

DISTRIBUTION 428

MAIN 428

FCO/WHITEHALL WED [-]

NNNN