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G5 MEETING NEW YORK: REACTION OF FRENCH MINISTRY OF FINANCE

SUMMARY

1. THE MINISTRY OF FINANCE IS EXPRESSING GREAT SATISFACTION AT THE OUTCOME OF THE NEW YORK MEETING, CLAIMING THAT THE G5 HAVE MOVED TOWARDS POSITIONS LONG HELD BY FRANCE. BUT IMMEDIATE IMPLICATIONS FOR THE FRANC AND FRENCH INTEREST RATES MAY BE UNCOMFORTABLE.

DETAIL

2. THE DIRECTEUR DU TRESOR HAS CONFIRMED TO US FRENCH SATISFACTION WITH SUNDAY'S G5 MEETING, ALREADY EXPRESSED PUBLICLY BY BEREGOVY. LEBEGUE SAID THAT THEY WERE VERY SATISFIED BOTH BY THE WAY THE MEETING HAD BEEN CONDUCTED AND BY THE AGREEMENTS REACHED. HE LISTED FOUR MAIN POINTS:

A) CONVERGENCE IN ANALYSIS OF THE ECONOMIC SITUATION.

B) AGREEMENT THAT THE RATES OF EXCHANGE HAVE NOT BEEN REFLECTING PROPERLY THE STRENGTHS AND WEAKNESSES OF THE MAJOR ECONOMIES.

C) THE SHARED CONCLUSION THAT OTHER CURRENCIES SHOULD APPRECIATE WITH RESPECT TO THE DOLLAR.

D) AGREEMENT ON HOW TO ACHIEVE (C) ABOVE.

3. IN PARTICULAR THE FRENCH ARE PLEASED THAT, FOR THE FIRST TIME, GOVERNMENTS AND CENTRAL BANKS OF THE G5 HAVE REACHED AGREEMENT ON 'A VERY PRECISE DEFINITION OF THE CONDITIONS FOR INTERVENTION'. LEBEGUE SAID THAT BOTH THE US AND THE JAPANESE HAD GIVEN CLEAR COMMITMENTS TO PLAY THEIR PART, IN SHARP CONTRAST TO THE IMPRECISION OF THE COMMITMENTS MADE IN JANUARY. THERE WAS NO DOUBT THE AMERICANS WERE WILLING TO PLAY THE PREDOMINANT ROLE IN THE PROCESS. LEBEGUE SOUNDED LESS CONFIDENT IN HIS REFERENCE TO JAPANESE READINESS TO 'ACCEPT AND EVEN ASSIST IN THE APPRECIATION OF THE JAPANESE YEN'.

4. FOR THEIR PART, THE COUNTRIES PARTICIPATING IN THE EXCHANGE RATE MECHANISM OF THE EMS MUST CO-ORDINATE THEIR ACTIONS CLOSELY. THE BANK OF FRANCE AND THE GERMAN FEDERAL BANK HAD YESTERDAY ENGAGED IN A VERY THOROUGH DISCUSSION OF THE OUTCOME OF THE NEW YORK MEETING AND ITS IMPLICATIONS FOR THE EMS WITH OTHER ERM PARTICIPANTS, OVER THE TELEPHONE. LEBEGUE CONSIDERED THAT THE MARKETS HAD REACTED SENSIBLY TO THE NEWS YESTERDAY, ALTHOUGH HE NOTED THE WEAKNESS OF THE ITALIAN LIRA.

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5. ASKED ABOUT THE IMPLICATIONS FOR NEGOTIATIONS ON MONETARY AND TRADE MATTERS, LEBEGUE DREW ATTENTION TO A STATEMENT BY BEREGOVY THAT THE PROGRESS ACHIEVED IN MONETARY MATTERS SHOULD HELP THE TRADE TALKS. IN NEW YORK, THE US HAD SHOWN THEMSELVES MORE OPEN-MINDED ON THE SUBJECTS FOR DISCUSSION IN SEOUL, EG ENLARGED ACCESS AND AN INCREASE IN WORLDBANK RESOURCES. THE FRENCH WERE ALSO PLEASED THAT THE G5 HAD RECOGNISED THE NEED TO ADJUST THE HANDLING OF INTERNATIONAL DEBT QUESTIONS, PRINCIPALLY BY A MORE ACTIVE APPROACH ON THE PART OF THE WORLD BANK AND THE MAINTENANCE OF THE FLOW OF NEW MONEY BY COMMERCIAL BANKS.

6. ASKED WHETHER THE FRENCH HAD DETECTED A GREATER DETERMINATION ON THE PART OF THE US TO ACCELERATE THE REDUCTION OF THE FEDERAL DEFICIT, LEBEGUE REACTED CAUTIOUSLY, BUT MADE IT CLEAR THAT THE FRENCH ARE CONVINCED THAT, LARGELY THANKS TO BAKER, A NEW APPROACH TO INTERNATIONAL ECONOMIC RELATIONS IS GAINING GROUND IN WASHINGTON, STEMMING FROM A NEW READINESS TO CONSIDER THE INTERNATIONAL IMPLICATIONS OF US DOMESTIC POLICY.

7. LEBEGUE FORESAW NO CHANGE IN FRENCH POLICY CONSEQUENT UPON THE NEW YORK MEETING. HE ANTICIPATES THAT IF THE DOLLAR DEPRECIATES AS INTENDED, FRANCE WILL FIND IT AMBITIOUS TARGET FOR INFLATION (2.9 PERCENT BY END-1986) AND THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS (A SURPLUS OF TEN TO FIFTEEN BILLION FRANCS IN 1986) LESS DIFFICULT TO ATTAIN.

COMMENT

8. BEREGOVY AND LEBEGUE ARE PUTTING THE BEST FACE ON THE IMPLICATIONS FOR FRANCE, WHICH BADLY NEEDS SOME GOOD ECONOMIC NEWS AT THIS TIME OF DIPLOMATIC EMBARRASSMENT. WHILE IN THE MEDIUM TERM THE COUNTRY CERTAINLY STANDS TO GAIN, IN THE SHORT TERM THERE COULD BE SEVERE DISCOMFORT: FOR EXAMPLE IF STRAINS WERE TO DEVELOP BETWEEN A NEWLY-STRENGTHENED DEUTSCHMARK AND THE FRANC. THE FINANCIAL MARKETS YESTERDAY, IN EXPECTATION OF A RISE IN INTEREST RATES HERE TO COUNTERACT SUCH STRAIN, GAVE THE COLD SHOULDER TO THE 15 BILLION FRANC STATE BORROWING NOW BEING UNDERTAKEN. AVOIDANCE OF A FOURTH DEVALUATION IN FOUR YEARS REMAINS A HIGH PRIORITY FOR THE GOVERNMENT.

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