REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS

1. In accordance with its terms of reference the Committee has conducted the consultation with France under paragraph 4(b) of Article XII. The Committee had before it the "basic document" prepared by the secretariat, and documents provided by the International Monetary Fund. In conducting the consultation, the Committee followed the "plan" recommended by the CONTRACTING PARTIES. The consultation was concluded on 28 May 1959. This report summarizes the main points of the consultation.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with France. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and the background material from its latest consultation with France. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of France. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from the last consultation with France under Article XIV of the Fund Agreement, which consultation was concluded on 29 April 1959.

"With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, the Fund draws the attention of the CONTRACTING PARTIES to the results of its recent consultation with France under Article XIV of the Fund Agreement and particularly to the following sentences from paragraph 5:

'The Fund welcomes the steps taken by France and other European countries at the end of 1958 to make their currencies convertible in the hands of non-residents, and the great improvement in the French foreign payments position. In the light of these circumstances, while the Fund notes with satisfaction the steps already taken by France to reduce discrimination and the level of restrictions, it urges France to take further steps which would progressively eliminate discrimination, including that arising from bilateralism."
"With respect to Part II of the Plan, relating to alternative measures to restore equilibrium, the Fund draws attention to the results of the last Fund consultation with France. The Fund has no additional alternative measures to suggest at this time."

Internal and External Financial Situation and Prospects

3. Apart from the general statement made by the French representative, noted in paragraphs 18 to 20 below, experts on the French delegation representing the Ministry of Finance and Economic Affairs made statements to the Committee describing the general state of the French economy, the internal and external financial situation of France prior to the measures taken at the end of 1958, the nature and scope of the measures taken, problems currently faced by the country, and future prospects regarding the balance of payments. A transcription of these supplementary statements and certain balance-of-payments data are annexed to the present report (see Annexes I and II).

4. Several members of the Committee said they much appreciated these informative statements, which greatly enhanced their understanding of the French situation. It was noted that the deficit of $500 million for 1958 was a much better result than had been expected earlier in the year, showing that the internal measure taken by the French Government had been effective. Several members of the Committee expressed appreciation for the measures taken by the French Government at the end of 1958. These imaginative steps had so far met with success and the measure of stability and confidence in the French economy was such as had not been seen for many years. It was also a cause for gratification that such measures had been anticipated in the discussions and advocated by certain contracting parties during the 1957 consultation with France.

5. On the basis of the information furnished by the IMF and the French delegation, members of the Committee discussed with the French representatives a number of questions relating to the balance of payments and internal measures. A member of the Committee noted that the objective of the French Government was not merely to achieve equilibrium on the balance of payments, but to secure a surplus to meet the requirements of future expansion, and thought that repayments of short-term debts and the supplementary contribution to be made to the IMF might constitute additional burdens to the balance of payments in this or in the coming year. The representative of France agreed with these views; he considered the present level of reserves to be inadequate, especially having regard to the greater need for reserves that would accompany an expansion of imports and confirmed that payments to be made on capital account would indeed be an important item on the French external accounts. Some members considered that the contribution to the International Monetary Fund should not be regarded as a burden in view of the policies of the Fund on drawings; in this connexion they referred to the comments they had made in the consultation with the United Kingdom.

6. A member of the Committee suggested that the improvement in the French balance of payments last year perhaps also reflected changes in the inventory situation; the drawing down of stocks must have contributed to a lessening
of import demand. Further, whereas previously French importers had been inclined to make payment abroad as promptly as possible, the restoration of confidence since December 1958 seemed to have changed that payment habit; the change in the leads and lags in making payments might also have lessened the pressure on France's external payments. The French representative agreed that these factors had been operative but thought it difficult to assess the magnitude of their effects on the balance of payments, making it clear that these effects had been of little importance.

7. In answer to questions as to whether the French Government had taken steps to make the French market more attractive for foreign investments, the representative of France stressed the need for concerted action among members of the French community since the need for capital was even greater in some of the overseas territories than in metropolitan France. A member of the Committee referred to the measures taken by France in January to relax control of capital movement, and expressed the view that the fact that such action was taken spoke for the confidence of the French authorities. He asked whether in the view of the French Government France had not become a net exporter of capital rather than importer. The representative of France thought that whether France should be considered as a net importer or exporter of capital would depend on whether the question was asked in relation to the metropolitan territory of France or the whole of the French community. If the constituent territories of the French community were considered as a whole there was no doubt that foreign capital was still needed. On the other hand France itself was supplying the main part of the capital required by the overseas territories. In fact, in the post-war years France exported more capital to the countries of the franc area than it had received in the form of foreign aid.

8. In discussing the causes and effects of the December measures, the French representative thought that the period that had elapsed since the measures were taken was too short to enable any reliable conclusions to be drawn regarding their effects. One of the factors which was responsible for the recent improvement was the magnitude of the repatriation of French capital from abroad, which reflected a gratifyingly high degree of public confidence in the French economy. In the past two years while the European economy had tended to be stabilized, France had been developing at a fast rate. Now it had aligned itself with the others by curtailing its own rate of expansion. The French economy, however, had not reached an entirely satisfactory level and investment would have to be stepped up at the first possible opportunity. Further, mindful of its responsibilities towards other members of the French community and overseas territories, and indeed the under-developed countries in general, France would be prepared to achieve expansion of its economy on a basis of high and stable prices for primary commodities.

9. In reply to questions the French representatives explained the meaning and significance of various items in the balance-of-payments table (see Annex II). For example, it was explained that the item "governmental operations" in the balance of payments covered purely governmental expenditures (French expenditure abroad and expenditure of foreign governments in France) and interest payments on governmental borrowing. The estimate of a net surplus of $80 million in 1959 took account of United States military expenditures in France. Amortization of foreign debt was not included under this heading but under "capital operations". The table did not include receipts
from the International Monetary Fund and certain other transactions; thus the final figures did not represent the change in monetary reserves.

Internal Financial and Fiscal Measures

10. Members of the Committee discussed with the French representative both the effects of the internal measures taken in the past and future policy in this field. They wished to be informed on the methods used in reducing or limiting budget deficits in the interest of monetary stability. Some members wondered whether the abolishing of credit ceiling on individual lending and the lowering of the basic discount rate would not have the effect of nullifying the recent achievements. In general they felt concerned that the resolute programme adopted by France might be wittled away by the cumulative effects of small measures. The representative of France explained that budget deficits were limited by the present "impasse" of Fr.600 thousand million, which should be regarded as a reasonable figure, taking account of the fact that it covered not only budgetary deficit but also the balance of treasury operation which consisted principally in providing loans to the French economy. The ceiling on individual lending by commercial banks was instituted a year ago at the height of inflationary pressures, and had been suspended in February this year partly because of the recessional tendency in the economy. It could be resumed at the first sign of renewed inflation. Further, credit in France was still controlled at the base, by way of the credit ceiling limiting borrowing from the Central Bank.

System and Methods of the Restriction and Discrimination

11. Members of the Committee representing countries in the dollar area noted that, as a result of the measures taken by the French Government in December, liberalization for OEEC countries was brought to a substantially higher level than liberalization for the United States and Canada. Although the difference between the two groups was smaller than it had been in 1957 the discrimination against the dollar countries was still substantial. In addition, leaving aside the European Economic Community, there appeared to be a significant degree of discrimination against the dollar countries in the administration of the quotas maintained by France. These members commented that the discriminatory features of the French import control system were compounded by its complexity. The representative of France pointed out that since the beginning of 1959 there had been a substantial simplification of the system and explained that under the new system there were three free lists applying to (a) OEEC countries, (b) the countries formerly in the EPU area and (c) all countries which included all GATT contracting parties except Czechoslovakia. There were a few products which were liberalized for the dollar area only. Imports not covered by a free list were admitted under quota, which was established under a unified purchase programme and the same procedure applied to imports from all sources. Some quotas were not global but applied to imports from defined areas not because imports from other sources were to be prohibited but because the products in question were on the free list for the latter sources.

12. Replying to questions on the nature and scope of the special import regimes the representative of France stated that since the recent liberalization measures the special regimes had become much more limited in scope.
The EFAC was used in order to permit exporters to settle accessory expenses abroad and to pay for related import requirements. The IMEX and EXIM systems were being maintained and applied only to non-liberalized items. The French Government was studying the possibility of abolishing these special regimes. Failing complete abolition, efforts would be made to simplify the procedures. Certain members of the Committee stressed the two principles which, as had been pointed out by contracting parties on numerous previous occasions, should be followed by governments in applying import restrictions, namely "simplicity" and "publicity". It would be in the interest of both exporters and importers if as full information as possible were made available, especially regarding quotas. They particularly called attention to the provisions of paragraph 3(b) of Article XIII of the General Agreement. One member called attention to the fact that import licences were still required for liberalized items, which would appear to be unnecessary and that a large sector of French imports was still under State trading; he hoped that the use of licence and State trading could both be reduced. Another member noted that there had been cases in which a French importer had to wait seven or eight weeks for a licence even for a product on the free list. The representative of France agreed with these members on the desirability of simplicity which the French authorities were aware of and constantly strive to achieve. All regulations relating to the French import controls were published in the "Journal Officiel" which were accessible to all foreign consulates and commercial representatives. The French authorities would be glad to be told of any shortcoming in the administration of the controls, such as delays in the issue of licences or lack of information about quotas.

13. The representative of Australia pointed out that under the French system some products which were on the free list for the dollar area were subject to restriction when imported from non-OEEC countries in the former EPU area. These included certain items on which Australia had obtained tariff concessions from France. For example, Australian exports of lead to France were still subject to individual licence, whereas this had been free listed not only for all OEEC countries but for the dollar area. This kind of discrimination seemed to be unjustified on balance-of-payments grounds. The representative of France explained that the apparent anomaly arose mainly from historical accidents. Since convertibility, changes had been all in the direction of non-discrimination, any such situation as that mentioned by the Australian representative would be adjusted eventually. The Australian representative also pointed out that being a member of the sterling area Australia had been settling all its transactions with European countries through the EPU and treated imports from OEEC countries no differently from imports from any non-dollar sources.

14. The representative of the United Kingdom noted that imports into France and other countries of the French community from Hong Kong were still subject to discriminatory restriction and expressed the hope that the French authorities might reduce the incidence of the restrictions. The representative of Canada wished to know whether France intended to provide comparable access for imports from other contracting parties of products, such as whisky, for which quotas were established in the bilateral agreement between France and the United Kingdom. The representative of France said that his delegation would take note of these points.
Restriction in French Overseas Territories

15. A member of the Committee, noting that French exports to the French overseas territories had increased substantially in recent years, requested the French delegation to supply some indication of the policies and systems of import restrictions used in the various territories of the French community. Members of the French delegation described the general policy and the present situation. It was noted that there had been no change in the import control system in these territories since before the war. Although the territories now enjoy autonomy in the allocation of external resources for the various types of imports, there is a co-ordination for the French community as a whole. For nearly three years, the overseas territories had liberalized their imports to a greater extent than France, but the situation had been reversed by the measures taken by metropolitan France in December 1958. For various reasons (for example, some African territories were prevented by treaty obligation from having a customs tariff; others had not used tariff protection or had a very low tariff) import restrictions were at present used by some territories as a principal means of protection and "self defence". The French representative assured the Committee that the question of relaxing import restrictions in the French community territories was being studied and that certain measures would be taken in the course of the year. The French delegation stressed that the lack of customs tariff protection, on the one hand, and the low standard of living and need for development on the other were relevant factors to be taken into account in discussing the restrictions in the overseas territories. Further, it might be recalled that these territories and France shared a common quota in the IMF.

16. The representative of Australia noted that import licences in New Caledonia, had recently been suddenly reduced or cancelled, and Australian exports to those territories had been affected by such action. The French representative replied that this might have been due to the general contraction of import allocations in 1958 or delays in transmission of credit in the current year owing to the distances and difficulties of communication. The French delegation undertook to seek information regarding New Caledonia and to inform the Australian Government through its Embassy in Paris.

Effects of the Restrictions

17. The French representative had stated that development of the resources of the French community must be given priority because, among other things, of its importance to the maintenance of equilibrium on a lasting basis. To this end investment on a selective basis was considered desirable, and the use of import restrictions might be co-ordinated with the pattern of investment. Members of the Committee wished to know to what extent these considerations were related to the use of restriction to protect the domestic market. The French representative replied that in selecting products for liberalization the authorities had always aimed at achieving the highest percentage figure, and quantitative restrictions were not used for the direct protection of any industry in European France. The question would at any rate not arise until France was in sight of emerging from its balance-of-payments difficulties, and the present policy was to reduce to the minimum the extent to which the hard-core waiver might be used. On the other hand, the French community members, when the time came, might wish to make use of the procedures of Article XVIII of the Agreement; in general, while there might be, at present, restrictions exerting an incidental protective effect, the policy was not to use restrictions for protective purposes, except in the underdeveloped countries of the French Community.
18. A member of the Committee wished to know what had been the estimated effects on the value of imports of the expansion of quotas by 20 per cent to a minimum of 3 per cent of national production (as referred to in paragraph 20 below). The French representative replied that his delegation was not in possession of these estimates.

Policy regarding Restrictions and Discrimination

19. During the consultation, the representative of France stressed the unique circumstances of the recent French action. It was noted that the French Government in December 1958 had at one and the same time taken steps (i) to make her currency convertible for non-residents, and (ii) to liberalize from an almost 100 per cent restrictive system which had been maintained for some time. The order and timing of these measures were both noteworthy. Normally one would expect a country in France's position first to take internal measures designed to restore equilibrium. Only when, through these measures and continued maintenance of import restrictions, external reserves had been increased to a level compatible with convertibility and liberalization, could it be expected to embark on such action. France had not followed this sequence of action but, relying on psychological and political expectations rather than on economic realities, had dared to take the risks of restoring non-resident convertibility and liberalization without awaiting the fruition of the internal measures. Subsequent developments had shown this risk to be a reasonable one and the daring experiment so far had been met with success. However, being convertible, and exposed to more sources of pressure, the franc was now more vulnerable; the stability that so far had been achieved rested principally on favourable psychological and political circumstances; in some cases the internal measures to restore equilibrium might not be the same as those required to maintain equilibrium. There were therefore considerable risks in store for the future. Further, the Government had no intention merely to maintain the national economy at its present level and, considering the present level of investment too low, was planning to increase public expenditure during this and the next year. For these reasons, the present level of foreign reserves could not be taken as adequate. The recent measures of liberalization were both a reflection of France's desire to fulfil her international obligations and a result of developments in her economic and financial situation.

20. The French representative said that France, as a signatory to three agreements, namely the Rome Treaty, the CEEC Agreement and the GATT, had to take account of her simultaneous obligations under all three. The first two contained provisions expressed in numerical terms relating to the reduction of quantitative restrictions, but the GATT obligations were of a different character. Under the Rome Treaty France had expanded her import quotas by 20 per cent to a minimum of 3 per cent of national production. On the occasion of the establishment of the CEEC the Common Market countries had reduced most of their customs duties vis-à-vis GATT members by 10 per cent. France had liberalized imports from CEEC countries to the extent required under the CEEC rules. Other liberalization measures had been taken as consistent with the requirements of GATT. The general level of liberalization of French imports would certainly have been lower had it not been for the obligations that it had assumed under the two regional arrangements mentioned above. He shared the view of other members of the Committee that the fact that the GATT obligations were not expressed in numerical terms made them no less binding than those in the other agreements.
21. The French delegation felt that a distinction should be drawn between "discrimination in favour of" and "discrimination against" a country, although it was true that there was nothing in the text of the General Agreement which differentiated between these two types of action. Having fulfilled its international obligations to apply a certain level of liberalization, a government should have the right to extend further favourable treatment to particular countries. In other words, if the economic situation of a country, under the rules of the GATT, justified restrictive measures against other countries, the government should not be precluded from withholding the application of the restrictions to some of the countries. A trading partner was discriminated against only when it failed to receive its rightful due, short of what it could expect from contractual undertakings by the contracting party concerned and what was being accorded to others. Therefore, if the measures taken under the OEEC and the Rome Treaty constituted a discrimination in favour of European countries and the Common Market partners it involved no discrimination against the others. In conclusion, the French representative stated that these considerations notwithstanding the French Government was currently studying measures of further liberalization of products which so far had not been liberalized for all countries.

22. It was felt by some members of the Committee that in view of the resurgence of the French economy and its growing strength, the French representative was too cautious in dwelling on the vulnerability of the externally convertible franc and concerned about risks and uncertainty. The main purpose of the present consultation was to explore what could be done about existing French restrictions and discrimination. Members of the Committee agreed that this question should be discussed from the practical point of view; there was no need to become involved in a discussion of whether or not the consulting country was at this moment legally justified in maintaining discrimination. The most interesting point in the French statement, therefore, was that further measures of liberalization of products at present subject to discrimination were being studied. It was hoped that these measures would be brought into force at an early date.

23. Members of the Committee discussed with the French representative certain other points in his statement. Some members maintained that non-discrimination in the sense of Article XIII of the General Agreement meant that no contracting party should in the application of restrictions give any contracting party treatment which was less favourable than it gave to any other country. They said that the circumstances which gave rise to the exceptions in Article XIV had now radically changed. Moreover, the distinction between "discrimination in favour of" and "discrimination against" was not a valid one in terms of the General Agreement. So-called discrimination in favour of a country was discrimination against the others when there was an obligation to treat all equally.

24. Some members of the Committee recalled that the issues involved in the relationship between the EEC and GATT, in respect of quantitative restrictions, were set out in the relevant sub-group report of the twelfth session and it would not be useful to pursue these issues during this consultation.
25. Regarding the strength of the franc, the French representative drew attention to the comprehensiveness of the measures that were taken in December 1958; unlike other contracting parties, France had not been well prepared for major stops of this kind, the success so far being based on favourable psychological circumstances; and investment needs related to efforts to raise the level of the French economy might well place additional burdens on the balance of payments. As regards further measures of relaxation of restrictions, the French representative stated that measures were being studied by his Government, but their implementation might have to await the outcome of discussions with the International Monetary Fund and the CONTRACTING PARTIES at their next session. It was likely, however, that some liberalization measures might be taken in the meantime.

26. Members of the Committee referred to the decision of the IMF regarding France which said, among other things that "it urges France to take further steps which would progressively eliminate discrimination, including that arising from bilateralism". The French representative was requested to indicate how the French Government planned to act in response to the decision. The French delegate replied that France had accepted the decision of the Fund. Measures to implement this acceptance were being studied.

27. The Committee expressed appreciation for the very full information that the French delegation supplied in the course of the consultation and for the open and frank manner in which members of the delegation answered the various, sometimes very difficult, questions. Members of the Committee welcomed the statement.

**ANNEXES**

I. Statements by the French experts from the Ministry of Finance and Economic Affairs. (To be circulated separately at a later date.)

II. Balance-of-Payments Statistical Data.

III. Results of last IMF Consultation with France.
## ANNEX II

### Balance of Payments of the Franc Area

(millions of dollars)

(Submitted by the French delegation)

<table>
<thead>
<tr>
<th></th>
<th>1957</th>
<th>1958</th>
<th>Estimates 1959</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Metropolitan France</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Commercial operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Importations (f.o.b.)</td>
<td>4,198</td>
<td>3,525</td>
<td>3,600</td>
</tr>
<tr>
<td>- Exportations</td>
<td>3,303</td>
<td>3,225</td>
<td>3,500</td>
</tr>
<tr>
<td>Balance</td>
<td>- 895</td>
<td>- 300</td>
<td>- 100</td>
</tr>
<tr>
<td>(2) Unforeseen (Balance)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Transport</td>
<td>- 366</td>
<td>- 206</td>
<td>- 200</td>
</tr>
<tr>
<td>- Travel</td>
<td>- 80</td>
<td>+ 62</td>
<td>+ 100</td>
</tr>
<tr>
<td>- Other</td>
<td>- 149</td>
<td>- 96</td>
<td>- 80</td>
</tr>
<tr>
<td>Total</td>
<td>- 595</td>
<td>- 240</td>
<td>- 180</td>
</tr>
<tr>
<td>(3) Governmental operations</td>
<td>+ 202</td>
<td>+ 114</td>
<td>+ 80</td>
</tr>
<tr>
<td>(4) Capital operations</td>
<td>+ 67</td>
<td>- 8</td>
<td>+ 90</td>
</tr>
<tr>
<td>(5) Miscellaneous</td>
<td>+ 84</td>
<td>+ 80</td>
<td>+ 90</td>
</tr>
<tr>
<td>Total A</td>
<td>- 1,137</td>
<td>- 354</td>
<td>- 20</td>
</tr>
<tr>
<td><strong>B. Overseas countries of the franc area</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance</td>
<td>- 160</td>
<td>- 125</td>
<td>- 100</td>
</tr>
<tr>
<td><strong>C. General balance</strong></td>
<td>- 1,297</td>
<td>- 479</td>
<td>- 120</td>
</tr>
</tbody>
</table>
ANNEX III

Results of the 1958 Consultation between the IMF and France, concluded on 29 April 1959

1. The Government of France has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. Largely as a result of the credit, fiscal and related measures taken at the end of 1957 and beginning of 1958, inflationary pressures were substantially reduced during 1958. A further increase in investment was accompanied by a considerable rise in savings deposits while consumption remained practically stable. As the demand for consumer durable goods declined, the increase in industrial output slowed down considerably. Credit to the private sector increased slightly. The Treasury deficit in 1958 was substantially smaller than a year earlier and was financed with only minor recourse to direct advances from the central bank. The elimination of many subsidies, higher charges for most public utilities, and shortages of some food products were among the important reasons for large price increases in the first half of 1958, but by May of that year prices had been largely stabilized, although this was in part achieved through the reintroduction of some subsidies.

3. A reduction in the trade deficit, mostly as a result of lower imports, and in the deficit on services resulted in a substantially smaller deficit in the franc area's balance of payments on goods and services in 1958. This deficit was financed through the utilization of foreign credits granted to France in January 1958. The increase in central reserves in 1958 was mainly due to gold sales by French residents to the Exchange Stabilization Fund.

4. In late 1958 and early 1959 the Government took a number of new measures designed to strengthen further the economy. Certain government expenditures were cut and taxes increased, subsidies were reduced or eliminated and public utility charges were increased, while most escalator clauses were abolished. The restrictive credit policy pursued in 1958 was maintained with minor modifications. At the same time the franc was devalued and a par value established; non-resident convertibility of the franc with some exceptions was introduced; certain capital controls were relaxed; and imports were liberalized on a large scale together with a reduction in discrimination. The Fund welcomes the measures taken to stabilize the economy and feels that implementation of the new programme will go far toward restoring external and internal equilibrium on an enduring basis.

5. The Fund welcomes the steps taken by France and other European countries at the end of 1958 to make their currencies convertible in the hands of non-residents, and the great improvement in the French foreign payments position. In the light of those circumstances, while the Fund notes with satisfaction the steps already taken by France to reduce discrimination and the level of restrictions, it urges France to take further steps which would progressively eliminate discrimination, including that arising from bilateralism. The Fund does not object to the minor multiple currency practice which remains in the exchange system.

6. In concluding the 1958 consultations, the Fund has no other comments to make on the transitional arrangements maintained by France.