RESULTS OF THE IMF CONSULTATIONS

Addendum

FRANCE

Results of 1957 Consultations under Article XIV, Section 4, of the Fund Agreement

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. Despite a continued rise in industrial output and productivity, the inflationary tendencies in the French economy have become stronger in the past year. Private consumption and investment and government use of resources increased substantially. Credit to the private sector rose more than in previous years. Part of the increase consisted of rediscounts by the central bank of medium-term credit especially for the financing of building activity. Due to increased government expenditure, which was only partly offset by new taxes, the deficit of the Treasury rose sharply and presented an increasingly difficult financing problem. In June 1957 the Treasury was forced to negotiate a substantial advance from the central bank. The pressure on prices increased, but the actual rise in prices in most sectors of the economy was kept within relatively moderate limits by means of larger imports, increased subsidies and reductions in indirect taxes.

3. The combined result of the rapid increase in demand and the poor wheat crop of 1956 was a large shift from surplus to deficit in the balance of payments of the franc area. Receipts of United States aid were substantially smaller. Central reserves fell from around $1,900 million to roughly $1,200 million in the course of 1956. The balance-of-payments deterioration was further accentuated in the first half of 1957 when imports, particularly of raw materials and equipment goods, showed a further rise. Central reserves fell to less than $900 million in early July 1957, despite drawings totalling $262.5 million under the IMF stand-by agreement. On 17 June, all import liberalization was suspended. Restrictions on imports in the second half of 1957 have been substantially intensified.

Transmitted by the Fund by letter dated 17 October 1957.
4. The Government has introduced a series of measures designed to reduce the budget deficit and restrain credit. The Fund regards these measures as an essential step toward stability, but emphasizes the need for France to take further and more extensive action designed to reduce internal demand and, thus, to restore balance-of-payments equilibrium and to eliminate restrictive practices and other devices used to support the balance of payments.

5. On 11 August, the effective exchange rate of the franc for over one-half of French trade and for all other transactions was changed from 350 to 420 francs per United States dollar by introducing a 20 per cent surcharge on payments and premium on receipts. At the same time, the special temporary compensation tax on imports was abolished, and most of the rebates to exporters of social and fiscal charges were eliminated. The Fund did not object to these changes on a temporary basis, and looks forward to further steps leading to the unification of the exchange system. The Fund will remain in consultation with France on these matters. A small tax on foreign exchange allocations for travel was put into effect in February 1957. The Fund does not object to the maintenance of this multiple currency practice on a temporary basis. The Fund notes that further progress has been made in extending the transferable franc facilities to countries with which payments were formerly on a bilateral basis.

6. In concluding the 1957 consultations, the Fund has no other comments to make on the transitional arrangements maintained by France.