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SM/85/175
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

July 24, 1985

To: Members of the Executive Board
From: The Secretary
Subject: France - Staff Report for the 1985 Article IV Consultation

The following correction has been made in SM/85/175 (6/21/85):

Page 20, last para., lines 7 and 8: for "authorizations approved...to
39 in 1984)."
read "authorizations requested...
to 57 in 1984)."

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

the current account did not improve beyond equilibrium, France's gross external medium- and long-term debt would continue to rise steadily in relation to GDP and the debt service ratio (in percent of exports of goods and services) would double from slightly over 5 percent in 1985 to around 10 percent at the end of the projection period. On the other hand, a current account surplus in the order of 0.5 percent of GDP as from 1986 would succeed in gradually reducing the gross debt-to-GDP ratio (from 12 percent in 1985 to 10 percent in 1995) and would contain the debt service ratio within a maximum of close to 8 1/2 percent (in 1990). This figure is similar to that which was projected a year ago on the basis of a comparable scenario.

The staff team finally queried the policy of financing a large proportion of the balance of payments shortfall via heavy recourse to short-term bank borrowings, which covered over 1/3 of the requirement in the 1981-84 period (Table 5). The authorities maintained that this was not the result of a deliberate official policy, but conceded that existing exchange controls encouraged such inflows; they agreed that short-term bank borrowings had reached excessive levels, and said that they were taking measures to contain further indebtedness.

Table 5. France: Balance of Payments Shortfall and Financing, 1981-85

(In billions of French francs)

	1981	1982	1983	1984	1985	1/ Cumulative 1981-84
Current account	-25.8	-79.3	-33.8	-0.3	10.0	-139.2
Autonomous long-term capital	-54.8	-53.3	-46.7	-31.1	-34.0	-185.8
Short-term private nonbank capital 3/	-24.3	8.3	-5.5	-15.6	--	-37.1
Shortfall	-104.9	-124.3	-86.0	-47.0	-24.0	-362.1
As a percent of GDP	(-3.4)	(-3.5)	(-2.2)	(-1.1)	(-0.5)	--
Financing						
Authorized borrowing, net	33.6	78.1	87.9	35.4	21.0	235.0
Short-term bank borrowing	42.7	13.1	43.1	38.5)	137.4
Change in official reserves) 3.0	
(+ = decrease)	28.6	33.1	-45.0	-26.9)	-10.2

Source: Ministère de l'Economie et des Finances and Banque de France, La Balance des Paiements de la France.

1/ Projections supplied by the French representatives.

2/ Provisional official estimate, likely to be revised to a deficit of F 6 billion.

3/ Including errors and omissions.

The authorities remarked that the franc had maintained a comfortable position within the EMS throughout 1984 and that they had taken the opportunity to relax certain controls on capital flows. In particular, foreign direct investment in the EC area now required foreign currency borrowing of 50 percent of the amount of the investment as against 75 percent previously. The last of the restrictions on the use of credit cards to finance individuals' expenditure abroad had also been eliminated. The Eurofranc bond market had been reactivated. The authorities agreed that capital flows remained for the most part tightly controlled, but stated that the controls were a necessary precaution against contingencies. Controls would be gradually relaxed in line with the improvement in the external position and as part of the progress toward European monetary integration. The EC Commission had recently extended for two years (to end-1986) the exemption granted France from Community regulations on the free movement of capital.

6. Trade policy

The recent reforms of the EC's Common Agricultural Policy included moderation of internal price supports and direct measures to limit production. In the cereals sector, the authorities indicated their support for continued reliance on price regulation. In their view, a gradual realignment of internal prices to world prices should moderate the problem of excess supplies and subsidization in this sector. An important development for France was the introduction of production quotas on milk for a period of five years, beginning in 1984. The authorities also remarked that the enlargement of the Community to include Spain and Portugal would create problems for Mediterranean suppliers of citrus and wine products to the Community with which there were association agreements. The EC had accordingly agreed to safeguard the share of these countries in the EC market in order to prevent disruption of their production. However, this would imply an increase in restrictions vis-à-vis other producers. At the EC level imports of steel, textile and electronic products continued to be subject to quota limitations.

At the national level, the authorities indicated that new voluntary export restraints since 1983 had been limited to two minor products and that, aside from quartz watches, France did not resort to Article XIX of GATT. The number of temporary authorizations requested and obtained from the EC Commission to limit free intra-Community circulation of goods under Article 115 of the Treaty of Rome had continued to decline (with the number of authorizations requested falling from 109 in 1981 to 57 in 1984). Concerning textiles, the French authorities favored the extension of the third Multifiber Arrangement, scheduled to expire in July 1986. The Arrangement was seen by the authorities as a guarantee of stability and predictability of the market and had facilitated access by developing countries.