DIVISION OF INTERNATIONAL FINANCE

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

H.13
No. 307

July 12, 1967.

CAPITAL MARKET DEVELOPMENTS ABROAD

I. France
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I. France: Money and Capital Market Developments in France, June 1966-June 1967

The structure of interest rates in France underwent a major shift in June 1966, when the Finance Ministry allowed yields on new public sector bond issues to rise by approximately 50 basis points. This move was made in response to rising interest rates abroad and the increasing borrowing requirements of the public sector. Average yields on outstanding public sector bonds, which stood at 6.43 per cent in May 1966, reacted sharply in June and continued to rise throughout the remainder of the year, reaching 6.79 per cent in December. In 1967, yields on these bonds declined very slowly and at the end of May averaged 6.67 per cent.

In the Paris money market, day-to-day money rates declined slowly through the summer of 1966, but from September onward, in response to the pressure of high interest rates abroad and removal of ceiling on the money rate, they began to rise sharply and increased from 4.60 per cent in September to 5.70 per cent in December. In 1967 the money market remained tight and at first money rates declined only very gradually. In May and June the authorities moved to ease the bank liquidity positions and the decline in interest rates accelerated. The day-to-day rate averaged 4.25 per cent in the first three weeks of June.

In general, French capital markets have remained quite tight over the past year or so. New money raised in 1966 showed an increase of only 2.5 per cent over 1965, and in 1967, the increase in the first 4 months was even smaller, 1.4 per cent over the corresponding period of 1966. In May-June the government launched a 1.25 million francs Equipment Loan which was reportedly poorly received.

The stock market, despite the variety of tax inducements enacted earlier by the government, remained virtually on a plateau during the second half of 1966, and resumed its long decline, which started in 1963, in the first half of 1967.

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The hardening of the French monetary policy in the fall of 1966 was motivated by the emergence of a deficit in the balance of payments in the second half of 1966, following several years of surpluses. So far in 1967, the French authorities consider the balance of payments to be in approximate equilibrium, but the absence of surpluses is causing the authorities to move quite cautiously towards more monetary ease.

The turn of the year saw the introduction of several important structural changes in French financial markets. On January 21, the French commercial banks were made subject to obligatory cash reserves, which will replace the system of compulsory Treasury bill holdings by September 1. At the same time, the banking system was made more competitive by narrowing the legal distinctions between commercial and mixed commercial-investment banks. Finally, on January 31, the system of exchange controls was virtually abolished and imports and exports of gold freed. In January 1966 a new housing scheme (épargne-logement) was introduced and proved to be an immediate success; and in the fall of 1966 a secondary mortgage market, Marché Hypothécaire, was set up under supervision of the Crédit Foncier.

The turnaround last year in France's balance of payments was reflected in the French official reserves. In July-December 1966, net foreign assets of the monetary authorities declined by $205 million and in the months January-May 1967, reflecting much smaller balance of payments deficits, declined about $80 million. The rate for spot franc in the second half of 1966 also mirrored the balance of payments developments. After a prolonged period of hovering around its upper limit, the spot franc started to decline sharply from August 1966 reaching a low of 20.171 U.S. cents in mid-December. After a slight rise, the spot franc remained steady just below par through the first quarter of 1967 only to start to rise sharply in April. In June, the franc was again nearly at the upper limit. The reasons for this latest rise in the franc rate are not yet clear.

Money market rates rose sharply in late 1966

In the two years prior to the summer of 1966, French financial markets were nearly immune to the rising interest rate trends prevailing in the majority of the other industrial countries during that period. Although French credit conditions had been tightened in 1963 as part of the stabilization program, after mid-1964 they were relaxed as economic activity in France leveled out and were kept relatively easy in order to avoid unwanted inflows of short-term capital.

Policy shifts leading to higher interest rates began to be implemented in June 1966, when bond yields were raised very abruptly. During the third quarter of last year the Paris money market tightened, but while money market rates did not rise, the commercial banks found it necessary to increase substantially their net foreign liabilities in order to augment liquidity in domestic currency. At the end of September, however, the Bank of France began to raise the rate at which it provides special accommodation, through the open-market window, to ease month-end tightness. This rate, which was an effective ceiling to money market rates, had been maintained at 4-7/8 per cent since April 1965, and as it was raised money market rates rose steeply as 1966 drew to a close. The monthly average rate for day-to-day money rose from 4.60 per cent in September to 5.70 per cent in December, as shown in Table 1.

Table 1. France: Day-to-Day Money Rates, 1966-67
(per cent per annum)

	Average	Monthly High	Monthly Low
1966 - June	4.78	4.88	4.63
July	4.78	4.88	4.63
August	4.77	4.88	4.63
September	4.60	5.25	3.63
October	5.27	5.38	5.13
November	5.41	5.63	5.38
December	5.70	5.88	5.63
1967 - January	5.58	5.88	5.25
February	5.05	5.50	4.75
March	5.00	5.75	4.75
April	5.07	5.75	4.25
May	4.89	5.75	4.50
June 1/	4.25	n.a.	n.a.

	Range 2/
1967 - April 7	4.750
12	5.000
19	4.000 - 4.375
26	5.000 - 5.375
May 3	4.750 - 5.000
11	4.875
18	4.500 - 4.750
24	4.500
31	4.875 - 5.000
June 7	4.500
14	4.000
21	4.250

1/ Through June 21 only.
2/ Variations in daily rates in week ending on dates shown (Wednesdays).
Sources: Conseil National du Crédit, Bank of France.

This more restrictive French monetary policy seems to have been motivated by balance of payments developments. The French external accounts shifted into deficit rather suddenly in the summer of 1966, and reports suggest the authorities were anxious to minimize losses of official reserves by reducing incentives for capital outflows.

The Treasury bill market likewise tightened late last year. As late as August, the Treasury was able to auction 90-day bills at 3.20 per cent or less. Following a suspension of nearly three months, auctions were resumed in November, at which time 180-day bills (90-day bills were no longer offered) brought yields of 4.50 per cent. (See Table 2.) This run-up in auction rates stemmed not only from the general trend of credit conditions but also from anticipation of impeding reform of French monetary controls that would force the Treasury to offer more bills at the auctions.

Table 2. France: Auctions for Treasury Bills, 1966-67

	Maturities (days)	Amount Offered	Amount Accepted	Average Rate Applied
		(millions of francs)		(per cent)
1966 - Year	90, 180, 360	3,800	3,749	3.35
Jan.-May	360	850	799	3.16
Jun.-Dec.	90, 180	2,950	2,950	3.40
Aug. 5	90	400	400	3.20
16	90	400	400	3.16
25	90	400	400	3.13*/
Nov. 15 1/	180	250	250	4.50**/
25	180	250	250	4.47
1967 - Jan.-May	360	4,650	4,632	4.95
Mar. 6	360	300	286	5.19**/
15	360	500	481	5.06
26	360	300	293	5.00
Apr. 5	360	350	350	5.03
17	360	450	450	5.01
25	360	350	350	5.00
May 5	360	300	300	5.00
16	360	400	400	4.83
25	360	250	250	4.69
June 15	360	250	250	4.61*/

*/ Low for the year.
**/ High for the year.
1/ Treasury bill auctions suspended from August 25 to November 15.
Source: Bank of France.

Monetary policy is cautiously relaxed in 1967

Since the beginning of the current year, monetary relaxation in France has been limited, compared with the degree of easing that has occurred in several of the larger Western countries and in the market for Euro-dollar deposits. Over-all economic activity in France seems to have increased very little since the summer of 1966 because of weakened export and consumer demand. But credit conditions have been kept relatively tight because of the continuing, albeit moderate, balance of payments deficit which a more expansionary policy would widen further.

The call money rate dropped to an average of 5.05 per cent in February in response to declines in foreign interest rates, seasonal influences, and a loosening of bank liquidity connected with the advent of reforms of monetary controls, but there was little further easing in the next three months. In February the Bank of France reportedly intervened as a borrower in the 30-day money market in order to keep rates from falling further. The importance of the 30-day money market relative to the call money market has risen since the recent introduction of cash reserve requirements. So far in 1967 it has apparently been unnecessary for the Bank of France to extend any large amount of special open-market accommodation to offset month-end tightness, but the banks have had to rediscount in excess of quota and pay the 4-1/2 per cent "enfer" ("hell") rate on the excess.

Some easing of policy is evident since about mid-May. The coefficient d'emploi, the new regulation affecting commercial bank holdings of medium-term paper (see below), was reduced on May 19 and again on June 21. In addition, the Bank of France intervention rate (borrowing rate) for 30-day money, previously at or near 5 per cent, was lowered to 4-1/2 per cent. In the market for 30-day money, the rate declined from 4-7/8 per cent on May 18 to 4-1/2 per cent on June 21, and the call money rate also dropped during this interval, from around 4-5/8 per cent to 4-1/4 per cent.

The auction rate for Treasury bills continued rising in the opening weeks of this year and reached a peak of 5.19 per cent for 12-month bills on March 6, but subsequently this rate began a gradual decline and was 4.61 per cent on June 15.

Bond yields advance and remain high

French bond yields moved to higher levels in 1966. In June of last year, the Finance Ministry concluded that higher yields would be necessary on new bond flotations by public sector borrowers, and these borrowers were authorized to offer bonds with yields to maturity approximately 50 basis points higher than had been customary for some time. The decision to accept higher bond yields was probably taken in the light of rising trends in bond yields in other countries and, perhaps, in view of greatly enlarged public sector borrowing requirements as well.

In response to this development, yields on outstanding bonds jumped sharply. The composite pre-tax yield on public sector issues, as calculated by INSEE, rose from 6.43 per cent on May 31, 1966, to 6.72 per cent on June 30, and then moved up to a peak of 6.79 per cent on December 31. (See Table 3.) Since then this yield has retreated only slightly to 6.67 per cent as of May 31. As calculated by the Bank of France, the composite yield on public sector bonds net of withholding tax (12 per cent on most issues) advanced steadily until January 1967, reaching 6.45 per cent in the week of January 19, after which the yield dropped to 6.39 per cent in the week of June 5-9. The unweighted average of pre-tax yields on new public sector bond issues was 6.81 per cent in the first five months of 1967, up from 6.26 per cent in January-May 1966 (before the official decision to raise them by about one-half percentage point) and about the same as the 6.82 per cent average for the last half of 1966.

Table 3. France: Bond Yields, 1966-1967
(per cent per annum)

	INSEE Composite Pre-Tax Yields, End-of-Month		Yields Calculated by the Bank of France 1/	
	Public Sector 2/	Private Sector	Public Sector 2/	Private Sector
1966 - May	6.43	7.34	5.96	6.52
June	6.72	7.71	6.23	6.83
July	6.60	7.63	6.27	6.86
August	6.66	7.52	6.20	6.66
September	6.71	7.69	6.30	6.78
October	6.76	7.69	6.35	6.79
November	6.74	7.66	6.42 3/	6.85
December	6.79	7.71	6.43	6.80
1967 - January	6.78	7.58	6.44	6.74
February	6.73	7.59	6.43	6.74
March	6.64	7.47	6.40	6.80
April	6.72	7.55	6.41	6.81
May	6.67	7.54	6.35	6.77
June 16	n.a.	n.a.	6.39	6.70

1/ Net of withholding tax; average of daily yields in the weeks ending in the month shown.
2/ Excludes Treasury bonds.
3/ Part of the increase from the preceding month due to change in sample.
Sources: INSEE: Monthly Bulletin of Statistics, Bank of France and Conseil National du Crédit.

New issues increased little in 1966 despite extensive tax relief

In 1966, new issues of bonds and shares rose only slightly over the previous year despite the important tax benefits extended to the French security owners by new legislation effective at the beginning of 1966. The maximum effective income tax rate on interest from bonds is now rather less than 25 per cent since the first 500 francs of bond interest is tax free and the holder has the option of either including the remainder in his taxable income or of paying a 25 per cent "forfeiture" tax on it, after which the interest need not be declared. As regards dividends, the shareholder now receives a tax credit (avoir fiscal) equal to 50 per cent of the dividend. Ownership of stocks and bonds was also made more attractive through the abolition last year of income tax exemptions previously enjoyed by Treasury savings bonds (bons du Trésor), commercial bank time and saving deposits and deposits with savings banks above certain limits. Finally, no tax at all is levied on income from securities bought under 10-year savings contracts with banks and brokers, provided the saver makes regular additions to his portfolio and does not consume the income for 10 years.

Notwithstanding these efforts to enhance the attractiveness of securities as financial assets, new money raised from public offerings of securities rose by only 2.5 per cent in 1966. (See Table 4.)

Table 4. France: New Public Security Issues, 1965-67
(gross new money raised; billions of francs)

	1965	1966	Change (per cent)	1966 Jan.-Apr.	1967 Jan.-Apr.	Change (per cent)
1. Bonds (excluding Treasury)	9.37	10.62	+13.3	4.43	4.57	+ 3.2
Public Credit Institutions	4.16	5.68	+36.5	2.63	2.50	- 4.9
Nationalized Enterprises	2.91	2.86	- 0.2	1.58	1.12	-29.1
Other, Public Sector	0.66	0.63	- 0.5	--	0.62	--
Competitive Sector	1.52	1.25	-17.8	0.22	0.33	+50.0
Foreign	0.12	0.20	+66.7	--	--	--
2. Treasury Bonds	1.00	1.50	+50.0	--	--	--
3. Shares and Partnership Certificates	5.02	3.66	-27.1	1.10	1.04	- 5.5
Total	15.39	15.78	+ 2.5	5.53	5.61	+ 1.4

Source: Conseil National du Crédit.

The Treasury and the public sector credit institutions increased their recourse to the bond market, but all other major categories of borrowers drew less on the market than the year before. For the competitive sector, total flotations of stocks and bonds slumped 25 per cent. Last year, the private sector's outlays for plant and equipment were up 7.1 per cent over 1965, at current prices; this increase, and more, was apparently financed by increases in retained earnings and depreciation allowances.

Capital markets remain tight in 1967

In the first four months of 1967, new issues were up only 1.4 per cent over January-April 1966. Further indications of bond market weakness have been the poor reception given to the 1967 National Equipment Loan, subscription lists for which had to be left open for two weeks in contrast to only three to four days needed to float similar loans in the two previous years, and increased recourse to the Euro-bond market by French companies, including nationalized firms. In early June it was announced that in the future the private sector would be given a larger share of the total recourse to the capital market.

National Equipment Loans floated by the French Treasury are a relatively new feature of the capital market. Taking advantage of its ability to borrow more cheaply than individual companies, the Treasury acts as an intermediary and relends the funds to industry at a rate close to the coupon rate it offers to bondholders. Public corporations, particularly Electricité de France, have received all or most of the proceeds of the 1966 and 1967 loans. The first National Equipment Loan in October 1965 raised 1 billion francs for 15 years at a 5-1/2 per cent coupon rate and yield to maturity of 6.07 per cent. The second loan in October 1966 was for 1.5 billion francs, for 15 years, at a coupon rate of 6 per cent and a yield of 6.56 per cent. The 1967 loan, for which subscriptions were opened May 29, was for 1.25 billion francs for 16 years. The coupon is again 6 per cent, but according to press reports it appears that the repayment premium has been increased so that the yield to maturity has climbed to the neighborhood of 6.75 per cent.

Since the liberalization of exchange controls early this year, the French authorities have been more liberal in granting permission to French companies to borrow in the Euro-bond market, and the difficulty of raising long-term funds in France has led to increased French recourse to that market. Electricité de France borrowed $30 million at the end of January; the Citroën automobile company issued bonds for $20 million in February; and the French National Railways entered the market for $30 million in May.

Major financial reforms are instituted

Over the past year or more major reforms affecting French financial markets have been initiated. The change which may have the greatest long-run significance is the one now taking place in the area of central bank controls over bank liquidity.

For the first time, French banks have become subject to cash reserve requirements. These were introduced on January 21, 1967, when minimum reserve ratios were set at 1-1/2 per cent against sight and 1/2 per cent against time deposits. The ratios were raised to 2-1/2 and 1 per cent, respectively, on April 21; they will be raised again on July 21, and are scheduled to reach 4-1/2 per cent on sight deposits and 2-1/2 per cent on time deposits by October 21. Required reserves are kept in the form of non-interest-bearing deposits at the Bank of France.

As the cash reserve requirement takes hold, the long-standing security reserve regulation, the Treasury bill "floor" (plancher) is being phased out. Compulsory Treasury bill holdings, which had been reduced from 25 to 5 per cent of deposits over the past decade, were lowered to 4 per cent of deposits on January 3 and to 3 per cent on April 1. The schedule calls for further reductions to 2 per cent on July 1 and 1 per cent on August 1 and the requirement will expire on September 1. The banks are using the proceeds of maturing bills to build up their cash reserves. The particular Treasury bills held to meet the "floor" are acquired on tap at artificially low rates (e.g., 2.875 per cent for 1-year bills). As the plancher holdings are being reduced, the Treasury is forced to turn to other sources to meet its short-term capital needs and it has stepped up the volume of bills offered at auctions where banks and some other financial institutions subscribe to bills on a voluntary basis. Offerings in January-May of this year totaled 4,650 million francs compared with 850 million francs a year earlier. Total auction offerings through June 15, at 4,900 francs, were already 29 per cent higher than the offerings of 3,800 million francs for the entire year 1966. (See Table 2.)

A second credit instrument affecting bank liquidity, the coefficient de tresorerie, was abolished in January of this year. Virtually all the assets held to meet this requirement--which amounted to 32 per cent of deposits at the time of expiration--were medium-term paper and, to a much lesser degree, Treasury bills (including those held to meet the plancher). While the French authorities hope ultimately to do away with all reserve requirements based on earning assets, an interim measure of a temporary nature was necessary to forestall massive rediscounts of medium-term paper, to which the rediscount ceilings do not apply. In these circumstances the National Credit Council subjected banks to a new regulation, the coefficient d'emploi, which freezes medium-term paper in bank portfolios. The new coefficient d'emploi was initially set at 20 per cent of deposits, but was reduced to 19 per cent on May 19 and 18 per cent on June 21.

The coefficient d'emploi has been set well below the level of the old coefficient de tresorerie, but the volume of medium-term paper eligible for rediscount is less than would appear from comparison of the two levels because of a hardening of Bank of France rediscount policy at the start of 1966. Since that time the Bank has refused to rediscount paper with a remaining maturity of over three years, and has reserved an option to apply penalty rates to rediscounts of paper with maturing between two and three years. At that time, also, the maximum original maturity of equipment and construction loans eligible for eventual rediscount at the Bank of France was lengthened from 5 to 7 years, to encourage banks to lend for longer periods.

In addition to these changes in bank cash and liquidity reserve regulations, other reforms liberalized French banking operations in 1966. A major distinction between the commercial banks and the mixed commercial-investment-business banks (banques d'affaires) was removed by allowing the commercial banks to accept deposits of over two years maturity and the mixed banks to accept deposits at sight and with maturities of up to two years, formerly prohibited. In an effort to lower interest rates and promote competition between banks, the minimum (floor) interest rates on bank loans to customers were abolished in April 1966. This move does not appear to have been successful; effective interest rates did not come down, and in some cases they may have increased. At the present time, proposals are being considered that would raise or abolish the maximum rates that banks can pay to depositors.

Several moves were also made to encourage residential construction in 1966. The most promising measure seems to be the house savings scheme, described in the following section. In addition, a mortgage market was set up in the autumn, under the supervision of the Crédit Foncier de France, in which banks, nonbank financial intermediaries, and the Crédit Foncier would buy and sell mortgage loans meeting certain minimum term and maximum interest rate standards to encourage lenders to meet these standards. In order to activate this market, the Crédit Foncier was allocated 100 million francs out of the proceeds of the October 1966 National Equipment Loan; and the Crédit Foncier's access to the credit markets was broadened by authorizing it to issue medium-term bonds. So far, the Crédit Foncier has auctioned 200 million francs of 7-year bonds in January and another 200 million francs of the like bonds in June, paying 5.72 and 5.42 per cent, respectively.

A much-publicized step was the abolition of the former exchange control laws on January 31, 1967. Whereas the old laws stated that transactions with nonresidents were forbidden unless specifically allowed, the new and much more liberal legislation frees foreign transactions in principle while subjecting them to some exceptions to the general rule. Control will be exercised over new security issues by foreigners in France, and this rationing will probably be tight for a long time to come. Official approval is necessary for French direct investments abroad. The exchange control liberalization also freed imports and exports of gold, and allowed French residents to keep accounts in foreign banks. Exporters are thus no longer required to deposit their earnings of foreign currency with a French bank. French banks have been freed of the obligation under which they had to maintain a covered position (spot and forward combined) in a foreign currency, and can now take open positions.

House savings deposits soared in 1966

To stimulate savings for direct employment in residential construction, legislation creating the house savings scheme known as *épargne-logement* was passed in 1965. The scheme became operative in January 1966, and because of its immediate popularity there was a notable increase last year in net acquisitions of assets categorized as "short-term liquid savings."

Under the house savings scheme, a prospective buyer of a residence can deposit funds with a commercial or savings bank and receive 2 per cent tax-free interest on this deposit. After 18 months, and having reached a certain minimum accrued interest balance on his account, he is entitled to a mortgage on which he pays interest considerably below the current market rates. At the same time, the saver also receives a tax-free premium from the Treasury, equal to the interest accrued on his account. The first loans under this scheme will be granted in July of this year.

The stock of liquid savings increased by 13.7 per cent in the course of 1966, compared with 11.5 per cent in 1965. The acceleration appears to have been due to the growth of house savings deposits; the other forms rose 11.5 per cent in 1966, or at the same rate as the year before. In view of the fact that the money supply grew less in 1966 (7.7 per cent) than in 1965 (9.4 per cent), the figures suggest strongly that the house savings scheme was successful in attracting new saving, rather than merely causing a shift from one form to another. (See Table 5.) However, as of the end of April of this year, the house savings accounts were still a relatively insignificant fraction (2.5 per cent) of the total short-term liquid savings in France.

Table 5. France: Short-Term Liquid Savings, 1965-67
(billions of francs)

End of Year or Month	Outstanding: Épargne-logement	Other Savings	Total Savings	Per Cent Changes Total Savings	Net of Épargne-Logement
1964	--	105.14	105.14	--	--
1965	--	117.31	117.31	+11.5	+11.5
1966	2.58	130.81	133.39	+13.7	+11.5
April 1966	1.06	122.65	123.71	+ 5.6*/	+ 4.7*/
April 1967	3.42	136.58	140.00	+ 5.1*/	+ 4.6*/

*/ Changes in the first four months of the year.
Source: Conseil National du Crédit.

In the first four months of 1967, the rate of rise in the stock of liquid short-term savings declined slightly, dropping to 5.1 per cent from 5.6 per cent a year earlier.

Gold coin prices rose further in 1966

Prices of coins in the Paris gold market underwent another upsurge in the latter half of 1966. As shown in Table 6, the price of the Napoleon 20-franc piece moved up 11.7 per cent from June to December. In the first five months of this year, coin prices declined slightly, but the outbreak of hostilities in the Middle East caused the price of the Napoleon to jump 15.4 per cent between June 2 and June 6, to the highest levels registered since 1949. The price fell back sharply on June 7, probably because of Bank of France selling in the market. Because of the increase in the price of the Napoleon in the past year, the Napoleon is currently selling at approximately a 50 per cent premium over the price of bar gold. Other coins also sell at substantial premiums in Paris, though they are smaller than for the Napoleon. The premium on the British gold sovereign, for example, was 22 per cent in May.

Table 6. France: Gold Prices on the Paris Market, June 1966-June 1967
(monthly averages, in francs)

	Ingot of 1 Kilogram	French F20 Coin "Napoleon"	Premium on Napoleon 1/	British Sovereign	Premium on Sovereign 2/
1966 - June	5,570	44.14	34.8%	48.27	18.7%
July	5,570	44.69	36.5	48.45	18.4
August	5,580	45.04	37.5	49.59	21.9
September	5,600	46.73	42.7	49.33	21.3
October	5,620	47.59	45.3	49.61	22.0
November	5,620	48.54	48.2	49.66	22.1
December	5,640	49.29	50.5	50.06	23.1
1967 - January	5,640	49.17	50.1	50.30	23.6
February	5,600	48.40	47.8	49.63	22.0
March	5,610	48.55	48.2	49.45	21.6
April	5,600	48.12	46.9	49.58	21.9
May	5,580	48.92	49.4	49.78	22.4
June 6	n.a.	56.90	73.7	n.a.	n.a.
7	5,580	49.00	49.6	50.10	23.2
14	5,570	49.40	50.8	n.a.	n.a.

1/ The gold content of the Napoleon is worth F 32.75 with gold at $35 per oz. and 1 franc = 20.255 cents.

2/ The gold content of the sovereign is worth F 40.68 with gold at $35 per oz. and 1 franc = 200.255 cents.

Sources: INSEE: Monthly Bulletin of Statistics, Bank of France and La Vie Francaise.

Stock prices continue to decline

In spite of the earlier official efforts to help the Bourse by tax relief measures, the index of stock price, having shown little change in the second half of 1966, resumed its long decline in 1967. Between January 1 and June 22, French stock prices declined by 11.2 per cent, as measured by the INSEE index. This lack of confidence is connected with the uncertainties facing the French economy and the fact that the 1966 profit performance by French corporations has not been outstanding. French market analysts are quite pessimistic about the likelihood of an early recovery of French stock prices.

Balance of payments shifts into deficit

After seven and one-half years of large surpluses, the French balance of payments moved into deficit in the second half of 1966. Most of this turnaround was centered on the trade accounts, with exports declining and imports continuing to rise at a slowly decelerating rate. In the months July-December, the overall deficit was $205 million, as measured by changes in the net foreign assets of the monetary authorities and the commercial banks. In September 1966 there was a $71 prepayment of long-term official debts, adjustment for which would reduce the deficit in those six months to $134 million. These figures compare with the balance of payments surplus of $318 million in the second half of 1965.

Balance of payments deficits continued in 1967, though on a much smaller scale. The official reserves of gold and convertible currencies showed a nominal rise of $3 million in the months January-May with the French gold position remaining virtually unchanged from the September 1966 level. But France's IMF position declined by $85 million, because of the British repayment of $100 million equivalent of francs to the Fund in May. The commercial banks' net foreign position also deteriorated by $58 million in the first quarter and probably continued to deteriorate in the second quarter.

The spot rate for the French franc, having remained close to its upper limit (20.410 U.S. cents) for over two years, started to decline in September 1966 and continued to decline through the balance of the year, reaching a low of 20.171 U.S. cents in mid-December. This decline reflected the adverse balance of payments developments. The rate recovered somewhat in the first quarter of 1967 and remained relatively stable at about 20.205 U.S. cents. The rate for spot francs started to rise rapidly in April, and at the end of June the franc was quoted at 20.405 U.S. cents, very close to its upper limit. The reasons for this recent substantial appreciation are not yet clear.

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Chart 1

NEW YORK, LONDON, MONTREAL:
YIELDS FOR U.S. DOLLAR INVESTORS ON 3-MONTH FUNDS

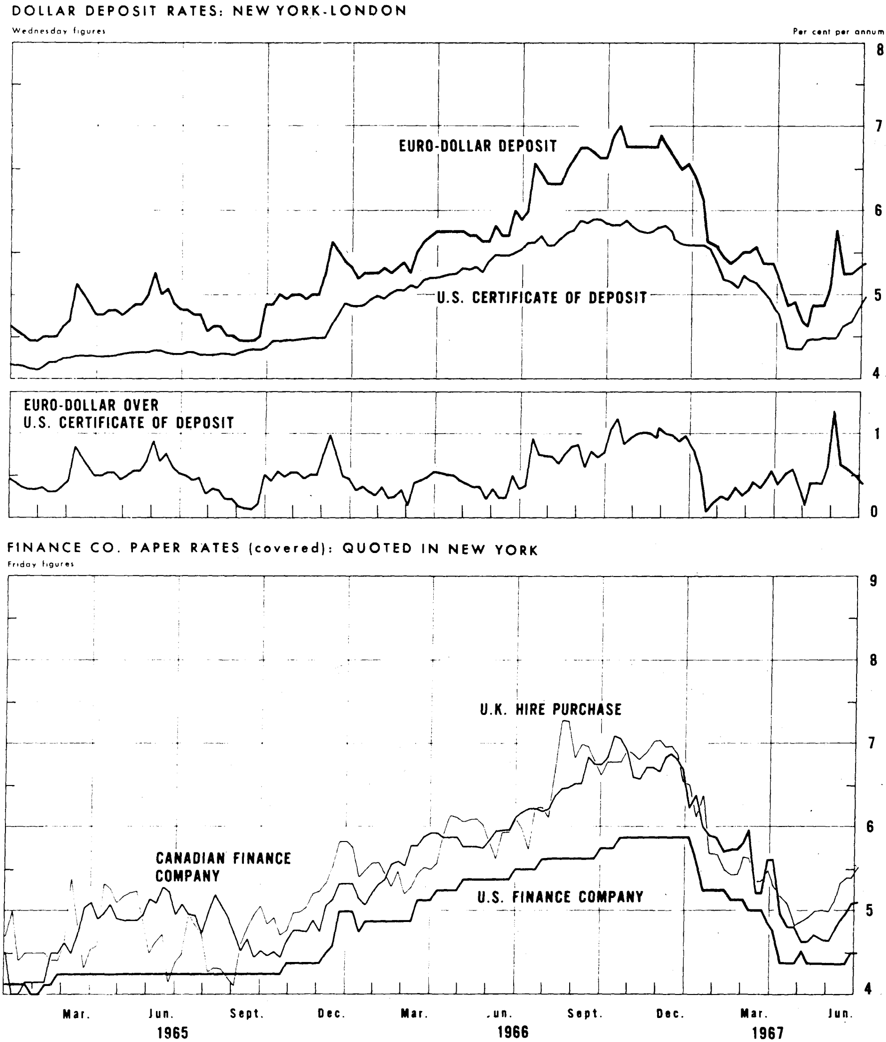

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Chart 2

LONDON: YIELDS FOR U.S. DOLLAR INVESTORS ON 3-MONTH FUNDS

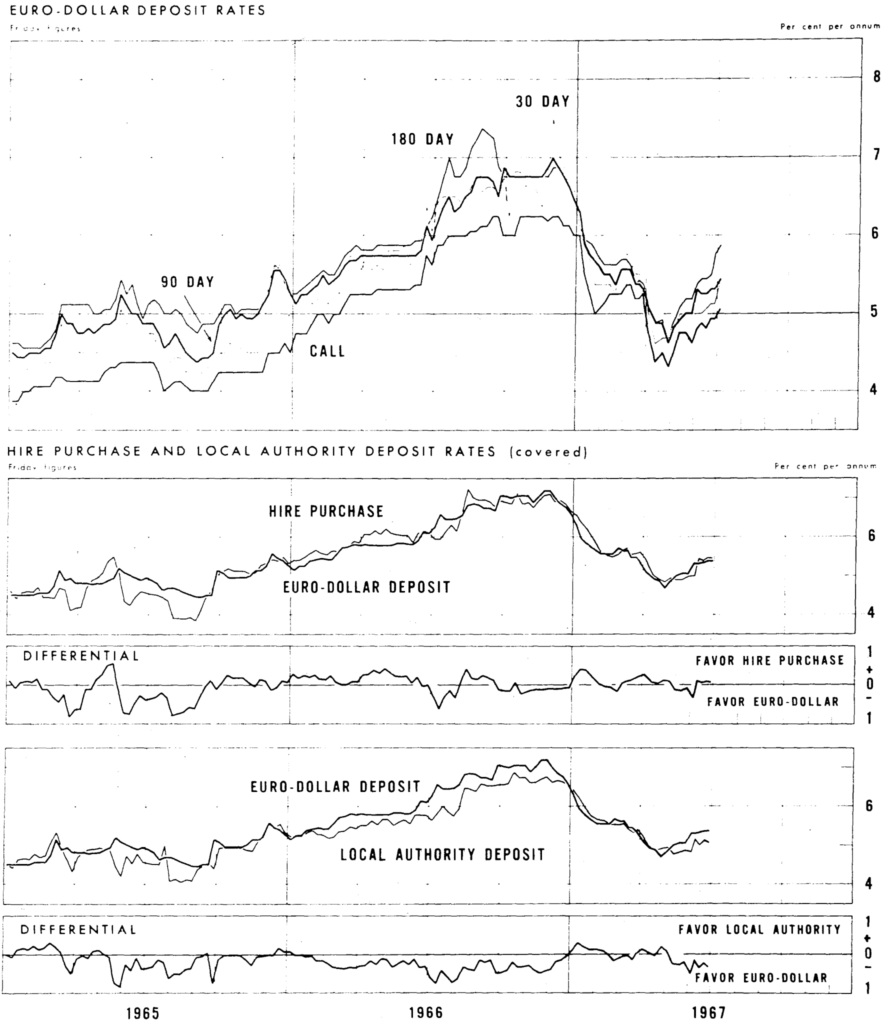
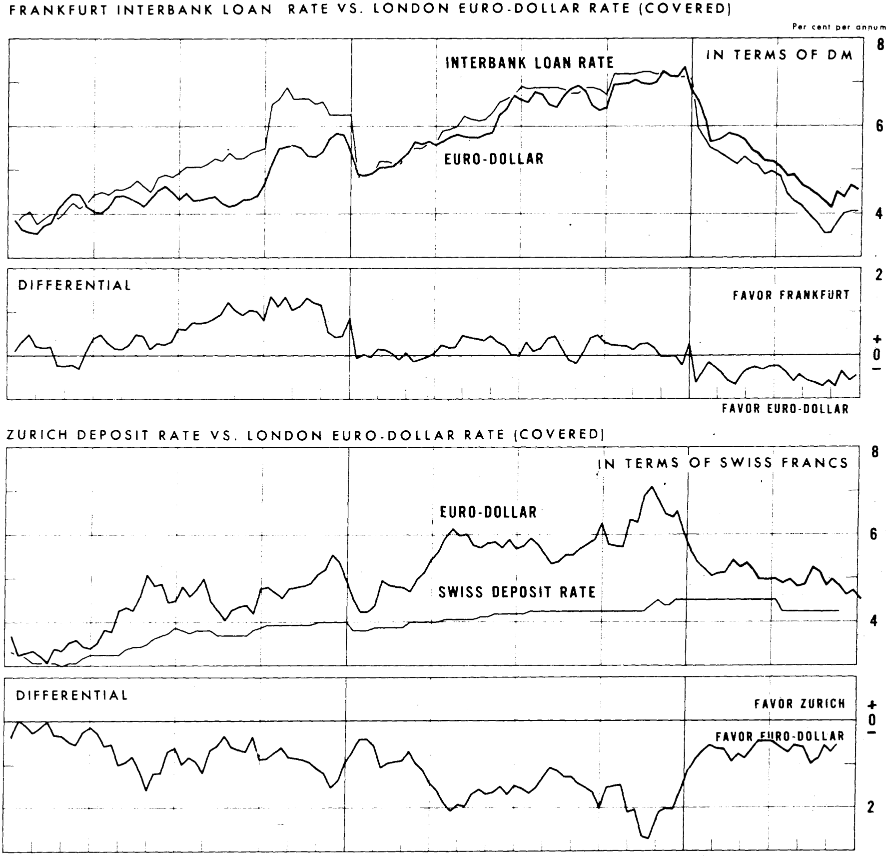


Chart 3

I INTEREST ARBITRAGE: FRANKFURT/LONDON, ZURICH/LONDON



II PRICE OF GOLD IN LONDON

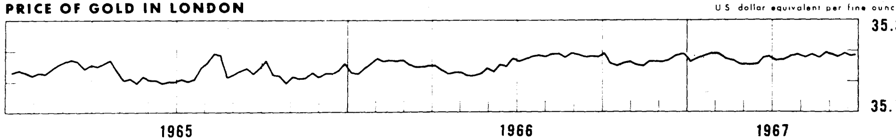


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Chart 4

INTEREST ARBITRAGE, UNITED STATES/CANADA

Friday figures

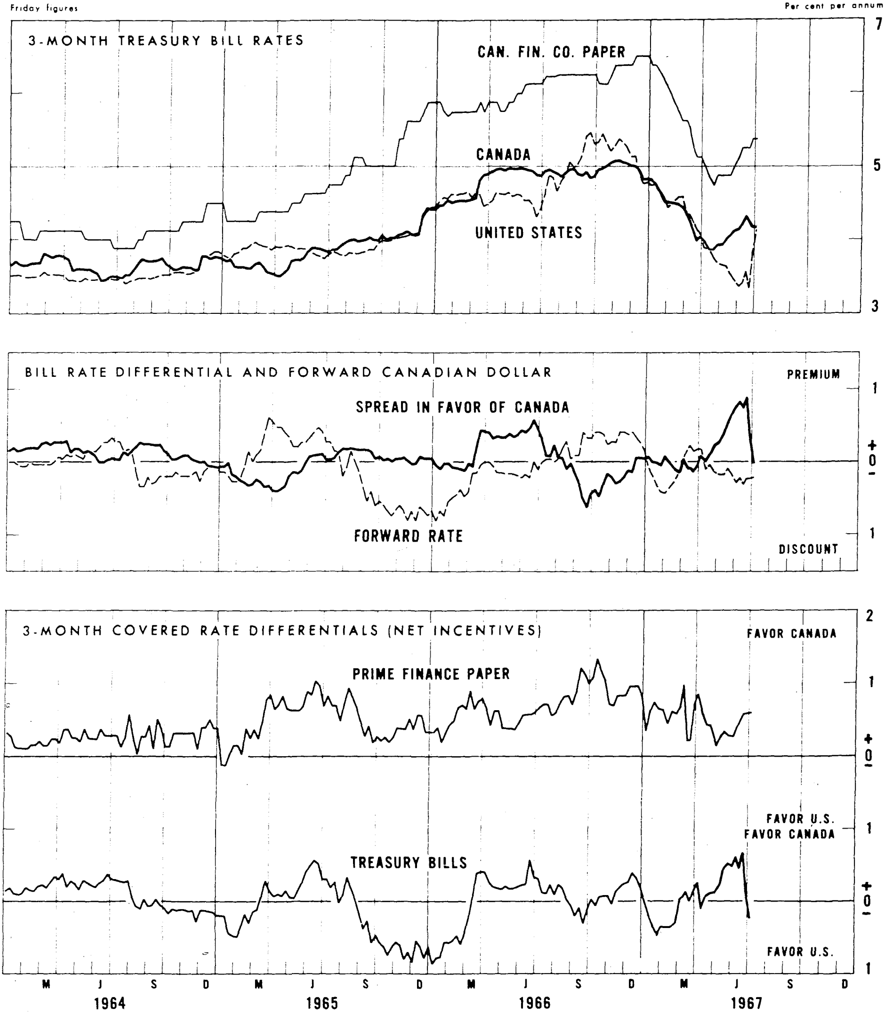

Chart 5

INTEREST ARBITRAGE, NEW YORK/LONDON

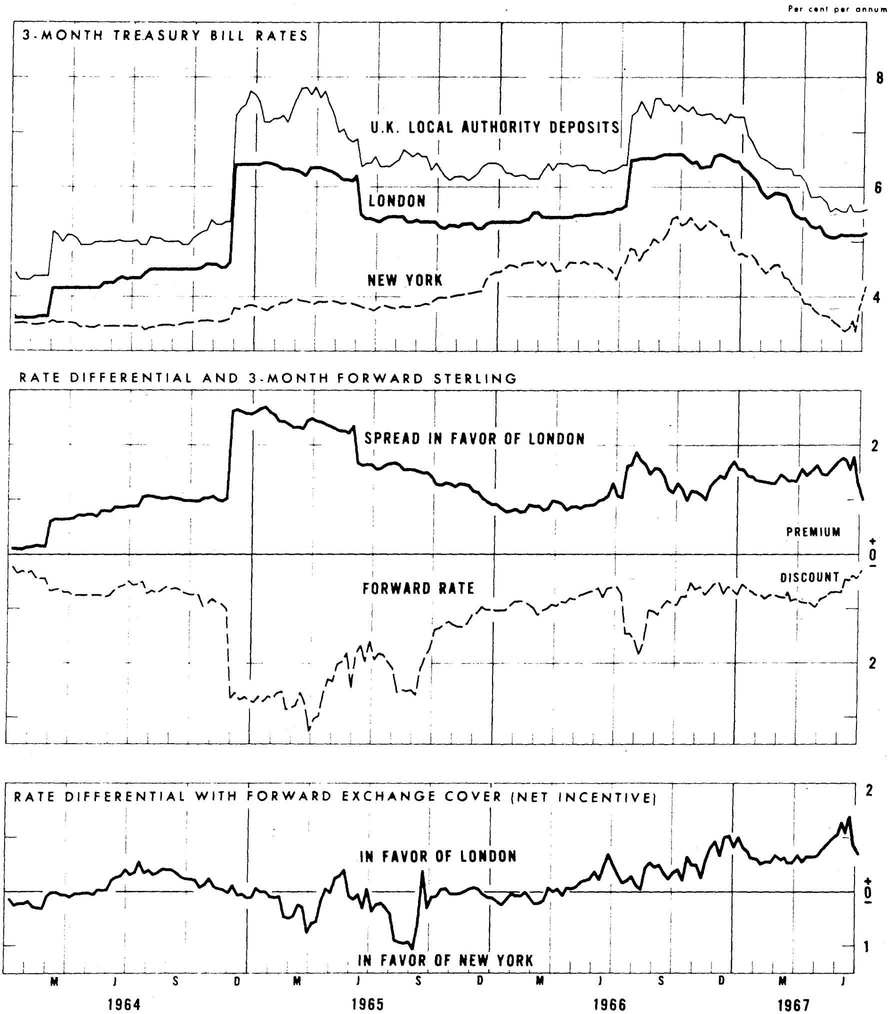

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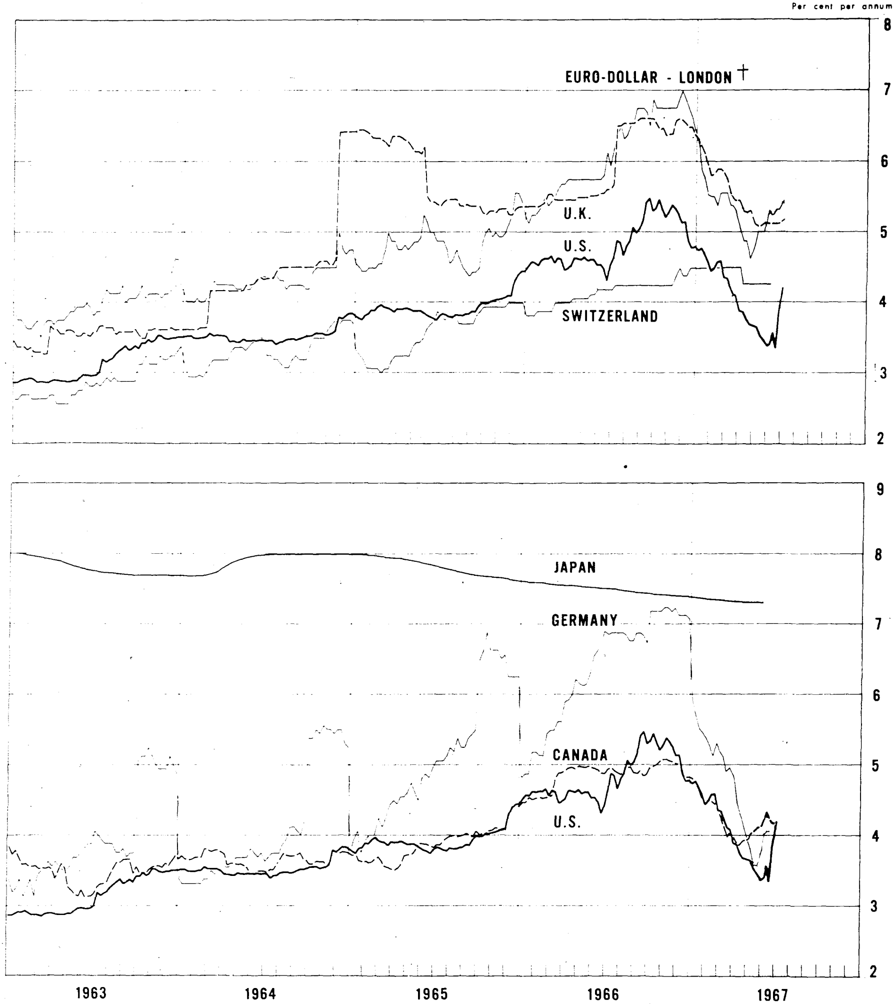
Chart 6

SHORT-TERM INTEREST RATES *



* 3 month treasury bill rates for all countries except Japan (Average rate on bank loans and discounts) Switzerland (3 month deposit rate) and Germany (Interbank Loan Rate)

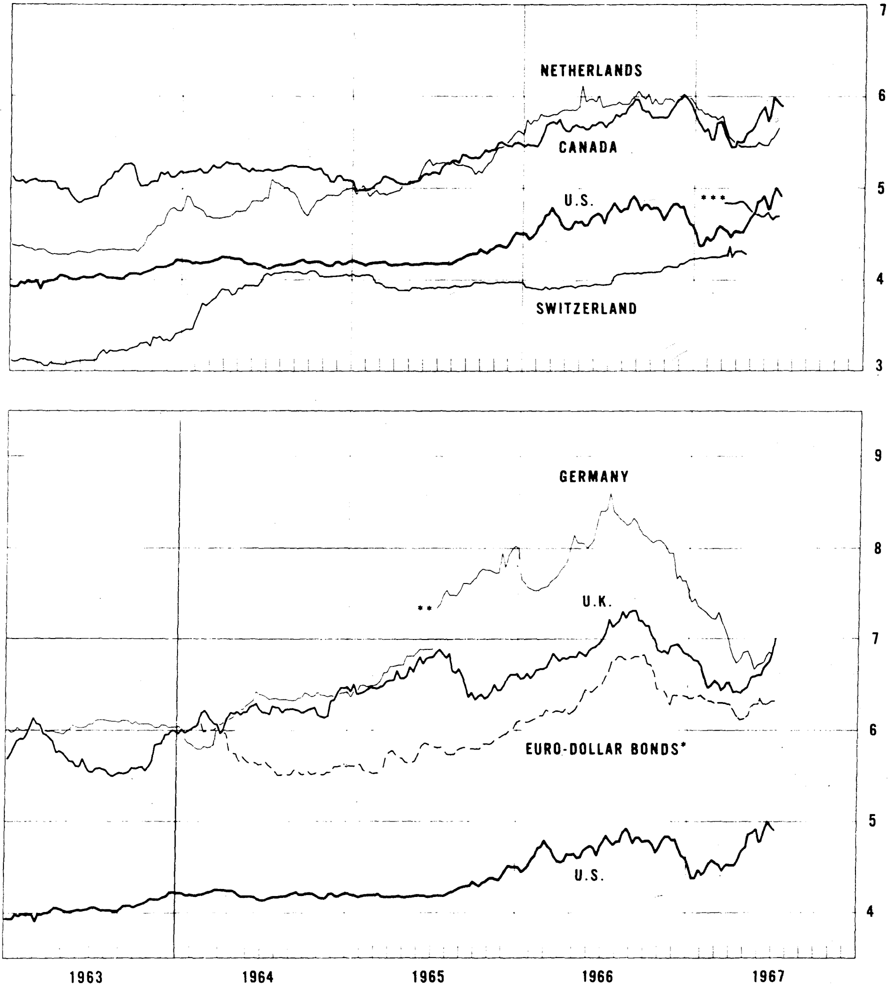
† 3 month rate for U.S. dollar deposits in London

Chart 7

LONG-TERM BOND YIELDS

Weekly figures

Per cent per annum



* Average of yields for four foreign government dollar bonds quoted in London

** New series for Germany starts 7.9.65

*** New series for Switzerland starts 3.3.67

Chart 8

SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

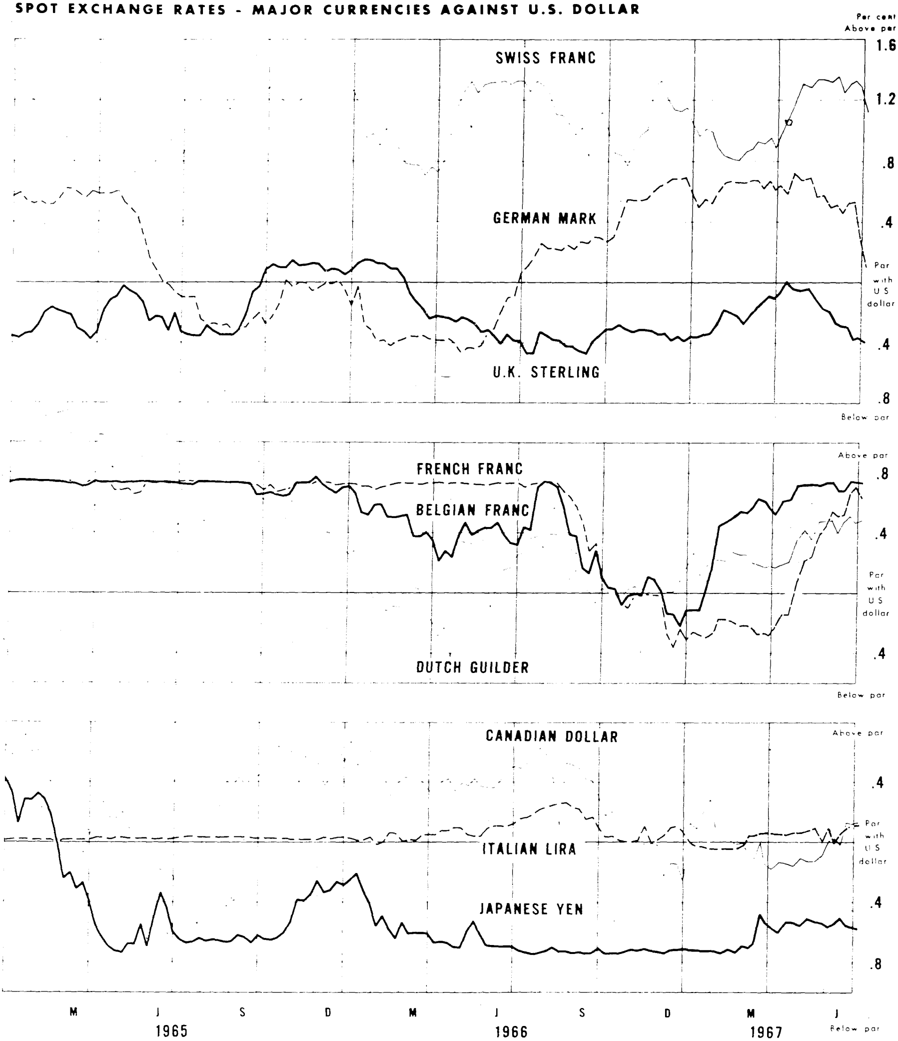


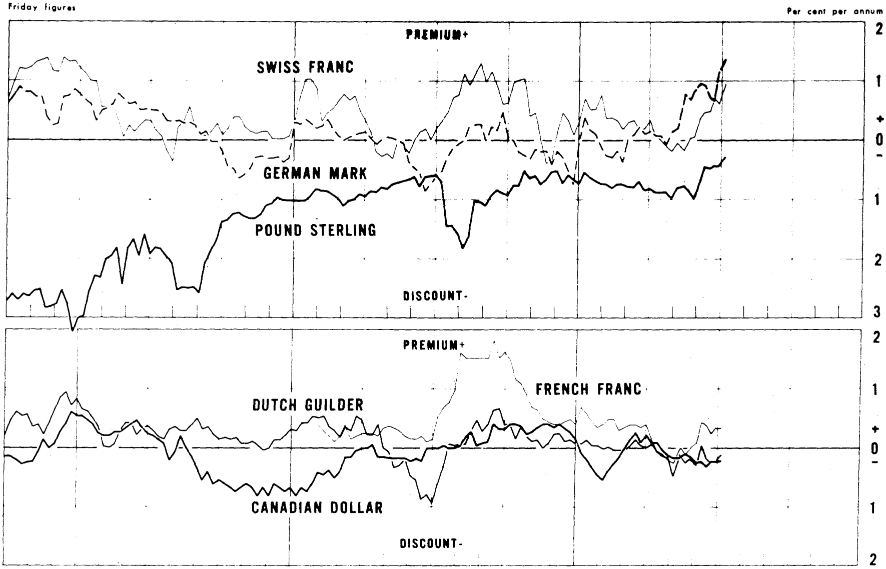
Chart 9

3-MONTH FORWARD EXCHANGE RATES

AGAINST U.S. DOLLARS—NEW YORK

Friday figures

Per cent per annum



AGAINST POUND STERLING—LONDON

Friday figures

Per cent per annum

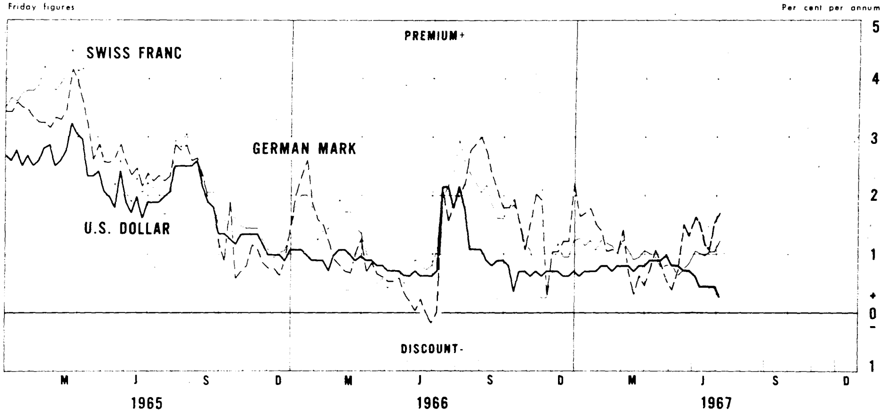


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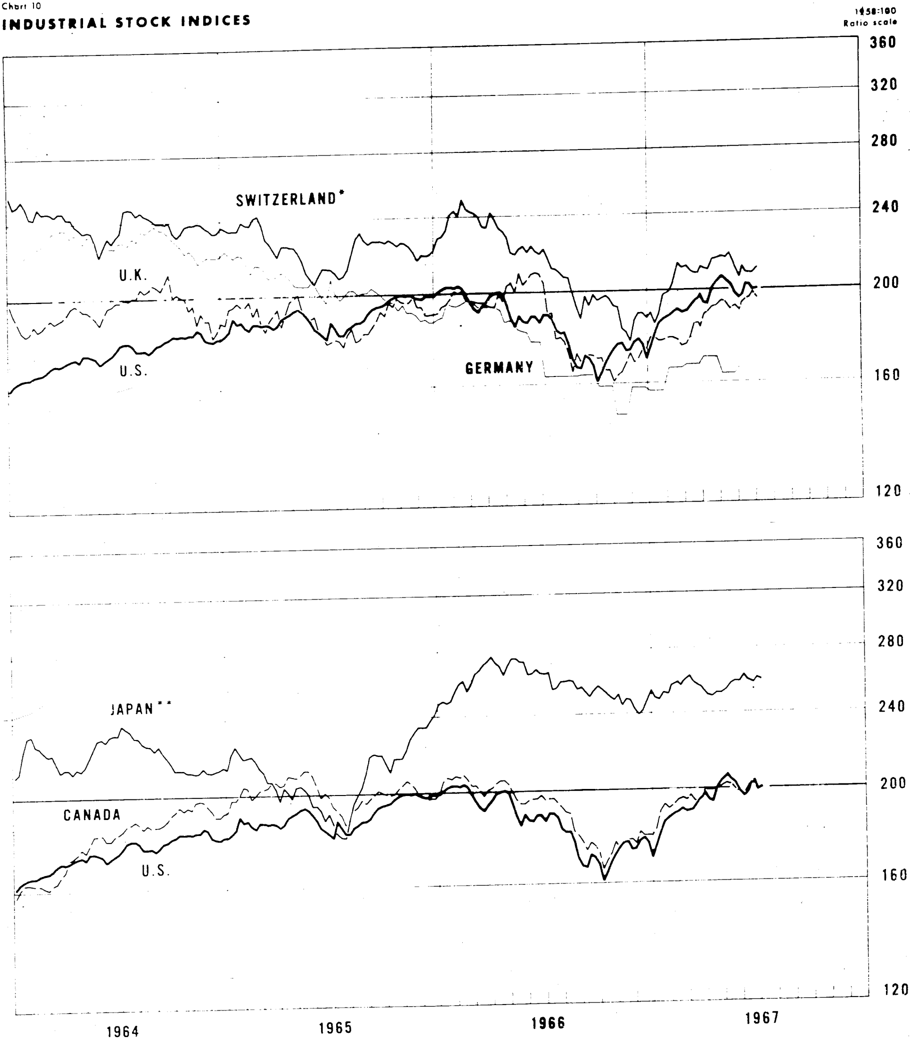
Chart 10

INDUSTRIAL STOCK INDICES



* Swiss Bank Corporation industrial stock index

** Japan — index of 225 industrial and other stocks traded on the Tokyo exchange

H. 13
No. 307

July 12, 1967.

III. Latest Figures Plotted in H.13 Chart Series, 1967
(all figures per cent per annum)

Chart 1

Upper Panel (Wednesday, July 5)

Euro-$ deposit	5.38
U.S. certif. of deposit	4.98

Lower Panel (Friday, July 7)

Finance co. paper: U.S.	4.50
Canada	5.10
Hire-purchase paper, U.K.	5.52

Chart 2
(Friday, July 7)

Euro-$ deposits:

Call	5.06	90-day	5.44
30-day	5.44	180-day	5.88

Hire-purchase paper (June 30)	5.88
Local-authority deposit (June 30)	5.50

Chart 3

Upper Panel (Period: June 30)

Interbank loan (mid-point)	4.06
Euro-$ deposit (average)	5.38

Lower Panel (Date: June 15)

Zurich 3-month deposit	4.25
Price of gold (Friday, June 30)	35.186

Chart 4
(Friday, July 7)

Treasury bills: Canada	4.17
U.S.	4.19
Spread favor Canada	- .02
Forward Canadian $	- .21
Net incentive (Canada +)	- .23
Canadian finance paper	5.38

Chart 5
(Friday, July 7)

Treasury bills: U.K.	5.18
U.S.	4.19
Spread favor U.K.	+ .99
Forward pound	- .29
Net incentive (U.K. +)	+ .70

Chart 6
(Friday, July 7)

Treasury bills: U.S.	4.19
U.K.	5.18
Canada	4.17
Interbank loan rate (German) (June 30)	4.06
Euro-$ deposit (London)	5.44
Zurich 3-month deposit (Date: June 15)	4.25
Japan composite rate (Date: May 26)	7.30

Chart 7

U.S. Gov't. (Wed., July 5)	4.90
U.K. War Loan (Thurs., July 6)	7.00
German Fed. (Fri., June 30)	6.84
Swiss Confed. (Fri., June 30)	4.70
Canadian Gov't. (Wed., July 5)	5.89
Netherlands Gov't. perpetual 3% (Friday, June 30)	5.66
Euro-$ bonds (Fri., July 7)	6.33

For descriptions and sources of data, see special supplement to H.13, Number 239, March 16, 1966.