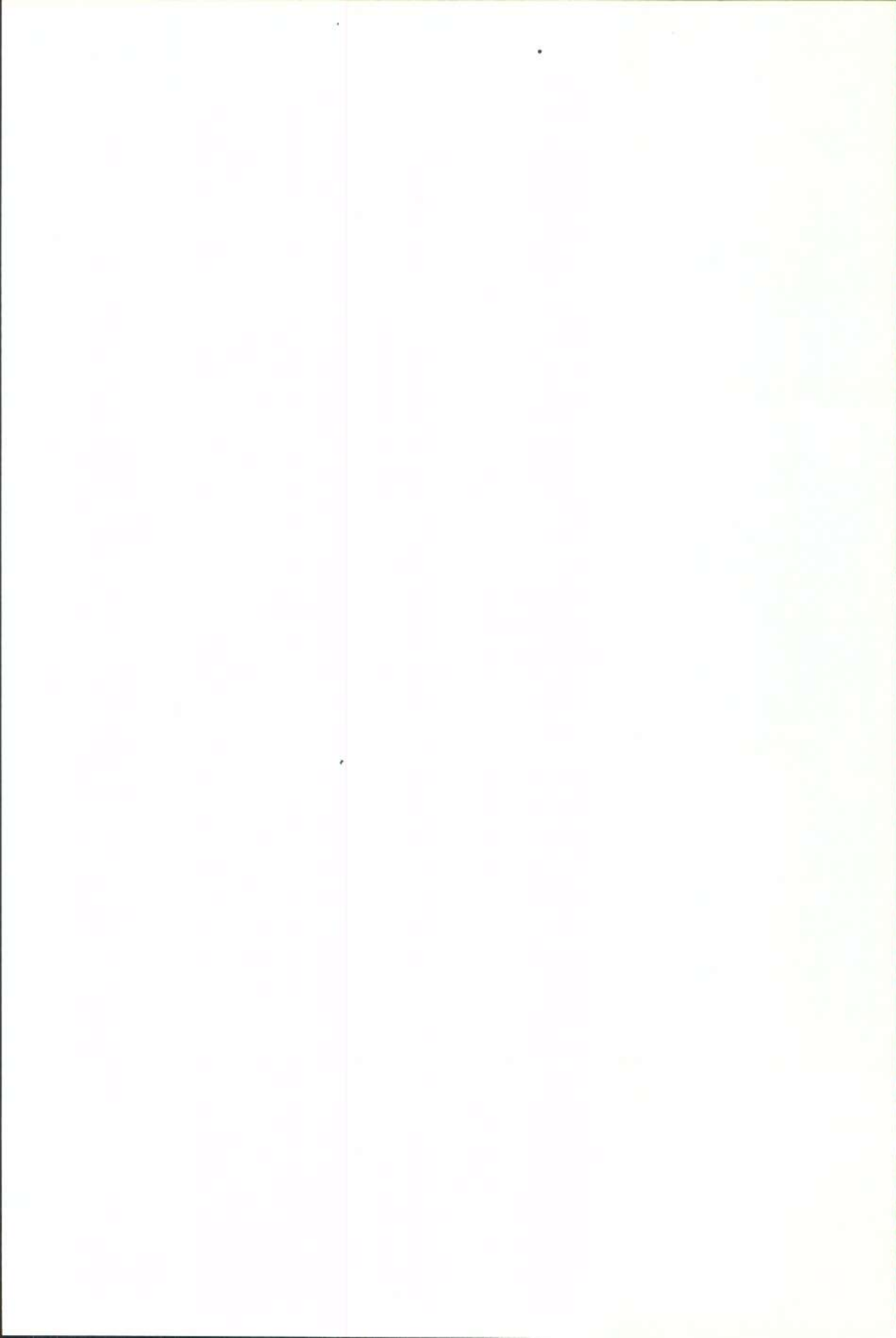


CHAPTER III

THE CENTRAL BANK OF THE STATES OF EQUATORIAL AFRICA AND OF CAMEROON



1. GENERAL

Having briefly considered the economic structure of the States belonging to the Central African Customs and Economic Union (UDEAC), and having tried to show the effects of this structure on the behaviour of the monetary authorities, it seems appropriate to consider the conditions which govern the activity of the Central Bank of the States of Equatorial Africa and of Cameroon (BCEAEC).

2. ORIGIN AND STRUCTURE OF THE CENTRAL BANK

In 1960, immediately after they had gained their independence, the five States we are considering (Chad, Congo-Brazzaville, Gabon, Central African Republic and Cameroon), with the co-operation of France, established a Central Bank.

This is a public international institution, which enjoys the privilege of issuing paper currency and coin, and which is governed by a set of regulations, referred to in the co-operation agreements concluded between France and the five States at the following dates:

- on 15th August 1960 with Congo, the Central African Republic and Chad;

- on 17th August 1960 with Gabon;

- on 13th November 1960 with the Federal Republic of Cameroon.

Under the agreements, any subsequent reform of the issuing rules and of the structure of the Central Bank is subject to a procedure agreed by all parties.

Originally, the Bank had a seat in the capital of each of the five countries and a Head Office in Paris. Subsequently, branches were established in the most important centres. In the Federal Republic of Cameroon they were established in Duala, Garua, N'Kang-Samba and Victoria; in the Central African Republic in Bangui; in the Republic of Congo-Brazzaville in Pointe-Noire; in the Gabonese Republic in Port-Gentil; and in the Chad Republic in Fort-Lamy¹.

The Bank has a capital of 250 million CFA francs which may be increased either by incorporation of reserves or after deliberation by the Board, subject to the approval of the member States². Originally, it was administered by a Board of 16 members, 8 of whom represented France while 8 represented the African States³. The French Treasury had obtained this representation as a counterpart of the guarantee of free convertibility with the French franc, given to the currency issued by the Central Bank. The composition of this Board was later modified in 1965/1966. Twenty-six members were in fact appointed, 14 of them French and 12 Africans. The Chairman has always been a French citizen.

¹ In agreement with the Government concerned, the Board of the Central Bank decides on the location of each branch and on the creation of other offices or sub-offices. In this connection one may usefully consult Article 2, Title I of the Statute of the BCEAEC and Article 2, Title I of the Statute of the BCEAO (Central Bank of the States of West Africa).

² Similar provisions are contained in Article 3 of the Statute of the B.C.E.A.O.

³ Cameroon appointed 4 representatives while the other States appointed one each.

The French directors (Chairman excluded) are appointed by the following bodies:

- four by the Ministry of Finance and Economic Affairs;
- two by the Ministry for Economic and Technical Co-operation with the States of the issuing area;
- four by the Bank of France;
- one by the Central Fund for Economic Co-operation (*Caisse Centrale de Coopération Economique*);
- two by the Monetary Committee of the franc zone¹.

Each of the African States appoints two representatives, except for Cameroon which appoints four.

The Board enjoys the widest powers, within the limits established by the Statute, for the administration of the activities of the Central Bank. However, since the creation of the National Monetary Committees its activity has been confined in principle to problems concerning the whole issuing area such as, for instance, the determination of the bank rate, the elaboration of a common monetary policy and so forth.

The Board may take valid decisions if 9 directors at least are actually present and if these decisions are approved by the majority of members present or represented. The Chairman has a casting vote.

¹ We should note that in 1965/1966 there were 27 directors, 15 of whom were French as the Central Fund for Economic Co-operation had appointed two. In the following year the number was reduced to 26 as the Monetary Committee of the franc zone had only one. In the following years it was the Central Fund that had one only. It should be pointed out however that there is a marked difference in the composition of the Board of Directors as reported in the *Rapports d'activité* of BCEAEC and that resulting from Article 25 of the *Dispositions organiques* of the above Bank. In fact according to Article 25 the Central Bank should be governed by a Board to include fifteen members in addition to the Chairman. Seven of these should be nominated by the French Government; four by the Cameroon Government and the remaining four — one each — by the other countries of the zone under consideration.

In the absence of the Chairman, the Board elects an acting Chairman from its members. Absent members may be represented by a deputy appointed for the duration of the member's term of office or by a colleague. In the latter case, this proxy cannot be granted for more than one meeting, nor may any one member be given more than three votes.

It should also be noted that, within the Board, committees have been set up, consisting of representatives of France and of the States involved, to decide on the policy of the monetary authorities as regards problems directly concerning individual countries.

Originally, three committees were set up:

the Cameroon Committee;

the Gabon Committee;

the Committee for Equatorial Africa for problems common to the Central African Republic, Congo and Chad.

In 1965-1966, however, the monetary committees of Congo, the Central African Republic and Chad were set up. These committees were to function independently of the Equatorial Africa committee. This last body however has not met since 1966.

These committees consist of the members from each State, of the Chairman of the Board and of a French representative. The only exception is the Cameroon committee with two representatives of the French committee. These committees were obviously set up in response to the demands for autonomy, on the part of the individual States, as regards the selective aspect of the Central Bank's investment policy¹.

¹ In this connection it should be noted that, for individual countries, the upper limits of intervention by the central monetary authorities are, quite probably, determined by the Board. This is because, in the absence of more detailed provisions, it is thought that the monetary authorities of the BCEAEC

At this point, however, it becomes clear that the behaviour of the monetary authorities is conditioned by the intentions of the French representatives.

These representatives, in fact, being able to exert a decisive influence over the decisions of the Board and, in practice, of the individual committees, can determine monetary policy and, where they think it fit, can subordinate the interests of the countries we are discussing to those of the French Republic¹.

However, we should stress the effort made by the monetary authorities which we are discussing to entrust an increasing weight

refer to Articles 55, 56, 57, 58 and 59 of the Statute of the BCEAO which determine the delegation of power of the Board to the committee as regards the allocation of credit. According to these articles, National Committees periodically assess the need for re-financing, at the Central Bank, of the economies of the States which they represent. The Board determines the amount of short-term credit which may be conceded to individual banks. It falls to the committees, however, to allocate this amount between individual deposit banks. The committees which we are considering also establish the limits of re-financing for individual enterprises. These limits must not exceed, without the prior authorisation of the Board, the ceiling which the Board has established for individual operators. A similar procedure is followed as regards medium-term re-financing operations.

¹ Different considerations apply in the case of the Central Bank of the States of West Africa. Its Board consists of 21 members, 14 of whom are appointed by the member States of the West African Monetary Union on a basis of two per country, and the other 7 by the French Government. The Chairman of the Board, who must be one of the members, is elected by the directors every two years. The National Monetary Committees, on the other hand, consist of five members, appointed by the governments concerned. Two of them, however, are the Government's representatives in the Board. Meetings of the Committees are chaired by one of the Government representatives. It follows therefore that French participation, while it is such as to have an influence on the monetary policy of the West African States, cannot, at least in its formal aspect, condition it altogether, as it is said to do in the case of the States of Equatorial Africa and of Cameroon. On this point see Articles 41-48 of the Statute of the BCEAO and Article 7 of the Co-operation Agreement between the French Republic and the republics which are members of the West African Monetary Union.

of responsibility in the management of the Bank to people from the issuing area.

In the first place, in fact, young Africans, who have obtained higher educational qualifications, have been selected and given appropriate technical training, with a view to the gradual formation of local managerial cadres; secondly, courses organised within the branches have made it possible to raise the professional level of African staff and to make better use of them; finally, some African officials, in order to improve their professional qualifications, have been invited to attend specialist courses at central banks or credit institutions abroad. The results of this policy have not been slow to appear. The percentage of Africans among the staff has substantially increased, rising from 55% at the outset to 78% in 1965¹. Moreover the number of local senior staff has shown an appreciable increase, rising from 0 to 25. They have been appointed managers of head offices and branches. Major responsibilities have been entrusted to 4 managers, 4 assistant managers and 9 department chiefs. Two other officials have been seconded, one as general manager of a development bank and the other as head of department at a ministry².

3. MONETARY CIRCULATION

The currency issued by the institution we are considering and by the Central Bank of West Africa is the franc of the African Financial Community (CFA franc), which is worth 0.02

¹ See *L'Organisation Monétaire et Bancaire des Etats de l'Afrique Orientale et du Cameroun*, BCEAEC, Paris, 1966, p. 5.

² On this point see *L'Organisation Monétaire et Bancaire*, *op. cit.*, p. 5 and BCEAO, *Rapport d'activité* for the years 1965/1966, 1966/1967, 1967/1968, 1968/1969, 1969/1970.

French francs, corresponding, since the devaluation of 11 August 1969, to 0.0032 grammes of fine gold¹.

The principles which govern the operation of the monetary system in the countries we are discussing are defined in the economic and financial co-operation agreements negotiated with France. These agreements provide that the member countries of the Central Bank of the States of Equatorial Africa and of Cameroon and of the Central Bank of West Africa shall maintain their respective monetary systems within the franc zone². They also

¹ As of January 1960 the corresponding weight was 0.0036 g fine gold. See IMF, *International Financial Statistics*, Volume XXV, January 1972, p. 7.

² With the exception of certain countries which have their own currency, such as Guinea, Ethiopia and the United Arab Republic, the majority of African States belong to an international monetary area. The franc, sterling, dollar, escudo and peseta areas are the major currency areas of the African continent. At present, the CFA area is based on a contractual, voluntary and free agreement. Strictly speaking, the 14 African States of the franc area are divided from a monetary standpoint into two unions and have two issuing institutions. The Monetary Union of West Africa (UMAO) includes: Senegal, Mauritania, Ivory Coast, Niger, Togo, Dahomey and Upper Volta. The Monetary Union of Equatorial Africa and Cameroon includes, as we have seen, Congo-Brazzaville, Cameroon, Gabon, the Central African Republic and Chad. To these countries we should add Madagascar. It is true that it has its own central bank (the Malagasy issuing bank) but this institution operates on the basis of the same principles as the other two banks already mentioned, and the currency which it issues (the Malagasy franc) has the same parity as the CFA franc. We should also mention the Mali franc, issued by the Central Bank of Mali, which until 29th March 1968 was an independent currency, in so far as the Government of that country had not ratified the Co-operation Agreement of 12th May 1962, by which the UMAO had been set up. In 1968, however, the Mali franc has been linked with the French franc on the basis of a special agreement with the Government of the French Republic, and is established at a parity of 0.01 French francs, with the same rights of convertibility and transferability within the CFA and Malagasy Franc area. Finally, we should add that the three Maghreb States — Morocco, Algeria and Tunisia — have each an independent currency, issued by a national bank. These three countries, however, even though they do not belong to the Franc area, are linked with it

recognise, however, the right of these countries to establish their own central bank and issue their own currency. Furthermore, these agreements provide that the exchange rate between the CFA and French franc may only be altered with the consent of all the countries concerned and that the French Government must consult the governments of the States concerned whenever it considers it necessary to alter the exchange rate between the French franc and foreign currencies¹.

The Central Bank is obliged to comply with every request for a money transfer between the issuing area and the rest of the franc area. Such transfers are carried out through a *compte d'opérations* opened in the name of the Central Bank at the

by special co-operation agreements (the well-known lines of credit systems). The Djibouti franc, issued in the French territory of the Afar and Issa (formerly French Somaliland) is, however, linked to the dollar area. To complete this examination of the monetary characteristics of the African territories which were under French administration, we should also look at Guinea. Guinea has its own central institution (Central Bank of the Republic of Guinea) and its own currency. On this point it is worth consulting Sergio Bortolani, *The banking system of Niger*, Milan, Cassa di Risparmio delle Provincie Lombarde, 1971, p. 28 ff; "Les Banques en Afrique", *Moniteur Africain*, No. 496 of 1st April 1971, p. 9; Roger Bistolfi, *Structure économique et indépendance monétaire. L'expérience monétaire de la Tunisie et ses enseignements*, Paris, Cujas, 1967, p. 47; Jacques Alibert, "L'Afrique dans le système monétaire international", *Europe, France, Outremer*, December 1969, p. 10, and Mustaphe Doghmi, *Le rôle de la Banque du Maroc dans le système monétaire et bancaire*, Casablanca, Imprimeries Réunies, 1967, p. 39.

¹ See Articles 6 and 7 of the BCEAEC Statute and Articles 4 and 6 of the Co-operation Agreement between France and the member States of the UMAO. We may also note that, in August 1971, a two-tier foreign exchange market was set up, consisting of an official market in which transactions are effected at the parity rate and a financial market in which the monetary authorities allow exchange rates to float. Private operators have access to the official market only for operations in connection with international trade. Government authorities and public bodies, on the other hand, have free access to that market. See IMF, *International Financial Statistics*, Vol. XXV, January 1972, p. 728.

French Treasury. This account, into which the issuing bank must pay all its currency resources, except a small part for current cash needs, is credited with the amount of the transfers into the issuing area and is debited with the transfers out of that area.

At the same time the agreement establishing the operational account specifically provides that the Central Bank may have an overdraft. This possibility, however, while it is unconditional in the case of Cameroon and the States of Equatorial Africa, is subject to previous mobilisation of the currency reserves held by public and private bodies in the West African Monetary Union¹. Thus the undertaking given by the French Treasury, that it will make available to the central banks all the French francs required to effect transfers between the issuing area and the other countries of the franc zone, confers an unlimited character on the convertibility in French francs of the currency issued by these institutions. When the operational account is overdrawn, the French Treasury receives interest on the debit balance, at a rate calculated as follows:

on the portion under 5 million francs: 1% per annum;
on the portion from 5 to 10 million francs: 2% per annum;
beyond 10 million, this rate will be equal to the discount rate of the Bank of France and will fluctuate with it, without however being allowed to fall below 2.50% per annum.

In the event of a credit balance the Central Bank receives interest calculated at a rate equal to the discount rate of the

¹ However, the BCEAO may limit its requests, depending on the foreseeable amount of the need, to public and banking bodies alone. Furthermore, it may make this request only in the case of those States whose foreign transactions show a deficit in the operational account. See Article 4 of the agreement establishing the operational account.

Bank of France and fluctuating with it. This rate may not fall below 2.50% per annum¹.

We should further observe that, while the Board of the BCEAEC is not subject to any statutory obligations to increase its discount rate automatically or reduce the ceiling on re-financing operations wherever the currency reserves of the issuing area fall below a certain level, the Board of the BCEAO, wherever its operational account shows a deficit for 60 consecutive days, must:

- (i) increase its discount rate by one point;
- (ii) reduce the re-financing ceilings for short-term transactions by 20% in the case of branches which show a currency deficit, and by 10% in the case of branches whose reserves are less than 15% of fiduciary circulation.

Furthermore, in those branches to which these provisions apply, no medium-term re-financing operations can be approved by the Bank. These provisions may be partly mitigated only through a decision of the Board, approved by a three-quarters majority².

¹ See Article 11 of the BCEAEC Statute and Article 6 of the operational account agreement.

² See Article 8 of the co-operation agreement between the French Republic and the member Republics of UMAO. In this connection, we should bear in mind the provisions of Article 14 of the BCEAO Statute. These stipulate that, when the relationship between the average amount of the currency reserves of the Bank and that of its sight liabilities remains, for 30 consecutive days, at or below 20%, the Chairman must convene the Board to consider whether it is advisable to increase the discount rate, reduce the ceilings on short-term re-financing transactions or revoke the exceptional increases on overdraft limits which may have been conceded to the national Treasuries. Moreover, if this ratio remains at or below 10% for 30 consecutive days the Board may, where it thinks fit, raise the bank rate and must reduce the ceiling which it has allowed to the level normally conceded to the national Treasuries. Naturally, these provisions will apply to the ceilings previously approved by the Board for future

Transfers between the issuing area and countries not belonging to the franc zone, which are effected in accordance with the regulations of the national foreign exchange offices, are preceded or followed by a transfer within the franc zone, the purchase or sale of foreign currency being made on the Paris market¹. For this purpose, the French Exchange Stabilisation Fund holds a dollar account for each of the countries in the franc zone. In this account are recorded sales and purchases of currencies not belonging to the franc zone, effected by every member State. However, this account is of purely statistical significance since its balance has no bearing on the possibilities of access to the Paris Exchange Market, enjoyed by the countries under consideration². Naturally, a country which is overdrawn will be asked to improve its position and to keep within certain borrowing limits through appropriate policies.

Having briefly analysed the mechanism of the relations between the CFA franc and the currencies of the rest of the world, it is worth while considering it as regards its effects on the internal circulation of the member States of the Monetary Union of Equatorial Africa and Cameroon. To this end it may be useful

months, or in the absence of such ceilings, to those of the corresponding months in the preceding year. These provisions may be subject to partial exceptions only on a decision of the Board, approved by a three-quarters majority. They furthermore regulate the behaviour of the monetary authorities of West Africa and were most probably introduced to make up for the small amount of influence which the French representatives could exert on the monetary policy of the institution under consideration.

¹ We should observe that in the period running from 31 January 1967 to 31 January 1968 all exchange controls were abolished. Subsequently, however, France, and with her the African States, reintroduced these controls. See Banque de France, *Compte-Rendu des Opérations*, 1968 and 1969.

² See *Surveys of African Economies*, *op. cit.*, Vol. I, p. 16.

to take a brief historical look at the development of the monetary supply. This, in October 1955, largely consisted of notes issued by the Central Economic Co-operation Fund (CCCE)¹. Thereafter, in 1957/1958, new banknotes were issued with a face value of 50, 100, 500 and 1,000 francs. The 5, 10, 20 and 25 franc notes were withdrawn from circulation and replaced by coins. After the granting of independence, the Federal Republic of Cameroon decided to issue a full range of its own banknotes for 100, 500, 1,000 and 5,000 francs. The four States of Equatorial Africa, on the other hand, decided to use the same type of notes, overprinted however with identification lettering² so that the issuing country could be recognised. Banknotes with a face value of 10 francs or under were replaced by coins, identical for all the States³. In this way currency enters into circulation not only in the country of issue but also through successive transfers into the whole of the monetary area we are considering, making it impossible for the Central Bank to know exactly the amount of fiduciary money held by each State. We should observe, however, that the issue of banknotes with code letters has made it possible to identify 92% of the notes in circulation at the end of June 1967⁴. Indeed, this process has been helped by the obligation, imposed on public institutions and banks, of

¹ See *L'Organisation Monétaire*, *op. cit.*, p. 7.

² These letters are: A for Chad, B for the Central African Republic, C for the Congo and D for Gabon.

³ To complete this very brief analysis, we may note that in June 1968 the Central African Republic issued a 10,000 franc note, bearing the portrait of General Bokassa.

⁴ See BCEAEC, *Rapport d'Activité pour l'exercice 1966/1967*, p. 23. In Cameroon this process of identification could be considered as terminated in the course of 1964/1965.

transferring to the head office of the Central Bank any notes bearing code letters other than the one for the country in which they are located. The Central Bank then arranges for the physical transfer of the banknotes to its head offices in the respective issuing States of the Union, and will credit for the same amount — in special bilateral accounts opened with each of the associated head offices — the State which returns the notes¹. This process has been further encouraged by an ever-increasing use of the banknotes with a higher face value. These in fact represent an increasing share of fiduciary circulation. Finally, before we discuss the quantitative aspect of the matter under consideration, we should observe that the Central Bank must remit at quarterly intervals to the States of the issuing area — even if there are no returns — and in accordance with the procedures fixed by common agreement of all the States, a compensation for the amount of productive fiduciary circulation².

At this point it is worth analysing monetary circulation in its quantitative aspect, bearing in mind that this analysis will be made in the first place for the issuing area and then for Gabon.

¹ See also S. Bortolani, *The banking system of Niger, op. cit.*, p. 37. Coins, which are identical for all these countries, have however remained unaffected by this identification process, along with banknotes which do not find their way to the operators we have mentioned.

² For the calculation of productive fiduciary circulation and the corresponding compensation, specific criteria have been established in Articles 40 and 42 of the BCEAEC Statute. Other provisions are made in Articles 66 and 68 of the BCEAO Statute. According to the latter, in fact, compensation is provided in the amount of 12% of the Central Bank's receipts in the previous year. However, this compensation will be limited to the net profit if this is less than the compensation in question. Moreover, the compensation due to any State will be reduced by the amount of the financial losses imputable to it and by the interests calculated on the amount of its currency deficit. If these deductions are greater than the compensations due to individual States, these States will have to remit the difference to the Central Bank.

TABLE 1

FIDUCIARY CIRCULATION IN THE ISSUING AREA, 1963 TO 1970
(in million CFA francs)

Months	Financial year 1963/ 1964	Financial year 1964/ 1965	Financial year 1965/ 1966	Financial year 1966/ 1967	Financial year 1967/ 1968	Financial year 1968/ 1969	Financial year 1969/ 1970
July	23,280	25,838	27,354	28,014	30,324	32,081	35,254
August	23,130	25,309	26,457	27,939	29,702	31,903	35,109
September	23,326	25,009	25,408	27,393	28,910	31,517	34,320
October	23,546	24,744	25,349	27,416	28,825	31,454	34,850
November	25,042	26,110	26,623	29,043	29,751	33,039	37,028
December	27,144	28,830	29,132	31,972	32,283	36,238	40,481
January	28,756	30,260	30,408	32,997	34,375	38,046	42,105
February	29,945	31,208	31,689	34,017	35,791	39,406	43,841
March	29,789	31,019	31,669	34,773	36,324	39,536	44,407
April	28,598	30,131	30,779	34,020	35,687	38,140	43,519
May	27,668	29,085	29,775	32,641	34,663	36,900	41,799
June	26,642	28,287	28,773	31,372	33,086	35,723	40,471
Average values	26,406	27,986	28,618	30,966	31,643	35,331	39,432

Source: BCEAEC, *Rapports d'activité*.

From a first consideration of the figures quoted above we may establish the following:

- (i) every year shows a maximum and a minimum. The former occurs either in September or October, the latter either in February or in March;
- (ii) from the minimum to the maximum point there is a continual increase in fiduciary circulation, and vice versa.

Furthermore, we may observe that the process under consideration shows extensive variations in relative terms. These last, in the period from 30 June 1966 to 30 June 1969, averaged

26.48%. In 1963/1964 and 1969/1970 this variation, however, amounted to 29.43 per cent.

What we have set out above demonstrates not only the seasonal character of the economies of the States belonging to the issuing area, but also the inadequate level of diversification which they have achieved, their lack of integration and their dependence on the outside world.

As regards the expansion of fiduciary circulation we may note that, in absolute terms, it has grown from 26,642 million CFA francs in June 1964 to 40,471 million in June 1970.

The rate of growth by comparison with the highest figure for the previous year has shown:

- (i) a clearly diminishing trend for the period from 1963 to 1966;
- (ii) a sudden increase in 1966/1967;
- (iii) a rising trend since 1967/1968.

The same considerations apply to the rate of growth by comparison with the figures for the end of June.

We thus see that fiduciary circulation has steadily increased, though at a declining rate from 1963 to 1966 and from June

TABLE 2

INCREASE RATE OF THE FIDUCIARY CIRCULATION, 1964 TO 1970

I t e m s	1964/ 1965	1965/ 1966	1966/ 1967	1967/ 1968	1968/ 1969	1969/ 1970
As against the maximum value for the previous financial year	4.29	1.54	9.73	4.46	8.84	12.32
As against the value at the end of June	6.17	1.71	9.03	5.46	7.97	13.29
As against average values	5.98	2.26	8.20	2.19	11.66	11.61

1967 to June 1968. The explanation for this trend may be found in the development of agricultural production. A crisis there, as occurred for instance in 1965/1966, has a serious effect on the expansion of monetary base. Conversely, favourable results for agricultural production, the increase in exchange transactions and the improvement in marketing have a positive effect on the increase in fiduciary circulation.

We may therefore assert that the process under consideration has shown a rising trend, whose dominant feature has been a well-marked cyclical movement, due to the effects of the seasonal character of agricultural production with an annual cycle.

In Gabon, fiduciary circulation has developed as follows.

TABLE 3

FIDUCIARY CIRCULATION IN GABON, 1962 TO 1970
(in million CFA francs)

Months	1962/ 1963	1963/ 1964	1964/ 1965	1965/ 1966	1966/ 1967	1967/ 1968	1968/ 1969	1969/ 1970
July	3,599	4,377	4,896	5,251.69	4,920.77	3,560.36	3,744.25	3,966.45
August	3,692	4,410	4,824	5,261.13	4,750.97	3,489.71	3,700.20	4,035.99
September	3,854	4,483	4,860	5,027.17	4,527.31	3,568.92	3,679.93	4,011.73
October	3,855	4,534	4,894	5,146.50	4,279.84	3,651.29	3,829.88	4,193.55
November	3,904	4,585	4,867	5,151.20	4,120.70	3,682.78	3,832.68	4,222.91
December	4,073	4,595	5,055	5,375.58	4,162.31	3,878.96	3,925.45	4,601.27
January	4,064	4,692	5,099	5,407.48	4,004.51	3,800.42	3,965.51	4,574.25
February	4,158	4,743	5,126	5,436.02	3,865.83	3,780.17	4,006.67	4,702.72
March	4,179	4,808	5,095	5,448.45	3,792.91	3,722.68	3,882.34	4,604.12
April	4,266	4,841	5,103	5,435.80	3,700.70	3,777.16	3,832.77	4,736.31
May	4,269	4,862	5,141	5,428.94	3,623.06	3,805.51	3,871.94	4,763.43
June	4,314	4,825	5,176	5,325.68	3,616.48	3,746.42	3,989.68	4,876.35
Monthly average	4,019	4,646	5,011	5,308.00	4,113.7	3,705.4	3,855.1	4,440.8

Source: BCEAEC, *Rapports d'activité*.

We see that the trend of this process in Gabon has been quite different from that for the entire monetary area to which the country belongs. It may be considered in two sub-periods: in the first, running from 1 July 1959 to 30 March 1966, it shows a considerable and steady increase, rising in fact from 2,005 million CFA francs to 5,448.45 million¹; in the second, from 30 March 1966 to 30 June 1970, an appreciable decline occurs. The amount of fiduciary circulation shrinks, in fact, to 4,876.35 million CFA francs.

However, this last sub-period should be more closely analysed. In fact, from March 1966 to August 1967 it shows a substantial contraction which seems² to be mainly of an accounting nature due to the process of identifying banknotes. 1967/1968 and 1968/1969 show a relatively weak seasonal cycle. The size of the fluctuations between the highest and lowest points in fact does not exceed 11%. In the last year, on the other hand, fiduciary circulation shows a marked increase, amounting to 23% approximately.

Hence, bearing in mind what has been said previously, it seems possible to identify in Gabonese fiduciary circulation a certain seasonal element, which, however, is not as marked as for the entire monetary area to which the country belongs.

After this brief discussion of fiduciary circulation, we may consider deposits first in the whole issuing area and then in Gabon.

¹ Statistical data on fiduciary circulation before 1967 are estimates made by the central monetary authorities.

² See Service National de la Statistique et des Etudes Economiques, *Situation Economique Financière et Sociale de la République Gabonaise*, 1968, Libreville, p. 131 and BCEAEC, *Rapport d'activité pour l'exercice 1966/1967, Gabon*, p. 9, "Celui-ci s'est avéré, en fonction de la libre circulation des billets d'un pays à l'autre de l'Union Monétaire, inférieur au montant apparent résultant de la situation des émissions en sorte que les variations d'un exercice à l'autre sont sans signification sur le plan monétaire".

If we confine our attention to the period from 30 June 1965 to 30 June 1970, deposit money resources in the issuing area showed first a decline and then a rising trend. In fact, in the sub-period from 30 June 1966 to 30 June 1967 the rates of growth became negative, while for the other sub-period the amount of credit money steadily increased at rates, which went up from 11.6% to 25 per cent¹.

At this point it is worth while analysing how these resources are distributed between families, firms and the Treasury. The relevant statistics may be referred to for this purpose.

The Treasury's resources declined over the first three years, decreasing from an average monthly value of 15,648 to 10,939 million CFA francs. Thereafter, its resources expanded considerably by increments of 7.64% and 41.11% in two years². The two components of the economic quantity which we are considering, that is deposits with the Central Bank and deposits with the banking system, showed a similar curve though of very different intensity. In fact, while deposits with the Central Bank declined in scarcely three years by 4,499 million CFA francs, which represents a drop of more than 45.50%, those with the banking system went down by only 768 million, a drop of slightly more than 13%. Moreover, in the following sub-period, the first category of deposits showed increases of 25.53 and of 54.85%, whereas the second grew by 22.50 per cent³.

¹ These rates are calculated on the basis of the values at the end of June. If we use monthly average values instead, they range from 2.08 to 20%. We should note that, still on the basis of these figures, the trend of the process in question shows the same movement.

² These rates are much higher if calculated on the basis of values for the end of June. In that event they are 29.87% and 57.39% respectively.

³ These values have been calculated on the basis of average values.

We should observe that every decrease in these resources is liable in itself to give rise to an increase in fiduciary circulation and, quite probably, to a decline in the currency reserves of the issuing area¹.

The resources of private individuals have shown a constant growth at increasing rates. They have in fact gone up from 9.29% to 13.82% after reaching 15.42% in 1968/1969. Similarly, the sight deposits of private operators have constantly increased, rising from 22,380 million in 1965/1966 to 36,323 million in 1969/1970, an increase of about 55.40%. The considerable fluctuations between maximum and minimum values and the occurrence of minimum levels in October are a further proof, if this were still needed, of the highly seasonal character and the lack of integration of the economies we are discussing.

Similarly the time deposits of private individuals have shown a very marked increase of 100.04%. In relative terms, however, their importance is comparatively modest, even if it has shown a steady increase from 6.42% to 10.69%. If one bears in mind that "development, seen as a continuous process, can only be steadily maintained by relying on an adequate flow of voluntary saving"² we can see the importance of the category of assets we are considering.

¹ We should also mention that the decreases in the credit money of the Treasury have occurred notwithstanding the issue of *bons d'équipement* by the Treasuries of the Central African Republic, Cameroon, Congo and Gabon for whom, probably, these decreases are to be attributed to the financial requirements arising from the development plans.

² See A. Gambino, *Economia creditizia*, Turin, Utet, 1967, p. 363. Dell'Amore also comes to the same conclusion. See G. Dell'Amore, *Il contributo del risparmio familiare al riscatto del mezzogiorno*, Milan, Giuffrè, 1969, p. 5. In this connection it is also worth consulting Andrew F. Brimmer, "Central Banking and Economic Development", *op. cit.*, p. 782-783.

TABLE 4

DEPOSITS OF PRIVATE INDIVIDUALS AND COMPANIES, 1965 TO 1970
(in million CFA francs)

I t e m s	June	July	August	September	October	November
Financial year 1965/1966						
Sight deposits	21,998	22,349	22,375	22,752	23,038	22,074
Time deposits	2,190	1,760	1,951	1,944	2,116	2,364
Total bank deposits	24,188	24,109	24,256	24,696	25,154	24,438
Deposits with the Treasury and Post Office	1,356	1,405	1,272	1,048	1,138	1,108
Total	25,544	25,514	25,798	25,744	26,292	25,546
Financial year 1966/1967						
Sight deposits	24,188	23,827	23,943	24,383	23,926	23,932
Time deposits	2,373	2,317	2,435	2,476	2,569	2,609
Total bank deposits	26,561	26,144	26,378	26,859	26,495	26,541
Deposits with the Treasury and Post Office	1,618	1,695	1,574	1,504	1,587	1,861
Total	28,179	27,839	27,952	28,363	28,082	28,402
Financial year 1967/1968						
Sight deposits	26,695	26,676	26,163	26,090	25,939	26,135
Time deposits	2,765	2,611	2,687	2,815	2,838	3,081
Total bank deposits	29,460	29,287	28,850	28,905	28,777	29,216
Deposits with the Treasury and Post Office	1,787	2,002	1,441	1,487	1,571	1,581
Total	31,247	31,289	30,291	30,392	30,348	30,797
Financial year 1968/1969						
Sight deposits	31,831	29,333	29,608	30,198	29,195	30,830
Time deposits	3,031	3,183	3,542	3,566	3,688	3,533
Total bank deposits	34,862	33,116	33,150	33,764	32,833	34,363
Deposits with the Treasury and Post Office	1,600	1,504	1,383	1,473	1,346	1,575
Total	36,462	34,620	34,533	35,237	34,229	35,938
Financial year 1969/1970						
Sight deposits	33,619	33,737	33,692	33,148	33,139	34,981
Time deposits	4,181	4,198	4,564	4,551	4,642	4,540
Total bank deposits	37,800	37,935	38,256	37,699	37,781	39,521
Deposits with the Treasury and Post Office	1,859	1,700	1,578	1,566	1,520	1,728
Total	39,659	39,635	39,834	39,265	39,301	41,249

(1) Provisional figure.

(2) Estimate.

Note - For the month of June we have shown both the first data published by the BCEAEC and those contained in its subsequent report. In such a way one can see

December	January	February	March	April	May	June	Average values
22,812	23,002	24,164	24,603	24,736	24,263	24,192	23,380
2,342	2,575	2,441	2,464	2,484	2,421	2,401	2,272
25,154	25,577	26,605	27,067	27,220	26,684	26,593	25,652
1,062	1,240	1,341	1,272	1,565	1,543	1,888	1,324
26,216	26,817	27,946	28,339	28,785	28,227	28,481	26,976
24,138	24,694	25,844	26,593	27,478	25,976	26,725	25,122
2,621	2,620	2,644	2,622	2,709	2,770	2,765	2,596
26,759	27,314	28,488	29,215	30,187	28,746	29,490	27,718
1,786	1,909	1,850	1,803	1,830	1,910	1,855	1,764
28,545	29,223	30,338	31,018	32,017	30,656	31,345	29,482
27,994	26,953 ⁽¹⁾	28,011 ⁽¹⁾	28,870	29,035	29,660	31,830 ⁽²⁾	27,780
3,167	3,297 ⁽¹⁾	3,361 ⁽¹⁾	3,205	3,142	3,113	3,023 ⁽²⁾	3,028
31,161	30,250 ⁽¹⁾	31,372 ⁽¹⁾	32,075	32,177	32,773	34,853 ⁽²⁾	30,808
1,484	1,465	1,543	1,586	1,513	1,466	1,600	1,562
32,645	31,715 ⁽¹⁾	32,915 ⁽¹⁾	33,661	33,690	34,239	36,453 ⁽²⁾	32,370
32,029	33,010	34,370	34,291	33,792	34,021	33,619	32,073
3,383	3,349	3,520	4,158	3,929	3,988	4,181	3,680
35,412	36,359	37,890	38,449	37,721	38,009	37,800	35,753
1,664	1,727	1,661	1,543	1,755	1,823	1,859	1,610
37,076	38,086	39,551	39,992	39,476	39,832	39,659	37,363
36,069	37,263	38,439	38,644	38,570	39,344	38,855	36,323
4,339	4,710	4,728	4,756	4,632	4,471	4,411	4,545
40,408	41,973	43,167	43,400	43,202	43,815	43,266	40,868
1,659	1,652	1,795	1,710	1,655	1,632	1,680	1,657
42,067	43,625	44,962	45,110	44,857	45,447	44,946	42,525

the delay occurring in the availability of data by the monetary authorities and how difficult it is to rely upon these figures.

Source: BCEAEC, *Rapports d'activité*.

TABLE 5

DEPOSITS OF THE TREASURY, 1965 TO 1970
(in million CFA francs)

Items	June	July	August	September	October	November
Financial year 1965/1966						
Deposits with the Central Bank	11,382	11,046	10,005	9,410	9,030	8,835
Deposits with the banking system	6,175	5,940	6,505	6,348	6,296	6,257
Total	17,557	16,986	16,510	15,758	15,326	15,092
Financial year 1966/1967						
Deposits with the Central Bank	10,137	10,689	9,658	7,865	8,289	7,447
Deposits with the banking system	5,140	5,050	4,997	4,888	5,434	5,663
Total	15,277	15,739	14,655	12,753	13,723	13,110
Financial year 1967/1968						
Deposits with the Central Bank	6,034	5,712	5,850	5,287	4,820	4,689
Deposits with the banking system	5,299	5,314	5,358	5,800	6,272	5,778
Total	11,333	11,026	11,208	11,087	11,092	10,467
Financial year 1968/1969						
Deposits with the Central Bank	5,914	5,937	6,388	5,389	5,629	4,744
Deposits with the banking system	5,180	5,063	4,966	4,900	4,987	4,783
Total	11,094	11,000	11,354	10,289	10,616	9,527
Financial year 1969/1970						
Deposits with the Central Bank	9,117	8,926	8,003	7,214	7,060	6,559
Deposits with the banking system	5,284	5,526	5,631	6,849	6,127	6,320
Total	14,401	14,452	13,634	13,063	13,187	12,879

(¹) Provisional figure. (²) Estimate.

Source: BCEAEC, *Rapports d'activité*.

December	January	February	March	April	May	June	Average values
9,041	10,079	9,844	10,300	10,455	10,373	10,137	9,880
5,285	5,648	5,745	5,642	5,355	5,098	5,098	5,768
14,326	15,727	15,589	15,942	15,810	15,741	15,235	15,648
6,165	6,713	7,702	7,162	6,855	6,850	6,034	7,619
5,690	5,799	5,735	5,648	5,503	5,346	5,299	5,421
11,855	12,512	13,437	12,810	12,358	12,196	11,333	13,040
4,405	4,343	5,355	5,918	6,039	6,245	5,914	5,381
5,600	5,476 ⁽¹⁾	5,481 ⁽¹⁾	5,577	5,463	5,400	5,175 ⁽²⁾	5,558
10,005	9,819 ⁽¹⁾	10,836 ⁽¹⁾	11,495	11,502	11,645	11,089 ⁽²⁾	10,939
5,195	5,929	6,863	7,665	8,931	9,511	9,117	6,775
4,714	4,852	5,109	5,050	5,082	5,214	5,284	5,000
9,909	10,781	11,972	12,715	14,013	14,725	14,401	11,775
6,227	9,595	11,811	13,606	15,162	15,760	15,973	10,491
6,059	6,032	6,059	6,285	6,388	6,542	6,880	6,125
12,286	15,627	17,870	19,891	21,550	23,302	22,653	16,616

TABLE 6

DEPOSITS OF THE TREASURY ⁽¹⁾, 1965 TO 1970
(in million CFA francs)

Items	30th June 1965	30th June 1966	30th June 1967	30th June 1968	30th June 1969	30th June 1970
Deposits of the national Treasuries with the Cen- tral Bank	11,382	10,137	6,034	5,914	9,117	15,973
Financing by the Central Bank to the national Treasuries	1,655	2,653	4,055	5,520	5,412	7,224
Net amount	9,727	7,484	1,979	394	3,705	8,749
Deposits of the national Treasuries with the bank- ing systems	6,175	5,140	5,299	5,180	5,284	6,880
Financing by the banking systems to the national Treasuries	4,044	4,586	4,260	4,930	4,963	5,322
Net amount	2,131	554	1,039	250	321	1,558
Total deposits of the Treasury	11,858	8,038	3,018	644	4,026	10,307

⁽¹⁾ The very high deposits effected by the national Treasuries with the Central Bank and the banking system and the financial advances obtained by them from the above operators are mainly due to the accounting system adopted by the national Treasuries. The latter operate with many accounts that are considerably late in being brought up to date. It is very likely therefore that usually there will be substantial amounts of debts and credits that are not offset against one another. These duplications may significantly distort the effective amount of the monetary position of the operating Treasury as shown by the table. With regard to this it should also be borne in mind that private monetary resources are overvalued because of the delay in effecting compensatory entries between the various financial institutions. These delays may in fact account for the same amount to be shown as a deposit by two financial institutions. It is not however possible to quantify such duplication as there is not sufficient information in this respect.

Source: BCEAEC, *Rapports d'activité*.

Finally we should consider deposits and current accounts with the post offices. This form of mobilisation has yielded a virtually insignificant harvest. The absolute maximum was reached in 1966/1967, amounting to 1,764 million CFA francs.

Thus the intervention of the public sector in the collection of savings through the issue of loans is undoubtedly less than that of the banking system, and its relative importance has been diminishing in the course of time.

The total amount of the fiduciary resources held by private and public operators has been constantly growing even with widely different rates. These have fluctuated between 4.59% and 11.65%. Moreover, we may note that the fluctuations between the maximum and minimum figures for each year are relatively high, and finally that the maximum figures are concentrated in March whilst the minimum figures are recorded in the two months of September and October.

The amount of monetary and quasi-monetary resources as determined by the above operators has also been marked by a sharp rise. In fact during the period under consideration there has been a very high increase amounting to about 21,127 million CFA francs ¹.

In this case too, fluctuations between maximum and minimum figures have been very wide. In this connection we should note that the minimum figures occur in September and October and the maximum figures in March and April.

Finally, we can see that the relative importance of credit money in the period under consideration has steadily increased from 32.28% to 43.57% ². If we do not take into reckoning deposits with the Treasury and Post Office current accounts, we

¹ The data shown have been obtained from monthly averages.

² It is perhaps relevant to point out that during the period under consideration the rates of increase of the credit money retained privately and by the Treasury have been as follows:

Year	Year	Year	Year
1966/1967	1967/1968	1968/1969	1969/1970
8.05%	11.15%	16.05%	14.31%

observe during the first four years a continuous expansion with an increase from 36.40% to 42.77% of the relative importance of these resources, followed by a slight contraction in the last year in which 41.87% was reached. Thus in the period we are discussing the importance of credit money has undergone a certain appreciation in its relative importance and fiduciary currency has remained the only form of monetary resource as retained by a large part of the local families.

The monetary supply, therefore, shows a markedly seasonal character, overwhelmingly influenced by marketing arrangements for the main exported agricultural products: coffee, cocoa and cotton. This is a further proof of the lack of diversification, of the poor integration and of the high degree of dependence of the States belonging to the Monetary Union of Equatorial Africa and Cameroon on foreign countries.

On the other hand, in the period we are considering, monetary and quasi-monetary resources have shown a steady progression which, especially in the last two years, has taken on relatively high values. This process is in general due to:

- (i) the enlargement of the monetary sector of the economy;
- (ii) the increase in the national product and in the population¹;
- (iii) hoarding;
- (iv) the rise in the general level of prices.

¹ It may be worth recording that, in proportion to the growth of the gap between monetary income and consumption, the amount of money which families require for emergency purposes increases, other things being equal. Hence, under these circumstances, the monetary authorities may adopt a policy of making money and other financial assets available at a rate higher than the rate of growth of income and of the net national product. See Graeme S. Dorrance, "A Framework for the Determination of Central Banking Policy", *International Monetary Fund Staff Papers*, July 1971, p. 218. In this connection see also the interesting arguments put forward by J. Hicks, *Saggi critici di teoria monetaria*, Milan, Etas-Kompass, 1970, p. 31, 32, 43.

The first points call for no special comment. In fact, as the rural population is attracted to the urban sector and the agricultural sector produces not only for self-consumption but for the market, barter is replaced by money transactions.

A more detailed explanation should however be given as regards the increase in the general level of prices. In this connection we should point out that the statistical data are somewhat inadequate, just because they relate to the capitals of the countries under consideration and therefore the facts which they give are hardly reliable. However, on the basis of these statistics, we may conclude that the general index has risen by an average of 4% per annum. The highest increases were recorded in 1969/1970, reaching 14.50% in some countries¹. It seems however that the increase in the monetary supply, following on a substantial influx of foreign currency and on the process by which credit is created, influenced the level of overall demand. This, because of the rigidity of national supply, would have repercussion, failing an adequate amount of stocks and of imports, on the level of internal prices². Finally, some expansion of monetary basis may be due to the wish of the monetary authorities to neutralise hoarding³.

At this point, having considered the development of monetary and quasi-monetary resources of the whole issuing area, we may go on to analyse this same process for Gabon.

¹ See BCEAEC, *Rapport d'activité*, *op. cit.*; IMF, *Surveys of African Economies*, *op. cit.*, p. 146, 248, 301.

² Here should be underlined the danger of such a situation. In fact, we need only think of the effect of inflation on the process of formation and mobilisation of savings and on the creation of small enterprises to realise that a process of development can only occur when the purchasing power of money remains stable.

³ In this connection see W.T. Newlyn, *Money in an African Context*, Nairobi, Oxford University Press, 1967, p. 119.

In that country, the money resources available to private individuals and firms has shown a steady increase, which has brought them from 4,796 million CFA francs in 1965/1966 to 7,795 million in 1969/1970. In the final year there was an increase of 17.20%. Such a rate of growth is the highest so far recorded and has exceeded by over one point the previous record (16.01% during the year 1966/1967).

We should note that the holding of banknotes by private operators was marked by wide fluctuations. In relative terms — apart from the years 1967/1968 and 1968/1969 when these fluctuations were of 12.39% and of 18.97% respectively — they have always been well above 20 per cent.

The seasonal nature of the process is further confirmed by the fact that maximum values were concentrated in the quarter April-June, while minimum values were recorded in the four-month period August-November.

In addition, sight and time deposits, lodged with the banking system, showed a considerable increase and variance. The first throughout the period under consideration always included almost the whole of the quasi-monetary resources of the private operators. In fact, sight deposits, while they lost some of their relative importance (from 86.32% in 1965/1966 they declined to 83.81% in 1969/1970), never represented less than 79.45% of the resources we are discussing¹. Such a trend shows the inadequacy of the Gabonese banking system since, in the period under consideration, it did not succeed in adequately promoting the formation of savings.

Deposits in current accounts at the Post Office and with the Treasuries, while their average value is steadily increasing,

¹ We may note that, quite probably, the value of the deposits has been over-estimated due to the delays in transfers between the banking institutions of the country.

are virtually negligible. In fact, they have always amounted to less than 6.25% of the sight deposits.

As regards the development of the fiduciary reserves of firms and of private individuals, we find two sub-periods. The first of these is characterised by declining average values; from 4,974 million CFA francs in 1965/1966 they go down to 3,312 million in 1967/1968. The second, on the contrary, shows rising average values, reaching 3,984 million in 1969/1970. Finally this situation shows considerable fluctuations, in the last three years being respectively 22.46, 16.07 and 25.73 per cent¹.

The relative importance of the fiduciary money held by private operators has rapidly decreased, from 50.91% to 33.82% of the monetary and quasi-monetary resources.

Finally, let us consider the development of monetary and quasi-monetary resources held by the private individuals and by firms. At the outset, they showed a slight downward trend, but in the last three years there has been an increase from 9,364 to 11,779 million. Within each year considerable differences occurred between maximum and minimum values (20.54% in 1969/1970).

At this point we may usefully consider the monetary and quasi-monetary resources of the Treasury.

The deposits lodged by the Treasury with the Central Bank and those lodged with the banking system developed very differently from the economic quantities we have been considering previously. In fact, those lodged with the central institutions have represented an ever-decreasing proportion of the Treasury's money resources, declining from 57.84% at the outset to 10.30 per cent.

¹ The year 1966/1967 showed a marked contraction, amounting to 54% approximately. Hence it cannot be considered for the purpose of working out seasonal variations.

TABLE 7

MONETARY AND QUASI-MONETARY RESOURCES OF PRIVATE INDIVIDUALS
(in million CFA francs)

Items	June	July	August	September	October	November
Financial year 1965/1966						
Banknotes	4,698	4,777	4,723	4,799	4,936 ⁽¹⁾	4,918 ⁽¹⁾
Sight deposits	3,972	3,885	4,095	3,968	4,002	3,423
Time deposits	282	282	314	372	381	519
Total deposits	4,254	4,167	4,409	4,340	4,383	3,942
Deposits with Post Offices and Treasury	186	109	191	163	174	183
Total	9,138	9,053	9,323	9,302	9,493 ⁽¹⁾	9,043 ⁽¹⁾
Financial year 1966/1967						
Banknotes	5,034	4,625	4,444	4,203	3,945	3,817
Sight deposits	4,765	4,496	4,393	4,431	4,206	4,300
Time deposits	425	425	490	512	592	566
Total deposits	5,190	4,921	4,883	4,943	4,798	4,866
Deposits with Post Offices and Treasury	228	315	252	241	228	256
Total	10,452	9,861	9,579	9,387	8,971	8,939
Financial year 1967/1968						
Banknotes	3,343	3,065	2,952	3,139	3,227	3,566
Sight deposits	5,271	5,442	5,387	4,992	4,757	4,883
Time deposits	622	581	649	722	723	827
Total deposits	5,893	6,023	6,036	5,714	5,480	5,710
Deposits with Post Offices and Treasury	276	301	275	301	372	292
Total	9,512	9,389	9,263	9,154	9,079	9,568
Financial year 1968/1969						
Banknotes	3,268	3,321	3,298	3,332	3,337	3,379
Sight deposits	5,225	4,866 ⁽¹⁾	4,648	4,906	5,186	5,220
Time deposits	934	968 ⁽¹⁾	1,049	1,044	1,047	924
Total deposits	6,159	5,834	5,697	5,950	6,233	6,144
Deposits with Post Offices and Treasury	327	358	293	299	221	321
Total	9,754	9,513 ⁽¹⁾	9,288	9,581	9,791	9,844
Financial year 1969/1970						
Banknotes	3,612	3,470	3,656	3,677	3,609	3,837
Sight deposits	5,873	6,584	6,022	5,628	5,683	6,507
Time deposits	905	917	995	904	870	927
Total deposits	6,778	7,501	7,017	6,532	6,553	7,434
Deposits with Post Offices and Treasury	385	363	322	299	332	373
Total	10,775	11,334	10,995	10,508	10,584	11,644

⁽¹⁾ Provisional data.⁽²⁾ Estimate.

Note - The deposits effected by the public and companies in Post Office savings accounts have not been included by the monetary authorities among the data covering the quasi-monetary resources of the said operators even if these resources are similar to the deposits

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December	January	February	March	April	May	June	Average values
5,049	5,161	4,952	5,207	5,121	5,076	4,971	4,974
3,620	4,124	4,323	4,254	4,625	4,590	4,769	4,140
534	532	528	539	534	458	453	454
4,154	4,656	4,851	4,793	5,159	5,048	5,222	4,594
204	207	227	223	248	266	228	202
9,407	10,024	10,030	10,223	10,528	10,390	10,421	9,770
3,794	3,721	3,559	3,419	3,358	3,263	3,262	3,784
4,650	4,546	5,217	5,220	5,155	4,881	5,271 ⁽²⁾	4,731
581	589	592	590	591	596	622 ⁽²⁾	362
5,231	5,135	5,809	5,810	5,746	5,477	5,893	5,293
227	257	263	293	291	356	276	271
9,252	9,113	9,631	9,552	9,395	9,096	9,431	9,348
3,615	3,452	3,386	3,346	3,281	3,448	3,268	3,312
5,018	4,578	4,532	4,708	4,640	4,750	5,225	4,910
851	932	954	962	957	932	934	835
5,869	5,510	5,486	5,670	5,597	5,682	6,159	5,745
304	307	278	358	308	262	327	307
9,788	9,269	9,150	9,374	9,186	9,392	9,754	9,364
3,698	3,828	3,495	3,560	3,591	3,470	3,612	3,493
5,609	5,471	5,382	5,369	5,463	5,419	5,873	5,284
850	854	855	980	920	906	905	954
6,459	6,325	6,237	6,349	6,383	6,325	6,778	6,328
296	364	313	305	336	378	385	323
10,453	10,517	10,045	10,214	10,310	10,173	10,775	10,054
4,251	4,082	4,226	4,055	4,175	4,321	4,363	3,984
6,854	6,684	6,777	6,670	7,132	6,834	7,022	6,533
795	898	969	966	941	891	744	902
7,649	7,582	7,746	7,636	8,073	7,725	7,766	7,435
333	340	418	340	418	368	418	360
12,233	12,004	12,390	12,031	12,666	12,414	12,547	11,779

effected by such operators with the *Centres de Chèques Postaux*, most likely not to give rise to significant duplications. Perhaps it should have been advisable to show, in a separate table, the financing granted by such operators to the Treasury.

Source: BCEAEC, *Rapports d'activité*.

TABLE 8

MONETARY AND QUASI-MONETARY RESOURCES OF THE TREASURY, 1965
(in million CFA francs)

Items	June	July	August	September	October	November
Financial year 1965/1966						
Banknotes	420	423	481	181	181 ⁽¹⁾	181 ⁽¹⁾
Deposits with the Central Bank	19	13	98	16	857	1,102
Deposits with the banking system	662	422	862	412	416	406
Total	1,101	858	1,441	609	1,454	1,689
Financial year 1966/1967						
Banknotes	184	203	217	227	253	230
Deposits with the Central Bank	256	353	228	296	689	640
Deposits with the banking system	287	257	279	248	255	256
Total	727	813	724	771	1,197	1,126
Financial year 1967/1968						
Banknotes	183	390	440	360	338	25
Deposits with the Central Bank	182	22	181	252	127	229
Deposits with the banking system	299	300	299	322	320	318
Total	664	712	920	934	785	572
Financial year 1968/1969						
Banknotes	364	305	306	222	420	379
Deposits with the Central Bank	60	197	93	74	73	221
Deposits with the banking system	390	363 ⁽¹⁾	365	398	401	407
Total	814	865 ⁽¹⁾	764	694	894	1,007
Financial year 1969/1970						
Banknotes	281	392	291	241	387	284
Deposits with the Central Bank	47	254	46	186	135	181
Deposits with the banking system	637	677	605	731	902	1,044
Total	965	1,323	942	1,158	1,424	1,509

⁽¹⁾ Provisional figure.

⁽²⁾ Estimate.

TO 1970

December	January	February	March	April	May	June	Average values
270	156	402	170	247	247	247	265
770	1,291	851	652	602	351	256	572
385	386	387	433	431	228	245	417
1,425	1,833	1,640	1,255	1,280	826	748	1,254
299	196	245	290	252	264	264 ⁽¹⁾	245
429	447	320	184	322	166	182	355
259	274	282	280	295	300	299 ⁽²⁾	274
987	917	847	754	869	730	745 ⁽²⁾	874
196	260	279	279	395	268	364	300
287	187	70	161	78	128	60	148
324	331	347	344	343	384	390	335
807	778	696	784	816	780	814	783
131	67	394	211	184	328	281	269
208	147	219	72	193	162	47	135
467	485	526	523	530	611	637	476
806	699	1,139	806	817	1,101	965	880
249	402	361	401	470	297	367	345
140	159	55	100	54	176	45	127
1,082	1,237	1,238	1,213	1,441	1,539	1,557	1,106
1,471	1,798	1,654	1,714	1,965	2,012	1,969	1,578

Source: BCEAEC, *Rapports d'activité*.

TABLE 8 bis

DEFICIT OF THE TREASURY, 1966 TO 1970
(in million CFA francs)

Items	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
Indebtedness to the Central Bank	— 1,092	— 1,454	— 1,493	— 1,598
Deposits with the Central Bank	355	148	135	127
Deficit of the Treasury	— 737	— 1,306	— 1,358	— 1,471
Indebtedness to the banking system	461	524	562	685
Deposits with the commercial banks	274	335	476	1,106
Deficit of the Treasury	— 187	— 189	— 86	+ 421
Total deficit	— 924	— 1,495	— 1,444	— 1,050

N.B. - On the basis of the net figures, the actual value of the monetary reserves of the Treasury will be negative, bringing about situations of deficit spending. On the other hand, it is interesting to note that the dependence of the Gabonese Treasury on the Central Bank has increased gradually, notwithstanding the increased resorting to the issue of *bons d'équipement*. Therefore, it is to be assumed that the Treasury has adopted a policy of deficit spending for an amount which is far higher than that shown in the Government consolidated balance-sheets. However, these conclusions are subordinated to the legitimacy of the clearing applied between the amounts of debits and credits. See *Situation Economique, Financière et Sociale de la République Gabonaise en 1968*, *op cit*, p. 88 ff., and IMF, *Surveys of African Economies*, *op. cit.*, p. 308-309.

The monetary and quasi-monetary resources administered by the Treasury, taken as a whole, showed during the first three years an upward trend and during the last two years an opposite trend: in fact they passed from 1,254 million in the year 1965/1966 to 783 million in 1967/1968 to arrive finally at a figure of 1,578 million CFA francs in 1969/1970. On the other hand the relative importance of fiduciary money held by this operator shows an opposite trend to that previously described as it varies from 21.13% in the first year to 38.31% in 1967/1968, then declining to 21.86% during 1969/1970 (see Table 8 bis).

TABLE 9
MONETARY AND QUASI-MONETARY RESOURCES OF THE ECONOMIC OPERATORS OF GABON,
1965 TO 1970
(in million CFA francs)

I t e m s	Financial year 1965/1966		Financial year 1966/1967		Financial year 1967/1968		Financial year 1968/1969		Financial year 1969/1970	
	Month	Amount	Month	Amount	Month	Amount	Month	Amount	Month	Amount
Maximum values	January	11,857	July	10,674	December	10,595	June 1969	11,740	June 1970	14,516
Minimum values	July September	9,911	May	9,826	February	9,846	August	10,052	August	11,937
Average values		11,025		10,222		10,147		10,934		13,357

Source: BCEAEC, *Rapports d'activité*.

The increase of the monetary and quasi-monetary resources of the national economy thus had a decisive effect on the level of prices. This level, in the course of scarcely two years, has shown, for wholesale prices, an increase of 20.5% and, for consumer prices, an increase of 8.4 per cent ¹.

4. OPERATIONS LEADING TO THE ISSUE OF CURRENCY

The Central Bank has the exclusive privilege of issuing banknotes and metal coins, used as legal tender in Equatorial Africa and in Cameroon. The Statute of the Bank lists the operations which may give rise to these issues. Some operations, such as the purchase of gold and of foreign currency, or negotiations on the open market, are purely theoretical or of secondary importance. Operations giving rise to the issue of currency, which are normally carried out, are to all intents and purposes the following only:

- (i) operations with the national Treasuries;
- (ii) transfers;
- (iii) credit operations.

(a) Operations with national Treasuries

The Treasury authorities of the individual countries have or may have an account in their name with a branch of the Central

¹ See BCEAEC, *Rapport d'activité pour l'exercice 1969/1970*. In this connection it may be worth observing that, in the period between June 1968 and June 1970, while the supply of fiduciary money increased by 19.85%, the GNP at current prices increased by 9.6% a year and at constant prices (June 1968) by about 3%. It may be of interest to note that in relation to the end-June values the increase in the supply of fiduciary money — during the period previously referred to — was 30.16 per cent.

Bank into which they pay their surpluses. In every case, the Central Bank is required to assist the Treasury authorities with the conduct of their operations. Similarly, the agents of the French Treasury, operating within the issuing area, may effect deposit and withdrawal operations at the Bank's branches. The amount of these operations will be debited or credited, as the case may be, to the operation account. Withdrawals by these operators will lead to a conversion of credit money into fiduciary currency¹.

Independently of what has been set out, the Central Bank may contribute indirectly to satisfying the financial requirements of the national Treasuries either by rediscounting the State securities which are presented to it by the banking institutions, or by granting advances guaranteed by these securities or again by discounting the so-called "customs bills"².

¹ As it has been observed, the creation of money by the Treasury is a factor largely due to circumstances beyond the monetary authorities' control. In this context we should note that the BCEAEC also has no control over the supply of monetary basis created by the French Treasury.

² The Central Bank may rediscount Treasury bonds maturing within six months. It may also concede:

- (i) advances on all government securities under the technical form of temporary rediscount (short-term advances);
- (ii) advances on current account on securities maturing within two years.

These advances are granted:

- (i) up to 95% of the face value for securities maturing within one year;
- (ii) up to 90% of the face value for securities maturing within one to two years;
- (iii) up to 80% for securities maturing after at least three years.

The term "customs bills" is intended to refer to *obligations cautionnées* and *traites douanières*, which are bonds issued by all the national Treasuries except that of Cameroon. By signing these bonds, firms owing sums for customs duties become entitled to four months' credit. In this way importers and exporters may transport their goods across the frontier without having to pay these duties.

Moreover, the Central Bank may grant advances to the Treasuries in the form of overdrafts on current account of a duration not exceeding 240 days, consecutive or not, in the course of one year. However, the Board may decide to extend this time limit until the first working day of the following year. The sum of the total direct and indirect financing granted by the Bank to any one Treasury must remain within certain limits. Thus, the total amount of the overdrafts allowed by the Central Bank, together with loans on State securities, cannot exceed 10% of the average value of deposits or 10% of the tax receipts for the current financial year. As this latter ceiling is, in practice, the higher one, it will therefore be the one which is normally considered.

Exceptionally, the Board, having observed the possible developments in the monetary situation of the whole issuing area and within the particular country involved, may raise the ceiling to 15% of tax revenues¹.

These are the main provisions governing relations between the national Treasuries and the monetary authorities of the issuing area.

Having noted the provisions which govern relations between these operators, we should consider what actually happens, once again, first as regards national Treasuries and the Central Bank and, then, as regards the Gabonese Monetary Committee and the Treasury of that country.

¹ See Article 19b of the BCEAEC Statute. The BCEAO Statute differs substantially from that of the BCEAEC only as regards deduction to be made from the ceiling on loans. Depending on the Statute involved, in fact, one must deduct the value of the re-financing loans granted by the Bank on securities of the Treasury concerned, and that of investments made with that Treasury by the banks and credit institutions which have obtained re-financing from the Central Bank. On this point see Article 15b of the BCEAEC Statute.

(b) Relations between national Treasuries and the Central Bank

In the period under consideration, national Treasuries have increasingly had recourse to financing by the monetary authorities. In fact, in a period of scarcely four years (June 1966 - June 1970) the indebtedness of the Treasuries has gone up from 2,653 to 7,224 million CFA francs, an increase of 172.30%. The highest rates of expansion were recorded in the financial years 1966/1967 and 1969/1970, when they amounted to 52.85% and 33.48% respectively. This finance was granted in two forms: advance on the current account and discount of customs bills. The relative importance of discounting operations has considerably diminished, since it has declined from 94.08% to 60.89% as may be seen below.

TABLE 10

CENTRAL BANK FINANCING TO THE NATIONAL TREASURY, 1966 TO 1970
(in million CFA francs)

I t e m s	30th June 1966	30th June 1967	30th June 1968	30th June 1969	30th June 1970
Advances on current account	157	1,387	1,174	1,575	2,825
Discount of customs bills	2,496	2,668	4,346	3,837	4,399
Total	2,653	4,055	5,520	5,412	7,224

Source: BCEAEC, *Rapports d'activité*.

Naturally their development, which is increasing in absolute figures, has been decisively influenced by the quantitative dynamics in monetary terms of the exports and imports of the countries of Equatorial Africa.

As regards operations of advances on current account, we must stress the rapid growth of this technical form of financing

since 1966, the year in which it was first used. However, it seems worthwhile to recall once again that this form of financing might not give rise to an expansion of the monetary base in cases where the Treasuries of individual States deposit with the central institute amounts equal to or in excess of the credit obtained. Consequently, in the case under consideration it would have, as previously observed, the following net results.

TABLE 11

TREASURIES' NET MONETARY RESOURCES WITH THE CENTRAL BANK,
1966 TO 1970
(in million CFA francs)

I t e m s	30th June 1966	30th June 1967	30th June 1968	30th June 1969	30th June 1970
Deposits with the Central Bank	10,134	5,587	5,914	9,117	15,973
Indebtedness to the Central Bank	2,653	4,055	5,520	5,412	7,224
Balance	7,481	1,532	394	3,705	8,749

Source: BCEAEC, *Rapports d'activité*.

Such facts, however, leave out of account the finance obtained from the above-mentioned operations on the national market and on foreign markets. Naturally, in the case of borrowing on the internal market, under the heads of financial dealings with private individuals or banks, there will be no creation of monetary base¹. However, it must be noted that, in the case of borrowing from the issuing house, while there is no way of preventing an increase in the monetary base, it is quite possible for the monetary

¹ Where the banking system is compelled, in order to underwrite the bonds issued by the national Treasuries, to reduce the volume of finance made available to private individuals, there will be, in the first instance, a decrease in the amount of the credits granted to the sectors concerned with production

authorities to adopt measures calculated to sterilize any such increase, and to avoid giving rise to massive escalation. Nevertheless, if these precautionary measures are not taken, it will always be possible for the Treasuries to borrow further from the banks and from the public. In any case, in whatever way the deficit is financed, there must be an increase in the quantity of money or, if this should not materialise, an increase in the volume of non-monetary financial assets¹. Hence, insofar as the spending ability of private individuals depends on their financial

for export, and to the more developed areas. This is very likely to give cause to a reduction in the volume of financial assets originated by banking organisations and placed with private individuals and industry.

If the desired monetary value of the reserves, after these adjustments have been made, is still considered inadequate in relation to turnover, banks will proceed to a reduction in their investments, carried out in such a way that the credit squeeze will show its results in the currency sector of the economy. See J. Hicks, *Saggi critici di teoria monetaria*, *op. cit.*, p. 45 and Tibor Scitovsky, *Money and the Balance of Payments*, Chicago, Rand McNally and Company, 1969, p. 50, 68, 70.

¹ Where there is a developed financial market, there arises, in addition to the problem of deciding whether to borrow directly from such a market or create new money, also the problem of diversifying the maturity dates of the securities issued. It should, however, be noted that, especially with the economic systems under consideration, the rate of increase in the indebtedness of the Treasury to the Central Bank will most probably be higher than that of its overall indebtedness. This will lead to an increase in the monetary base and in its rate of expansion. In its turn, this development will have an impact on the amount of money, on the structure of interest rates, on the gross national product and on rate of inflation. In this connection see Kenneth Stewart, "Government Debt and Economic Activity", *Review of the Federal Reserve Bank of St. Louis*, January 1972, p. 7, 9; Karl Brunner, "A Survey of Selected Issues in Monetary Theory", *Schweizerische Zeitschrift für Volkswirtschaft und Statistik*, No. 1, 1971, p. 1-146; Jerry L. Jordan, "Elements of Money Stock Determination", *Review of the Federal Reserve Bank of St. Louis*, October 1969, p. 10-19; Michael W. Keran and Christopher T. Bobb, "An Explanation of Federal Reserve Actions 1933-1968", *Review of the Federal Reserve Bank of St. Louis*, July 1969, p. 7-20 and Allan H. Meltzer, "Public Policies as Causes of Fluctuations", *Journal of Money, Credit and Banking*, May 1971, p. 63.

means, it will be necessary to take into account this inflationary element in addition to that connected to the direct effects of public expenditure¹.

However, one should carefully consider how far the creation of monetary base, necessary to the financing of Government expenditure, is compatible with stability. This will depend on the elasticity of supply in the national economy, i.e. on how far domestic production can expand in response to increased demand, and on the time required for this process. These responses may be considerably influenced by the development of agriculture, import controls and a well-balanced programme of import substitution and savings promotion. In fact, given high marginal propensities to import and consume, and inadequate development of replacements for imports, the creation of monetary base will have a more pronounced effect on the hard currency resources of these States and will, at best, increase their economic dependence on foreign countries; this will expose them to sudden deteriorations in their currency situation².

¹ See Karl Brunner, "The Role of Monetary Policy", *Review of the Federal Reserve Bank of St. Louis*, July 1968, p. 9-24; Burton Zwick, "The Adjustment of the Economy to Monetary Changes", *Journal of Political Economy*, January-February 1971, p. 78; Milton Friedman and Anna J. Schwartz, "Money and Business Cycles", *Review of Economics and Statistics*, February 1963, Supplement, p. 60-61; Ronald Teigen, "A Critical Look at Monetary Economics", *Review of the Federal Reserve Bank of St. Louis*, January 1972, p. 21 and J. Hicks, *Saggi critici di teoria monetaria*, *op. cit.*, p. 66, 67.

² This phenomenon, especially in countries where a large part of the revenue consists of import and export duties, has a considerable impact on the inflow of fiscal revenue. And as the governments cannot suddenly reduce the volume of their expenditure, since they will then have to cut down their expenditure on producer goods, being unable to pay their employees less, they are obliged to resort to policies of deficit spending. These policies are quite appropriate when currency resources are adequate, insofar as they enable the economic systems involved to avoid painful deflationary processes.

It will be remembered that, the higher the propensity to save on the part of private individuals, the lower the volume of consumption will be. This, given certain consumer habits¹, will lead to a smaller volume of imports of consumer goods, and will make a larger share of the country's currency resources available for the purchase of producer goods. Moreover, since national and foreign resources are not fully interchangeable, savings can only be converted into capital resources if currency reserves or credit facilities are available, and can be used to transform savings into an increase in the productive capacity of the economy.

Foreign indebtedness may, on the other hand, satisfy the need for currency arising from the purchase of producer and consumer goods; on the other hand, because of the obligation to repay the loans and to pay the interest on them, insofar

It must indeed be noted that, because they lack these resources, developing countries, and in particular those we are considering now, have to obtain credit facilities from abroad. These, however, involve appreciable costs. This issue is discussed at greater length by T.H. Adler, *Fiscal Policy in a Developing Country*, in A.N. Agarwala and S.P. Singh, *Accelerating Investment in Developing Economies*, London, Oxford University Press, 1969, p. 431 ff. and A.R. Prest, *Fiscal Measures and Capital Accumulation*, in A.N. Agarwala and S.P. Singh, *Accelerating Investment*, *op. cit.*, p. 451 ff.

¹ It should be noted that the recruitment of unemployed or underemployed rural people for construction work for national infrastructures may lead to higher levels of local consumption on the part of the remaining rural population, instead of giving rise to more extensive marketing of their products. At the same time, people in these countries who have forsaken agriculture may adopt consumption patterns typical of foreign countries and develop a considerable propensity to consume. This may easily result in food shortages and set up appreciable inflationary processes. This will lead to all the negative consequences which flow from such processes, for instance, the outflow of capital, discouragement of foreign investments and running down of savings. On this issue see H.W. Singer, *Deficit Financing of Public Capital Formation*, in A.N. Agarwala and S.P. Singh, *Accelerating Investment*, *op. cit.*, p. 347 and G.S. Dorrance, *The Effect of Inflation on Economic Development*, in A.N. Agarwala and S.P. Singh, *Accelerating Investment*, *op. cit.*, p. 364.

as operators within the country are not in a position to convert an adequate share of the national income into currency, it will raise problems which are difficult to solve and which may easily take on pathological characteristics and cancel out any further capacity of indebtedness of the economic systems on foreign money markets¹.

Furthermore, one must bear in mind the indebtedness which the national Treasuries have created through the issue of *bons d'équipement*². These bonds mature in two years and bear interest at the rate of 3.60% per annum. Interest is due to whoever signs the bonds and is exempt, as are incidentally the securities themselves, from any present or future taxation. The following persons and bodies are required to buy these bonds:

- (i) banks and post offices, to an amount equivalent to 10% of the deposits which they receive;
- (ii) post office savings banks, stabilisation funds, social security funds and institutions of a similar nature, to the extent of 10% of their liquidity;
- (iii) physical and legal persons liable to taxation on industrial and commercial income or to taxation on professional income, to an amount equivalent to 10% of the assessable income of the above tax, if such incomes, net of tax, are equal to or in excess of 1,000,000 CFA francs;

¹ See Tibor Scitovsky, "The Theory of Balance of Payments Adjustment", *Journal of Political Economy*, Supplement, Part II, August 1967, p. 523-531; Hans-Sheng Cheng, *International Bond Issues of the Less-Developed Countries — Diagnosis and Prescription*, Ames, Iowa, Iowa State University Press, 1969, p. 63, and Fritz Machlup, *Adjustment in International Payments*, in Baldwin, *Trade Growth and the Balance of Payments*, Amsterdam, North Holland Publishing Company, 1965, p. 185-213.

² The *bons d'équipement* were instituted by Act No. 3/63 of 26th January 1963.

- (iv) persons, firms and associations that are liable to property tax, to an amount equivalent to 10% of their annual income from property, if this income, net of property tax, is equal to or in excess of 500,000 CFA francs.

When the securities mature, they are refunded only to those enterprises which have made:

- (i) investments with an aim toward the industrialisation and the improvement of national production;
- (ii) investments in the primary sector (forestry or agriculture);
- (iii) investments in the field of construction or public works.

On the other hand operators who, at that stage, have not made the required investments, will receive bonds bearing interest at a rate of 1.50% per annum, maturing after 10 years, and to a value equal to that which they have subscribed.

The object of the governments of the Monetary Union in issuing the *bons d'équipement* was not only to enlarge the economic potential of the respective countries by encouraging the reinvestment of a large share of the national income, but also to promote the growth of savings in these countries. It seems however that recourse to this kind of forced loan is not very conducive to the above-mentioned objectives. In fact, placing the *bons d'équipement* with deposit banks, besides creating inflationary pressures due to an investment financed by means akin to borrowing¹ satisfies a need for long-term financing, on the part of the Treasury involved², by means of short-term financing, with all the risks — in terms of an expansion of the monetary base —

¹ In the case under consideration, however, the Treasury operation is consistent with the stability of the purchasing power of the currency only when adequate currency reserves are available.

² We are considering here the long-term need arising from the time elapsing before public investments begin to show returns.

which such a situation implies¹. The proceeds of such financing would be better used, in the absence of an autonomous banking system, by the national development banks for the purpose of giving access to short-term credit to those firms whose development one wishes to promote.

The foregoing considerations also apply as regards securities placed on a compulsory basis with private individuals and firms, since what is involved is always the financing of long-term investments through short-term credits. Other things being equal, besides producing a series of issues with rising costs, this does not make it possible to sustain the process of development continuously, insofar as the only secure foundation for this process is an adequate inflow of voluntary savings².

On the contrary, firms and in particular foreign firms have to be seen from a different point of view since they are compelled to make an investment of several times the value of the bond they have subscribed in order to obtain, after two years, the conversion — in monetary terms — of the loan they have made, or to receive stock issued at a very disadvantageous interest rate maturing after 10 years.

If the firms decide to act in the first way, there will be an expansion of investments in the desired sectors. On the other

¹ The above-mentioned considerations apply to those bodies whose liabilities consist mainly in the amount of money in circulation and in deposits on current account. It is highly probable, however, that in the absence of bodies which exist to receive savings, deposits on current account include a part of savings which may be used for long-term investments.

² See A. Gambino, *Economia creditizia*, op. cit., p. 363-364; G. Dell'Amore, *Il contributo del risparmio familiare al riscatto del mezzogiorno*, Milan, Giuffrè, 1969, p. 5. According to J. Hicks, whenever the liquidity of the lenders is severely curtailed, there occur pronounced deflationary effects following the sale of the other financial assets they hold. See J. Hicks, *Saggi critici di teoria monetaria*, op. cit., p. 62.

hand, if the operators concerned choose the second way, the Treasury will be able to use resources of a non-monetary nature¹.

However, bearing in mind the way in which this money is raised, it would be more appropriate if these resources were allocated to the national development banks in order to raise the productivity of the agricultural sector and to promote and sustain a network of small national enterprises. From the foregoing examination we see how the national Treasuries and the central monetary authorities have almost entirely failed to create the conditions that would allow the use of financial instruments for raising medium and long-term credit, making it possible to mobilise part of the national savings for the purposes of capital accumulation².

It seems that the provisions of Article 19b of the Statute of the BCEAEC, relating to the determination of the maximum amount of credit which the monetary authorities may allow to the Treasury, do not include credit which they allow on customs bills which always gives rise to an expansion of the monetary base³. Finally, it appears that the provisions of Article 19b of the BCEAEC Statute may have a stabilizing effect on the economy of the countries concerned, in so far as the maximum amount

¹ This choice leads the Treasury, other things being equal, to have recourse to a series of forced loans at increasing cost, in order to have the necessary means to meet its own obligations. At the same time, where the enterprises we are discussing find the necessary means by going to the banks, the negative results which we have mentioned several times occur.

² These deficiencies are encountered, incidentally, not only as regards the supply of securities — inadequate diversification and liquidity of the available stock — but also as regards demand. In fact, the integration of the activities of local operators in an advanced economic context encouraging the formation of savings which can be used productively has not been sufficiently pursued.

³ Credits granted through the issue of customs bills are merely a finance source for imports and exports.

of credit is linked with the tax receipts for the previous year. This, however, presupposes the existence of adequate currency reserves or lines of credit. These, however, are not without cost and may furthermore involve conditions of such a nature that they subordinate the activities of the monetary authorities to the interest of the country that concedes them.

(c) Relations between the Monetary Board and the Gabonese Treasury

The Gabonese Treasury has made ever-increasing calls on the Central Bank. In fact the sum involved rose from 1,085 million CFA francs in 1965/1966 to 1,598 million in 1969/1970, an increase of 47.28%. The highest rate of expansion occurred in 1967/1968 when it reached 33.27%. During the last few years however the rate of expansion has been marked by considerably lower values, so much so that the other relative highest point which occurred in 1969/1970 was 7.03% (see Table 12).

The relative importance of advances on the current account has greatly increased, rising from 9.9% in 1966/1967 to 26.6% in 1969/1970. This increase, however, has not been continuous. During the two intervening financial years (1967/1968 and 1968/1969), in fact, this technical form of financing accounted for 27.30% and 24.72% respectively of the total credit obtained.

Similarly, the amount of financing which the Treasury has obtained from the banking system has grown considerably, rising from 1,552 million CFA francs in 1966/1967 to 2,284 million in 1969/1970, an increase of 47.16%. The highest rates of increase were recorded in 1967/1968 (27.45%) and 1969/1970 (11.14%). The relative importance of the loans made by banking institutions was characterised by an initial downward trend which

later tended to rise. This curve in fact dropped in the first two years from 29.68% to 26.49% while in the last two years it reached 27.35% and 30% respectively (see Table 13).

If, however, one compares the debits and credits of the Treasury with the banking system, one will obtain very divergent values. In particular, loans obtained by the Treasury from banking institutions show continually decreasing values, until they give rise, in 1969/1970, to the granting of a credit by the Treasury. However, even the curve of the total credit granted by the banks, through the resources made available by the collection of private operators' deposits, is changing, and has been declining in the last two years¹.

The Treasury has furthermore had recourse to the placing of *bons d'équipement* with the banking system.

This placing has been constantly on the increase and has gone up by 121.63%. The highest rates of increase were recorded in 1966/1967, 1967/1968 and 1969/1970². These securities have also been placed with the firms and other operators

¹ See BCEAEC, *Rapport d'activité*, *op. cit.*

² 15% of the receipts from the issue of *bons d'équipement* should be used to finance PROMO-GABON. This is a public body whose purpose is to promote the creation of small and medium-sized firms. See *Plan de Développement 1966-1970*, *op. cit.*, p. 296-299.

Furthermore, it may be noted in this connection that, by introducing these securities, the central monetary authorities have gained considerable possibilities of control over the short-term and long-term operations of the credit institutions, though only insofar as they are in a position to control and manipulate the structure of the rates of interest. For a more detailed outline see Franco Modigliani and Richard Sutch, "Debt Management and Term Structure of Interest Rates: an Empirical Analysis of Recent Experience", *Journal of Political Economy*, No. 75, 1957, p. 569-589; Julian H. Taylor, "Debt Management and Term Structure of Interest Rates, A Comment", *Journal of Money, Credit and Banking*, August 1971, p. 708-709; Lucio Izzo, *Saggi di analisi e teoria monetaria*, Milan, Franco Angeli, 1971, p. 58-59.

TABLE 12

CENTRAL BANK FINANCING TO THE TREASURY OF GABON, 1965 TO 1970
(in million CFA francs)

I t e m s	July	August	September	October	November
Financial year 1965/1966					
Discounting of customs bills	925	958	1,394	1,247	1,129
Advances	—	—	—	—	—
Total	925	958	1,394	1,247	1,129
Financial year 1966/1967					
Discounting of customs bills	911	854	951	1,175	1,013
Advances	11	—	—	—	—
Total	922	854	951	1,175	1,013
Financial year 1967/1968					
Discounting of customs bills	1,092	916	961	971	1,055
Advances	485	561	686	571	—
Total	1,577	1,477	1,647	1,542	1,055
Financial year 1968/1969					
Discounting of customs bills	1,174	1,367	1,373	1,381	1,152
Advances	359	347	173	12	157
Total	1,533	1,714	1,546	1,393	1,309
Financial year 1969/1970					
Discounting of customs bills	940	932	1,072	919	972
Advances	433	644	224	420	215
Total	1,373	1,576	1,296	1,339	1,187

Source: BCEAEC, *Rapports d'activité*.

December	January	February	March	April	May	June	Average values
1,028	988	888	1,175	1,090	1,153	879	1,072
—	—	—	—	—	—	157	13
1,028	988	888	1,175	1,090	1,153	1,036	1,085
980	1,006	948	1,155	859	889	1,058	983
—	—	—	—	200	507	582	108
980	1,006	948	1,155	1,059	1,396	1,640	1,091
1,119	988	955	940	1,321	1,142	1,228	1,057
—	—	330	389	501	654	588	397
1,119	988	1,285	1,329	1,822	1,796	1,816	1,454
1,378	1,025	935	1,090	1,016	817	775	1,124
291	578	273	477	523	667	576	369
1,669	1,603	1,208	1,567	1,539	1,484	1,351	1,493
1,084	1,099	1,151	1,530	1,553	1,607	1,210	1,172
495	533	394	362	189	372	829	426
1,579	1,632	1,545	1,892	1,742	1,979	2,039	1,598

TABLE 13

BANKING SYSTEM FINANCING TO THE TREASURY OF GABON, 1966 TO 1970
(in million CFA francs)

I t e m s	July	August	September	October	November
Financial year 1966/1967					
Central Bank	922	854	951	1,175	1,013
Commercial banks	383	476	476	476	476
Total	1,305	1,330	1,427	1,651	1,489
Financial year 1967/1968					
Central Bank	1,577	1,477	1,647	1,542	1,055
Commercial banks	458	518	518	518	518
Total	2,035	1,995	2,165	2,060	1,573
Financial year 1968/1969					
Central Bank	1,533	1,714	1,546	1,393	1,309
Commercial banks	545	539	539	539	539
Total	2,078	2,253	2,085	1,932	1,848
Financial year 1969/1970					
Central Bank	1,373	1,576	1,296	1,339	1,187
Commercial banks	594	622	622	622	622
Total	1,967	2,198	1,918	1,961	1,809

Source: BCEAEC, *Rapports d'activité*.

December	January	February	March	April	May	June	Average values
980	1,006	948	1,155	1,059	1,396	1,640	1,091
476	476	458	458	458	458	458	461
1,456	1,482	1,406	1,613	1,517	1,854	2,098	1,552
1,119	988	1,285	1,329	1,822	1,796	1,816	1,454
518	518	545	545	545	545	545	524
1,637	1,506	1,830	1,874	2,367	2,341	2,361	1,978
1,669	1,603	1,208	1,567	1,539	1,484	1,351	1,493
539	539	594	594	594	594	594	562
2,208	2,142	1,802	2,161	2,133	2,078	1,945	2,055
1,579	1,632	1,545	1,892	1,742	1,979	2,039	1,599
622	622	779	779	779	779	799	685
2,201	2,254	2,324	2,671	2,521	2,758	2,818	2,284

TABLE 14

PLACING OF *BONS D'EQUIPEMENT* WITHIN THE BANKING SYSTEM ⁽¹⁾,
1965 TO 1970
(in million CFA francs)

Items	30th June 1965	30th June 1966	30th June 1967	30th June 1968	30th June 1969	30th June 1970
Value of securities held	356	389	467	561	603	789
Rate of increase	...	9.27	20.05	20.13	7.49	30.85

⁽¹⁾ At 31/12/1970, the internal indebtedness of the Treasury of Gabon was as follows:

<i>Bons d'équipement</i> , of which	950,000,000
Private individuals	67,000,000
Banks and post offices	<u>883,000,000</u>
<i>Obligations d'équipement</i>	135,000,000
<i>Certificats d'investissement</i>	<u>216,000,000</u>
Total in CFA francs	<u>1,301,000,000</u>

Source: BCEAEC, *Rapports d'activité*.

mentioned in the Law of 26 January 1963. The Treasury has furthermore resorted to the issue of other securities such as *certificats d'investissement* and *obligations d'équipement*.

Finally it may be noted that the Gabonese Treasury is no longer directed by representatives of the French Treasury ¹ inasmuch as Gabon has assumed its direct management with effect from 1st October 1965 ².

¹ See IMF, *Surveys of African Economies*, *op. cit.*, p. 306.

² Although the Treasury, as an operator, is generally considered as a source for the creation of monetary base, it would be appropriate to ascertain whether it could be considered, in the countries under discussion, as a holder of monetary and quasi-monetary resources. To this end, it has been suggested by the National Credit Council of Equatorial Africa that one should establish the amount of credit granted by the Treasury to monetary operators (Treasury resources in the form of coins and banknotes, monetary deposits and customs credits granted to the economy) in relation to the credits received from monetary

5. AVAILABILITY OF FOREIGN CURRENCY

From the currency balance it is possible to infer the variation in the net currency reserves of a country's central bank, that is the variation in its gold reserves and in its net currency balances ¹

institutions (amount of deposits in the *centres de chèques postaux* of private individuals, firms and banks, bank loans to the Treasury, advances and subscription of securities, re-discounting of customs bills by the Central Bank and deposits made by the Central Bank with the Treasury). Depending on whether there is a credit or a debit balance, the Treasury should be included among the holders or among the sources for the creation of monetary base.

However, even in the absence of the necessary statistical information it is considered opportune to include the Treasury among the sources of creation of monetary base, even though the central banking authorities have explicitly regarded it as a body which does not create money, in so far as the high degree of intensity and of urgency which their financial needs have assumed over the past few years makes it highly probable that the Treasury has had recourse to deficit spending operations. Moreover, according to calculations made by the National Credit Council for the year 1968/1969, it would appear that this operator has given rise to a creation of about 1,250 million. We must, however, recommend that these figures should be regarded with extreme caution, in so far as it is impossible to establish the extent of duplication, due to the lack of statistical data. In this connection see Conseil National de Crédit, *Rapport Annuel 1968*, *op. cit.*, p. 18-19; Guido Carli, "L'Eurodollaro, una piramide di carta?", *Bancaria*, March 1971, p. 314. Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867-1960*, Princeton, N.J., Princeton University Press, 1963, Chap. I, Note 2, p. 31, 97 and 777. According to these authors, "local or public authorities, which have no power of monetary issue, should be considered as part of the public. Similarly, it would be desirable to include, so far as possible, the monetary balances held by Federal agencies to carry out the Government's ordinary activities as part of the money held by the public..." and again "...in a fully consolidated situation, the liabilities of banks held by other banks should be considered as cancelled out as in the case of the liabilities of monetary authorities held by other monetary authorities". See also Paolo Baffi, *Studi sulla moneta*, *op. cit.*, p. 50, and Graeme S. Dorrance, "Framework for the Determination of Central Banking Policy", *International Monetary Fund Staff Papers*, July 1970, p. 235.

¹ See Erich Schneider, *Bilancia dei pagamenti e corso dei cambi*, Turin, Utet, 1970, p. 46 and Robert Mossé, *I problemi monetari internazionali*, Cassa di Risparmio delle Provincie Lombarde, 1970, Chap. IV.

or in the currency holdings of the central bank. However, to assess the variations in a country's currency situation, we must take into account not only the variations undergone by the holdings of the central bank itself, but also the variations in the currency holdings of the banks generally¹. Nevertheless, this balance will show the influence of individual transactions — through the period under consideration — over the net currency resources available to the banking system² and an increase or a decrease in the net currency situation will correspond to a rise or a fall in the positions of the individual parts³. Hence, in the foreign exchange balance of the central bank one cannot sort out the basic current account balance, nor the so-called liquidity effect of current accounts and that of the independent private capital movements. This inability to distinguish between these elements is particularly relevant when one seeks to understand a particular economic system. For example, the current account balance situation will unequivocally determine the variation in the credit or debit position as regards foreign countries.

The amount of investment in an open economy is incidentally equal, over a given period, to the sum of the value of overall saving and the current balance situation in the balance of

¹ Such holdings are known as "private currency holdings" of the banks and are included in the currency holdings of the central bank if they are subject to control by the central monetary authorities and if these authorities may dispose of them when necessary. See International Monetary Fund, *Balance of Payments Year-Book 1938, 1946, 1947*, Washington, 1949, p. 7.

² Naturally this applies whenever all transactions — independent and directed — have been set out exactly and without a balance left over.

³ Such a balance will include the following headings: (i) current accounts; (ii) long-term capital movements; (iii) independent movements of short-term capital. The foreign exchange resources of the banking system will therefore be equal to the amount of the movements of non-independent short-term capital.

payments¹. And furthermore, if one wishes to measure the influence of the balance of payments over the amount of money², one must consider only current accounts and independent movements of capital, excluding those of banks,

¹ We should note that, in developing countries, almost all investments are made by trans-national firms which, because of their independent possibilities for carrying out large-scale transfers of funds either by way of auto-financing, or through extensive manipulation of the exchange markets and of the regulations in connection with them, have considerably enlarged the possibilities and the margins of imbalance of the balance of payments, making it necessary to have available — under a fixed exchange rates system — either considerable currency reserves or credit lines. On this subject it is useful to refer to Francesco Masera, *I movimenti di capitali nel quadro istituzionale italiano e internazionale*, Bank of Italy, January 1970, p. 143. We may further recall that current balances have an impact on investments, on consumption and on the currency resources of a country, while autonomous movements of capital only affect its currency resources.

² Naturally these considerations apply to the case where “by the monetary volume of the economy we mean the sum of fiduciary circulation and of internal sight deposits, excluding banks and the deposits with the central bank made by public agencies”. In this connection see E. Schneider, *La bilancia dei pagamenti*, *op. cit.*, p. 61-62. However, depending on the accepted definition of money various considerations will have to be put forward. Still in connection with the relations that exist between the national and foreign elements of the variations in the monetary supply we should recall the assertions of Nurkse and Baffi, who postulate the existence of an automatic tendency to cancel out one another. Baffi, for instance, holds that, where the deficit in the liquidity of the public sector is nil, a surplus in the balance of payments will give rise to an equivalent excess of liquidity in the private sector, which in turn will lead to a decrease in the overall indebtedness of that sector towards the banks. This inverse relationship would also apply as regards the extent of the internal element whereby variations in the increase of the indebtedness of the public sector towards the banking system would be followed by a decrease in the indebtedness towards the banks of the private sector. In other words, while a deficit of the public sector or a surplus in the balance of payments increase liquidity, the expansion of bank credit should slow it down. This compensation, however, would only be partial. In this connection see Paolo Baffi, *Studi sulla moneta*, Milan, Giuffrè, 1965, p. 52 and League of Nations, *International Currency Experience: Lessons of the Inter-War Period*, 1944, p. 71. The introduction states that the essay was largely the work of Ragnar Nurkse.

while, as it has been observed, foreign exchange holdings are also influenced by the capital movements of public bodies and of all the banks in the country. However, since the difference in the foreign exchange resources of the banking system in the course of two successive years is equal to the net proceeds of the balance of payments, and if one has the figures for a number of years, one can establish not only the net proceeds of the balance of payments but also the formation of monetary base due to foreign transactions¹. This is in fact equal to the net results of the balance of payments to which must be added both the value of the variations in the net position of the commercial banks with foreign countries² taken with the opposite sign and the value of the foreign exchange resources included in the banks' liquid assets. At this point however it seems appropriate to consider briefly the provisions in force as regards exchange and foreign trade.

As already stated, the currency resources of the BCEAEC consist of French francs held in current account with the French

¹ The exogenous formation of monetary base due to the external factor may be inferred from the value of the net foreign position of the banking system.

² The monetary authorities, however, through the variation of the upper limits on the net foreign indebtedness of the banking system, may have an influence over the exogenous formation of monetary base. In fact, where such maximum values are reduced, banks cannot use at their discretion within the country the liquid assets they hold abroad in excess of the above-mentioned ceiling. When they do not succeed in reducing, within the time allowed them by the central bank, their liabilities towards the rest of the world to an amount below the limits stipulated, they may obtain a time extension, subject to "swaps" with the Foreign Exchange Office. Various considerations will have to be taken into account in the event of these limits being expanded. However, alterations in the limits of the net debtor position which the banks may assume towards the outside world is a powerful instrument of control over the exogenous formation of monetary base and over the assets of a foreign-controlled banking system.

Treasury. All payments and all currency entries — including transactions with countries within the franc zone — go through this account¹. Transactions between the Central Bank and the other countries of the franc zone may be effected in any of the currencies of the area under consideration. An agent bank wishing to make a transfer outside the franc zone should, in theory, receive French francs from the Central Bank in exchange for their counterpart in CFA francs². Thereafter, the bank concerned may obtain the currency it requires on the foreign exchange market in Paris³. In practice, however, the agent banks are authorised⁴ to have current accounts with their correspondents abroad, through which they may purchase and sell foreign currency. The convertibility of CFA francs in French francs — at a fixed rate of exchange⁵ — is guaranteed by an unlimited credit line which the French Treasury has granted to the BCEAEC and — in

¹ An exception is made in the case of currency transactions arising through bilateral agreements on payments.

² The Central Bank would then debit the *compte d'opérations* with the corresponding amount.

³ We may recall that, when variations in the amount of the currency reserves are absorbed by the operators themselves or by the currency market there is no impact on the volume of money. However, where the monetary authorities are the counterpart to these transactions there will arise, unless these operations are cancelled out by others, a variation in the volume of primary money which, in its turn, will bring about, where compensatory effects are lacking, an escalating process of contraction or expansion, whose proportions will depend on the expansion coefficient of the deposits. On this issue see W. T. Newlyn, *Teoria della moneta*, Naples, Jovene, 1967, p. 208 ff.; Amedeo Gambino, *Economia creditizia*, Turin, Utet, 1962, p. 121 and Francesco Masera, "I movimenti di capitali bancari con l'estero e la politica monetaria italiana", *Moneta e Credito*, December 1966, p. 412.

⁴ The fact that the relations of an economic system with the outside world are based on authorisations enables the monetary authorities of a country to exert an influence over the exogenous formation of monetary base.

⁵ The international spread of inflation and deflation is fostered by the direct link which is established, under a fixed exchange rate system, between

theory at least — any imbalance that may occur on their *compte d'opérations* will not jeopardise the possibility of access to the Paris foreign exchange market, by the countries of Equatorial Africa¹. Before 1st July 1967 there was in each country, under the authority of the Minister of Finance or of the Economy, a Foreign Exchange Office whose task was to ensure compliance with currency regulations. Since that date some countries have replaced the above-mentioned office by an Office for International Financial

prices at home and abroad, especially where a country suffers a deficit in its current entries. In such a situation, in fact, the acquisition of its currency by the rest of the world, and in particular by the countries of Equatorial Africa, corresponds to an equivalent cession of resources to the country which has this deficit. In that sense France has been — repeatedly — an active propagator of inflation. Many economists have suggested this link should be broken by adopting floating rates of exchange. Baffi, however, does not consider such a step advisable. Speaking of the countries which export primary products, he observes that "the results of an adjustably pegged rate of exchange would probably be very close to those of a fixed rate, because the authorities would normally dip into the official reserves to satisfy market demands when import costs are rising, and would be slow in altering the exchange rate by way of revaluation in order to fight imported inflation". See P. Baffi, *Studi sulla moneta*, *op. cit.*, p. 104 and "L'inflazione in Europa Occidentale e le monete riserva", *Moneta e Credito*, March 1968, p. 23. We should note however that the implementation of such a policy presupposes the availability — for developing countries — of adequate currency reserves. Moreover, if we bear in mind that policies aimed at stabilisation of incomes and therefore of imports depend to a large extent on the forecasts made by the marketing boards as regards the selling prices of their products in the coming year (production campaign) and on receipts of currency arising through the exports of foreign mining firms, on which depends, in the last analysis, a significant share of the Government's revenue, we shall readily see the difficulties inherent in such a policy. On this issue it is worthwhile consulting W. T. Newlyn, *Money in an African Context*, Nairobi, Oxford University Press, 1967, p. 114 ff.

¹ It is worthwhile observing that, under a fixed exchange rate system, those countries whose currency is used as a reserve currency draw from this situation considerable possibilities of financing their own external deficits, since these normally generate an inward flux of short-term capital. Insofar as this is true, these countries become potential major sources for the spread of the inflationary process. See Paolo Baffi, *Studi sulla moneta*, *op. cit.*, p. 101.

Relations. Regulations as regards foreign trade are issued by the Minister of the Economy whose task is to establish annual import programmes, allocate quotas among importers and issue import and export licences. Quotas are determined annually by a joint committee representing the country concerned and France. The committee decides on the size, composition and value of the import programme. This programme relates exclusively to "non-liberalised" goods. With the exception of certain products which are subject to import restrictions or prohibitions, all other products — originating from countries which belong to the Franc area or to the European Economic Community — are free from all restrictions and administrative formalities. However, the States of Equatorial Africa, to satisfy the needs of their own development, may impose quota restrictions on imports from EEC countries¹. At present, exports may be effected freely, in principle, and there is no longer any obligation to repatriate the currency resources arising from them. In Gabon, exporters may immediately obtain import licences for products not included in the country's import programme, where these are linked to their export activities by an amount which corresponds to 10% of the total value of their exports during the preceding year². Transfers do not require any prior approval. As regards capital movements the

¹ In order to specify the cases in which the States of Equatorial Africa may have recourse to these measures, Protocol No. 2 annexed to the second Yaoundé Convention defines what may be covered by "the necessities of development". See BCEAEC, *Bulletin Mensuel*, January 1971, p. 19.

At the same time we should note that, in the case of imported inflation, the monetary authorities cannot use monetary instruments to neutralise the effect which rising price trends in the country with a reserve currency have on their own price level, because this would require a revaluation of the exchange rates, with all the negative consequences inherent in such a step, and would involve an increase in unemployment. See Paolo Baffi, *Studi sulla moneta*, *op. cit.*, p. 105.

² See IMF, *Surveys of African Economies*, *op. cit.*, p. 51.

only existing controls concern countries other than France or transactions with France not originating from the *compte d'opérations*. They involve¹:

- (i) direct investments abroad, which are subject to prior approval except in the case of Gabon, where a declaration alone is required;
- (ii) direct investments within the country and their liquidation. The Ministry concerned may, within two months, request the cessation of such operations;
- (iii) residents must obtain prior approval to contract or issue loans abroad. There is an exemption in the case of registered banks and of operations whose amount does not exceed 50 million CFA francs. However the issue and redemption of loans in excess of 500,000 CFA francs (5 million in Gabon) are subject to declaration within 20 days of completing the transaction;
- (iv) prior authorisation must be obtained for the issue and sale of securities issued by foreign governments, foreign public institutions, foreign firms or international institutions, unless they are guaranteed by the Government;
- (v) prior authorisation is generally required for the import and export of gold. Furthermore, in every one of the countries considered, a code of investments gives preferential treatment to industrial and agricultural investment projects.

(a) *Currency resources of the BCEAEC*

These resources showed in the first place a severe contraction, which reduced their level from 20,985 million CFA francs in June 1965 to 10,831 million in June 1968, and then a substantial increase which brought them up to 28,763 million in June 1970.

¹ See IMF, *Surveys of African Economies*, *op. cit.*, p. 51.

TABLE 15

FOREIGN EXCHANGE RESERVES OF THE CENTRAL BANK, 1964 TO 1970
(in million CFA francs)

Months	Financial year 1964/1965	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
July	18,191	19,817	18,614	12,512	10,965	15,581
August	18,364	18,367	18,648	11,648	11,964	16,021
September	16,915	17,787	17,794	10,913	12,877	16,167
October	16,030	17,075	17,151	11,468	14,566	17,659
November	16,361	16,941	17,337	12,534	14,518	18,363
December	16,679	18,533	16,289	11,503	15,645	20,577
January	16,617	19,619	15,650	11,270	16,612	24,649
February	17,391	19,065	14,597	11,438	18,128	27,422
March	17,869	18,653	14,949	12,832	18,578	28,753
April	19,586	19,221	14,104	13,124	18,610	29,202
May	20,499	19,405	13,882	12,325	18,109	28,128
June	20,985	18,340	13,445	10,831	16,994	28,763

Source: BCEAEC, *Rapports d'activité*.

As may easily be seen from the figures given in the above table, the resources under consideration were effected, in the first two years, by a high degree of seasonal dependence, with fluctuations of 30.91% and 16.98% respectively and with minimum amounts occurring in the two months October-November while the maximum was recorded in May and June. In the two following years, however, there was a continual decrease. The last two years showed a steady replenishment of the currency reserves, which increased by 56.9% and 69.25 per cent.

Consequently, one may note how the progress of the agricultural production campaign clearly influenced the first two years. From July onwards, the financing of imports weight on the foreign exchange reserves which reached their lowest point in November.

Starting in December, the new results, speeding up the rhythm of exports, ensured the increase in the currency reserves. The decline observed in the two following years may, on the other hand, be attributed in part to the considerable decrease in public deposits, and to the loans granted by the monetary authorities to the States in the issuing area and in part to the development of bank loans to the economy. This has led to a decrease in the ratio of coverage of sight deposits of BCEAEC by the currency resources. This coverage, in fact, was only 27.10% at the end of the financial year 1967/1968. In the following years this ratio increased to 36.72% and 49.64% respectively. This increase must be seen in connection with the considerable expansion of public deposits which increased by 170.09% in those two years, and the selective credit regulations for credit created by the Central Bank.

The composition of the currency reserves has varied appreciably from year to year. In 1965, in fact, the distinction between *compte de placement* and *compte d'opérations* was abolished. Following the convention negotiated between the Treasury of the States concerned and the Central Bank, the resources which appeared there, almost all belonging to the Cameroon Treasury, were transferred to the *compte d'opérations* of the Central Bank. The counterpart was deposited by the Treasuries which held it with the Central Bank and was used to meet, at least in part, the financial requirements of re-discounting operations.

We should furthermore observe that while after this abolition the resources of the *compte d'opérations* were enlarged, the resources deposited with the French Treasury, considered as a whole, declined by 2,841 million CFA francs. This decline continued until 1968, when these assets reached their lowest level of 7,186 million CFA francs. Thereafter, the

TABLE 16

COMPOSITION OF THE FOREIGN EXCHANGE RESERVES OF THE CENTRAL BANK, 1965 TO 1970
(in million CFA francs)

I t e m s	30th June 1965	30th June 1966	30th June 1967	30th June 1967 ⁽¹⁾	30th June 1968	30th June 1969	30th June 1970
With the French Treasury:							
<i>Comptes d'opérations</i>	14,325	16,984	11,892	10,810	7,186	12,898	19,833
<i>Comptes de placement</i>	5,500	—	—	—	—	—	—
Foreign bills	—	—	—	1,883	1,815	2,042	3,786
IMF	1,113	1,286	1,459	1,459	1,631	1,804	4,889 ⁽²⁾
Sundries (banknotes from the franc zone and funds with correspondents)	47	70	94	94	199	250	255
Total	20,985	18,340	13,445	14,246	10,831	16,994	28,763
External position of the commercial banks	— 790	— 1,439	— 1,667	— 1,667	— 5,800	— 2,863	— 6,804
Grand total	20,195	16,901	11,778	12,579	5,031	14,131	21,959

⁽¹⁾ After closing the account *transferts à régler*.⁽²⁾ The value of special drawing rights was 2,665 million.Source: BCEAEC, *Rapports d'activité*.

credit which the Central Bank gave to the French Treasury increased constantly, reaching 19,833 million in June 1970.

The investments in foreign securities made by the issuing bank showed, however, a rising trend increasing from 1,883 million in June 1967 to 3,786 million in June 1970.

Similarly the credit balance of the Central Bank with the International Monetary Fund, the franc zone and foreign correspondents increased steadily, rising respectively from 1,113 to 4,839 million, of which 2,665 in special drawing rights¹, and from 47 to 255 million CFA francs.

We may however say that the investments in currency resources, made by the institution we are considering, showed a rate of decline during the period from 1965 to 1968, and thereafter a trend of the type we have already described. In fact the amount of credit granted by the French Treasury declined from 94.47% in 1964/1965 to 66.34% in 1967/1968 and finally to 69.47% in 1969/1970. The quota with the International

¹ Recently, some authors, among them Robert Triffin, Harry H. Bell and Tibor Scitovsky, have asserted the usefulness of establishing a link between the creation of special drawing rights and aid to developing countries. Other economists, Haberler amongst them, have, however, pointed out that the link is essentially a proposal for inflationary financing of the countries under discussion, since the objective of a linking system along these lines would be the rapid using up of SDR's. Hence, according to these last-mentioned writers, a similar method of creating liquidity — being essentially inflationary — would not in principle be advisable. On this issue it is worth while consulting R. Karlik, *On Linking Reserve Creation and Development Assistance*, Staff Study prepared by the Sub-Committee on International Exchange and Payments of the Joint Economic Committee, Washington, April 1969; Fritz Machlup, *Remaking the International Monetary System — The Rio Agreement and Beyond*, Baltimore, 1968; Harry H. Bell, *Institutional Aspects of Linking Development Finance with Reserve Creation under the Rio Agreement*, United Nations Conference on Trade Development, 6 January 1970; G. Haberler, "Diritti speciali di prelievo e assistenza ai Paesi sottosviluppati", *Moneta e Credito*, March 1971, p. 14-23; Tibor Scitovsky, "Money and the Balance of Payment", *op. cit.*, p. 180.

Monetary Fund was always above 10% in the last four years and reached 17% in 1969/1970.

Commercial banks, in the period under consideration, continually had recourse to borrowing from their foreign correspondents. The pattern of this recourse, however, was rather uneven. At first these banks borrowed to an increasing extent. In fact, from an amount of 790 million CFA francs on 30 June 1965 their indebtedness rose to 5,800 million on 30 June 1968. The highest rates of increase occurred in 1965/1966 and 1967/1968 when they were 82.15% and 247.93% respectively. In 1968/1969 the indebtedness of the commercial banks declined sharply but in the following year this indebtedness rose again steeply, reaching 6,804 million, with a rate of increase of 137.65%. It appears clearly from these brief details that the commercial banks have made use of foreign currency financing in order to soften the effects of variations in the currency reserves of the Central Bank¹ in the period from 30 June 1965 to 30 June 1969. In the last years, in addition to the expansion effect on monetary circulation of an increase in the amount of the currency reserves of the issuing bank, there was a similar effect due to a higher level of indebtedness of the commercial banks towards their foreign correspondents².

Finally, as regards the foreign exchange balance of the countries in the issuing area, it may be noted that it has shown a

¹ As already observed, the integration of the national funds with recourse to foreign sources makes it possible to expand credit and thus has effects similar to widening the margins of refinancing allowed by the Central Bank.

² We should observe, however, that, in order to achieve greater effectiveness in the restrictive policies established by the central monetary authorities, it would be advisable for them to have the power of granting to the banks, or withholding from them, the possibility of having a net deficit in their foreign transactions.

tendency similar to that of the currency reserves of the Central Bank¹.

Transfers effected by the central monetary authorities for the account of the national Treasuries, in the period under consideration, have always given rise to a credit balance, which has varied between 1,018 million in 1965/1966 and 12,841 million CFA francs in 1969/1970. If one breaks down this flux into various components, one may observe the following:

- (i) transfers of a public nature have always shown positive and increasing values, for amounts varying between 9.5 and 21 million CFA francs;
- (ii) private postal transfers, on the other hand, have led to an outflow of capital which, with the exception of the first year, has averaged about 5,000 million CFA francs²;
- (iii) contributions to the International Monetary Fund always remained steady at 173 million CFA francs, except for 1969/1970 when the subscription was increased by 3,085 million.

This increase may in part be traced to the plusvalue following the revaluation of the participation in gold and currencies, as a consequence of the monetary devaluation of 11 August 1969, and to the accounting of the countervalue of the special drawing rights allocated to these States, in the context of the reform of the monetary system, which came into force on 1st January 1970.

¹ We should note that the external payment balance should include in addition to the reserves of the commercial banks, those of the other credit-granting institutions. In this connection see E. Schneider, *Bilancia dei pagamenti*, *op. cit.*, p. 47.

² The considerable reductions observed in the first two years may be explained, at least to some extent, by the declining popularity with the public of postal orders and giro transfers and by the greater use, for this purpose, of the banking system.

TABLE 17

TRANSFERS OF THE NATIONAL TREASURIES, OF THE CAISSE CENTRALE DE COOPÉRATION ÉCONOMIQUE (CCCE) AND OF THE INTERNATIONAL MONETARY FUND, 1965 TO 1970
(in million CFA francs)

Items	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
National Treasuries	- 4,332	+ 2,130	+ 6,414	+ 9,198	+ 15,926
CCCE	+ 5,523	+ 2,880 ⁽¹⁾			
IMF	- 173	- 173	- 173	- 173	- 3,085
Total	+ 1,018	+ 4,837	+ 6,241	+ 9,025	+ 12,841

⁽¹⁾ Following a modification of the accounting methods, the operations of the CCCE have been incorporated, since 1st January 1967, in the transfers of the Treasury. Therefore, during the financial year 1966/1967, the figure concerning the CCCE includes transfers effected during the first half-year.

Source: BCEAEC, *Rapports d'activité*.

TABLE 17 bis

PUBLIC TRANSFERS, 1965 TO 1970
(in billion CFA francs)

Items	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
National Treasuries	+ 4	+ 7	+ 11.2	+ 14.2	+ 21
CCCE	+ 5.5	+ 2.9 ⁽¹⁾			
Public transfers	+ 9.5	+ 9.9	+ 11.2	+ 14.2	+ 21
Private postal transfers	- 8.3	- 4.9	- 4.8	- 5	- 5
Public transfers	+ 1.2	+ 5	+ 6.4	+ 9.2	+ 16

⁽¹⁾ See note of Table 17.

N.B. - The Treasury transfers of a public nature include income and expenditure abroad, foreign aid (particularly from the *Funds d'Aide et de Coopération*, from the European Development Fund and from the *Caisse Centrale de Coopération Economique*), the settlements of the post offices (cover of postal money orders and postal cheques). They also include the transfers effected by the French Treasury both to cover its own expenses and in respect of foreign aid. The transfers effected by the *Caisse Centrale de Coopération Economique* come under the same heading.

Source: BCEAEC, *Rapports d'activité*.

TABLE 18

BANK TRANSFERS BY THE CENTRAL BANK WITHIN THE ISSUING AREA,
1965 TO 1970
(in million CFA francs)

Items	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
Banking system ⁽¹⁾	+ 196	— 6,550	— 6,503	+ 895	— 726
Banknotes	— 4,263	— 3,270	— 3,146	— 4,126	— 5,491
Central Bank	+ 208	— 108	— 216	— 82	+ 311
Total	— 3,859	— 9,928	— 9,865	— 3,313	— 5,906

⁽¹⁾ The operations included under the heading "Bank transfers" cover the transactions of the Central Bank itself (interest on operations account, compensation paid to national Treasuries for the privilege of issue, etc.), bank transfers and the return to the original countries of banknotes issued by the central monetary authorities.

Source: BCEAEC, *Rapports d'activité*.

As regards bank transfers effected by the Central Bank within the issuing area, we should not that they have always given rise to indebtedness towards the French Treasury, varying to a considerable extent.

As regards transfers made for the account of the banks, we must consider the relevant purchases of French francs to which these operations gave rise in 1966/1967 and 1967/1968 ¹. This increase was partly offset by a decline of the deficits recorded over the same period, in giro accounts and postal orders, following the gradual substitution of bank for postal transfers. However, this compensation was only partial and it remains true that the sum of these two movements from private sources is greater than in the preceding year.

The repurchase of banknotes has always been effected for relevant amounts. These operations originally showed

¹ These purchases naturally bring about, other things being equal, a reduction in the amount of money in internal circulation.

a downward trend. In fact they declined from 4,263 million in 1965/1966 to 3,146 in 1967/1968. Thereafter, the assets under consideration increased steadily, reaching 5,491 million CFA francs in 1969/1970¹.

Finally, the Central Bank has made transfers for its own account. These are for small amounts and show appreciable variations².

The transactions effected by the Central Bank within the issuing area clearly explain, during the period under consideration, all the transfers under examination. They do not in fact show, in the first three years, any significant differences by comparison with transfers effected with the rest of the world. It is only in the last two years that appreciable differences occur, amounting to 230 million and 1,700 million CFA francs respectively.

The inclusive value of these operations shows a rising trend in the first instance, increasing from 4,600 million in 1965/1966 to 13,900 million in 1967/1968. In the following year there was a very marked contraction which almost entirely restored the balance of the banking system in the Monetary Union; but in 1969/1970 the level of indebtedness of the operator under consideration rose again quite appreciably, reaching 8,100 million CFA francs. One may, however, observe that the inclusive value of bank transfers always took on negative values

¹ The large volume of imports of banknotes from the franc area bears witness to the considerable outflow of capital occurring through unauthorised channels and to the reluctance of foreign operators to place deposits with the banks of the issuing area.

² It will be recalled that transfers effected by the Central Bank within the issuing area represent the increase or decrease in its *compte d'opérations* with the French Treasury. Hence the account under consideration is a synthesis of the transfers made by the Central Bank for the account of the national Treasuries and of the banks.

TABLE 19

BANK TRANSFERS WITH OTHER COUNTRIES, 1965 TO 1970
(in billion CFA francs)

Items	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
Central Bank ⁽¹⁾	— 3.9	— 9.9	— 9.8	— 3.1	— 4.2
Variation in the foreign positions of the banks	— 0.7	— 0.2	— 4.1	+ 2.9	— 3.9
Total	— 4.6	— 10.1	— 13.9	— 0.2	— 8.1

⁽¹⁾ The transfers by the Central Bank with the other countries of the world differ in the last three financial years from those shown in Table 18, since they take into account the operations effected by the Central Bank with foreign bills.

Source: BCEAEC, *Rapports d'activité*.

TABLE 19 bis

BANK TRANSFERS BY THE CENTRAL BANK, 1967 TO 1970
(in million CFA francs)

Items	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
Central Bank	— 9,865	— 3,313	— 5,906
Foreign bills for collection	+ 105	+ 227	+ 1,744
Total	— 9,760	— 3,086	— 4,162

Source: BCEAEC, *Rapports d'activité*.

and that it was influenced, on the one hand, by the mobilisation of public deposits and by advances on Treasury receipts, and, on the other, by the loans which the banking systems made to the economy.

Private transfers with the rest of the world result from the synthesis of the postal and banking components.

Since private postal transfers have averaged out at about 5,000 million, over the period under consideration, the

TABLE 20

PRIVATE TRANSFERS WITH OTHER COUNTRIES, 1965 TO 1970
(in billion CFA francs)

Items	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
Postal transfers	— 8.3	— 4.9	— 4.8	— 5.0	— 5.0
Bank transfers	— 4.5	— 10.1	— 13.9	— 0.1	— 8.1
Total	— 12.8	— 15.0	— 18.7	— 5.1	— 13.1

Source: BCEAEC, *Rapports d'activité*.

variability of private transfers is to be ascribed to bank transactions. One should, however, observe that these transfers have given rise to an indebtedness of the central monetary authorities towards the rest of the world.

Finally, the foreign exchange balance of the countries under consideration may be studied in two sub-periods. The first shows an increasing deficit, growing from 3,300 million to 7,500 million in 1967/1968. In the second sub-period the trend is clearly reversed, and the balances in fact show surpluses even though these are declining.

The trend was reversed in 1968/1969. In that year, in fact, there was, by comparison with the previous year, a positive variation in the balances, equal to 16.6 million CFA francs. The reasons for this reversal may be traced, incidentally like those for the variability in the balances under consideration, to developments in private transfers¹ and more specifically in bank transfers. The appreciable contraction in the volume of indebtedness of the above-mentioned operators and the favourable tendency of the balance

¹ In fact, in the countries under consideration a surplus abroad will most probably go hand in hand with a liquidity surplus of the private sector.

TABLE 21

EXTERNAL PAYMENT BALANCE OF EQUATORIAL AFRICAN COUNTRIES
AND CAMEROON, 1965 TO 1970
(in billion CFA francs)

Items	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
Public transfers	+ 9.5	+ 9.9	+ 11.2	+ 14.2	+ 21.0
Private transfers	— 12.8	— 15.0	— 18.7	— 5.1	— 13.1
Balance	— 3.3	— 5.1	— 7.5	+ 9.1	+ 7.9

Source: BCEAEC, *Rapports d'activité*

of trade are the factors which best explain the reversal we are discussing. Moreover, the facts we have set out above clearly account for the very important functions assumed by the commercial banks within the system we are considering. These banks, when they can have free access to credit facilities through their foreign correspondents, are in a position to neutralise the policy of the monetary authorities and to exert a determining influence over the economy of the countries in which they operate. Hence it is necessary to empower the Central Bank to concede to these banks, or withhold from them, the possibility of having a net overdraft in their relations with the outside world¹.

(b) *Developments in the Gabonese external payment balance*

As regards the reserves of the Gabonese Monetary Board, for the period from 30 June 1966 to 30 June 1968, a significant reduction in the amount of these should be noted: a decline from 4,036 to 1,139 million CFA francs. In the following sub-period, on the other hand, there was an appreciable increase. In

¹ It would also serve the purpose of making the banking system of the Monetary Union more independent of the French system.

fact, the value of these holdings reached 1,871 million CFA francs at the end of June 1970¹.

A major part of these reserves was pledged with the *compte d'opérations*. Their relative importance, however, showed a downward trend over time, falling from 95.23% at the outset to 47.78% in June 1970. On the other hand, investments made with the International Monetary Fund increased considerably. A large part of this increase occurred in 1969/1970 following the devaluation of the French franc and the registration of special drawing rights. Furthermore, we should mention the appearance among the currency resources we are discussing of bills for collection of foreign operators.

The commercial banks continually had recourse to foreign credit, except in 1965/1966 and 1966/1967. This recourse was particularly marked in 1967/1968 and 1969/1970 when it amounted to 2,031 and 1,502 million CFA francs respectively².

The currency reserves of the State were progressively eroded, the critical point being reached in 1967/1968. The external payment balance in fact showed a worsening of 692 million CFA francs. Thereafter the balance became positive once again. However the amount of this surplus was very small.

As regards transfers made by the monetary authorities, we should in the first place note a very considerable variance which consequently had repercussions on the balance of the *compte d'opérations*. In the first two years these transfers gave rise to

¹ In the last two years the covering of sight bills by currency resources declined from 38 to 32.1 per cent.

² We should observe that bank credits from abroad most probably tend to increase the rate of growth of internal demand and therefore the level of imports. Bearing in mind the limited adaptability of supply to increases in demand, and the inadequacy of the distributive sector, it is clear that the monetary authorities must keep a close watch on the behaviour of the banking system.

TABLE 22

FOREIGN EXCHANGE BALANCE OF GABON, 1965 TO 1970
(in million CFA francs)

I t e m s	30th June 1965	30th June 1966	30th June 1967	30th June 1968	30th June 1969	30th June 1970
Resources of the Central Bank:						
a) with the French Treasury	3,357	3,840	1,869(1,858) ⁽¹⁾	773	1,066	894
b) foreign bills (banknotes from the franc zone and deposits with foreign correspondents)	—	—	70	61	122	124
c) sundries	7	4	5	52	51	55
d) IMF	161	192	223	253	285	798 ⁽²⁾
Net foreign position of the Central Bank ⁽³⁾	3,525	4,036	2,097	1,139	1,524	1,871
Net foreign position of the commercial banks	— 177	468	57	— 2,031	— 636	— 1,502
Net foreign position of the Central Bank and commercial banks ⁽⁴⁾	3,348	4,504	2,154	— 892	888	369

⁽¹⁾ Including transfers at the end of the month.⁽²⁾ Of which S.D.R. for 443 million CFA francs.⁽³⁾ Formation of a monetary basis following the operations of the economic system with foreign countries.⁽⁴⁾ Its value is equal to that of the exogenous formation of a monetary basis following the application of the foreign factor.Source: BCEAEC, *Rapports d'activité*.

an increase — on a decreasing scale — of the amount of credit granted by the Gabonese Treasury to the French Treasury. In the two following years, however, there was a decline, still on a decreasing scale, of this credit. Finally, in the last two years, there was first an increase and then a decrease, but involving very small amounts.

It is interesting to note that the transfers made for the account of the Treasury almost invariably showed the opposite sign to that of the bank transfers¹. Moreover they were almost always greater in absolute value.

We may finally consider Gabon's external payment balance.

Transfers made by the public sector gave rise to a credit position, during the period under consideration, in relation to the rest of the world. At the outset the balances of these transfers showed continued erosion which was particularly marked in 1967/1968. In that year, in fact, there was a decrease of 1,500 million CFA francs. In the following sub-period, however, there was an appreciable increase, bringing these balances to 2,400 million.

Other considerations apply in the case of private transfers. In the first place, one must point out that the balances of this sector almost invariably showed a deficit which was most pronounced in 1966/1967, 1967/1968 and 1969/1970. These deficits were undoubtedly affected by postal transfers which caused a continuous outflow of capital² though to a diminishing extent.

Bank transfers show a surplus except in those years in which there were considerable deficits in the balances of private transfers.

¹ Excepting the years 1967/1968 and 1968/1969 when the signs coincided.

² In this connection we must recall the tendency shown by the public, in 1966/1967, to use the banks instead of the post offices for its own transfers. Hence, the explanation of the steep decline in the value of postal transfers, recorded in 1965/1966 and in 1966/1967, may be found in the change which occurred in the preferences of private operators.

TABLE 23
 TRANSFERS BY THE CENTRAL BANK FOR THE ACCOUNT OF THE MONETARY BOARD OF GABON,
 1964 TO 1970
(in million CFA francs)

Items	Financial year 1964/1965	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
Treasury transfers ⁽¹⁾	- 3,381	- 3,635	+ 212	- 948	+ 57	+ 1,186
Subscriptions to the IMF	-	- 31	- 31	- 31	- 31	- 513
Transfers of CCCE	+ 1,363	+ 1,352	+ 367	-	-	-
Bank transfers	+ 3,966	+ 2,797	- 2,519	- 107	+ 267	- 845
Balance	+ 1,948	+ 483	- 1,971	- 1,086	+ 293	- 172

⁽¹⁾ Including postal transfers.

Source: BCEAEC, *Rapports d'activité*.

TABLE 24

EXTERNAL PAYMENT BALANCE OF GABON, 1964 TO 1970
(in billion CFA francs)

Items	Financial year 1964/1965	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
1) Public transfers:						
Treasuries	+ 0.9	+ 0.5	+ 1.6	+ 0.5	+ 1.5	+ 2.4
CCCE ⁽¹⁾	+ 1.4	+ 1.4	+ 0.4			
Balance of public transfers	+ 2.3	+ 1.9	+ 2.0	+ 0.5	+ 1.5	+ 2.4
2) Private transfers:						
Postal transfers	- 4.8	- 4.1	- 1.4	- 1.4	- 1.3	- 1.2
Bank transfers, of which	+ 5.0	+ 3.4	- 2.9	- 2.2	+ 1.7	- 1.7
Central Bank	+ 4.0	+ 2.8	- 2.5	- 0.1	+ 0.3	- 0.8
Variations in the foreign positions of commercial banks	+ 1.0	+ 0.6	- 0.4	- 2.1	+ 1.4	- 0.9
Balance of private transfers	+ 0.2	- 0.7	- 4.3	- 3.6	+ 0.4	- 2.9
General balance	+ 2.5	+ 1.2	- 2.3	- 3.1	+ 1.9	- 0.5

⁽¹⁾ Following a modification in accounting methods, the balances of the CCCE have been included, since 1st January 1967, in the transfers of the national Treasuries. Therefore the data for the financial year 1966/1967 refer only to transfers effected during the first half-year.

Source: BCEAEC, *Rapports d'activité*.

The two components of these transfers always show the same sign¹. However, while until the end of 1966/1967 transfers made by the Central Bank were greater in absolute value than the variations occurring in the foreign balances of the commercial banks, the reverse is true thereafter.

The external payment balance progressively deteriorated over the first four years. It moved, in fact, from a surplus of 2,500 million CFA francs to a deficit of 3,100 million. In the two years thereafter there was however first a clear improvement and then a marked deterioration in the balance we are considering.

6. CREDITS TO THE ECONOMY

The National Monetary Boards may expand or restrict the amount of the loans that are granted. In this way the monetary authorities may, on the one hand, exert an influence over the volume of fiduciary circulation, and on the other, may seek either to promote the expansion of the economic system or to damp down inflationary pressure by manipulating rates and above all by allowing the rediscounting of loans on a larger or a smaller scale and in a more or less selective way.

Even though the Central Bank operates exclusively with credit institutions² we must still note that statutory provisions would

¹ The fact that the balances of the two components show the same sign means that the operators are adopting policies which have contrasting effects on the volume of monetary circulation. The predominance of one influence or another will depend, in the short run at least, on many factors including the strength of the policies which are implemented.

² Under the terms of Article 19 of the Statute, the institution under discussion normally does business with:

- (i) banks or financial institutions which are authorised to effect credit transactions;
- (ii) public and semi-public bodies issuing credit for agricultural, industrial, building or social purposes.

enable it, in exceptional cases, to act directly on the distribution of credit. In fact, in these cases, the issuing house may allow discount, temporary rediscount¹, allow overdrafts to non-banking operators, provided that these operations are of general interest and tend to reduce the cost of capital. In the case of discount or temporary rediscount² operations, a signature may be replaced by one of the guarantees provided for under Article 14 of the Statute of the Central Bank³.

¹ The securities to be accepted for discount or temporary rediscount by the issuing institute must mature within six months and must be signed by at least two persons of known solvency. One of these signatures must be that of a bank (Article 13).

² The central monetary authorities, in order to make this control more flexible, may consider it advisable to allow the banks to exceed the upper limit in cases of temporary or exceptional need. To this end, there is the possibility of an overdraft from the issuing house taking the technical form of advance on securities. In such a transaction, a credit institute endorses the securities concerned, with the option of redeeming them after a brief period or as soon as its conditions of liquidity improve. However the difference between rediscounting and advances consists in the fact that, with this last technical form, the reimbursement by the debtor bank of the sum involved may be made at any time, up to ten days before the maturity date, and that as a result the payment of interests does not occur by way of advance as in the case of rediscounting, but when the security is withdrawn. Finally, it should be mentioned that, in order to prevent abuses, the rates charged by the Central Bank for temporary rediscount are highly penalising in the event of frequent recourse. On this issue, it is worth while consulting Giordano Dell'Amore, *L'economia delle aziende di credito*, Vol. I, *I prestiti bancari*, Milan, Giuffrè, 1965, p. 535; David A. Alhadeff, *Concorrenze e controlli nell'attività bancaria*, Milan, Cassa di Risparmio delle Province Lombarde, 1970, p. 262, and Sergio Bortolani, *The banking system of Niger, op. cit.*, p. 65.

³ The Board determines the ceilings for each of the guarantees set out in Article 14. The issuing bank cannot allow credits above these ceilings to the banks. Under the provisions of this Article, the debtor bank undertakes to repay its own debt within a period not exceeding six months and to refund the value of the guarantee, when this diminishes by 10%. In the event of failure to comply the overdraft is immediately called in.

Subject to a previous special meeting of the Board, and in the case of firms which can provide guarantees based on future results, the Central Bank may carry out these operations on securities provided of a single signature and without the need for one of the previously mentioned guarantees. Furthermore, the Central Bank may acquire shares in organisations or firms whose activities are of special interest to the States in which it exercises its privilege of issuing notes, with the authorisation of the French Government and the Government of the country concerned, for amounts not exceeding its own funds¹. The institution we are considering may:

- (i) up to the amount of the quota determined by its Board, grant overdrafts against government stock, representing credits towards the French Government or the States of French Equatorial Africa and Cameroon or guaranteed by them;
- (ii) buy or resell, without endorsement, that same stock, provided they mature within six months and provided these operations are not effected for the benefit of the national Treasuries;
- (iii) discount customs bills and bills of exchange issued for the benefit of the national Treasuries, under the conditions provided in the specific regulations of the different States in the monetary area;
- (iv) finally the Central Bank may discount, to the banks, medium-term notes. However, in order that they may be mobilised with the Central Bank, they must:
 - a) be guaranteed by the signatures of two or more persons of known solvency;

¹ The Bank may acquire, sell or exchange the buildings which it requires in order to do its work. These operations however are subject to authorisation by the Board, and the bank must meet the costs out of its own funds.

- b) mature within seven years;
- c) have, as their purpose, the development of producer goods, or the construction of buildings;
- d) have previously been authorised by the Central Bank.

The Board periodically determines the ceiling of the medium-term credits that may be accepted for discount.

As may readily be observed, the credit transactions of the central Institution with the banking system are subdivided into short-term and medium-term operations. Of course, short-term operations are the essential part of the Central Bank's activities. In the short-term credit sector, the central monetary authorities may effect rediscounting, advances, and temporary rediscount.

Rediscounting operations are subdivided into two major categories:

- (i) operations subject to a ceiling whose upper limit is determined by each single institution in accordance with various criteria;
- (ii) operations not subject to ceilings which, because of their nature or because of the procedure for raising the money are carried out without any quantitative restriction.

Operations of the first type are of a permanent or seasonal nature and have as their purpose the partial financing both of the marketing of agricultural products up to the time of export, and of the working capital of industrial, commercial, artisanal, forestry and agricultural enterprises.

Because of the temporary nature of the re-financing which is granted, two upper limits are established, known respectively as the ceiling for current operations and the ceiling for campaign operations.

For each credit institution and in every country in which this arrangement exists, ceilings are established for general operations, depending on the economic situations and the general

activity of the bank, that is on the structure of its resources and of its investments and on its type of customers.

Even though these limits have a permanent character they may be revoked at any time without previous notice.

This quantitative control is further reinforced by another intervention by the central monetary authorities at the time when credit is allocated to the various business operators. In fact the ceiling for current operations is subdivided among a certain number of firms whose signature is acceptable. Hence a rediscount ceiling is established for every firm. The central monetary authorities thus wield an instrument with which they may influence the development and financial structure of companies operating within the issuing area¹.

Again, ceilings are allocated to particular credit institutions for the re-financing of farm seasonal credit needs. These ceilings are determined for each single farm according to the amount of finance required for the marketing of agricultural products, which in turn is established bearing in mind that:

- (i) it has a time limit pre-determined in relation to the length of the business cycle;
- (ii) due to the impossibility of foreseeing with sufficient accuracy the time when the re-financing under consideration will be required, it must stand at its maximum value at the start of the farm seasonal works;
- (iii) its value depends on the economic situation and, more specifically, on the price level and the harvest forecasts.

In order to determine more accurately the operations which these farm seasonal credits are required to finance, two stages

¹ Naturally this selective instrument will be all the more effective, other things being equal, the greater the use of re-financing operations will be on the part of the banking system.

of the marketing process are generally recognised. In the first, credits are used to buy the produce, and in the second, credit takes on the form of a rediscount on securities representing produce stocked in warehouses or pledged.

Finally, we should note that the re-financing granted to credit institutions for seasonal farm operations may oblige these institutions, at the request of the central monetary authorities, to show that the funds obtained have been used for their proper purpose.

Credits not subject to ceilings are granted for operations of special economic interest, which the Central Bank analyses beforehand. This category includes, in particular, the rediscounting of documentary bills.

Unlike rediscounting operations, advances on public securities and the temporary rediscount of public or private securities are, in principle, intended to provide banks with temporary cash aid¹.

In addition to short-term re-financing the Central Bank of the States of Equatorial Africa and of Cameroon (BCEAEC) effects medium-term credit operations. These loans cannot have a duration exceeding seven years, and differ from short-term transactions in their technique and purpose².

It is for the Board to establish the ceiling for the whole issuing area on the basis of the possibilities for investment and the development of foreign exchange reserves. This ceiling was originally fixed at 5,000 million CFA francs and was subsequently raised to 7,500 million in November 1969 and to 10,000 million in December 1970.

¹ As previously stated, refinancing loans obtained by temporary rediscount must be included in those allowed to credit institutes for their current operations.

² The type of operations we are discussing must be kept within fairly moderate limits to avoid jeopardizing the necessary flexibility in the monetary policy of the Central Bank.

To be mobilised at the Central Bank, medium-term credits must first have been authorised by it and must be intended for building construction or the enlargement of the productive capacity of the countries involved. In the past few years the Board has shown an increasing preference for the re-financing of the latter operation¹.

Naturally the maximum values allocated to particular firms take effect when their demand for credit exceeds these limits. In such a situation, the credit institutions would be compelled, in order to satisfy this demand, to make more intensive use of their fiduciary resources. Hence the demand for credit by the firms that have already exceeded the upper limit fixed by the central monetary authorities will be satisfied in a marginal way and, unless it is convenient and possible for the banks to borrow from their foreign correspondents, there will most probably be a contraction in the volume of financing they are permitted and, in the final analysis, a drop in the level of overall demand². It

¹ The procedure of allocating maximum amounts to particular institutions may place some of these at a disadvantage as regards competition. It will allow the monetary authorities to follow a selective policy on a regional basis, even though this may be inconsistent with national policy. Furthermore, we should observe that the re-financing obtained by individual banks is daily set against the ceilings imposed on them. This makes it difficult to evade the discipline of the ceilings and exert undesirable pressures on the credit market as happened in France when the credit institutes had to adjust their own position at the end of the month. See S. M. Goldfeld, *Commercial Bank Behaviour and Economic Activity, A Structural Study of Monetary Policy in the Post-War United States*, Amsterdam, North Holland Company, 1966, p. 46.

² The banks, in order to satisfy the demand for commercial credit are induced to place their portfolio securities with other operators. To do this they have to increase the differential between the yield rate of the securities and that of the deposits. Such action would inevitably have a negative effect on the activities of development banks, on national treasuries' ability to find money and on the endeavours of the Central Bank to create an effective money market.

seems however that the restrictive effects of such a policy will be determined by the extent to which the banking system is dependent on re-financing operations arranged with the central monetary authorities. In such a context it may be more opportune to introduce ceilings on commercial credits as a temporary measure. This measure would compel banks to invest on a larger scale on securities and to reduce the commitments on which the ceiling is imposed¹. However for this quantitative credit control to be really effective, it must apply to all sources of finance for economic activities, including development banks². The result of this policy should be to retard the redistribution of funds between profit-making and loss-making sectors and thus have a negative effect on that part of overall demand which is supplied by credit³.

¹ Naturally, before the results of this policy can become effective, it is necessary that the monetary authorities should ask the credit institutions not to increase their own credit balance *vis-à-vis* their own foreign correspondents. This would in fact enable multi-national firms, operating in the monetary area we are considering, to obtain through foreign banking systems the financing which the monetary authorities did not wish to concede to them. Hence where these movements give rise to a net outflow of capital there would be an aggravation of the imbalance between internal supply and demand. This would result in an effect opposite to that desired. In this connection see Lucio Izzo, *Saggi di teoria monetaria*, *op. cit.*, p. 32, 37.

² That is, to prevent firms making use of intermediary channels not subject to controls thus evading much of the restrictive effect. This point is extensively discussed in F. Cotula and T. Paolo Schioppa, "Il controllo quantitativo del credito: i 'massimali' come strumento di politica monetaria", *Moneta e Credito*, June 1971, p. 115-127. Hence, in addition to ceilings, administrative controls should be instituted, such as rationing securities issues.

³ In addition to this restrictive effect, there is a selective effect in favour of those firms which, due to their size or their type of production, have access to sources of financing which are not subject to control, or have the priority to be financed by the banking system. Furthermore, this instrument may be used to channel funds from the private sector into the public sector. It is also worth while pointing out the differences which exist between this instrument of monetary policy and rationing. Rationing is effected when credit institutions

We may now consider the quantitative aspect of the problem we are discussing, first for the entire monetary area and then for Gabon.

As regards short-term re-financing activity¹ we must in the first place point out its highly seasonal character. In fact, during the period from June 1965 to June 1970 the highest figures have been recorded in February while the lowest figures were recorded in September and November.

do not have the necessary funds to satisfy the demand for financing, and this, even though they do not raise interest rates to the new point of equilibrium. This point is extensively discussed in Antonio Pin, "Il razionamento del credito nella recente esperienza italiana", *Il Risparmio*, 1967, No. 3, p. 473 ff. In the case of ceilings, on the other hand, the institutions are not allowed to satisfy the demand for credit up to the limit of their resources. Rationing set up by the banks is the probable result of a restriction of the monetary base, the ceiling being a substitute for this. See also T.A.B. Carley, "The Small Firm and the Banker Aspects of the Bolton Report", *The Banker's Magazine*, January 1972, p. 5-8.

¹ The determination of the sources and channels of use of monetary base has considerable value in the search for a conscious monetary policy. In this connection we think it appropriate to reproduce the diagram by Anderson and Jordan on the sources and uses of monetary base.

In this formulation the source which is of strategic importance is provided by the operations on the open market, in so far as they will allow the monetary authorities, through variations in their volume, to exert a decisive influence on the monetary base. The variations which will be observed in sources not subject to control by the monetary authorities may readily be neutralised by these authorities through operations on the open market. Finally, according to the logic of this diagram, the banking system and the public will have to take the decisions regarding the use of the base as a reserve or as currency.

A similar system has also been adopted by the Bank of Italy. It could readily be extended to Gabon. In such a case, among the items which are relevant to the use of the monetary base, the following should be included: liquidity of the credit institutions (own funds and deposits with the BCEAEC, available margins, *bons d'équipement*, credits at the Treasury and the *Caisse Centrale de Dépôts et Consignations*, convertible currencies) not linked to the variations occurred in liquid resources, due to changes in the coefficient of statutory reserves; legal reserves and guarantees given by the credit institutions; circulation of banknotes and coins, less the means of payment available at the banks;

This pattern would, if we still need it, provide one further proof of the lack of diversification in the economy of the countries we are discussing, and of the seasonal nature of the productive process which are carried on there.

savings at post offices; deposits pledged by the public with the BCEAEC, *bons d'équipement* held by the public.

We reproduce here another system which has been adopted by the Federal Reserve Bank of St. Louis

<i>Sources of monetary base and its uses</i>	<i>Creation of monetary base and monetary base</i>
<p>Federal securities held by the reserve banks Float *</p> <p>Gold and special drawing rights Treasury currency in circulation Other assets of the reserve banks</p> <p><i>Less:</i> Legal currency held by the Treasury; Treasury deposits of non-residents with the reserve banks; other deposits with the reserve banks; Liabilities and net capital of the reserve banks;</p> <p><i>Equals:</i> Net source of monetary base. <i>Plus:</i> Advances and rediscounting granted by the reserve banks. <i>Equals:</i> Source of monetary base. <i>Plus:</i> Source of monetary base following adjustments in the coefficients of the statutory liquidity reserve. <i>Equals:</i> Monetary base.</p>	<p>Deposits of member banks with the reserve banks, less rediscounts and advances Legal currency held by banks Legal currency held by firms and private individuals</p> <p><i>Equals:</i> Net source of monetary base <i>Plus:</i> Rediscounting and advances of the reserve banks <i>Equals:</i> Source of monetary base <i>Plus:</i> Source of monetary base following variations in the coefficients of the statutory liquidity reserve. <i>Equals:</i> Monetary base.</p>

* The float represents the credit granted by the reserve banks to the member banks following the process of payment of cheques, when such cheques, though not yet cashed by the reserve banks, are already credited — on a pre-arranged convention — to the reserve accounts of the member Banks. For a fuller explanation see *Il sistema della Riserva Federale. Finalità e funzioni*, Milan, Cassa di Risparmio delle Provincie Lombarde, 1969, p. 174-200.

Naturally, the logic of the above diagram is not applicable to a country such as Gabon, in which operations on the open market are not possible, and where the creation of a monetary base is heavily dependent on the state of the balance of payments. This issue is discussed at length by C. Anderson and J. L. Jordan, "The Monetary Base, Explanation and Analytical Use", *Monthly Review of the Federal Reserve Bank of St. Louis*, August 1968; "Monetary and Fiscal Actions: A Test of Their Relative Importance in Economic Stabilisation - A Reply", *Monthly Review of the Federal Reserve Bank of St. Louis*, April 1969,

During the period under consideration three separate sub-periods may be distinguished.

The first from June 1965 to June 1968 was marked by a rapid expansion in the re-financing facilities offered from 16,386 to 21,986 million CFA francs, i.e. an increase of 34.29%.

This expansion in re-financing facilities was largely due to the financing of the production and marketing of the main agricultural products and more specifically of cotton, cocoa and coffee. This was influenced, to a considerable extent, by the burden which, in practice, weighed on the monetary authorities, compelling them to satisfy the financial requirements of the stabilisation funds and to compensate the exodus of cash suffered by the banking system through the subscription of *bons d'équipement*¹.

p. 12-16; A. E. Burger, L. Kalish and C. T. Babb, "Money Stock Control and its Implications for Monetary Policy", *Monthly Review of the F.R.B. of St. Louis*, October 1971, p. 6-22; A. Burger, "The Implementation Problem of Monetary Policy", *Monthly Review of the F.R.B. of St. Louis*, March 1971, p. 6-22; Paolo Savona, *Un modello semplificato del comportamento del mercato monetario e finanziario italiano*, January 1972, p. 13-16. A different formulation which excludes the re-financing of the monetary base has been proposed by F. de Leew and J. Kahlbrenner in "Monetary and Fiscal Actions: A Test of Their Relative Importance in Economic Stabilisation. A Comment", *Monthly Review of the F.R.B. of St. Louis*, April 1969, p. 6-11. According to these authors: "The question is... if there is a tendency for endogenous responses in borrowing to be offset by movements in other components of the base, then the total base contains offsetting endogenous influences and we should prefer the total base... If there is not such tendency, then adjusting the base to remove borrowings produces a better monetary policy variable than the total base".

¹ As already noted, the Treasury, besides the appreciable increase of the financing facilities obtained by the credit system, has recourse to very large withdrawals from the Central Bank, which in the period from 31st December 1965 to 31st December 1968, amounted to 3,273 million. The financial difficulties of the national Treasuries thus have a decisive influence over the development of the monetary supply and of the foreign exchange reserves of the countries we are discussing.

TABLE 25

SHORT-TERM RE-FINANCING BY THE BCEAEC TO THE BANKING SYSTEM OF THE ISSUING AREA,
1965 TO 1970
(in million CFA francs)

I t e m s	Financial year 1965/1966		Financial year 1966/1967		Financial year 1967/1968		Financial year 1968/1969		Financial year 1969/1970	
	Month	Amount	Month	Amount	Month	Amount	Month	Amount	Month	Amount
Maximum values	March	19,291	February	23,219	February	25,945	February	24,492	February	28,735
Minimum values	September	13,412	October	13,619	November	18,349	October	17,343	October	19,974
Average values		16,386		18,573		21,986		21,644		24,334

Source: BCEAEC, *Rapports d'activité*.

These losses of monetary base, and the investment policies adopted by the credit institutions¹ have led them in order to meet the obligations they had assumed, to have recourse to re-financing operations at the Central Bank. And we should indeed point out that the considerable demand for re-financing was undoubtedly encouraged by the very low rates of interest required by the monetary authorities. For this reason the Board decided on a selective increase in these interest rates². Following on this decision their average level, on the basis of transactions in 1967/1968, increased from 3.50% to 3.99%. Moreover, still in the context of measures calculated to restrain the excessive growth of credit, the monetary authorities decided to consider as ineligible for refinancing the securities issued by firms whose financial structure showed a considerable and unjustifiable predominance of resources obtained by way of credit. The purpose of this measure was to induce these firms to increase their own resources and reduce their dependence on credit from the banking system, through a better and more accurate policy in managing stocks.

¹ From the information which they obtained through the Central Bank Risk Pool the monetary authorities found that many enterprises enjoyed an amount of credit which was completely unjustified by their financial standing and in some cases by their turnover. It also appeared that the credits were largely granted to import, distribution and services firms and were used by them:

- (i) to finance the accumulation of excessive stocks;
- (ii) to allow their own customers excessive credit extensions.

² Thus, for instance, in order to prevent certain abuses which had been discovered in the use of seasonal credits, it was decided to grant no longer re-financing above the ceiling at the special rate of 3.50%, except in the form of advances on their assets or on the bills representing them. We should, however, note that for the re-financing of seasonal credits, within the ceilings allowed, and for medium-term credits, intended to meet the financial need in connection with the purchase of producer goods, price conditions remained unchanged.

These measures were inspired, not only by the wish to discourage commercial banks from taking on the character of mixed banks, but by the necessity of reducing the pressure on the price level and on the foreign exchange resources arising from financing granted easily by the banking system, especially in favour of importing and services firms and of the major distributing enterprises. In order to reduce this damaging process of draining away foreign exchange reserves and of weakening the money resources of the economic systems under consideration, the monetary authorities still have recourse to moral persuasion with a view to inducing credit institutions to give priority to meeting the financial requirements of export firms, of agricultural and forestry undertakings, and of small local entrepreneurs.

In the second sub-period (1968/1969) the Central Bank implemented its restrictive policy based on:

- (i) raising interest rates for re-financing operations;
- (ii) reducing the rediscount ceilings and the amount of re-financing granted without a ceiling.

This increase in the interest rates was small and selective, in order to avoid an excessive burden on the monetary flow and on the profit margins of agricultural and industrial enterprises. In this context interest rates for the mobilisation of seasonal and medium-term credits, allowed by the banking system for the purchase of producer goods, were kept unchanged, while the increase for the other categories of re-financing did not exceed one half or three-quarters of a percentage point. By way of example we may note that, for the two categories of credit previously mentioned, the interest required was for the first 3.50% and for the second 4.50% and 6.50% respectively, depending on whether

the financing was below or above the authorised ceilings¹. At the same time, the monetary authorities undertook a thorough supervision programme to avoid unjustified increases in the cost of credit. It is clear that such discreet intervention regarding rates of interest could not, by itself, induce firms to reduce their excessive indebtedness, especially bearing in mind the considerable increase in interest rates which occurred within the issuing area.

The monetary authorities therefore felt it advisable to implement, a restrictive policy with due regard to certain criteria of selectivity. In fact the re-financing ceilings for credits granted to import, services and distribution firms were rigidly adhered to, while the same care was taken as before² to finance the priority sectors of the economy. Within the scope of these interventions, the duration of the credits granted to exporters was limited to the time taken for transport by sea, so as to encourage these exporters to repay without delay, with the proceeds of their exports, the loans they had obtained³. These interventions, however, only succeeded in preventing further expansion of short-term re-financing. These loans, in fact, during the year under

¹ By means of this increase the monetary authorities undoubtedly intended to prevent the establishment of an excessive margin by comparison with market rates, since this would have enhanced the distortions in the use of the funds obtained from the Central Bank and would have aggravated the difficulties which it encountered in regulating the flow. See Banca d'Italia, *Relazione del Governatore sull'esercizio 1970*, Rome, 1971, p. 211.

² We should thus note that the monetary authorities, with regard to the measures calculated to ensure the priority of credit aid to agricultural and industrial firms and to small local entrepreneurs, authorised the raising of some individual ceilings.

³ In fact, because of the high differentials existing between domestic interest rates and those prevailing on foreign money markets and on the international market, it was advantageous for these operators to profit from these differences by exporting capital.

consideration, remained approximately at the levels of the year 1967/1968.

In the third period (1969/1970) notwithstanding the use of more refined techniques, the re-financing granted to the credit system expanded appreciably, recording an increase of 2,690 million CFA francs, equal to 12.43%. This upwards movement was largely due to the differentials between the structure of domestic interest rates and that of international rates, since these differentials stimulated an excessive demand for credit within the country and of investment abroad of the relative net proceeds.

However, it must be noted that considerable progress has been achieved in the implementation of this policy. Thus the determination of ceilings for individual firms was particularly thorough. In this way the Central Bank tried to influence the financial structure of the companies and to avoid the rationing processes which would otherwise have been applied at the expense of smaller firms. In this way, so as to make it easier to meet the financial needs of these firms, simplified procedures were introduced to allow rediscounting of the credits granted to them, and measures were taken to neutralise, for the investments made in small national firms, the charges inherent in the liquidity coefficient. It should be noted, however, that to achieve complete success such a selective policy requires very careful control and a much more sophisticated information system than is available to the monetary authorities under discussion.

As regards medium-term re-financing, quite different considerations apply. This kind of operation has never been subject to restrictive measures during the period under consideration. Thus, we should observe that the duration of the credits mobilised by the Central Bank was increased, rising from 5 years to 7, in 1969/1970. The Board further decided, for the mobilisation of

the credits conceded to major industrial concerns whose activity was of interest to several States of the monetary area, to increase from 4,000 to 5,000 million CFA francs the amount of re-financing that could be granted beyond the established ceiling. Moreover, it extended to two years the period of time within which the credit facilities could be used, provided they were employed to finance the purchase of producer goods. Finally, it seems worth while to include among the re-financing operations we are considering the medium-term investments which the credit institutions of Cameroon have been authorised to allow, using funds deposited with the Central Bank by the *Caisse d'Epargne Postale*¹.

As regards the quantitative aspect we can readily see that the value of medium-term re-financing operations has been constantly on the increase.

However, one should note that this expansion has taken place at widely varying rates: these rose, in fact, from 4.19% and 6.77% in the first years to 16.86% and 18.81% in the last two.

Finally, as regards the overall picture of the refinancing credits granted by the monetary authorities to the banking system, we find, except for 1968/1969 when the level reached was practically the same as for the previous year, a continuous increase, with growth rates between 12.16% and 16.98 per cent.

If, on the other hand, we look at the series of temporal values as they affect bankers and the Treasury, we must put forward considerations of an entirely different kind. In fact, while it is true that the process as a whole has a pattern similar to the one we studied previously, if we take into account the development of current account deposits and of special deposits pledged by

¹ For these investments a maximum of 1,000 million CFA francs was established.

TABLE 26

MEDIUM-TERM RE-FINANCING BY THE BCEAEC TO THE BANKING SYSTEM OF THE ISSUING AREA,
1965 TO 1970
(in million CFA francs)

I t e m s	Financial year 1965/1966		Financial year 1966/1967		Financial year 1967/1968		Financial year 1968/1969		Financial year 1969/1970	
	Month	Amount	Month	Amount	Month	Amount	Month	Amount	Month	Amount
Maximum values	April	2,599	November	2,902	June 1968	3,013	May	3,405	June 1970	4,291
Minimum values	July	2,244	February	2,275	October	2,498	July	2,854	December	3,403
Average values		2,437		2,539		2,711		3,168		3,764

Source: BCEAEC, *Rapports d'activité*.

TABLE 27

RE-FINANCING BY THE BCEAEC WITHIN THE ISSUING AREA, 1965 TO 1970
(average values in million CFA francs)

I t e m s	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
Banking system	18,823	21,112	24,697	24,812	28,098
National Treasuries	2,495	3,114	4,311	4,880	6,062
Total	21,318	24,226	29,008	29,692	34,160

Source: BCEAEC, *Rapports d'activité*.

TABLE 27 bis

CURRENT ACCOUNT DEPOSITS AND TREASURIES' DEPOSITS WITH THE
BCEAEC, 1965 TO 1970
(June values in million CFA francs)

I t e m s	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
Current account deposits	3,060	1,984	2,427	2,028	2,104
Special deposits	7,074	4,050	3,487	7,089	13,869
Total	10,134	6,034	5,914	9,117	15,973
Average values	9,880	7,619	5,381	6,775	10,491
Net re-financing	11,438	16,607	23,627	22,917	23,669

Source: BCEAEC, *Rapports d'activité*.

the Treasury with the Central Bank, the picture clearly alters, because this pattern, over the last three years does not show significant variations due to the restrictive policy in the expansion of the monetary base, which has been adopted by the Treasury.

Having considered the quantitative aspects of the refinancing policy adopted by the Central Bank towards the countries of the monetary area we are discussing, we should analyse this process

TABLE 28

SHORT-TERM RE-FINANCING BY THE BCEAEC TO THE BANKING SYSTEM OF GABON, 1965 TO 1970
(in million CFA francs)

I t e m s	Financial year 1965/1966		Financial year 1966/1967		Financial year 1967/1968		Financial year 1968/1969		Financial year 1969/1970	
	Month	Amount	Month	Amount	Month	Amount	Month	Amount	Month	Amount
Maximum values	November	748	November	892	May	1,061	August	1,154	May	1,005
Minimum values	June 1966	506	June 1967	391	September	380	April	427	November	417
Average values		652		588		627		733		701

Source: BCEAEC, *Rapports d'activité*.

TABLE 29

MEDIUM-TERM RE-FINANCING BY THE BCEAEC TO THE BANKING SYSTEM OF GABON, 1965 TO 1970
(in million CFA francs)

Items	Financial year 1965/1966		Financial year 1966/1967		Financial year 1967/1968		Financial year 1968/1969		Financial year 1969/1970	
	Month	Amount	Month	Amount	Month	Amount	Month	Amount	Month	Amount
Maximum values	December	265	November	251	May	378	May	980	July	914
Minimum values	June 1966	194	June 1967	106	July	85	July- August	419	December	385
Average values		228		184		208		669		676

Source: BCEAEC, *Rapports d'activité*.

TABLE 30

RE-FINANCING OF THE BCEAEC IN GABON, 1965 TO 1970
(average values in million CFA francs)

Items	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
Banking system	880	772	835	1,402	1,377
Treasury	1,085	1,092	1,454	1,493	1,598
Total refinancing	1,965	1,864	2,289	2,895	2,975

Source: BCEAEC, *Rapports d'activité*.

for Gabon alone. In that country, the re-financing of the banking system shows a generally upward trend, though with appreciable irregularities.

In particular, the restrictions observed in 1966/1967 and 1969/1970 were of considerable importance, and seem to confirm the possibility of a more flexible monetary policy on the part of the Gabonese Currency Board.

Medium-term re-financing operations show a rather interesting tendency. In fact, over the first three years, the mobilisation of medium-term credits was virtually constant, while in the last two years and in particular in the last but one a considerable increase was recorded, amounting in relative terms to 221.63 per cent.

The data on the overall re-financing granted to the system, however, show a different trend. In fact, two sub-periods may be identified, in which the pattern of the process takes divergent directions. In the first sub-period, consisting of the first two years, there is a downward trend, while the second shows a constant expansion, amounting to 78.37 per cent.

TABLE 31

PERCENTAGE DISTRIBUTION OF MEDIUM-TERM RE-FINANCING BY THE BCEAEC TO THE BANKING SYSTEM, 1965 TO 1970
(in percentage)

Items	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
Gabon	25.91	23.83	24.91	47.72	49.09
Monetary area	12.95	12.03	10.98	12.77	13.40

The dominant feature of this trend, if one excepts the first year, was the growing importance of medium-term refinancing operations which, in the period under consideration, took up an increasing share of the refinancing granted to the banking system, rising, from 25.91% to 49.09% with a minimum of 23.83% in 1966/1967¹. Because of its importance for the purposes of monetary policy, we should first note the different tendency and minor significance of medium-term refinancing within the monetary area as a whole. Here, in fact, the relative importance of the economic quantity we are considering was never above 13.40% and showed a slight downward trend.

Finally, if we look again at the re-financing granted to the Gabonese Treasury, we shall find an almost continual expansion which amounted as a whole to 51.10%². Again, with regard to

¹ The greatest expansion of the relative importance of medium-term refinancing occurred in 1968/1969 (when it reached 47.72%). It is particularly interesting to note that, in the previous year, the growth rate had been 24.91 per cent.

² The largest increases were recorded in 1968/1969 (26.47%) and in the preceding year (22.88%).

TABLE 32

PERCENTAGE DISTRIBUTION OF RE-FINANCING BY THE BCEAEC TO THE BANKING SYSTEM, 1965 TO 1970
(in percentage)

Items	Financial year 1965/1966	Financial year 1966/1967	Financial year 1967/1968	Financial year 1968/1969	Financial year 1969/1970
Gabon	44.78	41.42	36.48	48.43	46.29
Monetary area	88.30	87.15	85.14	83.56	82.25

this economic quantity, it may be worth while to point out the differences between the pattern of the re-financing granted to the Gabonese banking system and that for the whole group of countries belonging to the monetary area in question.

This is because, given an equal creation of monetary base, its different allocation between the banking system and the Treasury, even though it may not influence the volume of liquid assets which may be created from it, will influence the distribution of loans. More specifically, an increase in the re-financing granted to the Treasury will involve a reduction in the allocation of funds depending on bank credit and a contraction in the demand for this credit¹, other things being equal.

¹ We may recall that the various ways in which monetary base is created have an influence on the rate of expansion of deposits and bank credits. In particular, as regards the effects of this policy on the offer of credit from the banking system, we should note that refinancing operations carried out by the Central Bank, and those deriving from an increase in net indebtedness towards the rest of the world, besides being sources for the creation of monetary base are also sources of supply for the credit system. They may have — given a similar increase in the total supply of funds — an additional impact on credit higher than that that could be achieved with an increase in deposits, especially if banking institutions operate under a system of compulsory reserves

In particular it may be worth pointing out that, while rationing applied by the banks is the probable result of a restriction of monetary base, the ceiling could be a substitute.

Furthermore, we should bear in mind the necessity on the part of the institutions in question of maintaining some unused investment capacity in order to be able to allow credit facilities, especially at times when credit restrictions are in force, to clients who are in a position to give high return rates over a long period¹. Thus, in this connection, it is highly probable that these

proportional to the volume of deposits, as in the case of the banking system in question. The same considerations apply as regards the creation of monetary base originating from abroad.

¹ See Comen, J. Kalman, Donald R. Hodgman, *A Macroeconomic Model of the Commercial Banking Sector*, study presented at the meetings of the Econometric Society, December 1962, p. 2.

It may be appropriate to observe that, over a brief period, a large part of the monetary flows are not subject to control by the deposit banks, since their movement depends on the commitments undertaken, on long-term decisions, on the behaviour of clients and on many other factors, often beyond the control of the bank administrators. Hence, the possibility for a bank of reacting to monetary deficits and surpluses which escape its control depends on the instrument of voluntary reserves. Naturally, the more efficient the money market in which these institutions operate will be, the greater the possibilities of choice they will enjoy, other things being equal. However, it is well to point out that these short-term adjustments of the voluntary reserves depend on long-term decisions and existing commitments. Thus, if a bank wished to vary its monetary resources so that they could absorb the fluctuations which might occur in its monetary flows, it must have a proper volume of voluntary resources to neutralise the anticipated net outflows. This policy, however, will depend on many other factors such as, for instance, the objectives which the bank administrators have set as regards the growth rates of deposits and of investments, and in particular, the size of the institutions. This normally has the effect that the time variations in monetary flows are in direct proportion to the dimensions although in a less proportional way because of the inverse relationship between the amount of the adjustment and the relative

returns are heavily influenced by the ability of the credit institutions to retain and to attract clients, rather than by the choice of the optimum composition for their security portfolio for a brief period.

This is because the regularity with which clients have been given loans, especially in times of credit restriction, appreciably increases the strength of deposit relationships¹. Furthermore, we should realize that customer relationships take on considerable importance in the management of a credit institution and the most profitable active operations of a bank are the investments. At the same time we have seen that in expansion stages, investments give rise to a net decrease in funds since under these circumstances it is highly probable that investments will increase faster than deposits. At the same time, when the bank increases its size, it will be necessary to have a larger volume of free reserves available and particularly monetary reserves.

cost, if for no other reason. The relationship will increase the propensity of the banks to have recourse to a policy of indebtedness, especially for their voluntary reserves. Other factors again, such as the willingness of the administrators to take risks, and the objectives they pursue as regards size and returns will, however, have an influence over the policy in question. Hence, given the strong links of interdependence between these economic quantities and those characterising the productive capacity of the individual bank, it becomes essential to have recourse to a policy of long-term liquidity reserves and, in particular, to a cyclical policy. In this connection see J. A. Cacy, "Reserve Adjustment Behaviour of Tenth District Banks", *Monthly Review of the Federal Reserve Bank of Kansas City*, p. 7, 9; Richard C. Porter, *A Model of Bank Portfolio Selection*, Yale Economic Essays, Vol. I, No. 2, p. 323-359; James Tobin, "The Interest Elasticity of Transactions Demand for Cash", *Review of Economic Statistics*, August 1956, p. 243.

¹ J. Pierce, *The Monetary Mechanism: Some Partial Relationships*, Cowles Foundation Discussion Paper No. 168, New Haven, April 1964, p. 52.

This process should lead to a liquidation of their portfolio of securities¹ which very likely will involve the banks in not insignificant losses².

In such circumstances, the deposit banks seek to resolve the conflict between the lack of funds and their considerations as regards the degree of risk of their commitments³, and the wish not to damage a relationship that is potentially profitable, by having recourse to restrictive policies based on their handling

¹ The composition of the portfolio, as regards the maturity date of the securities, will be affected by this liquidation activity in various ways depending on the policy followed by the banks. For instance, they may start by selling the securities which mature in the near future, and it is only when these have been reduced to a minimum that the liquidation process will involve those which mature at a later date. Alternatively, they may decide to dispose of the securities in such a way as to maintain a diversity of maturity dates in the portfolio. Finally, they may sell in the first place those securities which mature later, as an alternative. The adoption of one policy or another will largely depend on the forecasts the bank administrators make as regards the future levels of interest rates, the future liquidity situation and the period of time during which it will be advantageous to sell. From this outline one can clearly see the links of interdependence which arise between monetary policy, monetary base, structure of interest rates and the structure, dimensions, degree of concentration and behaviour of the banking system.

² Naturally, these losses on the capital account will be potentially smaller if the central monetary authorities apply a monetary policy which aims at relative stability of bond prices. In this case, the variations in yield rates will reflect, approximately, the weight of that part of the offer of securities which has not been absorbed by the monetary authorities. See Paolo Savona, *Il comportamento del mercato monetario e finanziario italiano*, op. cit., p. 13 ff. These considerations need to be studied in greater depth. However, it seems one can assert that the smaller the process whereby expanding investments finance themselves will be, the higher the rate of growth of the economy.

³ The liquidity of investments may be improved with the creation of a suitable market for buying and selling them. In this connection see E. J. Kane, B. G. Malkiel, "Bank Portfolio Allocation: Deposit Variability and the Availability Doctrine", *Quarterly Journal of Economics*, February 1965, p. 113-134; Luckett G. Dudley, "Compensatory Cyclical Bank Asset Adjustment", *Journal of Finance*, March 1962, p. 52-63.

of economic quantities other than prices¹, such as for instance the size of guarantees required, the duration and size of loans, or by requiring the firm that takes the loan to maintain an account of a given average size² with the institution that grants it.

These requirements will reduce the size and the duration of the investments and will most probably lead to implicit increases³ in the rates applicable to the loans. This upward trend, which may also become effective, encourages a rationing process at the expense of the smaller customers, liberating funds which can be used to go on meeting the requirements of the better customers⁴.

Naturally, the higher will be the losses of capital which the banks have to bear to convert their own portfolio securities into monetary base, the greater will be the risks of fluctuation in interest rates⁵. Under such circumstances, the attractiveness of the

¹ In so far as the operators' response is due to all the variations occurred in the price and in the other economic quantities set out above, the forces working on the credit market cannot be assessed with sufficient reliability.

² This requirement will reduce the banking institution's need for reserves of liquidity, other things being equal, since in fact it will result in a smaller volume of loans.

³ We are considering an implicit increase in price, since the same interest rate will continue to be applied to loans showing a smaller degree of risk.

⁴ See Hodgman, *Commercial Bank Loan and Investment Policy*, *op. cit.*, p. 209.

⁵ It is worth recalling that the need for monetary reserves may be affected by many factors other than changes in the supply of monetary base, for instance:

- (i) changes in the bank rate;
- (ii) the bank administrators' preference for liquidity and their forecasts as regards the future development of the economy and the degree of confidence which they feel they have as regards their ability to influence it;
- (iii) the structure of yield rates of financial assets, which will have to be established depending on the decision of non-banking operators.

After this qualification, we should note in particular that the greater or lesser willingness of the bank administrators to take risks will affect the objectives, in terms of size and profits, which the deposit banks will pursue,

investments will noticeably decline, because of the high correlation which occurs whenever commercial banks further increase their commitments, while that of the securities increases, because of the value, in terms of equal certainty, of the prospective yields and the greater degree of diversification of the portfolio which they allow¹. The credit institutions, however, will not be in a position to expand their own portfolios, notwithstanding the fact that deposits, at the stage of cycle inversion show a growth rate of deposits higher than that of the investments, since the banks have to face the failure of some loans to produce a return and see to the reconstitution of their own monetary reserves. It is therefore likely that, as during the expansion stage, the positive rates of investment will adapt to the new conditions of demand only after a certain lapse of time². However, with the further increase

as well as their investment and deposit-collecting policies. The diversity in their behaviour will lead to a different activity as intermediary between short-term and long-term. This, in the last analysis, will have an influence on the creation of deposits by the banking system; so, as Tobin points out, "in the determination of the volume of bank deposits it is not only the arithmetic of the supply of reserves and of coefficients that counts... The use which the banks will make of their reserves is an economic variable that depends on the opportunities for investment or on rates of interest". See James Tobin, *Commercial Banks as Creators of Money*, in Dean Carson (ed.), *Banking and Monetary Studies*, New York, Irwin, p. 408-419.

¹ Goldfield quotes a statement by Tobin that "the demand of securities rises as the rates of expected yield on Treasury bonds rise and as the returns on free reserves fall". See M. Goldfield, *Commercial Bank Behaviour*, *op. cit.*, p. 13.

Naturally, the assessment will have to be made in terms of several periods of time, for which it will be necessary to take into account the costs of the transactions in connection with the purchase and sale of these securities, since these costs will reduce the differentials in expected yield existing in their favour. If the monetary authorities decide to restrict the monetary base, these differentials will have to arise more rapidly and to stand at a higher figure.

² This time lag increases in proportion to the degree of concentration of the banking system, due to the wish of an oligopolistic operator not to vary

in its activity as an intermediary between short-term and long-term credit developed in this way by the banking system, the higher the prices of securities will be, thus reducing the possibility of making capital gains.

At the same time, in the phase of cycle inversion, it is highly probable that new requests for credit will not be acceptable to the banks. However, as soon as expansion starts, there will be an increase in requests for credit on the part of solvent enterprises and with them in the price of credit. Nevertheless, as expansion goes on, investments will become more attractive, and general conditions in which loans will be granted more favourable to the banks.

Finally, if we assume that the growth rate of deposits will not be as high as that of investments, it is likely that the credit institutions will have to reconstitute their own voluntary reserves, by liquidating part of their security portfolio¹.

From this outline one may infer that the liquidity policy of the commercial banks, at the different stages of the cycle, is essentially an "asset management" policy based on variations in the portfolio of securities. This policy, however, may be integrated, especially for banks which operate on or have free access to active money

prices and other conditions. The length of the time lag may, however, be influenced by the Central Bank if it decides to intervene on the credit market so as to reduce the cost of re-financing.

¹ As to how far the process described above can explain the behaviour of the banks at the various cycle stages, one can only infer that, for a deposit bank, the attractiveness of investments over a period of time varies appreciably. On this point see D. R. Hodgman, *Commercial Bank Loan and Investment Policy*, *op. cit.*, p. 16; J. L. Pierce, *The Monetary Mechanism*, *op. cit.*, p. 50; E. G. Kane, B. G. Malkiel, "Bank Portfolio Allocation: Deposit Variability and the Availability Doctrine", *Quarterly Journal of Economics*, February 1965, p. 113-134; Locketts G. Dudley, "Compensatory Cyclical Bank Asset Adjustments", *Journal of Finance*, March 1969, p. 53-63.

markets, with recourse to the so-called "liabilities management" policies. These policies are initiated by the issue of financial assets and allow the deposit banks to evade, in so far as such policies are innovating, the provision relating to payable rates of interest ¹.

A typical example of the application of this policy is provided by the deposit-collecting policy adopted by New York City Banks, which have resorted to the issue of deposit certificates and "bank-related" bills, or to the negotiation of repurchase agreements or to borrowing on the market of Federal funds and on the Eurodollar market ².

We should, however, note that this policy is effective only for a brief period of time, since the monetary authorities can always neutralise it. However, it is clear that, the more the bank administrators are skilled in devising innovating policies, the harder it will be for a central bank to enforce, in certain situations on the credit market, its discipline on the payable rates of interests or particular restrictive provisions ³.

¹ Price policies are therefore involved. In this connection see Robert E. Knight, "An Alternative Approach to Liquidity", *Monthly Review of the Federal Reserve Bank of Kansas City*, April 1970, p. 3-12, February 1970, p. 11-21, May 1970, p. 10-18, December 1970, p. 11-21; Arnold Dill, "Liability Management Banking, Its Growth and Impact", *Monthly Review of the Federal Reserve Bank of Atlanta*, February 1971.

² The repurchase agreement consists in the sale of a financial asset, with the undertaking of repurchasing it at a date and at a price agreed in advance. The commercial paper is a promise to pay in the near future, signed by the borrower (an enterprise, a finance company or a bank associate), which the borrower then sells on the money market. The resources thus acquired are used to buy part of the portfolio investments of the commercial banks.

³ It may be useful to point out that, through an asset management policy, a bank will react to negative variations in deposits and in the size of its free reserves by selling securities and by applying techniques of credit rationing, while through the adoption of a liabilities management policy the bank will react to these developments by increasing the rates on the

It is thus clear that any banking system requires, in order to operate with a sufficient degree of autonomy and of efficiency, a supply of sufficiently liquid financial assets, with which it may meet its own liquidity requirements when there are changes in the monetary flows of the management of its component branches ¹.

This requirement is particularly felt by banks established in countries whose economy is undiversified and seasonal in character.

In fact these institutions will be subject, in relation to the amount of the deposits and the demand for loans, to more pronounced cyclical and seasonal variations, which may become particularly marked when a reduction in deposits, following on a fall in prices on international markets, goes hand in hand with greater demand for loans. Hence, in such economic systems, the banks may be led to have particularly frequent and substantial recourse to re-financing at the central bank or to loans from their foreign correspondents, especially in the absence of an efficient financial market. In the latter case, however, the monetary authorities are no longer in a position to determine, in a way sufficiently independent in relation to the outside world, the structure of their own interest rates unless they are prepared to cause distortion in the circuit of the financial flows of the

financial assets which it issues. We may however assert that the liabilities management policy makes lending policy dependent not only on forecast of the future growth of deposits, but also on those which relate to the possibility of retaining monetary reserves, and on their cost. In conclusion, we may observe that the technique of liabilities management has, as its main features:

- (i) the type of financial asset which is used, and which is issued on the money market in a form other than that of deposits;
- (ii) the competitiveness thus achieved as regards prices;
- (iii) the acquisition of reserves, thus made possible, through the sale of financial assets rather than of liquid assets.

¹ In fact, the application of both techniques presupposes an efficient financial and monetary market.

economy, which would finally lead to an impoverishment of the country in real terms.

At the same time, recourse to borrowing from foreign correspondents, where the monetary authorities can control it in its various qualitative and quantitative aspects may, because of the resulting import of foreign capital, allow a certain respite to the banking system and to the economy, without sudden variations in the monetary base. However, if the productive system is influenced by the presence of multinational firms or banks¹, it may become particularly difficult for the central monetary authorities to control the acquisition of monetary base by the banks. The banks, in fact, even where there are ceilings on foreign indebtedness, can always have recourse to the issue of commercial paper.

And, since a large part of the financing of firms involved in the import trade is based on bank loans, these firms will in the end benefit appreciably from the transfers of funds which are made in favour of the commercial banks².

In countries with a similar production structure, the creation of an efficient financial market is therefore becoming particularly necessary³, in so far as it is necessary in order to give a certain degree of independence to the policy of the monetary authorities. In order to encourage its emergence and growth, it would therefore be helpful if the Central Bank could guarantee the minimum price

¹ As in the case of the countries we are considering.

² This is a particularly harmful development, since it leads to financing the exports of the countries which provide the money, and in the last analysis, to the impoverishment of the debtor country.

³ As we have observed, a high price of money is an obstacle to the creation of small enterprises and reduces their ratio of autofinancing, other things being equal.

of securities, by declaring itself prepared to buy them back at a given price. A similar behaviour, however, would not enable the Central Bank to control the structure of interest rates, hence it would be more appropriate to pursue the objective of controlling the price of these securities with a certain flexibility. This could allow the monetary authorities easier control over the structure of interest rates, so as to make it conform to the national interest.

The autonomy of the Central Bank could be fostered by creating a secondary market for *bons d'équipement*, on which prices would be allowed to fluctuate freely¹. By the issue of these securities, the monetary authorities would thus be enabled to cover the gap between the Treasury deficit on the one hand and financing with long-term securities on the other, to the extent considered most suitable for the purposes of monetary policy. In this way one would increase the independence of fiscal and of monetary policy² from each other.

As the economy of the countries we are considering is heavily dependent on the outside world, variations in the balance of payments situation account for a large part of the creation of monetary base. This makes it necessary to have viable quantitative

¹ We must, however, bear in mind that these securities are reconverted into cash by the monetary authorities after a short time. Hence, too, operators with limited time horizons are only subject to slight capital risks.

As the price of these securities may vary freely, both when they are issued and in the course of negotiations with the Central Bank, and since the amount of these issues is left to the discretion of the issuing institute, these securities cannot be regarded as a part of monetary base.

² The degree of independence of the two policies will be determined by:

- (i) the quantity of new *bons d'équipement*;
- (ii) the price fluctuations which the Central Bank is prepared to accept;
- (iii) how far the price of the *bons d'équipement* depends on the price of the other securities available on the financial market.

instruments to damp down their repercussions on the economy as far as possible. For this purpose, it would seem that the statutory liquidity reserves do not produce the desired effects since, most probably, because of the variability which characterises the monetary flows of the commercial banks operating in these countries, they only lead to absorption of the voluntary reserves held by these banks. In this context, it could be opportune for the monetary authorities to avail themselves of the possibility which has been granted them of seeking cash deposits from commercial banks. The value of these deposits should be periodically determined in such a way as to institute discriminatory treatment with regard to those banks whose activity does not comply with the directives of the monetary authorities. The adjustment to the new liquidity situation, in which banks could find themselves, could be eased by allowing fixed-term re-financing facilities, which would be set in such a way as to vary, according to the requests for renewal, the period of time between application and re-granting of the loan.

These, however, are particularly difficult problems to resolve, calling for close co-operation between the Central Bank and the Treasury, and presupposing considerable knowledge of the characteristics of the credit system in which the monetary authorities operate.

To this end, it is appropriate to examine the main features of the Gabonese banking system.