

Medium-term Lending by the French Deposit Banks and Banques d'Affaires

1. - Definition.

Our first task is to give a definition of loans. We may base this either on the nature of the needs which the loans are intended to satisfy, or on the period for which the money is lent. Both are highly variable. For on the one hand there are many types of business which may be financed by medium-term credit — in fact the official list of them becomes longer every day; and on the other hand any period we may select as our criterion for deciding what is medium term is bound to be arbitrary. Thus periods varying from 18 months to 5 years have been accepted as coming within the category of medium-term lending.

The Bank of France has solved this problem by implication. By taking certain of its rulings together with its system of classifying loans for the purpose of registering risks, we may infer that its definition of medium-term credit has elements of both the criteria mentioned above. Thus the loans which are deemed to be at medium term and eligible for rediscount at the Bank of France are those made for financing investment in productive equipment, or foreign trade subject to Government guarantee, or building, and running for periods of three to five years.

If the credit runs for less than three years, this does not mean that the Bank of France will regard it as being at short term. The Bank will include it in the category of « mobilisable » or « non-mobilisable » credits in the manner which we shall describe below when we come to the system of classification used by the Bank in its *Centrale des Risques*.

2. - Medium-term Loans before 1914.

At the beginning of this century the Bank of France began to admit to rediscount bills

representing credits granted by banks to their customers, such bills being known variously as « credit paper », « finance paper » or « mobilisation paper » (1). The credits granted in this way might be used to finance either capital projects or transactions of a seasonal nature. In principle they were limited to a period of one year, but they were frequently renewed. Each transaction required the previous consent of the Central Bank. Rediscount was allowed « on the transactions » and not « on the names », as was the rule for commercial paper. It was the regional banks, and more particularly those in Lorraine, that benefited from this system, which contributed to the industrial development of that part of France.

Such credits were mobilised at the Bank of France by the use of 90-day promissory notes signed by the beneficiary and guaranteed by the signature of another firm or party. The signature of the presenting bank formed the third of the three required by the Bank of France for rediscounts. Where the credit was not guaranteed by the name of an outside firm or party, the third signature would be obtained by cross transactions between banks. Bank A for instance would hand to Bank B 10 million francs' worth of promissory notes carrying its endorsement in exchange for 10 million francs' worth endorsed by Bank B.

Certain critics have maintained that such business was contrary to the statutes of the Bank of France, on the ground that the Bank had power to discount only « commercial bills » running for a maximum of 90 days, and bearing the signatures of three parties of known solvency. « Credit paper » is

(1) See in this connection my article *Georges Robineau, 17^e Gouverneur de la Banque de France*, in the « *Nouvelle Revue de l'Economie Contemporaine* », No. 44, August, 1953.

of course not the same thing as « commercial bills »; and, even though the bills representing this type of credit did not run for more than 90 days, there was agreement from the outset that they would be renewed on maturity. To the first objection it could be answered that « commercial bills » are not synonymous with « commercial paper », and that they simply mean bills of exchange or promissory notes; and to the second objection it could be answered that the promissory note had to be paid on maturity by the presenting bank, whether or not there was a tacit promise to renew it. Hence it could be argued that the statutes of the Bank of France were respected.

There was a further objection to the practice on the ground of doubt as to whether the paper thus created formed proper cover for the note issue. The answer which was found was that up to a certain point a note-issuing bank can discount « credit paper » without danger. Part of the country's note issue is immobilised in the hands of private people who keep the notes to cover their day-to-day needs or to meet unforeseen emergencies. Such notes will never be presented for payment, and therefore the note-issuing bank will run no danger if it employs their equivalent in more or less illiquid assets.

Thus in France even before the First World War there already existed a forerunner of what is now called medium-term credit, although that term was never used and the facilities were accorded on an empirical basis, without any precise rules as to the duration or purpose of the loans.

3. - *Medium-term Lending from 1914 to 1926.*

During the 1914-1918 war « credit paper » was used to finance war industries. Some factories were converted, while others had to be started from scratch. Throughout France large amounts of capital were needed for fixed investment at a time when it was impossible to appeal to savers. Only two ways of obtaining the credit they needed were open

to manufacturers: borrowing from the Government, and borrowing from the banks. The second of these courses was widely adopted.

The banks were able to lend in this way because they had been assured that any « credit paper » which they might create in respect of their loans to industries working for national defence purposes would be discounted by the Bank of France. In order to obtain the third signature the banks used to exchange paper with each other; and by degrees the Bank of France began to take the bills « on the names », without examining the specific nature of the transactions which they represented.

After the war there was a revival of business, and industrialists again needed capital. The continuous rise in prices meant that they needed continually larger working funds. Companies could no longer issue bonds in the capital market because there were virtually no takers owing to the fall in the franc. Many firms which had funds abroad did not repatriate them; and this reduced their funds in France, so that they needed to borrow on the market. The banks therefore faced a demand for loans from all quarters. Trade and industry required capital which savers could not or would not provide. They had to resort to the banks in cases where formerly bond or share issues would have been made. At the same time the banks' deposits in terms of gold francs were diminished in consequence of the flight from the franc. The only way by which the banks could meet the demands for finance from trade and industry was by rediscounting paper representing the overdrafts to their customers at the Bank of France.

According to certain sources the Bank of France at times has as much as 85 per cent of its portfolio in « credit paper ». That is, of course, a high proportion. What happened was that the « bad paper », if we may use this expression, went into the Bank of France, while the « good paper », consisting of commercial bills, remained outside. The latter went into the money market, where the banks passed it round among themselves, according

to the needs of their cash position, at an interest rate which was below the official rate of discount.

People who have criticised the Bank of France's policy during that period, or who still do so, should not forget the difficulties which prevailed at the time.

If the Bank had not taken the « credit paper », many enterprises would not have obtained the capital which they needed for their existence. There would have been widespread bankruptcies and unemployment, and a serious setback to trade and industry with all its direct and indirect consequences. Such a disaster would have benefited nobody. The note circulation would have been no better secured as the result of it, and the franc none the firmer.

In normal times the Central Bank should not have in its portfolio too high a proportion of « credit paper », or, judging by still stricter standards, it should not have any at all, since the bill portfolio is one of the assets backing the issue of notes, which are exchangeable into gold. Finance bills do to some extent worsen the note cover because, as they do not represent any exchange of goods, they are an inflationary factor. But once paper money is legal tender, and once the note cover consists largely of more or less illusory claims on the Government, such considerations lose much of their force.

This state of affairs lasted until 1926, when it underwent a radical change.

4. - *Establishment of Medium-term Credit Institutions.*

The system of medium-term lending based on rediscount facilities at the Bank of France did not after all give full satisfaction. It was inherently ambiguous, since the same credit transaction was regarded as medium-term by the borrowing enterprise and as short-term by the lending bank. In addition, as we said before, the banks never committed themselves for a period longer than one year; and it was dangerous for borrowers to take medium-term credit in short-term form on the mere

hope that the transaction would be several times renewed, when they had no guarantee that this would be done. It thus became apparent that banks which work mainly with demand, or very short-term deposit cannot lend at medium term, and that such business would have to be done by banks having resources placed at their disposal for a certain length of time.

The large French banks saw the need for this. They saw it the more clearly because, from 1926 on, the Bank of France refused to rediscount « credit paper ». They therefore set up institutions which were to lend to trade and industry for periods running from one to six years. As far back as 1919 the Comptoir National d'Escompte and the Crédit Lyonnais had set up the Union pour le Crédit à l'Industrie Nationale, with a capital of 50 million francs. In 1928, with the assistance of the Crédit Commercial de France, the Banque Nationale de Crédit set up with the same object the Société Anonyme de Crédit à l'Industrie Française, having a capital of 100 million francs. In the same year the Crédit du Nord established the Union Bancaire with a capital of 60 millions; and in 1929 the Crédit Industriel et Commercial with the regional banks depending on it created the Union des Banques Régionales, which had 40 million francs capital. Other institutions of smaller size were also created with the same object by various outside groups.

As to the extent of the activity of these institutions up to 1939 two things can be said.

First, their capital is not large. They really regard it as just an additional frill, and indeed it is not paid up in full, but only to the extent of 50 or 25 per cent. Most of their resources therefore came from time deposits, from bond issues and from rediscounting at the founder banks.

Secondly, certain of these institutions built up holdings of industrial participations. Some they took from defaulting debtors, while others were acquired by deliberate investment in industrial enterprises where the financial prospects looked good. By doing so they ate into the resources, already small in amount, which they could obtain by the three methods mentioned above.

It must moreover be remarked that from 1926 on money again became very plentiful in France. The capital market was once more open for share and bond issues; and consequently the larger enterprises could obtain the capital which they needed without having to resort to the makeshift remedy of bank credit. Besides this the Crédit National, a Governmental institution set up in 1919, was prepared to lend to industry for periods of not less than three and not more than ten years. Such loans had to be secured by a first mortgage, or by the joint and separate guarantee of a third party.

5. - Medium-term Lending from 1926 to 1940.

In July, 1926, M. Poincaré took office with the object of restoring the finances of France, formally stabilizing the franc at its devalued level by a new monetary law, and assuring the convertibility of the currency. In September, 1926, M. Moreau, the Governor of the Bank of France, told the banks that with a view to strengthening the portfolio of the Bank of France he would no longer take « credit bills » for rediscount. In his Report for 1926 M. Moreau made the following comments on this decision: « While not losing sight of our essential monetary function, which is to take bills very freely when their origin, their nature and the signatures upon them afford the security required by our statutes, we shall on the other hand refuse finance paper which under our statutes cannot form the cover of our note issue ». From his recently published memoirs we learn that M. Moreau wrote in July, 1926: « The banking position of the Bank of France is no better than its monetary position. The bill portfolio leaves much to be desired. More than half of it is finance paper, this being contrary to the statutes. I have given orders that by degrees all such paper must be cleared out of the portfolio ». The term used by the Governor was « papier d'immobilisation ». It is curious that he should use this term for what everybody else called and still calls « papier de mobili-

sation ». The two terms however are not mutually contradictory, since such paper is used to « mobilise » an « immobilised » credit.

By 1st October, 1926 we find M. Moreau saying that the quality of the portfolio has greatly improved, that the quantity of finance paper has been considerably reduced, and that these salutary measures have led to loud protests from the parties affected.

The reason why the position improved so quickly without causing trouble either for the banks, or for business or for the country's economic system was, first that the situation was not so unhealthy as certain people had been saying, and, secondly, that from 1926 on the banks had plenty of funds owing to sales of foreign exchange, so that they were able to nurse their paper until the borrowers could repay them. And, as we have seen, many of those borrowers were able to pay off the banks through share or loan issues, which had become possible owing to the abundance of capital and the stabilization of the franc.

In February, 1927 the President of the Union Syndicale des Banquiers announced that the Bank of France would thenceforth continue as before to take seasonal or « credit paper », but would refuse finance paper.

Subsequently the Bank of France showed itself more liberal in consenting to rediscount « credit paper ». There was a return to the pre-1914 position, bills being discounted « on the transaction ». Discounts were moreover allowed for nine months, after which the presenting bank had to carry the credit for three months before it could, if necessary, be renewed. This is what was called the « standard-break » (*interruption d'usage*).

From 1931 on the Caisse des Dépôts et Consignations also entered the medium-term lending business. At first it required every sort of security against its loans: movable property, real property, assignment of sales proceeds, etc. But even so experience showed that much of the business turned out badly; and by degrees the Caisse adopted the custom of granting medium-term loans only on the signature of a large bank, and normally only for a period of five years. The principles followed by the

Caisse in handling such business were the same as those of the Bank of France. That is to say, the credit would be granted by discounting 90-day bills which were renewable and bore three signatures — that of the presenting bank, that of the customer to whom the loan was granted, and a third signature which might for instance be that of another bank (2). The last signature could however be replaced by some real guarantee, such as assignment of the sales proceeds, a pledge of securities or something similar. If the credit was extended by several banks, what was known as « cross signing » to produce the required signatures was allowed. The Caisse des Dépôts also discounted bills carrying the Government's credit insurance guarantee, although it did not show great eagerness to handle such business.

6. - The Bank of France's 1944 Decision.

Under German occupation the Government and Bank of France turned their minds to the credit problems which would arise after the war. It was clear that large sums would be required for the rebuilding of stocks of goods and for repairing and modernising industrial plants, which even in 1939 already had obsolete equipment. It was also obvious that for many reasons such large sums could not be obtained from savers. It was thought however that the money market ought to be able to produce the funds which the capital market could not, provided that the Bank of France was able, on terms which it would clearly state, to discount paper representing the loans which the banks might grant to trade and industry (3). The Report of the Banque de Paris et des Pays Bas for 1944 com-

(2) Thus the medium-term credit institutions were able to mobilise their lendings by presenting for rediscount bills bearing the signature of one of the large banks which had created them. Similarly these large banks, when they wanted to have recourse to the Caisse des Dépôts, would borrow the signature of the medium-term credit institution which they had set up.

(3) See my articles *Le financement de la reconstitution des stocks*, in « La Vie Industrielle », 6th May, 1942; *Réhabilitation du papier de crédit*, 8th October, 1942 and *La banque dans l'économie nouvelle*, in the « Revue de l'Economie Contemporaine », July, 1944.

mented on this matter as follows: « The work of restoration which will be required at the end of the war, and which is unfortunately growing in extent every day, will certainly entail very considerable resort to credit. Medium-term credit in particular will be required to meet demands for capital for the purpose of renewing industrial equipment which is either obsolete or damaged, or cannot easily be used because of its age and the technical progress which has been made ».

The Crédit Commercial de France also remarked that much large-scale lending would be needed after the war, and it assured its customers that it would give them all the help which they required.

Similarly the Crédit Industriel et Commercial wrote: « We have made arrangements to grant to our industrial customers such medium-term loans as they may need now or in the future in order to restore their plant, to renew their stocks, and to replenish their working funds ».

Finally the Bank of France said in its Annual Report: « The changes which the Crédit National (4) has recently made in its statutes will enable it, in conjunction with the Caisse des Dépôts et Consignations, to take steps for the purpose of « mobilising » loans granted by French banks for a period of up to five years. It will however be possible for medium-term lending to develop and to render the full service which can rightly be expected of it only if the lending institutions can rely in case of need on help from the Central Bank. Being aware of the importance which attaches to the success of such lending, the Bank of France has agreed to study ways in which it can give such aid. These ways were in fact laid down by a circular dated 19th May, 1944, which for the first time officially regulated the rediscount of « credit paper ». The circular stated the duration of the credit transactions which could be « mo-

(4) The Crédit National had decided to discount, or to take as security for loans running from a fortnight to three months, bills representing credits at medium term which had been granted by banks established in France and belonging to French citizens, for periods of up to a maximum of five years, to finance the purchase of equipment.

bilised » in this way, as well as the purposes for which loans of this kind might be granted by the banks. Medium-term lending was thus given the benediction of the Bank of France, although the Bank never used the expression in its circular.

The circular in question gives a reminder that in certain conditions the Bank of France grants seasonal credits by way of discount.

It goes on to say that in future the Bank will take for discount bills drawn to « mobilise » credits granted for periods of between nine months and two years, provided that such bills represent a sale for export or the manufacture of goods which have been ordered or sold. The bills, which must bear three signatures, are to be drawn at not more than three months, and they can be renewed within the time limit stated above. The Bank reserves the right either to undertake this negotiation of these bills for the whole duration of the credit extended by the initial lender, or to require one or more breaks at dates and for periods which it will fix. In accordance with the usual practice the Bank is to retain discretion to decide at each quarterly maturity whether or not to renew.

The circular further adds that the Bank of France will take for discount bills drawn at not more than three months to « mobilise » credits granted for periods of between nine months and five years, which are intended to assist development of the productive equipment of an enterprise. Such bills will be discounted only for public credit institutions, banks or financial institutions, and only on condition that the institution in question has a « current discount account », and has been approved for such business by the Governors of the Bank. It is added that the bills must bear three signatures other than that of the firm to which the credit is granted.

It is added that the discount may be renewed, subject to a yearly break for a period to be fixed by the Bank of France, and subject to the value of the signatures being maintained.

There is a further condition that only credits which have been notified to the proper

departments of the Bank of France at the time of their opening may be « mobilised » on the terms just described. Furthermore, when « mobilisation » bills are presented for discount the Bank will enquire as to what use has been made of the funds by the borrower. The point is that credits of this kind must be intended to satisfy specific needs, and that they must be strictly used for the purpose for which they have been granted.

Finally it is provided that the rate of rediscount applied to such credits running for two to five years will be the Bank of France's discount rate, plus a commission of $\frac{1}{2}$ per cent per annum.

Thus it was the money market which was to carry the burden of the medium-term credit that the deposit banks and banques d'affaires (5) were mostly to distribute. It will

(5) The Law of 2nd December, 1945 classifies banks in three categories, namely deposit banks, banques d'affaires and medium-term credit institutions. Article 5 of the Law of 17th May, 1946 reads as follows: « Deposit banks are banks which receive from the public deposits at sight or for a period of not more than two years. They must not hold participations amounting to more than 10 per cent of the capital of enterprises other than banks, financial institutions or real estate companies necessary for the conduct of their business. In no case may the total amount of such participations, including firm subscriptions to issues of shares, exceed 75 per cent of their own resources. The exceeding of this limit, as well as any employment of their deposits in participations or real property investments, is forbidden unless authority is given by the Deposits Committee of the Conseil National du Crédit.

Banques d'affaires are banks whose main activity consists in taking and managing participations in enterprises which already exist or are in course of formation, and in opening credits without limitation as to period in favour of public or private enterprises which benefit, have benefited or are to benefit from the said participations. Banques d'affaires may not invest in such enterprises any funds other than funds originating from their own resources, or from deposits fixed for a period of at least two years or subject to at least two years' notice. Banques d'affaires may not open deposit accounts except for their own staff, for enterprise in whose favour they have opened a credit or which benefit from participations, for physical persons or bodies corporate having the quality of a trader for the exercise of their principal business activity, or for subscribers to shares in the companies in which they have taken participations, provided that such subscribers shall be holders of security accounts in their books.

Long-term and medium-term credit institutions are institutions whose principal activity consists in opening credits for a period of at least two years. They may not receive deposits for a shorter period than that stated unless authorised by the Medium-term and Long-term Credit Committee of the Conseil National du Crédit. As regards their participations they are subject to the same limitations as the deposit banks ».

be seen later that the medium-term credit institutions, which had extremely limited resources, were to take only very small amounts of the business in question.

7. - Safeguards against Inflation in the Arrangements Governing Medium-term Lending.

When the Governor of the Bank of France drew up the official regulations for medium-term lending on the lines just described, he of course knew that he was taking an unorthodox step which might lead to inflation. However, he showed proper understanding of the country's economic and financial needs, as well as of the unrelying monetary situation, and acted on new and vigorous lines by setting up a kind of protective screen between the Bank of France and the institutions holding the bills representing medium-term credit business. We have already seen that a fourth signature was required before such bills would be rediscounted at the Bank of France, and there was a further requirement that this signature must be that of an institution which the Bank had approved for that purpose. In point of fact the Bank of France gave such approval only to the Crédit National and to the Caisse des Dépôts et Consignations. Later, in 1950, the Crédit Foncier de France was added to the list. Thus, in order to qualify for rediscount at the Bank of France the bills representing the « mobilisation » of medium-term loans had to carry the following signatures: first, that of the beneficiary; secondly that of the bank which had granted the credit, and which in most cases was either a deposit bank or a banque d'affaires; thirdly that of the Crédit National; and finally that of the Caisse des Dépôts et Consignations. By this means the Bank of France hoped to channel medium-term lending into these institutions; it expected that, since they had substantial resources, they would be able to nurse the paper in question and would not apply to the Bank of France for rediscount except in case of extreme need. The use of the Caisse des Dépôts in this way seemed particularly appro-

prate. It is a Governmental institution (6) which engages in many different types of business, and has substantial funds at its disposal since it manages the resources of the postal and other savings banks, which are required to entrust these to the Caisse for that purpose. It seemed natural enough that the money of savers should be utilized for re-starting the country's industry. Unfortunately this attractive plan did not work for long. A certain Finance Minister who needed money took the view that the first function of the Caisse des Dépôts was to provide the Treasury with funds; and he began to rediscount at the Bank of France the portfolio of bills representing the « mobilisation » of medium-term loans. His successors did this on an even larger scale, especially as the volume of medium-term lending was steadily increasing from year to year.

The requirement of a fourth signature had a second advantage. It meant that the applications for loans had to be investigated by a number of institutions, so that the medium-term credit had to pass as it were through an additional sieve before it was granted. The system did in fact produce excellent results; and congratulations are due to the institutions concerned, especially the Crédit National, for the care and skill with which they carried out this tricky task.

8. - Industrial Credit (« crédit professionnel »).

The Caisse Nationale des Marchés de l'Etat, a Governmental institution established in 1936, is authorised by its statutes to grant credits against the guarantee of an institution which provides mutual security as between the firms in a given industry on a basis that has been passed as satisfactory. After the liberation of 1944 this power was used for the provision of medium-term loans running for five years.

The security is put by guarantee associations or by companies with « variable » capital, which retain between 5 and 8 per

(6) It was set up by the Law of 28 Nivôse, year XIII, and reorganised in 1818 and 1837. Its Director General can be dismissed only if the Supervisory Board requests this of the President of the Republic with a statement of reasons.

cent of the amount of the loans granted to the industry in question. Out of the fund thus formed the Caisse Nationale can obtain payment if a borrower should default.

The applications for such loans are reviewed by a board comprising representatives of the Caisse Nationale, and of the central association of the industry, and a representative of the public authorities whose duty it is to reconcile the capital investment programme proposed by the industry with the directives given under the overall Plan. After this the applications are put before the Committee of the Caisse Nationale. If the latter decides to assist, it does so by giving an unconditional guarantee in a separate document, containing a table setting forth the schedule of repayments, which normally begin in the third year. Thus the bill will have three signatures, namely those of the customer, the bank and the Caisse. Applications for rediscount have to be addressed to the Crédit National; this latter rarely refuses them, and can in turn rediscount at the Bank of France if required, in the manner indicated in the previous section of this article.

9. - Cooperative Credit (« crédit populaire »).

The Caisse Centrale de Crédit Hôtelier, Commercial et Industriel acts as the central institution for medium-term cooperative credit. The signatures successively placed on the bill are those of the borrower, of the credit cooperative (known as a « banque populaire »), and of the Caisse Centrale itself. The latter can then rediscount at the Crédit National, after

the latter has agreed. The bill, which thus has four signatures, can then be presented by the Crédit National to the Bank of France for rediscount.

10. - Extension of Medium-term Lending to Other Business.

After medium-term lending had been proceeding for some years on the lines described above, it was felt that such lending ought to be extended to cover business other than capital investment in industry, and in particular to building and to foreign trade.

This recasting of the arrangements governing medium-term credit was the subject of a circular of the Bank of France dated 10th May, 1951, and reading as follows:

« The Bank will take for discount bills drawn in the manner laid down in its statutes for the purpose of mobilising credits which have been granted, with the previous agreement of the Bank, for a maximum period of five years, where such credits are designed to promote:

(a) the development of the means of production of an enterprise, including operations which give rise to collateral security of the kind envisaged by the Law of 18th January, 1951, and cover a period of more than 18 months;

(b) the financing of foreign trade transactions which are guaranteed by the Government in pursuance of the Law of 5th July, and which cover a period of more than two years;

BANK LOANS, BY MAIN CATEGORIES

TABLE I

	Commercial bills	Caisse des marchés	Medium term	Mobilisable Credits	Non-Mobilisable Credits	Total
(in millions of francs)						
31st December, 1951	696,603	63,883	238,216	306,818	333,955	1,639,475
31st December, 1952	728,969	95,869	392,823	402,386	432,842	2,052,889
31st March, 1953	693,680	80,130	412,977	387,150	472,153	2,046,090
30th June, 1953	709,949	78,243	472,676	352,021	482,289	2,095,178
30th September, 1953	686,974	77,084	502,578	387,434	533,185	2,187,255
31st December, 1953	779,928	79,249	567,440	428,241	512,379	2,367,237
31st March, 1954	785,800	68,500	598,600	423,200	575,800	2,451,900

(c) building.

The bills mentioned above must bear three signatures other than that of the recipient of the credit. The Bank of France will discount them only for public credit institutions, for banks or for financial institutions which have a current discount account and which have been approved for that purpose by the Governor. The Bank may permit renewal, with or without breaks in continuity, for periods of three months during the time covered by the credit to be mobilised ».

Bills relating to building are mobilised on the basis of the signature of the beneficiary, that of the bank (usually the Sous-Comptoir des Entrepreneurs), and that of the Crédit Foncier de France.

Similarly the mobilisation of foreign trade

(7) Banks and financial institutions report to this department each month the credits which they open, and those which are used, by filling up the following form.

It will be seen that all banking credit transactions have a place in one of the six columns, namely:

1. Discount of bills representing commercial claims.
2. Discount of bills benefiting from an unconditional commitment of the Caisse des Marchés.
3. Confirmed medium-term credits, mobilisable or not, and running for 3 to 5 years.
4. Other mobilisable credits, whether guaranteed or not.
5. Other non-mobilisable credits, whether guaranteed or not.
6. Endorsements and guarantees.

The minimum amount of outstanding credits for which a report has to be rendered is (a) 10 million francs in Paris and

bills is effected on the signature or the beneficiary, that of the presenting bank, a guarantee by the Banque du Commerce Extérieur, and the signature of the Crédit National.

11. - Importance of Medium-term Lending in Relation to the Total of Bank Credit.

The Bank of France department known as the Service Central des Risques (7) has provided the table which we now print as Table 1, and which shows all the credit transactions of banks. It will be observed that:

1) Four-fifths of all the credits granted by French banks are mobilisable at the Bank of France.

2) Discounts of commercial bills represent only about a quarter of all the credits granted by the French banking system.

5 million francs in the provinces for business under either of the first two heads; (b) 5 million francs in Paris and 2 million francs in the provinces for business coming under each of the four other heads. Credits granted have to be declared if, for all six heads and no matter what their amount under each individual head may be, they reach the minimum laid down for either of the first two heads.

According to sample checks which have been carried out, 85 per cent of all the credits granted are reported in this way. This proportion however varies according to both the nature of the credit transaction and the trade or industry of the beneficiary. The ratio is much higher for medium-term loans than for discounts of commercial bills or advances; and it is much higher in the large-scale industries than in those where small firms prevail.

BANK OF FRANCE

CENTRALISATION DES RISQUES

ENTER FIGURES RELATING TO CREDITS IN MILLIONS

MONTH	PRESENTING BANK			CREDIT	AUTHORISED	USED	No.
	No.	BRANCH No.					
	NAME OF CUSTOMER			COMMERCIAL BILL			1
				CAISSE DES MARCHÉS			2
				MEDIUM TERM			3
				OTHER MOBILISABLE CREDITS			4
				NON-MOBILISABLE CREDITS			5
	INDEX OF ACTIVITY (1)	ADDRESS					
	CUSTOMER'S No. (1)	PRESENTING OFFICE (1)	No.	NAME			
		BENEFICIARY'S BRANCH (1)	No.	NAME			
				TOTAL			
				ENDORSEMENTS AND GUARANTEES			6

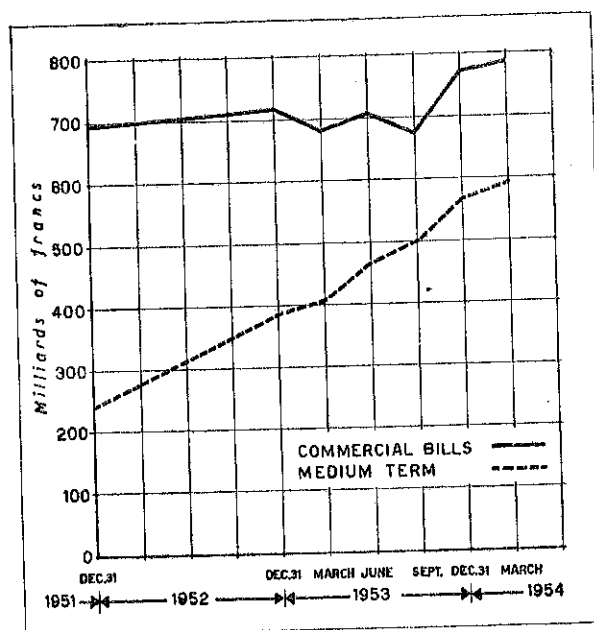
(1) Space reserved for use by Bank of France.

3) Medium-term loans are equal to more than three-quarters of the discounts of commercial bills.

4) Medium-term lending is growing faster than bill discounts.

The graph I shows at a glance what is happening.

GRAPH I



There are no figures showing the distribution of the credits granted as between deposit banks, banques d'affaires and medium-term credit institutions. By means of extrapolation however one may conclude that the amount of credits granted by these last is not large. The combined balance sheets of the eight medium-term credit institutions as at 31st December, 1952, the last date for which there are figures, show total capital of 1,092 million francs, while the items bill portfolio, overdrafts and advances reach a total of 3,217 million. The « bills discounted and circulating with our endorsement » however stand at the high figure of 10,806 million francs, which proves that even these specialist institutions grant their loans by way of discounting mobilisable bills. But these institutions also engage in business other than medium-term lending, and it is not possible to be sure that the whole of the amounts just quoted relate to medium-term lending business. Even if they did, the total of 14 milliards would still be extremely

small compared with the total volume of lending in this category, amounting to 432 milliards.

The figures given by the Centrale des Risques still need to be supplemented by those for the public or semi-public credit institutions, especially the Caisse Nationale de Crédit Agricole and the Crédit Foncier. When that is done, one has some idea of the total volume of lending for the financing of capital projects. It comprises:

1) Medium-term credits granted out of bank resources, and nearly all carrying a promise of rediscount by the public or semi-public institutions.

2) Loans granted by the public or semi-public institutions out of their own resources, or out of funds which have been placed at their disposal, in particular, by the Fonds de Modernisation et d'Équipement. Such loans run for more than five years.

The total amount of loans granted to finance capital projects and outstanding on 31st December, 1952 was 734 milliards. By 31st December, 1953 it had risen to 977 milliards. The increase of 243 milliards occurred to the extent of 73 milliards in loans for building; 65 milliards in the nationalised industries, comprising coal, power and transport; 55 milliards in steelworking; and 34 milliards in agriculture.

12. - Relative Importance of Bills Mobilising Medium-term Loans in the Portfolio of the Bank of France.

We give below 139 a list of the various categories of medium-term credit in respect of which bills are rediscounted by the Bank of France, together with details of the signatures which the mobilisation bills must bear. It will be remembered that the credits in question must run for between three and five years.

Since 1950 the bill holding as shown in the weekly return of the Bank of France has been grouped under four heads, namely bills on France, foreign bills, bills guaranteed by the Office des Céréales, and bills mobilising

medium-term loans. For the purposes of this article we shall consider only those in the

INDUSTRIAL CREDIT

Customer; Presenting Bank; Guarantee by the Caisse des Marchés; Crédit National.

FOREIGN TRADE

Customer; Presenting Bank; Guarantee by the Banque du Commerce Extérieur; Crédit National.

LOANS TO FINANCE CAPITAL INVESTMENT

Customer; Presenting Bank; Crédit National; Caisse des Dépôts et Consignations.

BUILDING

Customer; Presenting Bank; Crédit Foncier de France; Caisse des Dépôts et Consignations.

COOPERATIVE CREDIT

Customer; The crédit cooperative; Caisse Nationale du Crédit Hôtelier Commercial et Industriel; Crédit National.

BANK OF FRANCE

Amount of bills for mobilising medium-term lendings discounted by the Bank of France and outstanding on 31st May 1954:

372 MILLIARD
FRANCS

first and last of these categories, which moved as follows:

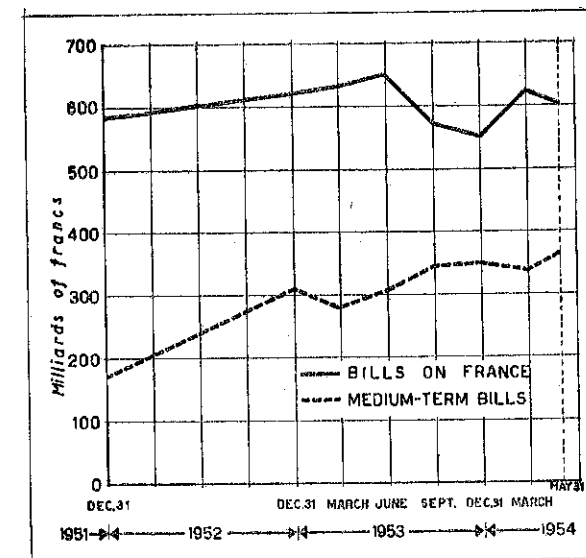
	Bills on France	Medium-term Bills
	(milliards of francs)	
31st December, 1950	221	98
31st December 1951	582	174
31st December, 1952	624	313.4
31st March, 1953	633.5	282.7
30th June, 1953	652.3	308.9
30th September, 1953	572.9	346.4
31st December, 1953	557.3	351.6
31st March, 1954	622.9	341
31st May, 1954	605.5	372

From this table and from the graph II readers will see that, while discounts of bills on France (8) at the Bank of France have

(8) It should be pointed out that the bills on France do not only include commercial bills. They also include some mobilisable credits (Centrale des Risques heading 2); some mobilisable credits (Centrale des Risques heading 3), mostly comprising seasonal credits or credits running for 18 months or two years; and finally some guaranteed bills, these being bills traders and industrialists deliver to the Treasury in payment of certain taxes. When the Treasury needs funds, it discounts these bills at the Bank of France. At the moment the Treasury is very flush of funds; and these bills, amounting to more than 100 milliards, are not rediscounted but form a reserve.

remained relatively stable since the end of 1951, discounts of bills mobilising medium-term loans have steadily risen. The divergence between the two movements can be explained as follows. Since September, 1948 the total amount of the bills discounted for banks which may at any time be outstanding at the Bank of France has been subject to a « ceiling ». This « ceiling » was last fixed in September, 1950. There is no such quota for the bills which banks rediscount at the Crédit National to finance their medium-term loans; nor is there one for the Crédit National or the Caisse des Dépôts et Consignations when these in turn rediscount such bills at the Bank of France. In fact these two institutions are the only ones which are not subject to any discount limit. Accordingly, when the banks approach their discount limits they rediscount at the Crédit National, in spite of the fact that this costs them 0.85 per cent more than discounting at the Bank of France. It is thus

GRAPH II



evident that in a bank's portfolio the commercial bills are an element of liquidity only in so far as the bank still has a rediscount margin at the Bank of France; whereas bills mobilising medium-term loans, provided that they are approved by the Crédit National, can be regarded as fully liquid (9).

(9) The report of the Conseil National du Crédit gives the following information as to the banks' liquid resources repre-

13 - Criticism of the System for Granting Medium-term Credit.

This system has of course given rise to much criticism on the following lines:

A) Unorthodoxy and Danger of Inflation.

As we have already pointed out, the practice of using the monetary circulation to provide funds required for capital investment conflicts with traditional doctrine, and may give rise to inflation. Even before 1914 the Bank of France already saw this point clearly, and we have seen how it reacted.

Nowadays the few economists who have dealt with this matter take the view that the inflationary effect was in fact nil, either because the proportion of medium-term credit to the monetary circulation was small, being less than 15 per cent, or because the results produced by such credit largely outweighed any inflationary effect. The last report of the Plan Commissariat points out that, if there was any inflation, this could not have been due to the effect of medium-term credit, even if this had been large in amount. This is because money spent on capital investment does not represent a « drawing on the absolute value of the country's consumption », but in fact makes an increase in output possible and ultimately helps to strengthen the currency. The report says in fact that it is the capital investment carried out since 1947 which made

sent by this rediscount margin. It confirms what has been stated above.

	31 Dec. 1952	31 Dec. 1953
Available margins on discount ceilings at Bank of France:	(in milliards)	
Rediscount	42	35
Negotiable bills	8	23
Treasury securities held in excess of prescribed minimum	37	66
Bills in respect of medium-term lendings, rediscountable at Crédit National and at Caisse des Dépôts et Consignations	85	149
<i>Total liquid resources</i>	172	273

possible the present stabilisation (10). On the other hand the present Prime Minister, M. Mendès-France, wrote in an article which appeared in « Le Monde » on 8th June, 1954 that « although bank credit is often criticised in France on the ground that it cannot be reconciled with the proper working of a liberal economy, and although it can hardly be any more orthodox further to the east, it has nevertheless greatly helped towards restoring the German economy ».

My own view is that, if these medium-term credits had not been granted in the form in which they were granted, there would have been no medium-term lending. I further believe that, but for such lending, French industry could not have recovered from the war-time destruction, and that the effect on the French franc would have been even greater than that produced by the incidence of these credits on the note issue.

Yet it is clear that it would be wrong to allow the amount of such lending to grow indefinitely; it must be subject to a limit, and further investments ought now to be financed through the capital market, which is recovering, and no longer through the money market. The report of the Crédit National for 1950 already expressed this point of view as follows: « Although what we have done has enabled industry to escape some of the consequences of the poverty in the capital market, and so to proceed with the modernising of its equipment, the position needs examination. Business cannot stand the burden of an excessive volume of loans that have to be paid back within five years; and yet we cannot reasonably be expected to accord a longer term for such loans, seeing that they carry our commitment to mobilise them ». The Conseil Economique put the same point clearly at its meeting on 27th May, 1953, when it protested at the proposal of the Minister of Commerce to increase the period for such loans to ten years with a view to helping the manufacturing industries. The Council's protest bore fruit in the sense that, although it was eventually decided to provide a sum of ten mil-

(10) This view is based on the theory of credit transactions and anticipated payment which I set forth in my book « Banque et problèmes bancaires du temps présent », 1952.

liards for enterprises which are helping to implement the « Equipment Plan », this sum is not to be raised on the money market. It will be provided by the Crédit National out of the proceeds of a loan issued for the purpose in question.

On the other hand we have the statement which was made by M. Edgar Faure on 2nd August, 1954 to the Finance Committee of the National Assembly. He said on this occasion that the Government, with a view to promoting economic expansion, intended to raise the period for medium-term loans from five to seven years, such loans being reserved for enterprises which the Government wished to encourage.

The last report of the Société Générale has the following to say about medium-term lending:

« Medium-term credit is also used, to an even greater degree, to finance the capital expenditure of French enterprises. It is on such investment that the renovation of our economy entirely depends. The need is considerable; and in France, which has been impoverished by the war and where savers have been through a severe ordeal, it could not be met by the traditional methods. That is why the practice of medium-term lending by deposit banks, with rediscount facilities as a safeguard against the danger of immobilisation, has been an essential new feature of banking methods during recent years. In 1953 the Société Générale further increased its business under this head. While the amount of the business done expanded, the terms were made easier. The borrowers who benefited from this included certain public undertakings which are carrying out programmes of modernisation and capital works, as well as many private enterprises that wished to increase their equipment or to bring it up to date. Medium-term credit facilities have also been used by the building industry, especially through the method of mobilising the securities of the Caisse Autonome de la Reconstruction ».

The Crédit National for its part expresses some anxiety about the current volume of medium-term lending in its last report, issued at the meeting on 29th June, 1954. It says

the following: « During the year under review we observed only a slight decline in the rate at which requests for our commitment to mobilise medium-term loans were reaching us. We did our best to meet these requests as fully as possible within the limits of the Bank of France's recommendations. We did so in spite of the fact that on the whole, owing to the trend in economic activity, the business offered was certainly less attractive than before ».

To conclude this section it may be remarked that, if the French system for providing medium-term loans is properly applied, all danger of inflation is removed. Most of the bills for mobilising such loans go to the Caisse des Dépôts et Consignations, which collects the country's savings. It is up to the Caisse to keep these bills in its own hands, instead of rediscounting them and using the proceeds to buy Government bonds or Treasury Bills. The Caisse is certainly no short of funds. During the last few years savings in France have grown continuously. In 1952 the addition to deposits at the various savings institutions was 124 milliards; in 1953 it was 186 milliards; and during the first five months of 1954 it reached 74 milliards.

B) Shortness of the Term.

The period of five years was laid down for medium-term loans because, according to the experts, it represented the average period for writing off industrial equipment. This rule however often does not apply, since the writing off of some machinery is spread over more than five years. On the other hand, it was possible to write off cost of the machines only if the effect of buying them was substantially to lower the cost of the product. This is because by the end of five years, or substantially less in practice if the manufacturer has to start repayment of the loan from the third year on, he needs to have earned twice what he borrowed; half of the amount so earned has to be used to repay the loan, while the other half is needed to buy new machines. In some cases manufacturers have dealt with the difficulty by not replacing machinery when it was worn out; and in others

they have included in their costs too large an allowance for depreciation, which has prevented the prices from falling. In the words of the report by the Conseil Economique which has already been quoted: « From the point of view of industry medium-term loans need to be longer so as to reduce the burden of depreciation allowances on costs ».

All these criticisms are well founded. But the period for medium-term loans cannot be lengthened unless the money which goes into them comes from savings and not from the money market.

C) Repayment Difficulties.

During the early years after the present system for medium-term loans first came into operation (1947 and 1948), some competent observers were worried at the prospect that the borrowing enterprises might not be able to repay the loans when these fell due, and might have to consolidate them on the capital market. This has in fact happened in the case of the nationalised coal and electricity industries, which have placed issues of bonds in order to meet the maturing medium-term loans, while at the same time, borrowing further loans at medium term. The motor vehicle and sugar industries, on the other hand, were easily able to meet their debts at medium term when these fell due, owing to the large profits which they made during recent years. The same applies to the other industries concerned; and, on the whole, repayment of the medium-term loans has, up till now, proceeded regularly.

14. - The Yield of Medium-term Credit Operations.

When a banker wishes to estimate the yield of an operation he must consider, in addition to the current rates of interest and commission, three other factors: the risk of immobilisation, the risk of insolvency, the cost of handling. We will now review these three points.

1) The risk of immobilisation does not exist in the case of medium-term credit operations, as such credits can be discounted at the

semi-public credit institutions; such credits may indeed be considered as quite liquid, as in rediscounting them the banks, as already stated, are not required to observe the strict « plafonds » as they are when commercial paper has to be discounted at the Bank of France.

2) The risk of insolvency no longer exists for banks in the case of industrial credit (*crédits professionnels*) enjoying the unconditional guaranty of the « Caisse Nationale des Marchés de l'Etat » or in the case of credits to foreign trade which have to be insured by the « Compagnie française d'assurance pour le commerce extérieur ».

3) Medium term credits are important and their mobilisation does not entail many book entries, so the cost of handling is practically nil.

With these statements as a premise, we shall now try to satisfy the professional curiosity of our foreign colleagues, by giving a full account of the lowest terms quoted for such credits on August 31, 1954, and we would add that in all cases the taxes thereon are recovered by the banks from the clients (see Tables II, III, IV and V). These taxes may amount to 9.34% of the amount of the total charges. We would add that the terms made by the « Crédit Populaire » are the same as those for investment credits.

To sum up:

In the case of *investment credits* the bank receives 6.60%; should the bank wish to rediscount them, it will pay 4.60%, thus realising a profit of 2%.

In the case of *industrial credit*, the bank receives, if it undertakes the risk, 6.50%, and if it undertakes no risk, 4.60%. It can rediscount both these kinds of credit at 4.60%.

In the case of *foreign trade credits*, the bank receives 4.35% and can rediscount them at 3.75%. Therefore, if the bills are rediscounted, the profit amounts 0.60%, but no risk is incurred.

Lastly, in the case of *building credits*, the bank receives 6.10% and can rediscount them at a rate of 4.60%, with a profit of 1.50%.

The yield obtained from these operations will be better understood if it be borne in

LOANS TO FINANCE CAPITAL EXPENDITURE

TABLE II

	Per cent per annum
— Commitment commission	1.50
— Discount rate, namely that of C. N. + 1 %, i. e. at present	5.10
— Endorsement commission	—
That is, at present	6.60
<i>of which the Crédit National receives :</i>	
— Commitment commission	0.50
— Discount: B. R. + 0.85 %, i. e. at present	4.10
That is, at present	4.60

INDUSTRIAL LOANS (Crédits Professionnels)

TABLE III

	Conditional Guarantees (a)	Unconditional Guarantees (a)	
		Per cent per annum	Per cent per annum
CNME {	— Commitment commission 0.125	0.425	0.25
	— Utilisation commission 0.30		1
Presenting Bank {	— Guarantee commission 0.2 % per month, i. e. 2.40	6.50	—
	— Confirmation Commission 0.25		0.25
	— Discount rate B. R., i. e. at present 3.25		3.75
	— Endorsement Commission 0.60		0.60
Miscellaneous {	— Crédit National 0.25	0.35 to 0.65	0.25
	— Mutual Guarantee Association 0.10 to 0.40		0.10 to 0.40
That is, at present		7.275 to 7.575	6.20 to 6.50

(a) In the case of the conditional guarantee the guarantor is committed only in relation to the Bank of France, so that the risk on the transaction is borne by the presenting bank. In the case of the unconditional guarantee on the other hand the risk is borne by the guarantor.

Abbreviations used: B. R. Bank Rate, i.e. rate of discount of the Bank of France, at present 3.25%; C.N. Crédit National; C.N.M.E. Caisse Nationale des Marchés de l'Etat; B.F.C.E. Banque du Commerce Extérieur.

LOANS RELATING TO FOREIGN TRADE

TABLE IV

		Per cent per annum	
A) Period of waiting			
Commitment commission			
Crédit National			0.05
B. F. C. E. Signature	0.05	}	0.15
(a) Risk	0.10		0.25
Discounting bank			0.45
		In case of sale to Public Departments	In case of sale to Private Buyers
		Per cent per annum	Per cent per annum
B) Period of effective mobilisation			
1) Commitment commission			
Crédit National			0.125
B. F. C. E. Signature	0.05	}	0.15
(a) Risk	0.10		0.50
Discounting bank			0.775
2) Utilisation commission			
Charged by BFCE on giving guarantee			
Sale to Public Departments			0.30
Sale to private buyers			
Signature	0.30	}	0.90
(a) Risk	0.60		0.30
3) Discount			
Crédit National rate + 1/2 %			3.75
Commission d'endos			0.10
		3.85	3.85
		4.925	5.525

(a) In case of sale to private buyers the appropriate portion of the commitment and utilisation commissions corresponding to the risk is shared between the BFCE and the discounting bank in proportion to the risks assumed.

BUILDING LOANS

TABLE V

		Per cent per annum
A) Buildings intended mainly for Residence		
— Commitment commission		1.50
— Discount: Crédit Foncier rate + 0.50, i. e. at present		4.60
— Endorsement commission		—
That is, at present		6.10
of which the Crédit Foncier receives:		
Commitment commission		0.50
Discount: B. R. + 0.85 %, i. e. at present		4.10
That is, at present		4.60
B) Buildings for use in Industry, Trade or Farming		
— The conditions are the same as those applied to loans for financing capital expenditure, the rediscounting institution being in this case the Crédit Foncier de France.		

mind that the lowest charges for discounting commercial paper are those of the Bank of France, 3.25%, plus an endorsement commission of 6.60% per annum; if the paper be rediscounted the profit thus stands at only 0.60%.

Medium term credit operations are, therefore, from all points of view, the most interesting of all those the banks handle (*).

Conclusions.

In the light of what has been written in this article readers will probably agree with the following conclusions.

(*) Since this article was written, measures have been taken to reduce the rate of interest on medium-term investment credits, with a view to lowering costs in French industry.

(1) The commission due to the banks has been lowered by 0.20%.

(2) The commission due to the rediscounting institutions, *Crédit National* and *Crédit Foncier* on the one hand and *Caisse des Dépôts et Consignations* on the other, has been lowered by 0.30%.

The result is a reduction in the rate paid for medium-term credit from 6.60% to 6.10%.

The Government, for its part, has decided to authorise enterprises in receipt of medium-term loans to deduct from their fiscal burdens taxes paid on banking charges, and this will assure them a further rebate of 0.40%.

The reduction in the rate of interest will thus amount to 0.90%.

The *Caisse des Marchés* has also reduced by 0.35% its charges for loans backed by an unconditional guarantee, and by 0.275% for loans backed by a conditional guarantee.

These several measures were announced on 25th October 1954 by the Minister of Finance who stated that « supplementary measures will be taken shortly so as to reduce the interest rate on investment credits to the level at which it stands in countries comparable to ours ».

PIERRE CAUBOUÉ