154142
MDHIAN 2143

RESTRICTED
FM PARIS
TO IMMEDIATE FCO
TELNO 602
OF 251046Z MAY 90
AND TO DESKBY 251300Z HM TREASURY
INFO ROUTINE WASHINGTON, BONN, ROME, TOKYO, OTTAWA
INFO ROUTINE UKREP BRUSSELS, UKDEL OECD

THE FRENCH ECONOMY AND BEREGOVOY'S POSITION

SUMMARY

1. THE ECONOMY IS STILL DOING WELL (UNEMPLOYMENT APART) AND THE PROSPECTS LOOK FAVOURABLE, THOUGH THERE ARE SOME SIGNS OF GOVERNMENT ANXIETY ABOUT OVERHEATING. BEREGOVOY REMAINS A KEY FIGURE IN THE ROCARD ADMINISTRATION, THOUGH WITH A LOWER PROFILE THAN IN THE PAST. ON EMU, BEREGOVOY NOW APPARENTLY IN FAVOUR OF ACCELERATING PROGRESS, SENSING THAT THE MOMENT MAY BE RIGHT TO DRAW UP AN EMU BLUEPRINT WHICH FAVOURS FRENCH VIEWS.

DETAIL

2. THE FOLLOWING IS AN UPDATED PICTURE OF THE FRENCH ECONOMY AND BEREGOVOY'S POSITION BEFORE THE CHANCELLOR'S MEETING WITH HIM HERE ON 29 MAY.

GROWTH

3. AFTER GDP GROWTH OF 3.7 PERCENT IN 1989 THERE IS A GENERAL EXPECTATION OF A SLOWDOWN IN ACTIVITY IN 1990, WITH THE GOVERNMENT FORECASTING GROWTH OF 3.2 PERCENT. (THE EVIDENCE OF A SLOWING DOWN IN THE ECONOMY HAS IN FACT SO FAR BEEN PATCHY).

INFLATION

4. CONSUMER PRICES ROSE BY 0.4 PERCENT IN APRIL, AFTER RISES OF 0.2 PERCENT IN FEBRUARY AND 0.3 PERCENT IN MARCH, GIVING AN ANNUAL RATE OF INFLATION OF 3.2 PERCENT . FORECASTERS ARE LESS OPTIMISTIC THAN PREVIOUSLY ABOUT FRENCH AND GERMAN INFLATION RATES ALIGNING IN THE NEAR FUTURE.

LABOUR MARKET

5. UNEMPLOYMENT IN MARCH ROSE BACK TO SLIGHTLY ABOVE 2.5 MILLION, WITH THE UNEMPLOYMENT RATE REMAINING AT 9.4 PERCENT, (12.8 PERCENT FOR WOMEN, 6.9 PERCENT FOR MEN). THIS IS DOWN FROM THE 10.5 PERCENT PEAK IN 1987, BUT STILL TOO HIGH FOR THE GOVERNMENT'S COMFORT.

EXTERNAL TRADE

6. AFTER MONTHLY TRADE DEFICITS IN THE PERIOD JANUARY TO MARCH OF AROUND F1 BILLION, THE DEFICIT IN APRIL WORSENED TO F 4.3 BILLION.

MONETARY POLICY

7. LEADING INTEREST RATES WERE CUT TWICE BY A QUARTER POINT IN APRIL, WITH BEREGOVOY SAYING THAT THE FRENCH FRANC SHOULD BE THOUGHT OF AS INDEPENDENT OF THE DEUTSCHMARK, AND THAT AS A CONSEQUENCE FRENCH INTEREST RATES WOULD NOT NECESSARILY HAVE TO RISE WITH GERMAN RATES. M2 ANNUAL GROWTH IN FEBRUARY WAS 2.6 PERCENT (AGAINST THE TARGET RANGE OF 3.5 PERCENT TO 5.5 PERCENT).

PROSPECTS

8. UNEMPLOYMENT APART, THE MAIN INDICATORS STILL LOOK PRETTY GOOD, WITH THE PATTERN OF FIRM GROWTH AND MODERATE INFLATION LIKELY TO CONTINUE. BUT SOME SIGNS OF ANXIETY ARE DETECTABLE WITHIN THE ADMINISTRATION, AT LEAST IN PRIVATE. AS THE 1989 GDP GROWTH FIGURES CREEP UP WITH EACH REVISION, INFLATION THIS YEAR RISES AND THE BALANCE OF PAYMENTS STARTS TO DETERIORATE, THERE IS AT LEAST A QUESTION MARK AS TO WHETHER THE ECONOMY MAY BE STARTING TO PAY THE PRICE OF GROWTH AT A HIGHER THAN SUSTAINABLE RATE. IF SO, THE RECENT HALF POINT CUT IN INTEREST RATES - BEREGOVOY'S JUSTIFICATION FOR WHICH SEEMS TO HAVE BEEN TO DISTANCE FRENCH FROM GERMAN MONETARY POLICY AT A TIME OF FEARS ABOUT THE INFLATIONARY CONSEQUENCES OF GERMAN UNIFICATION - MAY IN RETROSPECT LOOK UNWISE.

BEREGOVOY'S POSITION

9. WITH HIS MAINTENANCE OF THE POLICY OF THE STRONG FRANC, BEREGOVOY HAS PLAYED A MAJOR ROLE IN GIVING ECONOMIC RESPECTABILITY TO THE ROCARD ADMINISTRATION AND ENSURING THE SUPPORT OF FRENCH BUSINESS. THE HEAD OF THE FRENCH EMPLOYERS' FEDERATION IS QUOTED IN A RECENT INTERVIEW AS SAYING THAT BEREGOVOY IS MUCH COUNTED UPON TO KEEP BUSINESS SHELTERED FROM ECONOMIC MISTAKES. BEREGOVOY HIMSELF HAS SAID HE IS PLEASED WITH THE WAY THAT THE TOTAL LIBERALISATION OF EXCHANGE CONTROLS AT THE BEGINNING OF 1990 - FIVE YEARS AFTER HE

BEGAN HIS FIRST STEP IN THAT DIRECTION WHEN HE WAS LAST FINANCE MINISTER - WAS ACCOMPLISHED WITHOUT ANY FUSS.

10. BEREGOVOY'S POLITICAL STANDING WAS SOMEWHAT DAMAGED BY THE INSIDER DEALING SCANDALS IN 1989 CONCERNING SHARES IN PECHINEY AND SOCIETE GENERALE AND WHICH LED TO THE RESIGNATION OF HIS DIRECTEUR DE CABINET. SINCE THEN HE HAS KEPT A RELATIVELY LOW PROFILE AND SEEMS TO HAVE SHAKEN OFF THE WORST EFFECTS: ALTHOUGH AS JUDICIAL INVESTIGATIONS INTO AFFAIRS RUMBLE ON THE PUBLIC IS OCCASIONALLY REMINDED OF THEM.

EMU

11. UNTIL RECENTLY, BEREGOVOY HAS APPEARED CAUTIOUS ON EMU, ARGUING THAT STAGE TWO IN PARTICULAR WOULD NEED TO BE LENGTHY. HOWEVER, HE NOW SEEMS TO BELIEVE THAT EMU SHOULD BE ACCELERATED, WITH A MOVE TO STAGE THREE SOONER THAN HITHERTO THOUGHT (ALTHOUGH WITH NO TIMETABLE INDICATED.) THERE IS PROBABLY A MIXTURE OF REASONS FOR THIS. THERE IS, OF COURSE, THE STRONG POLITICAL IMPERATIVE OF TYING GERMANY INTO THE COMMUNITY. BUT BEREGOVOY PROBABLY ALSO SENSES THAT WITH GERMANY DISTRACTED BY GEMU AND ITS AFTERMATH, INCLUDING PERHAPS A WEAKER DM, WITH THE FRENCH ECONOMY PERFORMING WELL, AND WITH THE DEBATE ON POLITICAL UNION OPENING UP THE PROSPECT OF A CLEARER DEFINITION OF AND SOME CHANGES IN THE ROLE OF THE COUNCIL (PERHAPS INCLUDING ECOFIN), THE TIME IS AS GOOD AS IT WILL EVER BE TO DRAW UP A BLUEPRINT FOR EMU WHICH WILL FAVOUR FRENCH INTERESTS.

12. FCO PLEASE ADVANCE DESKBY 251300Z PS/CHANCELLOR OF THE EXCHEQUER, WICKS, MELLISS (HM TREASURY).

FERGUSSON

YYYY

DISTRIBUTION 178

MAIN 178

FINANCIAL (CULL) NAD
WED

NNNN

SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TEL NO. 18 OF 11 MAY 1990
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 APRIL 1990

SUMMARY

- National accounts indicate 1989 GDP growth of 3.7%: marketed GDP growth of 4.1%.

- Unemployment in March rises back above 2.5 million: rate remains 9.4%.

- Consumer prices rise by 0.3% in March: inflation rate unchanged at 3.4%.

- External trade deficit in March falls to F0.86 billion.

- Money supply growth in February at lower end of target range.

- Further quarter point cut in leading interest rates on 27 April.

- Bérégovoy signals in April that henceforth the Franc should be considered independent of the Deutschmark.

- Bourse continues to rise in April.

- INSEE forecasts a slowdown in the rate of growth in first half of 1990.

1

FRANCE: ECONOMIC REPORT FOR APRIL 1990

DETAIL

I ECONOMIC ACTIVITY

1. INSEE published provisional 1989 National Accounts figures which showed much higher growth than had been expected. Total GDP (in volume and at 1988 prices) grew by 3.7% and marketed GDP by 4.1% over the year, identical to the revised figures for 1988. The growth was led by exports, which rose by 11.3% through the year and the capital goods sector which saw growth of 6.4%. after 4.9% in 1988. Intermediate goods growth slowed to 3.5% in 1989 after the 7.3% growth seen in 1988.

2. Investment grew by 6% in 1989 following the 8.5% growth seen in 1988. Industrial investment grew by 6.9% in 1989 after the growth of 10.6% in 1988. Domestic consumption grew by 3%, as it did in 1988. The ratio of tax receipts and social security contributions to GDP (taux des prélévements obligatoires) fell to 43.9% in 1989 after the revised figure of 44.1% seen in 1988. The table below gives further details of the statistics released so far.

1 - Evolution des ressources et des emplois de biens et services en 1989[1]

	1988	1989			
	Valeurs en millions de francs	Variations par rapport à 1988 (%)			Valeurs en millions de francs
		Volume	Prix	Valeur	
Produit intérieur brut (PIB)	5 692 725	3,7	3,5	7,4	6 113 118
dont *PIB marchand*	*4 783 481*	*4,1*	*3,4*	*7,6*	*5 146 628*
Importations	1 218 044	9,6	5,5	15,6	1 408 056
Total des ressources et des emplois	6 910 769	4,8	3,9	8,8	7 521 174
Consommation finale des ménages	3 422 341	3,0	3,5	6,7	3 650 029
Consommation finale des administrations publiques et privées	1 071 095	1,7	4,2	5,9	1 134 630
Formation brute de capital fixe	1 164 412	6,0	3,0	9,2	1 271 478
dont *Sociétés et entreprises individuelles*	*641 498*	*6,9*	*3,4*	*10,6*	*709 200*
Ménages	*307 864*	*3,0*	*2,2*	*5,3*	*324 197*
Administrations publiques	*177 682*	*6,3*	*3,2*	*9,7*	*194 922*
Variations de stocks	30 977				39 905
Exportations	1 221 944	11,3	4,8	16,6	1 425 132

1. Tous les volumes sont évalués ici aux prix de l'année précédente. *Source : Comptes de la Nation 1989, Insee.*

SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TEL NO. 16 OF 10 APRIL 1990
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 MARCH 1990

SUMMARY

- Some further indications of economic activity slowing down: government nonetheless forecasts robust growth in 1990 of 3.2%.

- Unemployment rises slightly in February: rate remains 9.4%.

- Consumer prices rise by 0.2% in February: inflation rate unchanged at 3.4%.

- External trade deficit up marginally to F0.96 billion in February.

- Money supply growth in January at lower end of target range.

- Leading interest rates lowered by a quarter of a point on 2 April.

- Confirmation that government aims to reduce 1991 Budget deficit by a further F10 billion to F80 billion.

- Bourse rallies towards end of March.

- Sequence of optimistic economic forecasts.

FRANCE: ECONOMIC REPORT FOR MARCH 1990

DETAIL

I ECONOMIC ACTIVITY

1. The seasonally adjusted index of industrial production (excluding building) rose by 1.06% in January to 113.8 from its December level of 112.6 (revised). The index including building rose to 111.8 in January from 111.1 (revised) in December. The manufacturing index rose from 111.5 (revised from 111.4) in December to 112.5 in January.

2. Business registrations, seasonally adjusted, numbered 24,420 in February, 19,600 of which were new businesses. According to INSEE, the higher than normal figures were due to the service sector where registrations were 10% above the 1989 monthly average.

3. Business failures, seasonally adjusted, in February fell to 3,165 from the January total of 3,342. The number of failures per month between March 1989 to February 1990 averaged 3,332.

4. Domestic consumption of manufactured goods, seasonally adjusted, rose to F55.36 billion in February from the revised January figure of F55.23 billion. The automobile and clothing industries have been the main beneficiaries of the increased expenditure since the start of the year.

5. According to a survey by INSEE, industrial investment (excluding building) in 1989 rose by 11% in value. In volume terms this represented just over 7%. In its previous survey in November, INSEE expected investment in 1989 to reach 9% in volume. For 1990, company heads interviewed forecast a rise of 14% - 15% in the value of industrial investment or 11% in volume.

II BUSINESS CONFIDENCE

6. The Bank of France February survey of business opinion reported a stabilising of industrial production during the month. Growth had levelled off in the capital and intermediate goods sectors and had fallen in the automobile industry. Expectations however were that growth would return in the coming months, in particular to the capital goods sector.

7. Company heads questioned in the February INSEE survey of industrial opinion thought production growth had stabilised over the past few months. Orders, both domestic and overseas, had also stabilised at a high level (although lower than at the end of 1988).