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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH FRANCE

Addendum

ANNEX I

Summary of Statements by the Members of the French Delegation

While a considerable improvement in the balance of payments of the franc area could be reported for the period since the last consultation, there still remained a large deficit of approximately \$480 million at the end of 1958. Nevertheless, the improvement over the 1957 figures, as can be seen from the table before the members of the Committee (Annex II), amounted to about \$800 million. This development in France's external financial position must partly be attributed to the general evolution of international trade during that period and partly to the direct and indirect consequences of measures adopted by the French Government. The year 1958 was characterized by a decrease in ocean freight charges, a decrease in raw material prices and, in France, by a decline in import demand. As a consequence of the devaluation of the French franc by 17 per cent, it was made possible for the Exchange Stabilization Fund to buy \$980 million of foreign exchange on the Paris foreign exchange market. The equivalent of \$980 million is a gross figure from which reimbursements to the European Payments Union and other recipients in the amount of \$400 million should be deducted.

It should be noted that France had to borrow heavily from abroad at a time when most other European countries were able to increase their foreign exchange reserves. The recourse to credits was necessary to cover the balance-of-payments deficit for 1958 and also an expected trade deficit for the first few months of 1959, connected with transitional strains on the balance of payments after the opening of the Common Market and the liberalization of imports to 75 per cent of France's trade.

Nevertheless, there has been a continuous improvement in the balance of payments over the last eighteen months. While the total deficit for 1958 amounted to about \$480 million, only \$100 million of this deficit in current and capital account can be attributed to the second half of the year. Quarterly data show this trend even more clearly.

It should be stated, however, that certain exceptional factors are

partly responsible for this development. While any such figures must be very provisional, it is estimated that following the devaluation the increased confidence in the French franc led to a repatriation of approximately \$30 million. The private repatriation of gold which had been held illegally abroad amounted, after the amnesty had been decreed, to about \$80 million. On the other hand, foreign exchange reserves late in 1958 were subject to exceptionally heavy pressures as French importers made full use of their legal right to purchase foreign exchange up to three months ahead of delivery dates of their imports. In the weeks preceding the devaluation the level of such purchases rose from about \$100 million to \$250 million, falling thereafter to practically zero in the first few months of 1959. Obviously this deviation from the usual payment habits did contribute to an increase in foreign reserves early this year. The importance of these factors, though operative, should not be overstressed. On the whole, these effects have been of little importance.

The important factor in the development of the balance of payments was an improvement of the trade accounts in all categories through 1958 and continuing into 1959. Here the favourable development was due to a decrease in imports, rather than to an increase in exports. It was a result of the reimposition of import quotas, and of a slowing down of economic expansion in France and Europe generally.

In the first quarter of 1959 the trade account has come close to being balanced with imports amounting to about \$950 million and exports to \$900 million. While export receipts paid for only 93 per cent of French imports, balance had practically been achieved as import expenditures are calculated on a c.i.f. basis and exports on f.o.b. prices.

The improvement on the trade side alone will not suffice, however, to balance France's foreign accounts as large outlays for the amortization of the external debt have to be earned. These debts can be grouped into three categories, namely, (1) old debts of the French Government to the amount of about \$2 billion; (2) an amount of about \$600 million vis-à-vis the EPU; and, (3) \$394 million of credit from the International Monetary Fund. The amortization of the debt under (1) requires about \$120 million per annum, while the combined amortization payments on all types of foreign debts are expected to amount to \$200 million in 1959, \$580 million in 1960 and \$420 million in 1961.

The surplus of \$30 million under the heading of Governmental Operations (Annex II) takes into account the outlays by the United States Army in France. The surplus of \$90 million under Item 4 in the table is expected partly as a result of a continued high level of capital repatriation.

Despite a number of pressures expected to act on the balance of payments, such as the Governmental efforts to stimulate economic expansion and a number of unknowns, i.e., the future level of capital repatriation or the influence of the establishment of the Common Market on international investment flows, France is still confident that the improvement in the balance of payments will continue.

