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on

FURTHER LIBERALISATION OF THE FRENCH ECONOMY

SUMMARY

1. ON 15 APRIL THE FRENCH MINISTER OF FINANCE, M. BALLADUR, ANNOUNCED FUTURE MAJOR MEASURES TO LIBERALISE THE ECONOMY. THE CENTRALISED SYSTEM OF CREDIT ALLOCATIONS IS TO BE ABOLISHED, OTHER IMPORTANT CONSTRAINTS ON THE BANKING SYSTEM ARE BEING REMOVED, FOREIGN EXCHANGE CONTROLS ARE BEING FURTHER RELAXED AND REGULATION OF THE FINANCIAL MARKETS IS BEING EASED. IN ADDITION INTEREST RATES HAVE BEEN REDUCED ON SAVING BANK DEPOSITS AND ON SUBSIDISED LOANS. THE GOVERNMENT IS REPAYING A FURTHER TRANCHE OF THE EUROPEAN COMMUNITY LOAN BEFORE THE DUE DATE.

DETAIL

2. ON 15 APRIL, M. BALLADUR ANNOUNCED "A SECOND PHASE OF LIBERALISATION" TO FOLLOW THE MEASURES OF 6 APRIL, WHEN THE FRANC WAS DEVALUED. OUR TELNO 372).

3. THEY ARE:

BANKING

I) FROM 1 JANUARY 1987 THE BANKS WILL NO LONGER REQUIRE OFFICIAL AUTHORISATION TO OPEN, CLOSE OR TRANSFER BRANCHES. HOWEVER THE GOVERNMENT WILL NEGOTIATE WITH THE BANKS ON THE CONDITIONS WHICH WILL APPLY AND IN PARTICULAR WILL TAKE STEPS TO PREVENT A SHARP INCREASE IN MARKET SHARE BY BANKS WHO CAN OFFER SUBSIDISED CREDIT AND SPECIAL TAX FREE DEPOSIT ACCOUNTS (THIS CONCERNS CHIEFLY THE MUTUALIST BANKS)

II) THE GOVERNMENT WILL ABOLISH ON 1 JANUARY 1987 THE QUANTITATIVE CONTROL OF CREDIT PROVIDING THE GOVERNMENT'S INFLATION AND MONEY SUPPLY TARGETS ARE OBTAINED.

EXCHANGE CONTROLS

III) THE LIMIT FOR FORWARD BUYING OF CURRENCY BY IMPORTERS TO COVER AGAINST EXCHANGE RISKS WILL BE INCREASED TO 6 MONTHS FROM 3 MONTHS AND (IN ADDITION TO IMPORTERS OF GOODS) WILL BE EXTENDED TO : IMPORTERS OF SERVICES, COMMERCIAL DEBTS, COMMODITY DEALING, COMMODITY FUTURES AND COMMODITY ABRITRAGE.

IV) THE PERIOD FOR WHICH EXPORTERS CAN RETAIN FOREIGN CURRENCY EARNED FROM SALES IS INCREASED FROM 8 DAYS TO ONE MONTH.

(v)

V) THE FOREIGN CURRENCY PREMIUM (DEVISE TITRE) ON THE PURCHASE OF FOREIGN SHARES IS ABOLISHED.

VI) PRIVATE INDIVIDUALS NO LONGER REQUIRE OFFICIAL AUTHORISATION TO BUY SECOND HOMES ABROAD, TO EXPORT THEIR ASSETS IF THEY MOVE ABROAD TO LIVE OR SEND GIFTS ABROAD.

FINANCIAL MARKETS

VII) THE MINIMUM LIFE OF CERTIFICATES OF DEPOSIT WILL BE REDUCED FROM 6 MONTHS TO 3 MONTHS ON 1 JUNE AND TO 10 DAYS ON 1 MARCH 1987.

VIII) THE MAXIMUM DURATION OF COMMERCIAL PAPER WILL BE INCREASED FROM 6 MONTHS TO 2 YEARS ON 1 JUNE.

IX) THE FINANCIAL INSTITUTIONS (EXCLUDING BANKS) WILL BE PERMITTED TO ISSUE A NEW TYPE OF BOND CALLED BONS DE SOCIETES FINANCIERES, WITH A LIFE OF BETWEEN 2 AND 7 YEARS.

INTEREST RATES

X) INTEREST RATES ON SAVINGS BANK DEPOSITS HAVE BEEN REDUCED BY 1.5 PERCENT (THE NEW RATES ARE BETWEEN 4 AND 6 PERCENT ACCORDING TO THE TYPE OF SCHEME). INTEREST RATES HAVE ALSO BEEN REDUCED ON SUBSIDISED LOANS TO INDUSTRY TO THE LOCAL GOVERNMENT AND FOR HOUSE BUYING BY VARYING AMOUNTS WITH THE NOTABLE EXCEPTION OF THE FONDS INDUSTRIEL DE MODERNISATION (FIM) WHICH HAS BEEN LEFT UNCHANGED AT 8.75 PERCENT. 'LES ECHOS', A FINANCIAL DAILY SEES THIS AS AN INDICATION THAT THE GOVERNMENT INTENDS TO PHASE OUT THE FIM, 60 PERCENT OF WHOSE LOANS GO TO SMALL FIRMS.

EXTERNAL DEBT

3. FRANCE WILL REPAY BEFORE THE DUE DATE DOLLARS 1.8 BN OF THE 4BN ECU 1983 EUROPEAN COMMUNITY LOAN. THIS FOLLOWS A 400 MILLION DOLLAR REPAYMENT IN APRIL.

COMMENT

4. THE PROMISED END OF QUANTITATIVE CONTROL OF CREDIT AND GREATER FLEXIBILITY FOR BANK BRANCHING ARE MAJOR STEPS TOWARDS A LIBERAL ECONOMY BU THE MONEY SUPPLY HAS BEEN GROWING ABOVE TARGET AND THE TECHNICAL CONSEQUENCES OF SOME OF THE REFORMS ANNOUNCED COULD ACCELERATE THIS, IN WHICH CASE THE GOVERNMENT ENVISAGES REIMPOSITION OF QUANTITATIVE CONTROL (SHADES OF BRITAIN 1971-3).

15.

5. THE GREATER FREEDOM TO ADJUST BANK BRANCH NETWORKS COULD HAVE FAR-REACHING RESULTS. IT WILL MAKE IT EASIER TO CLOSE UNPROFITABLE BRANCHES OF WHICH THERE ARE MANY (ALTHOUGH REDUCING PERSONNEL WILL STILL BE HARD). CREDIT AGRICOLE WILL HOPE TO USE ITS GREATLY SUPERIOR FINANCIAL STRENGTH TO CAPTURE A LARGE PART OF THE RICH PARIS MARKET, BUT BALLADUR WILL NEGOTIATE TO RESTRAIN IT. BARCLAYS BANK WHICH HAS A WELL-ESTABLISHED SMALL NETWORK MAY AT LAST FIND IT POSSIBLE TO EXPAND, AND OTHER FOREIGN BANKS TO LAY THE FOUNDATIONS OF ONE.

6. THE FOREIGN EXCHANGE CONTROL RELAXATION MAY PERMIT THE GOVERNMENT TO END RECOURSE TO THE CAPITAL MOVEMENTS SAFEGUARD CLAUSE OF THE TREATY OF ROME, FOR THE FIRST TIME SINCE 1986.

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