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Economic Developments in France:  
March-June 1965

20 pages

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Economic Developments in France: March-June 1965

Summary

Higher production levels and an improvement in business sentiment offered some hope that the French economy may have begun to recover from its recent mild slump.<sup>1/</sup> The monetary authorities have taken several measures to ease the money market, lower the cost of bank loans, augment credit availability, and encourage consumer buying. But long-term bond yields have advanced further. A marked improvement in the French trade balance since January has contributed to large new accruals of official reserves totaling about \$370 million in the first 5-1/3 months of this year.

Seasonally-adjusted industrial production in February-April averaged 1-1/2 per cent above the December-January low, although this average was still below the level of last September. Surveys of business conditions showed some improvement in March-April in regard to inventories, orders, and producers' short-run expectations about their output. Wage rates rose further in the first quarter and man-hours worked increased slightly.

But an official survey of economic conditions in April said that consumer demand was still weak, that private investment (except for housing) was stagnant, and that no significant upturn

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<sup>1/</sup> For a review of earlier developments, see Recent Economic Developments in France: November 1964-March 1965, March 31, 1965.

could be expected until the autumn at the earliest. Real GNP in 1965 is now expected to be only 2-1/2 per cent above 1964, compared with a 5.7 per cent gain last year and an earlier projection of a 4.3 per cent rise this year. An 8 per cent decline in stock prices since March indicated that shareholders were not viewing the near future with optimism.

Bank credit outstanding rose considerably in the 12 months up to February (latest data available), even though industrial production in February was down fractionally from a year earlier and wholesale prices of industrial goods had risen less than 1-1/2 per cent. In February, total credit to business enterprises and individuals financed by the banking system was 12 per cent greater than in February 1964, a yearly increase slightly greater than that up to last September, before the recent production downturn. The money supply increased 8 per cent in the year ending last February because of the rise in bank credit and the large external surpluses. Treasury operations, which showed a much reduced deficit in 1964, did not contribute to monetary expansion.

On April 8, the Bank of France reduced the basic discount rate from 4 to 3-1/2 per cent and also lowered the penalty discount rates; following this move, the money market eased. The banks' liquid assets reserve ratio was reduced in April for seasonal reasons. To lower the cost of bank credit, the minimum rates chargeable by banks on customer loans were cut on April 30, generally by 0.25 percentage points. However, long-term bond yields rose again, from end-February to early June, by 4 basis points for public sector bonds and by 18 points for corporates. (For a description of new credit measures adopted on June 23, see page 20.)

The trade balance has improved greatly in 1965: imports have been depressed while exports expanded vigorously after January. After adjustment on balance-of-payments basis, there was a \$39 million surplus (not adjusted for seasonality) in the first five months of 1965, compared with a \$271 million deficit in the same period last year.

France's official gross reserves and IMF position increased \$64 million in March, \$59 million in April, and \$75 million in the period May 1-June 10. In May the United Kingdom drew \$242.5 million equivalent of francs from the IMF (of which \$92.5 million was financed by a Fund sale of gold to France), and French dollar reserves were later reduced accordingly. At present, official dollar holdings are down to less than \$900 million (17 per cent of total reserves); they will fall another \$178.5 million on July 1 when France is scheduled to make its first prepayment of official debts to the U.S. since 1963.

Production gains were recorded in February-April

French industrial production rose to higher levels in the months February-April, following its moderate retreat in the preceding four months. While some of the views expressed about the near-term prospects for output and employment were not bullish, soundings of business sentiment during the spring lent credence to the possibility that recovery was already under way. During the first quarter, aggregate demand was helped by another rise in wage rates and by a slight gain in man-hours worked (0.4 per cent or about equal to the gain of a year earlier when the economy was still moving upward). However, pessimism still reigned on the stock market, where share prices have declined.

Seasonally-adjusted industrial production rose 1-1/2 per cent in February. Most of this gain was lost by a downturn in March, but output moved up again by 1-1/2 per cent in April. For the three months February-April the average was 1-1/4 per cent above low point of December-January. (See Table 1.)

The monthly surveys of business conditions in industry conducted by the INSEE (National Institute of Statistics and Economic Research) indicated some improvement in the business situation in the early spring. In the first place, inventories of finished goods, which had been building up for a year, rose hardly at all in March and failed to rise in April. Second, the level of orders, which fell very sharply in March, rose in April, although they still were below pre-March levels. Finally, producers' expectations of near-term production levels were more optimistic. In December-February, the balance of opinion indicated declining output in the next 3 to 4 months. In March, producers on balance were slightly inclined toward a rise, and this consensus became stronger in April. This change in outlook was especially noticeable in automobiles and textiles, two industries where demand contracted most severely last year.

Wage rates rose 1.3 per cent from the beginning of January to the beginning of April, an increase not much below the 1.35 per cent average quarterly gain in the two previous quarters. (Wage increases do not appear to have a strong seasonal pattern.) Wage rates in early April were 6.0 per cent higher than a year earlier.

Table 1. France: Selected Economic Indicators, 1963-65  
(1960 = 100)

	<u>Industrial production (seasonally adjusted)</u>	<u>Employ- ment</u> <sup>1/</sup>	<u>Average work week (hours)</u> <sup>1/</sup>	<u>Hourly wage rates</u> <sup>1/</sup>	<u>Whole- sale prices</u>	<u>Consumer prices</u>
<u>Year</u>						
1963	117	104.6	47.0	127.0	108.7	113.5
1964	126	106.0	46.8	135.7	110.4	117.4
<u>Quarters--1964</u>						
I	126	105.5	46.6	133.8	110.4	116.3
II	128	106.4	47.2	136.0	110.0	116.6
III	<sup>2/</sup> 123	106.8	46.9	137.7	109.6	117.5
IV	126	105.6	45.8	139.6	111.6	118.2
<u>Months</u>						
1964--Sept.	128	106.8	46.9	137.7	110.4	117.9
Dec.	124	105.6	45.8	139.6	112.6	118.2
1965--Jan.	124	--	--	--	112.4	118.9
Feb.	126	--	--	--	112.2	119.0
Mar.	125	105.4	46.0	141.4	111.6	119.3
Apr.	126	--	--	--	112.0	119.5

<sup>1/</sup> These data are obtained quarterly. The quarterly and monthly figures shown here actually refer to the first working day following the period indicated.

<sup>2/</sup> Not indicative because of inadequate seasonal adjustment.

Sources: OECD; INSEE.

Mr. Giscard d'Estaing has remained optimistic about the prospects of the French economy, and he concluded from the February rise in production that there was no longer any danger of a recession.

But the INSEE's Situation and Outlook for the French Economy in April did not foresee anything more than a very slight rise in factory output between April and the closing months of the year, in view of weak consumer demand and the probability that the volume of private fixed investment outlays (excluding housing) in 1965 would be practically unchanged from 1964. However, the study observed that continuing increases were occurring in public sector investment expenditures (government and nationalized enterprises), in house building, and in exports. These factors, together with an expected pick-up in auto sales after the summer, favorable effects on private investment of the new law reducing dividend taxation, and a drop in the autumn in personal income tax payments (caused partly by a reduction in rates and partly by technical considerations) might produce a general recovery late in the year.

Because of the poor performance of the economy since mid-1964, the National Accounts Commission has had to revise downward its forecast of GNP in 1965. Last October the Commission projected real GNP in 1965 at 4.3 per cent above 1964, but the new projection places the gain at 2.5 per cent. (These figures refer to annual totals and not to movements within the course of the year.) Final figures for 1964 put real GNP 5.7 per cent above 1963. The reduction in anticipated growth, both compared with the 1964 results and with the earlier forecast, reflects mainly a much smaller advance in private consumption and a sharp fall in inventory accumulation.

Shareholders evidently do not look for any early upturn in corporate profits. The announcement in late March of the bill which, inter alia, will reduce the taxation of dividends (beginning next year), caused a rally in stock prices. But prices have undergone a slump of 8 per cent since end-March, and are at their lowest point since June 1964.

Credit rose strongly through February

Throughout 1964 and the early months of 1965 there was a strongly rising demand for bank credit in France, notwithstanding the leveling off of industrial production and the small decline after September. The monetary authorities were liberal in allowing the banking system to meet this demand, and it would appear difficult to ascribe the sluggishness of economic activity to an overly "tight" monetary policy.

Since September 1963, the banks have been permitted to increase the credits granted by them up to a maximum of 10 per cent a year, and their loans have been rising by the full amount allowed. In September 1964, total credits to the economy (all borrowers except the Treasury) financed by the commercial banks showed a rise over the previous 12 months of 11 per cent. The expansion rate was stepped up over the next five months; in February of this year these credits exceeded the year-previous level by 13 per cent.<sup>2/</sup> The amount of

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<sup>2/</sup> The 10 per cent ceiling on the banks' credit expansion refers to credits initially granted by them. The rise in credits financed by the banks depends not only upon the amount of new credits granted, but also upon changes in their rediscounts with, and sales of money market paper to, the Bank of France and the various public credit institutions.

credits financed by the commercial banks, together with those financed by the Bank of France (via rediscounts and purchases of money market paper), were up over a year earlier by 10-1/2 per cent in September 1964 and by 12 per cent in February 1965. (See Table 2.)

The money supply expansion has been reduced below the pre-stabilization rates by the various measures adopted in 1963 to slow the rise in credit to private borrowers and, by cutting the budget deficit, to halt the increase in inflationary borrowing by the Treasury. However, the money supply still rose by 8.4 per cent in the year ending September; the year-to-year gain was 8.0 per cent as of last February. The increase in credits to the economy accounted for 80 per cent, and the balance-of-payments surplus for the rest, of the increase in money supply and bank time deposits in the year ending with February.

Treasury position improved greatly last year

The French Treasury's cash operations in 1964, which were released in May 1965, resulted in a much smaller deficit than in 1963. The reduction not only contributed to the success of the stabilization program but in even greater measure permitted an increased flow of savings for financing the private sector.

The overall deficit fell from F 10.93 billion in 1963 to F 3.48 billion in 1964, principally because the deficit on budgetary transactions contracted very sharply (and by more than was expected on the basis of the 1964 budget). The rise in budget cash expenditures was held to 3.3 per cent while receipts rose 11.4 per cent above 1963. (See Table 3.)

**Table 2. France: Money, Quasi-Money, and Their Counterparts**  
(In billions of francs)

	1963	1964		1965
	Sept.	Feb.	Sept.	Feb.
<b>I. MONEY AND QUASI-MONEY</b>	<u>157.5</u>	<u>162.1</u>	<u>171.7</u>	<u>176.4</u>
A. Money (currency and demand deposits)	143.2	146.6	155.3	158.3
B. Time deposits with banks	14.3	15.5	16.4	18.1
<b>II. COUNTERPARTS</b>	<u>157.5</u>	<u>162.1</u>	<u>171.7</u>	<u>176.4</u>
A. Official net foreign assets	23.5	24.4	26.6	29.1
B. Claims on Treasury	44.3	43.4	43.3	41.8
1. Bank of France	(12.7)	(13.2)	(11.5)	(11.2)
2. Commercial banks	(11.7)	(10.2)	(9.9)	(8.7)
3. General public <sup>1/</sup>	(19.8)	(20.1)	(21.8)	(21.9)
C. Claims on the "economy"	90.4	93.3	99.9	104.7
1. Bank of France <sup>2/</sup>	(18.8)	(17.7)	(20.4)	(19.2)
2. Commercial banks	(71.6)	(75.6)	(79.5)	(85.5)
D. Other (net)	-0.7	0.9	2.0	0.9

<sup>1/</sup> The counterpart of postal checking accounts, miscellaneous other demand deposits with the Treasury held by enterprises and individuals, and Treasury currency. These Treasury liabilities are a part of the total money supply.

<sup>2/</sup> Rediscounts and money market paper.

Source: Conseil National du Cr dit.

**Table 3. France: Treasury Operations, 1963-64**  
(In billions of francs)

	1963	1964
<b>I. Budgetary Operations</b>		
A. Receipts	85.17	94.91
B. Disbursements	93.39	96.49
C. Balance	<u>-8.21</u>	<u>-1.58</u>
<b>II. Debt Redemption</b>	<u>-2.72</u>	<u>-1.90</u>
<b>III. Overall Balance</b>	<u>-10.93</u>	<u>-3.48</u>
<b>IV. Financing</b>	<u>10.93</u>	<u>3.48</u>
A. Operations directly affecting the money supply:	1.78	-0.24
1. Credit from Bank of France	(0.38)	(0.63)
2. Credit from commercial banks	(0.84)	(-2.98)
3. Postal checking accounts and Treasury currency <sup>1/</sup>	(2.56)	(2.11)
B. Long-term bond issues	3.00	1.50
C. Savings bonds <sup>2/</sup>	2.27	0.67
D. Other	3.88	1.55

<sup>1/</sup> Including also miscellaneous demand deposits with the Treasury held by companies and individuals.

<sup>2/</sup> "Bons du Tr sor sur formules."

Sources: Bank of France and Conseil National du Cr dit.

Financing operations which directly affect the money supply were slightly contractionary to the extent of F 0.24 billion; in 1963 they had served to raise the money supply by F 1.78 billion. This shift mainly reflected a substantial drop in commercial bank holdings of Treasury bills and a smaller rise in postal checking deposits (an important component of the total money supply). The Treasury's call upon the capital market in the form of long-term bond issues was halved from F 3.0 to F 1.5 billion; there have been no such loans since March 1964. In addition, the Treasury discouraged sales of savings bonds and took steps to increase the flow of funds into deposits with the savings banks; net sales of savings bonds dropped off from F 2.27 billion to F 0.67 billion.

Authorities act to reduce credit costs

Since early April, the National Credit Council has taken several steps to ease rates on the Paris money market and to lower the costs paid by borrowers on loans from commercial banks.

On April 8, the Bank of France reduced its basic discount rate from 4 to 3-1/2 per cent and the first penalty ("hell") rate from 5 to 4-1/2 per cent. (These rates had each been raised 1/2 of 1 per cent in November 1963 as part of the stabilization program.) Because of the continuously heavy volume of rediscounting by French banks, these reductions had the effect, in the absence of any changes in other factors, of lowering rates in the money market by 1/2 of 1 per cent.

The second penalty ("superhell") rate was also reduced: from 7-1/2 to 6 per cent. However, the effect of that reduction was purely psychological: French banks have not been forced to rediscount at the second penalty rate since June 1964, because the Bank of France has purposely intervened in the market in order to avoid borrowings at the "superhell" rate. From June 1964 to early April 1965, it was Bank of France policy to keep money market rates from exceeding 5-1/2 per cent; since the April discount rate change, this informal "ceiling" has been set at 4-7/8 per cent.

A second move was a reduction in the banks' liquid assets reserve requirement (coefficient de trésorerie) below the normal 36 per cent level: the requirement was set at 34 per cent for April and 35 per cent for May. The purpose of this relaxation was to offset the money market effects of the seasonally high currency circulation in the months April-July.

The discount rate reduction tended to lower the cost of bank credit to final borrowers, but the authorities took additional measures in this field on April 30 by reducing the minimum rates which banks may charge on customer loans. The minimum charges (consisting of a "basic rate" plus various commissions)<sup>3/</sup> were lowered by 0.25 percentage points on domestic loans and by 0.10 or 0.35 percentage points for two classes of short-term export loans. These latest reductions followed reductions in minimum charges last January ranging from 0.15 to 0.25 percentage points.

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<sup>3/</sup> The "basic rate" was formerly the discount rate, but this link has been broken in recent years.

Money market rates declined in April, reflecting the Bank Rate change; the average of daily rates for day-to-day money against private paper dropped from 4.42 per cent in March to 3.96 per cent in April. In May and the first half of June, rates showed their characteristic wide fluctuations and ranged from 3-1/2 to 4-7/8 per cent. Despite the reduction in the liquid assets reserve ratio, seasonal factors produced considerable tightness over the May month-end, and the Bank of France had to intervene on a large scale to keep rates from exceeding 4-7/8 per cent.

Rising credit demands push up bond yields

The demand for long-term funds in the French capital market continued to rise during the first quarter. Flotations of new securities increased, but interest rates inched up. Subsequently, some bond yields rose sharply in April, and have since maintained their advanced levels.

Fresh money raised from new public security offerings in the first quarter was nearly 10 per cent in excess of the amount raised in the same months of 1964; this followed a 28 per cent year-to-year gain in the final quarter of last year. (See Table 4.) These increases in total new issues have reflected increased offerings by the French public sector: the public credit institutions, the nationalized enterprises, and other parastatal organizations. (The Treasury has not had to borrow since March 1964 because of its much improved balance on tax receipts and expenditures.)

Table 4. France: New Security Issues Sold to Public, 1963-65  
(In billions of francs)

	Year		First Quarter	
	1963	1964	1964	1965
I. <u>Private Sector</u>	<u>6.03</u>	<u>6.40</u>	<u>1.23</u>	<u>1.18</u>
Bonds	1.86	1.49	0.12	0.46
Stocks	3.86	4.53	) 1.11	) 0.72
Partnership shares	0.31	0.38		
II. <u>Public Sector</u>	<u>8.11</u>	<u>7.78</u>	<u>2.85</u>	<u>3.29</u>
Treasury	3.00	1.50	1.50	--
Public credit institutions	2.21	3.21	0.65	1.55
Nationalized enterprises	2.11	2.23	0.40	1.39
Local authorities and other	0.79	0.84	0.30	0.35
III. European Coal & Steel Community	--	0.15	--	--
Total	14.14	14.33	4.08	4.47

Source: Conseil National du Cr dit.

The volume of private sector issues of stocks, bonds, and partnership shares in the six months, October through March, was only slightly above a year earlier. However, it cannot be assumed that this stability was due to stagnation in private issuers' demand for funds; the amounts and terms of all new issues are closely controlled by the French Treasury. There were complaints last year that the Treasury was reserving too large a share of the market for public sector borrowers to the detriment of private enterprises. Moreover, as previously pointed out, there has been a substantial increase in private demand for credit from banking institutions.

Yields on outstanding bonds, which had risen in the first two months of the year, advanced further in the period under review.<sup>4/</sup> The yields on public sector bonds rose relatively little; as calculated by the Bank of France, they fluctuated between 5.79 and 5.84 per cent in May and early June, compared with a range of 5.75 to 5.77 per cent in February.<sup>5/</sup> (These yields are net of a withholding tax on bond interest, and therefore greatly understate the level of gross yields; see below.) Corporate yields remained stable until mid-March; subsequently, they advanced sharply, by 20 basis points, to 6.44 per cent at the end of April, and held near that level through early June.

Recent changes in French tax laws have brought out the high level of pre-tax yields on French bonds. Prior to 1965, a 12 per cent

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<sup>4/</sup> Yields on new issues are not indicative of short-term changes in market conditions because the number of separate issues is very limited.

<sup>5/</sup> Yields calculated by the INSEE show substantial differences from those calculated by the Bank of France.

withholding tax on the interest, for which the bondholder was liable, was paid by the borrower for the benefit of the lender, and published yields on new issues were in fact yields net of this tax. Since the start of the present year, the withholding tax (which has now been lowered to 10 per cent) has been paid directly by the bondholder, and published yields have shown the true pre-tax yields. In the four months of 1965, yields on new public sector issues averaged 6.24 per cent before taxes; the old method would have indicated a yield of 5.69 per cent. (See Table 5.)

Improved trade balance contributes to heavy reserve gains

Reduced imports and an upsurge in exports brought about a marked improvement in France's trade balance over the course of the first five months of this year; these gains were reflected in large new accruals of official reserves. As measured by gross gold and foreign exchange holdings and the IMF position, France's official reserve position increased approximately \$370 million in the first 5-1/3 months of this year. In addition, the net foreign position of the French commercial banks improved by \$45 million in the first quarter.

The slightly lower level of domestic economic activity was an important factor making for depressed imports early in 1965. Seasonally-adjusted total imports fell in January, remained almost unchanged in February-April, and in these four months ran 4-1/2 per cent below the fourth quarter rate. (See Table 6.) Exports dipped abruptly in January, but rose very sharply in the next three months; April exports were up 7 per cent over the fourth quarter.

Table 5. France: Yields on New Bonds Issued by Public Sector Borrowers, October 1964-April 1965  
(In per cent)

	<u>Range</u>	<u>Unweighted average</u>
<b>I. <u>October-December 1964</u><sup>1/</sup></b>		
A. Yield net of 12% withholding tax paid by borrower for benefit of lender	5.62-5.65	5.64
<b>II. <u>January-April 1965</u><sup>2/</sup></b>		
A. Yield net of 10% withholding tax paid by lender	5.57-5.70	5.69
B. Gross yield	6.19-6.27	6.24

<sup>1/</sup> Crédit Foncier de France, Caisse Nationale de Crédit Agricole, and the National Railways.

<sup>2/</sup> Crédit National, Caisse Nationale des Autoroutes, Electricité de France, Caisse Nationale de Crédit Agricole, Crédit Foncier de France, Posts, Telephone & Telegraph, and Gaz de France.

Source: Conseil National du Crédit.

Table 6. France: Seasonally Adjusted Foreign Trade, 1964-65  
(In millions of dollars; monthly average or month)

	<u>Imports</u> <u>c.i.f.</u>	<u>Exports</u>	<u>Balance</u>
<b><u>1964--Quarters</u></b>			
I	838	742	-97
II	825	737	-88
III	829	735	-94
IV	864	782	-82
<b><u>1965--Months</u></b>			
January	827	719	-108
February	823	794	-29
March	828	818	-10
April	823	834	11

Source: OECD

The adjusted April trade balance (imports recorded c.i.f.) showed a surplus of \$11 million compared with a monthly average deficit of \$82 million in the fourth quarter and an \$84 million deficit in April 1964. In May, the unadjusted trade balance showed an even greater year-to-year improvement.

The balance-of-payments effects of the improvement this year are seen by considering the unadjusted trade with foreign currency areas only, and adjusting imports to an f.o.b. basis. On this method, the trade balance for the first five months of 1965 showed a cumulative surplus of \$39 million in contrast to a deficit of \$271 million over the same months of last year. Imports f.o.b. in 1965 were only 1.3 per cent above a year earlier, while exports were up a strong 11.6 per cent. (See Table 7.)

France's official gross reserves and IMF position increased \$64 million in March and \$59 million in April. After adjustment for the special factors mentioned below, subsequent increases were \$22 million in May and about \$53 million in the first ten days of June. In May the IMF position improved \$150 million when the United Kingdom drew \$242.5 million equivalent of francs from the IMF (of which \$92.5 million was financed by Fund gold sales to France, \$140 million by borrowing under the GAB, and \$10 million from Fund franc holdings). Because Britain gradually converted these francs into dollars, French dollar reserves were correspondingly reduced by \$140 million in May and by \$100 million in early June. In the absence of the delay in conversions, official French gold and foreign exchange reserves would have fallen \$128.3 million,

**Table 7. France: Trade with Foreign Currency Areas, 1964-65**  
(In millions of dollars; not adjusted for seasonality)

	Imports <u>f.o.b.1/</u>	<u>Exports</u>	<u>Balance</u>
1964--January	670	589	-81
February	652	610	-42
March	673	631	-42
April	703	635	-68
May	<u>630</u>	<u>592</u>	<u>-38</u>
Total, 5 months	3,328	3,057	-271
1965--January	650	567	-83
February	630	658	28
March	728	751	23
April	691	706	15
May <sup>2/</sup>	<u>673</u>	<u>729</u>	<u>56</u>
Total, 5 months	3,372	3,411	39

<sup>1/</sup> Estimated at 92 per cent of reported c.i.f. values.

<sup>2/</sup> Provisional.

Sources: INSEE and Bank of France.

instead of \$25.8 million, in May, but would have shown an increase of about \$53, rather than a decline of approximately \$47, million, in the first ten days of June. Official reserves and the IMF position, together, would have increased \$21.7 million in May.

Reserve accruals in the second quarter were highly erratic. From mid-April through the third week of May, there were almost no gains whatsoever, and on the exchange markets the franc was below its upper limit against the dollar from April 20 through May 26. Since May 27, the franc has again been at its ceiling, and the reserve gains from then until June 10 approximated \$64 million. This ebb and flow may have been caused by movements of funds into and out of sterling. But the virtual absence of reserve gains over a five-week period in April-May may also have resulted from withdrawals of liquid funds from France by U.S. corporations in response to the efforts being made to improve the U.S. payments position.

Large shifts in the composition of France's official reserves have continued to take place: they show further cuts in the dollar holdings and a rise in the gold portion. Foreign exchange holdings (almost all of which are in dollars) had already dropped from \$1,376 million at the end of December to \$1,112 million at the end of April, mainly in reflection of two special gold purchases totaling \$300 million and the conversion into gold of current dollar accruals. In May and early June, the operations connected with the British Fund drawing caused the dollar holdings to fall another \$240 million and gold reserves to rise \$92.5 million. On June 10, foreign exchange reserves

were down to around \$894 million, and comprised only 17 per cent of total reserves compared with 27 per cent last December 31.

Dollar holdings will be cut further on July 1, when France will prepay \$178.5 million of official debts owed to the United States. This will be the first debt prepayment since 1963.

New credit measures are adopted in late June

On June 23 the National Credit Council took steps to stimulate consumer buying, and also removed (effective July 1) the ceiling of 10 per cent per year that has been imposed since September 1963 on the expansion of credits granted by the commercial banks.

In the consumer credit field, the limit on the amount of credit which instalment finance companies may have outstanding was increased from 8 to 9 times the company's net worth. The amount had been reduced from 10 to 9 times net worth in September 1963, and from 9 to 8 times in June 1964. The maximum repayment terms on purchases of new automobiles were lengthened from 21 to 24 months.

The abolition of the ceiling on bank credit expansion is expected to stimulate the economy because of its psychological effects on business expectations. But it is not believed that it will mean any rapid pick-up in the pace of credit expansion. At the present time, the demand for bank credit is said to be rising no faster than 10 per cent annually, the rate to which credit expansion has hitherto been restricted. Furthermore, Governor Brunet of the Bank of France has warned the banks to be prudent, and has advised them that any excessive credit expansion would lead to the reimposition of a ceiling.

Because of seasonal pressures in the money market, the banks' liquid assets reserve requirement was reduced in June from 35 to 34 per cent.

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