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To: Members of the Executive Board

From: The Secretary

Subject: France - Economic and Financial Action Program

The Fund has received from Mrs. Ploix the attached communiqué issued on April 6 by the French Ministry of Economy, Finance and Privatization, describing the main features of the economic and financial program designed to control the consequences of the exchange rate changes. The text of the exchange control measures referred to in this text will be communicated in the near future.

Att: (1)

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Department Heads

COMMUNIQUE ISSUED ON APRIL 6, 1986
BY THE MINISTRY OF ECONOMY, FINANCE AND PRIVATIZATION

Economic and Financial Action Program

1. An initial part of the Government's plan consists of measures aimed at establishing a sound and lasting basis for disinflation in our economy

Measures designed to support this action program will make it possible to control the consequences of the exchange rate changes by strengthening the anti-inflation policy. The Government's objective is to limit the rise in consumer prices from the beginning to the end of 1986 to 2.3 percent, i.e., to an average increase of 2.4 percent over 1985 levels.

These serious, not to say severe, measures pertain to fiscal, monetary and wage policy:

- As regards government finance, the Government has decided to embark on an extremely strict expenditure reduction plan. Measures to this end amounting to almost F 15 billion will be implemented between now and the end of 1986. The objective is, within three years, to restore a balanced budget, before taking into account the interest on the debt. This target presupposes that there immediately be a revision of the missions of the State, a modernization of the means at its disposal, and a re-examination of some of its activities which have ceased to be justified. Many offices, agencies and procedures which are no longer necessary will be abolished as early as this year.

The monetary authorities will endeavor to limit expansion of the money supply to less than 5 percent. The creation of money, thus strictly contained in particular thanks to monetary creation from the Government Budget being reduced by 50 percent in 1986 and eliminated in 1987, will be channeled on a priority basis into the financing of enterprises.

Interest rates movements will be cautiously managed, in light of the progress in disinflation.

- Obviously, it is desirable in these circumstances that the expansion of the wage bill be particularly reasonable. In the civil service and the public sector, there will be no general increase in wages and salaries in 1986. Given the decisions taken in 1985 that will have their full impact in 1986, as well as the combined effects of individual measures, the overall purchasing power of public sector wages and salaries will be maintained.

2. Significant liberalization measures will make it possible to ease the regulatory constraints on enterprises and restore confidence

a. Significant liberalization of exchange controls

As far as enterprises are concerned, all of the constraints which prevented them from competing on an equal footing with foreign firms will be lifted:

- . the requirement that export enterprises surrender foreign exchange proceeds in advance will be abolished;

- . forward import cover, which had been prohibited, will be reintroduced. All enterprises may provide three-month forward cover for their purchases of goods invoiced in foreign exchange;

- . finally, investment abroad and borrowing abroad by resident enterprises will be unrestricted.

As far as individuals are concerned, the scope for unrestricted transactions with foreign countries will be considerably broadened. In particular, the ceiling on cash advances obtained abroad through the use of credit cards will be tripled and the use of credit cards to pay for expenses incurred abroad will now be permitted from France as well as from outside France.

b. Other confidence-building measures in the tax and customs areas, aimed at facilitating the repatriation of capital from abroad, will be submitted to Parliament as part of the budget package.

c. With regard to prices, deregulation will be the rule; the 1945 Ordonnances will be abrogated, and a new set of laws on competition will be drafted. In the immediate future, virtually all industrial prices will be deregulated and the constraints affecting three fourths of commercial enterprises will be lifted. These far-reaching measures are intended to restore the responsibility and adaptability essential to enterprise economic performance.