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Recent Economic Developments in France:
November 1964-March 1965

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Rodney H. Mills, Jr.

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Summary

After six months of stagnation, the level of economic activity in France contracted during the last quarter of 1964 and the opening weeks of 1965, and industrial surveys in January suggested the possibility of further declines over the course of the next few months. ^{1/} Accruals of official external reserves have been heavy since November, and the French gold ratio has been raised by large-scale conversions of dollar balances in January and March. The U.S. voluntary program to restrain capital outflow does not seem to have affected financial markets in France much, although the franc did weaken very slightly against the dollar during March. Tax reforms to spur investment were proposed in late March.

Industrial production, which had turned down in October after six months of hesitation, dropped 2 per cent in the months November-January. Demand continued to be weakest in the consumer goods industries, notably textiles and automobiles. Consumer purchasing power, which had been rising quite strongly until last October, suffered its first reduction in the fourth quarter, when both employment and working hours were cut back. The loss in man-hours worked was in part compensated by continuing increases in hourly wage rates. These

^{1/} For a review of earlier developments, see Recent Economic Developments in France: September-December 1964, December 29, 1964.

were up another 1.5 per cent (as much as in the same period of 1963) and stood in early January at 6.7 per cent above the year-earlier level.

Final demand for industrial products weakened more than did production itself, so that inventories of finished goods continued to pile up and orders declined further. This situation suggests future declines in production even after demand starts to revive. The monthly surveys of industry in January, in fact, showed that employers anticipated additional near-term cuts in output.

The stagnation and subsequent recession of output since early 1964 can largely be ascribed to reduced consumer spending. Real wage rates increased substantially faster in the first year of the stabilization program (i.e., from September 1963 to September 1964) than in the previous year. Since the stabilization program began, however, department store sales have leveled out, auto registrations have fallen, and additions to certain forms of private savings accelerated in 1964 despite a much smaller rise in total money wage payments.

In the investment area, total fixed capital formation in 1964 is estimated at 6.6 per cent above 1963. But investment in manufacturing (about 20 per cent of the total) is believed to have dropped 5 per cent for the second successive year, and another reduction is expected in 1965.

Exports and imports both picked up sharply in the fourth quarter, but trade movements were erratic in January-February 1965.

France's official international reserves rose approximately \$450 million between November and February. Gains in November and December were related to speculation against sterling. French gold holdings have risen \$477 million since the end of 1964; of this amount, \$300 million represented conversions into gold of dollars acquired prior to 1965. The recent purchases have raised the gold proportion of official reserves from 73 to 80 per cent. It is believed that, for the time being, future French gold acquisitions will be confined to conversions of current dollar earnings and that French dollar balances will be kept at their present level of about \$1 billion.

Gold coin prices in Paris have advanced sharply since the start of the year in the aftermath of the official gold purchases and President de Gaulle's call for a return to "the gold standard." The money market has remained easy, and bond yields have shown no further advance following a small rise in January.

On March 24, the French cabinet approved a set of tax proposals designed to foster business investment. The most important of these new steps greatly reduces the personal income tax liability arising from dividends. These measures will immediately improve the investment climate and have already begun to reinvigorate the stock market, but they are in essence long-run reforms rather than short-term measures aimed at combating the current recession.

Industrial output continues to slide

French industrial production, which began to turn down in October after several months of stagnation, fell a further 0.7 per cent in November and 1.1 per cent in December; at the end of the year, the seasonally-adjusted index was down 2.2 per cent from September and only fractionally above its level in the final month of 1963.

(See Table 1.)

Even though the index was unchanged between December and January, the underlying trend was probably still downward, because December output was depressed by the strikes in the public sector.

The consumer goods industries have spearheaded the weakening of factory output. From the first to the fourth quarters, seasonally-adjusted production declines were 10 per cent for textiles, 6 per cent for leather, and 4 per cent for rubber. In the important metals transformation industries^{1/} (41 per cent of total industrial output excluding construction), the slump in motor vehicles production caused the index for this group to fall 4 per cent. Production of motor vehicles, adjusted for working days only, was down 12 per cent in the fourth quarter from a year earlier, mainly because of lower output of passenger cars.

^{1/} These industries include not only those which are often referred to as the "engineering" or "mechanical" industries, but also those producing intermediate metal products and which are commonly placed in the "metals industries" category in other countries.

Table 1. France: Seasonally-Adjusted Industrial Production, 1963-65
(base: 1959 = 100)

| <u>Months</u> | <u>1963</u> | <u>1964</u> | | | | <u>1965</u> |
|---|-------------|--------------|-------------|-------------|-------------|-------------|
| | <u>Dec.</u> | <u>Sept.</u> | <u>Oct.</u> | <u>Nov.</u> | <u>Dec.</u> | <u>Jan.</u> |
| General Index | 134.5 | 138.5 | 138.0 | 137.0 | 135.5 | 135.5 |
| <u>Quarters</u> | | <u>1963</u> | <u>1964</u> | | | |
| <u>Selected industries</u> | | <u>IV</u> | <u>I</u> | <u>II</u> | <u>IV</u> | |
| Textiles | | 135 | 135 | 136 | 122 | |
| Leather | | 124 | 128 | 127 | 120 | |
| Metals transformation ^{1/} | | 136 | 139 | 140 | 134 | |
| Rubber | | 133 | 134 | 133 | 129 | |
| Paper | | 133 | 132 | 136 | 133 | |
| Printing and publishing | | 130 | 131 | 140 | 135 | |
| Electricity | | 141 | 147 | 144 | 152 | |
| Petroleum products | | 167 | 177 | 173 | 194 | |
| Chemicals | | 160 | 163 | 167 | 173 | |
| Construction materials | | 137 | 149 | 154 | 159 | |
| Metals | | 120 | 124 | 133 | 136 | |
| <u>General index</u> | | 134.3 | 137.5 | 137.8 | 136.8 | |
| ^{1/} Adjusted for working days only: | | | | | | |
| Metals transformation | | 147 | 143 | 148 | 145 | |
| of which: Motor vehicles | | 148 | 155 | 157 | 130 | |

Source: INSEE.

The decline in overall production between the second and fourth quarters was held to a fraction of 1 per cent because of gains in a number of sectors, including electricity, petroleum products, chemicals, construction materials, and metals. The information regarding output of the equipment goods¹ industries (which fall within the metals transformation group) is highly unsatisfactory because of its incompleteness.^{1/} However, the replies of the monthly INSEE industry surveys indicate that production of equipment goods rose slowly over the second half of 1964.

Inventories and orders suggest further output declines

The changes in 1964 in finished goods inventories and in orders show that final demand has been weaker than the production indexes would imply, and suggest that production will fall further in 1965 before any recovery sets in.

With few exceptions, inventories of finished products have been building up for a year; by January 1965 they appeared to be clearly excessive. Inventory accumulation has occurred in those industries where output has been declining most rapidly (mostly consumer goods industries), such as autos, textiles, clothing, leather

^{1/} There are no published indexes of products accounting for 44 per cent of the total recorded production of the metals transformation group. The products not covered include nonelectrical machinery, machine tools, and other tools and implements, as well as ship and aircraft construction.

and paper. (See Table 2.) It has also taken place in industries where output has been increasing or essentially stationary, e.g., metals, equipment goods, and consumer durables. Within the scope of the sectors covered by the INSEE surveys, only the chemical and construction materials industries have not been producing faster than they have been delivering products to customers. It is apparent that, when final demand eventually picks up, output will only respond with a lag.

The prospects for output in the near future are further clouded by the continuing decline in orders. While orders in the equipment goods industries have not dropped below the (low) levels reached in early 1964, elsewhere the situation has worsened severely. This is true not only in the consumer goods industries but also in many of the "basic or intermediary" industries such as paper and metals.

Industrialists now expect that their output will decline in forthcoming months. Through last November, there was confidence (albeit not very strong) that, despite current weakness, the next three or four months will see an upturn; but in December and January the consensus was for a further decline.

The government has begun to modify the ceilings that were imposed on factory prices in September 1963, to allow more price flexibility. 'Price stability pacts' are being offered to individual industries: price increases will be allowed on some products provided

Table 2. France: Replies to INSEE Industry Surveys, 1964-65^{1/}
(In balances of percentages of "+" and "-" replies)

| | 1964 | | | | | 1965 |
|--|-------|------|-------|------|------|------|
| | March | June | Sept. | Nov. | Dec. | Jan. |
| <u>Inventories of Finished Products</u> (+ = above normal) | 0 | +9 | +10 | +22 | +23 | +26 |
| Automobiles | +28 | +60 | +50 | +61 | +54 | +60 |
| Textiles | + 1 | +21 | +24 | +52 | +57 | +64 |
| Clothing | + 2 | +20 | +25 | +32 | +46 | +48 |
| Leather | 0 | +14 | +11 | +19 | +35 | +33 |
| Consumer durables | + 6 | +27 | +19 | +20 | +38 | +44 |
| Paper | + 9 | 0 | +14 | +13 | +29 | +28 |
| Metals | + 2 | -12 | -11 | +14 | +21 | +20 |
| Chemicals | -20 | -20 | - 8 | + 5 | - 7 | - 6 |
| Equipment goods | +14 | +11 | +10 | +22 | +22 | +23 |
| <u>Orders (- = low)</u> | - 6 | - 9 | -20 | -32 | -37 | -41 |
| Equipment goods | -28 | -29 | -28 | -26 | -26 | -25 |
| Other industries | + 4 | - 1 | -17 | -35 | -42 | -48 |
| <u>Outlook for Production in</u> <u>Next 3-4 Months (- = decline)</u> | +24 | +11 | + 6 | + 5 | - 3 | - 4 |
| Equipment goods | + 7 | - 4 | - 4 | + 1 | - 9 | - 4 |
| Other industries | +29 | +16 | + 9 | + 6 | - 1 | - 3 |

^{1/} The replies are "seasonally adjusted" in that respondents are asked to adjust their answers for seasonal factors.

Source: INSEE

that compensating reductions are made on others, so that the weighted average of all the selling prices of that industry does not rise. The first agreement was concluded with the household appliances industry.

Decline in activity cuts purchasing power, but rise in real wage rates has accelerated

Hourly wage rates in both money and real terms kept on rising fairly fast through the end of 1964. However, because of declines in both employment and the length of the work week, the total wage bill was reduced in the last quarter of the year, and consumer purchasing power was slashed for the first time during the present stagnation-recession phase.

Hourly wage rates advanced another 1.5 per cent in the final quarter,^{1/} which was as much as in the last quarter of 1963. (See Table 3.) (This contrasted with the experience of the first three quarters of 1964, when the increases were smaller than in 1963.) In early January, hourly wage rates were 6.7 per cent above a year earlier. Employment, however, dipped 2 per cent in the last quarter. The average work week also contracted 1.7 per cent; this was partly seasonal but the decline was sharper than in the two preceding years. Consequently, it appears that total money wage payments shrank about 1.4 per cent between early October and early January. In this period,

^{1/} The wage rate, employment, and working hours statistics actually apply to the first week of the quarter, e.g., the first week of October and the first week of January.

Table 3. France: Estimates of Wage Payments and Rates, 1962-64
(indexes: October 1963 = 100)

| | 1962 | 1963 | | 1964 | | 1965 |
|---|-------|-------|--------|--------|--------|--------|
| | Oct. | Jan. | Oct. | Jan. | Oct. | Jan. |
| I. Money Wage Payments | | | | | | |
| A. Hourly wage rates | 91.82 | 94.10 | 100.00 | 101.52 | 106.72 | 108.29 |
| B. Employment | 97.56 | 97.74 | 100.00 | 99.73 | 101.26 | 100.18 |
| C. Average work week | 99.78 | 98.92 | 100.00 | 98.92 | 99.35 | 97.62 |
| D. Man-hours worked (B x C) ^{1/} | 97.37 | 96.66 | 100.00 | 98.68 | 100.61 | 97.72 |
| E. Estimated money wage payments (A x D) | 89.41 | 90.96 | 100.00 | 100.99 | 107.37 | 105.82 |
| II. Real Wage Rates | | | | | | |
| A. Hourly wage rates | 91.82 | 94.10 | 100.00 | 101.52 | 106.72 | 108.29 |
| B. Consumer prices ^{2/} | 94.43 | 96.24 | 100.00 | 100.72 | 102.51 | 102.88 |
| C. Real wage rates (A/B) | 97.23 | 97.78 | 100.00 | 100.79 | 104.11 | 105.26 |
| III. Real Wage Payments | | | | | | |
| A. Real wage rates | 97.23 | 97.78 | 100.00 | 100.79 | 104.11 | 105.26 |
| B. Man-hours worked | 97.37 | 96.66 | 100.00 | 98.68 | 100.61 | 97.72 |
| C. Estimated real wage payments (A x B) | 94.67 | 94.51 | 100.00 | 99.46 | 104.75 | 102.86 |

^{1/} This series is also directly made by INSEE.

^{2/} 3-month moving average centered on month shown.

Sources: The various separate series, and the index of man-hours worked, are from INSEE. The original data have been put on an index-number basis by the author.

the cost of living rose by 0.4 per cent,^{1/} so that real wage payments fell 1.8 per cent.

Seasonally-adjusted unemployment has risen further in recent months. From a low of 87,000 in February 1964, the level had already risen to 110,000 by last October, and in January 1965 it was up to 117,000. This is about 0.6 per cent of the labor force.

Employed French workers, however, benefitted from larger increases in real wage rates in 1964 than were obtained in the year prior to the initiation of the stabilization program, according to computations based on the official indexes.

The rate of rise of money wage rates has been slowed, e.g., from 7.9 per cent in 1963 to 6.7 per cent in 1964, but the deceleration of the rise in living costs has been considerably greater. Real wage rates as calculated from hourly wage rates and consumer prices showed increases over the preceding 12 months amounting to 4.7 per cent in October 1964 and 4.4 per cent in January 1965, as compared with only 2.9 per cent and 3.1 per cent a year earlier. (See Table 3.)

Consumer spending declined last year but liquid savings rose

The leveling off, and subsequent decline, in French overall industrial production can largely be ascribed to reduced consumer spending. This is evident from the contrast between the falling sales of consumer goods previously described, and the acceleration of the

^{1/} This calculation is based on a three-month moving average to even out random fluctuations.

gains in real purchasing power that took place during the first 12 months of the "stabilization plan period." Two other comparisons offer additional evidence on this point.

In the 12 months up to October 1963, real wage payments (money wage payments adjusted for consumer prices) rose 5.6 per cent, registrations of new cars increased 6.5 per cent, and sales of Paris department stores (adjusted for price changes) rose 10.6 per cent.^{1/} Although real wage payments further increased 4.7 per cent in the next 12 months, department store sales in October 1964 were no higher than a year before while car registrations fell off 7 per cent. (See Table 4.)

Recent additions to holdings of short-term liquid savings (mainly savings deposits and nonmarketed Treasury "bills," similar to U.S. savings bonds but with shorter maturities) also suggest a reduced propensity to consume. Although the yearly rise in money wage payments fell from 11 per cent in 1963 to 5-3/4 per cent in 1964, net additions to short-term liquid savings last year ran substantially ahead of 1963. (See Table 5.)

Investment outlays showed mixed changes in 1964

Between 1963 and 1964, total gross fixed capital formation at constant prices is believed to have risen 6.6 per cent (compared with 5.9 per cent in 1964). There was a 9.3 per cent rise in outlays

^{1/} Based on three-month moving averages.

Table 4. France: Wage Payments and Consumer Expenditures, 1962-65
(Indexes: October 1963=100)

| | <u>Real wage payments</u> ^{1/} | <u>Paris dep't. store sales</u> ^{2/} | <u>Registrations of new cars</u> ^{3/} |
|----------------|---|---|--|
| 1962 - October | 94.7 | 93.9 | 90.4 |
| 1963 - January | 94.5 | 94.7 | 119.2 |
| April | n.a. | 82.2 | 141.9 |
| July | 98.8 | 71.7 | 141.8 |
| October | 100.0 | 100.0 | 100.0 |
| 1964 - January | 99.5 | 101.1 | 119.8 |
| April | 101.3 | 80.9 | 157.9 |
| July | 104.7 | 82.6 | 141.0 |
| October | 104.8 | 100.0 | 93.0 |
| 1965 - January | 102.9 | n.a. | n.a. |

1/ Real wage rates x man-hours worked.

2/ Three-month moving average. Adjusted for non-food consumer prices.

3/ Average of three months ending with month shown (data not available beyond October 1964).

Source: Table 3 and INSEE. The original data have been put on an index-number basis by the author.

Table 5. France: Increases in Wages and Savings, 1963-64

| | Percentage increase in money wage payments during the period ^{1/} | | Additions (billion francs) to short-term liquid savings during the period ^{2/} | |
|-------------|--|-------------|---|-------------|
| | <u>1963</u> | <u>1964</u> | <u>1963</u> | <u>1964</u> |
| Quarter I) | | 1.46 | 3.30 | 4.16 |
|) 7.31 | | | | |
| II) | | 3.61 | 1.31 | 1.66 |
| III) | 2.44 | 1.14 | 2.05 | 2.67 |
| IV) | 0.99 | -1.44 | 3.11 | 3.52 |
| Year | 11.03 | 5.76 | 9.77 | 12.01 |

1/ Hourly wage rates x man-hours worked.

2/ Savings deposits, Treasury bills held by the general public,
and certificates of the Caisse Nationale de Crédit Agricole.

Sources: Table 3 and Conseil National du Crédit.

by government and a 7.9 per cent rise in those by nationalized enterprises (mainly electricity, gas, coal mines, railroads, and telecommunications), about the same as in 1963. These two sectors accounted for 32 per cent of total gross fixed investment in 1963.

Within the private sector, residential construction (25 per cent of the total in 1963) was up almost 10 per cent, and private investment in areas outside manufacturing (somewhat less than 20 per cent of the total) also appears to have risen substantially.

The weak area has been investment in manufacturing, which made up approximately 20 per cent of all gross capital formation in 1963. In 1963, this area had already shown a year-to-year decline of 5 per cent in volume, according to INSEE surveys. The latest investment survey made by INSEE last November showed another 5 per cent drop for 1964.

Manufacturers' investment intentions for 1965 indicate a further contraction this year; the November survey results prompted a tentative estimate of a year-to-year decline of between 2 and 7 per cent. Expected increases by large enterprises were offset by anticipated reductions on the part of medium- and small-size concerns.

Fiscal measures are taken to stimulate investment

On March 24 the French cabinet approved a set of tax proposals designed to foster business investment.

The most important of these new steps will greatly reduce the personal income tax liability arising from dividends. The 24 per cent

withholding tax on dividends will be abolished in two stages beginning in 1966. However, beginning in 1967, the stockholder will receive a tax credit equal to 50 per cent of his dividends, which will be deductible from his income tax liability, even though there will no longer be any prior withholding. In other words, the income tax due will be reduced by an amount equal to 50 per cent of the taxpayer's dividends. The corporation income tax rate remains at 50 per cent, and the new step was taken to reduce the double taxation of earnings. By raising the attractiveness of stock ownership, the government hopes to facilitate the flotation of new stock issues.

Other actions taken to favor business were (1) a reduction of the capital gains tax paid by business enterprises (from 50 to 10 per cent in the case of long-term gains), and (2) a simplification and lightening of the tax liabilities arising out of mergers.

The authorities have also decided to require corporations to publish more information on their activities. Corporations will be obliged to publish, inter alia, an annual profit and loss statement, semiannual balance sheets, certain quarterly statistics, their tax payments, and their expenditures not deductible for tax purposes.

The new measures caused stock prices on the Paris Bourse to rise 6 per cent in the week ended March 26 and thereby recoup almost all of the losses suffered since the beginning of 1965. Although French stock prices have fluctuated around a flat trend since June

1964, they had earlier experienced an 18-month decline and have been 20-25 per cent under their levels of early 1963.

Money market remains easy; bond yields rise slightly

The money market has remained relatively "easy" since last November, even though the banks' liquid assets reserve requirement was raised back up to 36 per cent at the start of 1965 following the temporary reductions ordered last autumn. Except for some tension over the February month-end engendered by normal currency movements, the rate for day-to-day money against private paper has hovered around the 4 per cent basic discount rate of the Bank of France. This rate tends to serve as a floor to market rates because of the banking system's heavy use of rediscount facilities at all times. Money market ease has been brought about primarily by large increases in French external reserves and a seasonal drop in the currency circulation after December.

Despite the recession in business activity, the monetary authorities are maintaining the 10 per cent per annum ceiling on new credit extension by the commercial banks. However, in late January the National Credit Council reduced the minimum interest rates applied on bank loans to customers: from 4.15 to 4 per cent on discounts of short-term commercial bills; from 4.65 to 4.40 per cent on short-term "financial bills" (advances which can subsequently be converted into paper rediscountable at the Bank of France); and from 6.25 to 6 per cent on medium-term equipment credits.

Yields on long-term bonds moved up about 3 basis points between November and January, but did not increase further in February-March. In the first half of March, yields averaged 5.74 per cent on public sector bonds and 6.26 per cent on corporate securities.

Trade expansion resumed in fourth quarter; balance improved

The fourth quarter sag in production, employment, and working hours in France was accompanied by an appreciable renewed expansion of French foreign trade in both directions. Exports, seasonally-adjusted, which had leveled off in the second quarter and declined in the third, scored a 6.4 per cent gain in the fourth quarter that placed them well in excess of levels attained earlier. (See Table 6.) Imports, which had declined sharply from the high levels reached early in 1964, picked up 3.9 per cent in the final quarter and thereby exceeded somewhat their previous quarterly high.

The absolute gain in exports was greater than that in imports, so that the seasonally-adjusted deficit was cut from a monthly average of \$92 million in the third quarter to \$77 million in the fourth. The improvement in French trade during the course of 1964 slashed the unadjusted deficit from an average of \$75 million per month in the fourth quarter of 1963 to only \$41 million monthly in the final three months of 1964.

The first two months of this year witnessed erratic movements in the year-to-year comparisons. In contrast to the fourth quarter,

Table 6. France: Total Foreign Trade, 1963-65
(monthly average or month; in millions of dollars)

| | <u>Imports cif.</u> | <u>Exports</u> | <u>Balance</u> |
|----------------------------|---------------------|----------------|----------------|
| <u>Seasonally Adjusted</u> | | | |
| 1963 - Quarter IV | 807 | 698 | -109 |
| 1964 - Quarter I | 845 | 749 | - 97 |
| II | 822 | 750 | - 71 |
| III | 824 | 732 | - 92 |
| IV | 856 | 779 | - 77 |
| <u>Unadjusted</u> | | | |
| 1963 - Quarter IV | 812 | 737 | - 75 |
| 1964 - January | 861 | 731 | -130 |
| February | 846 | 751 | - 95 |
| Quarter IV | 862 | 821 | - 41 |
| 1965 - January | 816 | 688 | -128 |
| February | 800 | 782 | - 18 |

Sources: OECD and Bank of France.

the unadjusted trade deficit rose in January almost to the high level of a year earlier. It then shrank severely in February when it again showed a big year-to-year improvement. For the two months together, the average deficit was about equal to the fourth quarter average.

Official foreign assets rise sharply in November-February

The official gross foreign assets of the French monetary authorities increased \$458 million in the four months covering November 1964 through February 1965. (This figure does not include the change, if any, in France's IMF position in February.)

Speculation against the pound sterling helped to increase gross official reserves (including the IMF position) by \$97 million in November and \$206 million in December. The effect on the overall foreign position of French monetary institutions was slightly tempered by a \$40 million increase in the net foreign liabilities of the commercial banks; apparently, foreigners moved funds out of sterling into foreign-currency or franc accounts in Paris. Official foreign assets rose another \$73 million in January and \$82 million in February (subject to any change in the IMF position.) (See Table 7.)

It appears that a more accurate description of the month-to-month movements of the official assets would be to show a smaller rise of \$143 million in December (\$63 million less than actually occurred) and a larger rise of \$136 million in January (\$63 million more than was the case). On December 2 the IMF sold \$63 million of gold to France for francs which were then drawn by the United Kingdom.

Table 7. France: Selected Foreign Assets, 1963-65
(in millions of dollars)

| | <u>Official (gross)</u> | | | <u>Commer- cial banks (net)</u> (4) | <u>Total official and banks</u> (5)=(3+4) |
|-----------------------------------|-------------------------------------|---|--|--|--|
| | <u>Official Reserves</u> (1) | <u>IMF Gold tranche and lendings</u> (2) | <u>Total official</u> (3)=(1+2) | | |
| <u>Changes in period</u> | | | | | |
| 1964 - Quarter III | +125 | -32 | +93 | +78 | +171 |
| October | + 39 | + 4 | +43 | +14 | + 57 |
| November | + 97 | - | +97 | -43 | + 54 |
| December | +106 | +100 | +206 | + 3 | +209 |
| <u>Year</u> | <u>+648</u> | <u>+168</u> | <u>+816</u> | <u>- 5</u> | <u>+811</u> |
| 1965 - January | + 67 | + 6 | + 73 | n.a. | n.a. |
| February | + 82 | n.a. | n.a. | n.a. | n.a. |
| <u>Outstanding, end of period</u> | | | | | |
| 1963 - December | 4,457 | 451 | 4,908 | -348 | n.a. |
| (of which gold) | (3,175) | | | | |
| 1964 - December | 5,105 | 619 | 5,724 | -353 | n.a. |
| (of which gold) | (3,729) | | | | |
| 1965 - February | 5,253 | n.a. | n.a. | n.a. | n.a. |
| (of which gold) | (3,974) | | | | |

Sources: IMF, OECD, and Ministry of Finance.

The U.K. left these francs on deposit with the Bank of France during December so that there was no decrease in French foreign exchange holdings to offset the rise in gold holdings. However, in January a decrease in Bank of France liabilities to foreigners occurred, which suggests that the U.K. converted these francs into foreign exchange in that month.

The recent monthly changes in French international reserves show no relationship to the movements of French trade with foreign currency areas (total trade less trade with other countries of the franc area). (See Table 8.) The lack of any relationship stems from both the nontrade transactions of the balance of payments as well as leads and lags in payments on trade account.

Large gold purchases raise gold ratio to 80 per cent

France's official gold holdings were increased \$477 million from end-December to mid-March. Holdings rose \$184 million in January, including a \$150 million purchase from the U.S. on January 8 that represented a conversion into gold of dollars accumulated prior to the closing weeks of last year. A rise in gold holdings of \$61 million occurred in February, nearly equal to the total reserve gains in January. In mid-March, France purchased \$231.5 million of gold from the U.S., representing the conversion of \$81.5 million of dollar gains in February and an additional \$150 million conversion of dollars acquired earlier.

Table 8. France: Trade with Foreign Currency Areas, 1964-65
(in millions of dollars)

| | <u>Imports f.o.b.^{1/}</u> | <u>Exports</u> | <u>Balance</u> |
|--------------------|------------------------------------|----------------|----------------|
| 1964 - Quarter III | 1,718 | 1,670 | -48 |
| October | 666 | 685 | +19 |
| November | 650 | 668 | +18 |
| December | 708 | 669 | -39 |
| 1965 - January | 650 | 567 | -83 |
| February | 630 | 658 | +28 |

1/ F.o.b. values are estimated at 92 per cent of cif. values.

Source: Bank of France.

During 1964 France kept between 70 and 74 per cent of her official reserves in gold. The transactions in January-February raised the gold ratio from 73.0 per cent on December 31, 1964 to 75.7 per cent on February 28, 1965, and the mid-March purchase raised it to approximately 80 per cent.

Gold prices rise to 13-year high

Throughout the first quarter, gold coin prices in Paris were at advanced levels because the large official French gold purchases and President de Gaulle's call for a return to a "gold standard" created new public doubts about the official price of gold.

The price of the "Napoleon" 20-franc piece had declined more than 1 franc during 1964, and averaged 41.58 francs in December. The price rose to an average of 42.48 francs in January, reaching a high of 42.80 francs on January 8. It subsequently moved up to 44.30 francs on March 10, the highest since 1952. The price retreated to 43.80 francs on March 17.

Franc weakens slightly against the dollar

The franc has weakened slightly against the U.S. dollar on the exchange markets since mid-February, presumably as a result of the voluntary program to reduce U.S. capital outflow. Through February 18 the franc remained at or very nearly at its upper limit

of 20.41 cents against the dollar, but averaged a bit lower in the next four weeks. From March 15 to March 25 the rate was continuously below the ceiling in a range from 20.395 to 20.403 cents.

Prepared by:

Rodney H. Mills, Jr.

Europe and British Commonwealth Section

Division of International Finance