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EBD-86/140

May 13, 1986

To: Members of the Executive Board
From: The Secretary
Subject: France - Exchange System

There is attached for the information of the Executive Directors a paper on recent changes in the exchange system of France.

Ms. Christensen (ext. 8527) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

France - Exchange System

Prepared by the European Department and
the Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by L.A. Whittome and C. David Finch

May 12, 1986

On April 6, 1986, the French Ministry of Economy, Finance and Privatization issued a communiqué on the Economic and Financial Action Program. The text has been circulated for the information of the Executive Board. 1/ The action program aimed at strengthening the anti-inflationary policy after the realignment within the European Monetary System (EMS) which had been agreed on April 6 at the request of the French authorities. 2/ An important element in the action program was the liberalization of exchange controls. 3/ This was a continuation of the relaxation measures which began in December 1983, followed by measures in July, August, and November 1984, February, March, October, and December 1985, and January 1986. 4/

The comprehensive package of new measures, which focuses on relaxation of exchange controls for the enterprise sector, concerns the surrender requirement for export receipts, the scope for forward exchange cover for imports, direct investment and borrowing abroad by residents, the use of credit cards and transfers subject to general authorization.

The surrender requirement for export proceeds has been lengthened from 15 days to one month from the date of shipment, thereby reinstating the requirement in place prior to March 24, 1982.

1/ France - Economic and Financial Action Program, EBD/86/115, 4/18/86.

2/ European Monetary System - Realignment of Exchange Rates, SM/86/82, 4/21/86.

3/ France - Liberalization of Exchange Control Regulations, EBD/86/115, Supplement 1, 5/9/86.

4/ France - Exchange System, EBD/83/335, 12/27/83; France - Relaxation of Exchange Controls, EBD/84/217, 8/10/84; France - Relaxation of Exchange Controls, EBD/84/299, 11/20/84; France - Relaxation of Exchange Controls, EBD/85/74, 3/12/85; France - Relaxation of Exchange Control Regulations, EBD/85/311, 12/11/85; France - Provisions Related to Export Credits, EBD/85/272, 10/22/85; France - Exchange Regulations - Travel Allocation Increase, EBD/86/25, 1/27/86.

Forward purchases of foreign currencies to cover import obligations have been liberalized on April 15, 1986. The previous regulations limited forward cover for import payments to a few specific commodities 1/ for three months with the exception of forward cover for imports and related payments which were invoiced in ECUs (European Currency Units), which were allowed for six months. Effective April 15, 1986, residents were allowed to make forward purchases of foreign exchange to cover all merchandise imports and related payments for a period up to three months, except for imports invoiced in ECUs which continue to be allowed for a period up to six months.

Direct investment abroad has been exempted from prior authorization with certain exceptions such as investment in agriculture, real estate and trust and investment funds. Previously, only direct investment up to F 10 million was exempted from authorization. Effective April 16, direct investment operations are only subject to a prior declaration. If the authorities have not issued a notification to the contrary, the investment operation may be carried out 15 days after the declaration has been filed.

Borrowing abroad by residents was liberalized on April 15, by allowing loans without prior authorization if the loan contract includes an amortization schedule and if each repayment takes place at the earliest one year after the disbursement of the loan. Previously, authorization was required for all borrowing abroad, except for borrowing related to exports and imports of goods and services, loans contracted by authorized banks, and borrowing by nonbank firms up to an amount of F 50 million.

The ceiling on transfers through the use of credit cards abroad by French residents has been increased from F 2,000 to F 6,000 per week effective April 15, 1986.

The ceiling for transfers to and from abroad which are subject to general authorization has been raised from F 3,000 per month and per principal to F 3,000 per transaction effective April 15, 1986.

The exchange control measures are in line with the recommendations of the Executive Board at the 1985 Article IV consultation with France as reflected in the Chairman's Summing Up (SUR/85/87, 8/6/85): "Directors also called for further action toward dismantling exchange and capital controls." 2/ In view of the recent EMS realignment and the anti-inflationary strategy pursued by the authorities, including cautious management of interest rates, the staff welcomes the comprehensive package of liberalization measures of export controls.

1/ Green coffee, rice, hides and skins, hairs, wool, cotton, and cotton waste.

2/ France - Staff Report for the 1985 Article IV consultation, SM/85/175, 6/21/85.

They will contribute to a more efficient allocation of foreign and domestic resources thereby supporting the anti-inflationary policies. The staff, however, notes that the devise titre system remains in force, and will discuss prospects for its elimination together with the recent measures during the forthcoming Article IV consultation which is scheduled to begin in June.