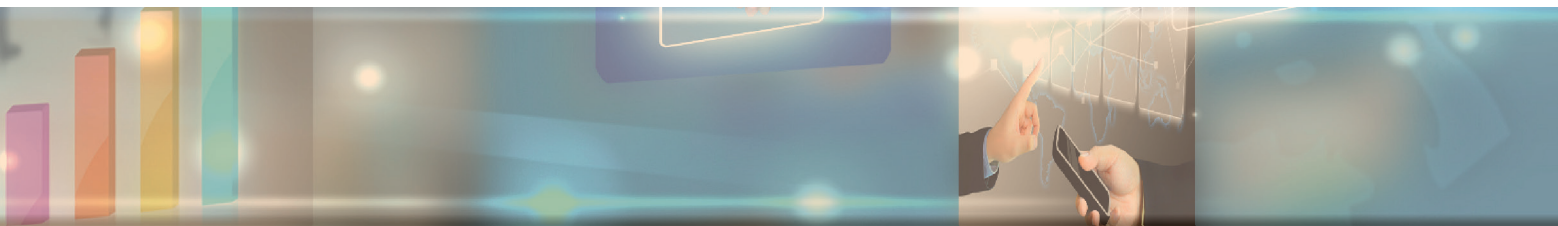


Banque de France

Economic Report

2016



MONETARY POLICY AND FINANCIAL STABILITY	5
<hr/>	
Summary	6
1 Market and international environment: resilience of the markets and economies	7
Capital and commodity markets	7
Economic activity outside the euro area	12
2 The economic recovery of the euro area and France is confirmed	17
The recovery continues, at a more dynamic pace in the euro area than in France	17
Inflation in the euro area and France remained low in 2016	23
Dynamic monetary and financial developments in 2016	24
3 In an environment of heightened uncertainty, strengthening of monetary policy and financial stability measures	31
Strengthening of monetary policy measures at the beginning of 2016 in an uncertain macroeconomic context	31
A resilient financial and banking system despite uncertainties, thanks to close prudential supervision	34
4 Increased efforts to consolidate the recovery	41
At the European and global level, structural reforms and coordinated action to boost investment	41
In France, major reforms to the financing of the economy and to the labour market, coupled with a gradual improvement in public finances	44





Monetary policy and financial stability



key rates

inflation

uncertainties

potential
growth

public
finances

commodities

structural reforms



Summary

In 2016, markets were resilient despite increasing political uncertainties in Europe and the United States. With asynchronous economic cycles on both sides of the Atlantic, the main central banks conducted different monetary policies while seeking to achieve the same inflation objective. Indeed, despite the slowdown in growth in the United States in 2016, the labour market was healthy and inflation moved closer to its 2% target, prompting the Federal Reserve to gradually tighten its monetary policy. Furthermore, growth in emerging countries stabilised and they became more attractive to investors again thanks notably to the sharp rise in commodity prices. The year 2016 was marked by the outcome of the referendum in the United Kingdom (UK) on leaving the European Union (EU). The economic consequences of the decision to leave the EU remained modest at the time of writing, in the United Kingdom and even more so in the euro area, in light of continuing uncertainty as to the terms of the agreement that will result from the negotiations that started in 2017.

Against this international backdrop, euro area growth was fairly robust, but it slowed down very slightly compared with 2015. In France, growth was almost unchanged on 2015, but nevertheless remained more sluggish than in the euro area. In 2016, there was a slight increase in the average annual harmonised index of consumer prices, both at the French and euro area levels, despite several months of particularly low inflation at the start of the year.

Faced with the threat of renewed deflationary pressures in early 2016, the ECB's Governing Council responded by increasing the accommodative nature of its monetary policy in order to fulfil its price

stability objective. In particular, key interest rate cuts, the extension of the asset purchase programme, the implementation of the targeted longer-term refinancing operations and forward guidance considerably improved the financing conditions of firms and households in the euro area. In 2016, there were significant monetary and financial developments. These measures led to a relative improvement in macroeconomic conditions essential to ensuring a sustained path of inflation towards levels below, but close to 2% over the medium term. In an environment of low interest rates and increased volatility due to political uncertainty, financial stability risks were particularly closely monitored in the framework of banking supervision and the different macroprudential oversight mechanisms.

Against the background of an ongoing highly accommodative monetary policy, in order to achieve a lasting and broad-based improvement in the economic performance of EU Member States, an efficient coordination of macroeconomic policies is necessary, enabling growth to be stimulated through a combination of fiscal responsibility, structural reforms and increased investment. The implementation of the Juncker plan and the decision to extend it constituted significant steps towards achieving this objective. For France, certain major reforms implemented in 2016 must be pursued and stepped up in order to boost potential growth, which remains too low. Moreover, in order to comply with its fiscal commitments to its European partners, France must continue to consolidate its public finances.

Figures up to 31 May 2017

1

Market and international environment: resilient markets and economies despite increased political uncertainty

Capital and commodity markets

Resilient capital markets

In 2016, markets were largely driven by announcements from the major central banks to address asynchronous economic cycles on both sides of the Atlantic and by unexpected or poorly anticipated election results in Europe and the United States (the UK Brexit referendum of 23 June, the election of Donald Trump on 8 November, and the constitutional referendum in Italy of 4 December).

Brexit: resilience of UK markets following a sharp downward correction

The UK markets held up well despite an episode of strong volatility at the start of summer triggered by the referendum to leave the European Union. The UK's economic fundamentals remained, at the time of writing, relatively unaffected, with the FTSE 100 (index of the 100 most highly capitalised companies) rising by almost 15% over the year (see Chart 1). However, the

UK government bond yield curve shifted downwards and flattened, with the 10-year yield on the gilt falling from 1.87% to 1.23% over the period (see Chart 2). The Bank of England's asset purchase programme played a significant role in keeping interest rates low. Only sterling appeared to be lastingly impacted, losing almost 16% against the US dollar and the euro over the year, with the sterling/dollar and euro/sterling pairs standing at 1.23 and 0.85 respectively at the end of the year.



Main developments

8 July 2016

The yield on the 10-year German Bund hit a historical low of -0.19%.

11 October 2016

The sterling-dollar exchange rate reached its lowest level since May 1985 at 1.21.

15 December 2016

The yield on the 10-year US Treasury bond reached its highest level since September 2014 at 2.64%, the day after the Fed decided to raise its key rate.

20 December 2016

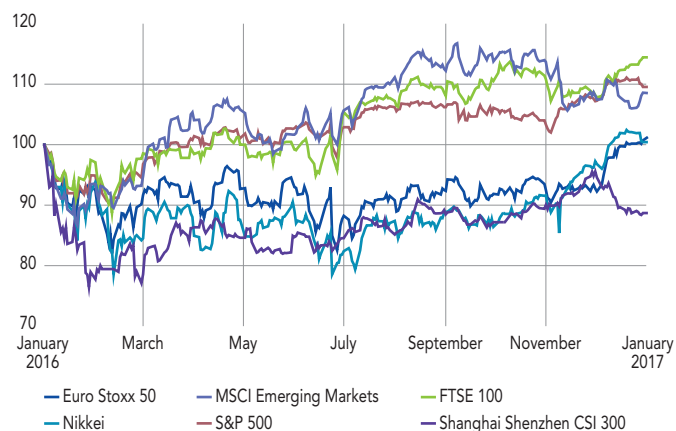
The euro-dollar exchange rate reached its lowest level since November 2003 at 1.04.

**United States:
election of Donald Trump and “reflation”,
the Fed hikes its key rates**

After falling against the euro and the yen in the first half of the year, the dollar gradually started gaining strength. This upward trend gathered momentum following the election of Donald Trump on 8 November and the Federal Reserve’s (Fed’s) decision to raise interest rates on 14 December, which was considered to herald further hikes in 2017 (including a 25 basis point [bp] rise on 15 March). The euro-dollar exchange rate fluctuated within a range of a high of 1.15 in early May and a low of 1.04 at the end of the year. The dollar-yen exchange rate fluctuated within a range of a high of 121.1 at the start of the year and a low of 99.9 in mid-August, before recovering to 117.0 at the end of the year. At the same time, equity markets (S&P 500) gained 9.5% (see Chart 1) over the period and 10-year US Treasury bond yields, after falling to 1.36% in July, rose to 2.44% at the end of the year, with a steepening of the government bond yield curve (see Chart 2). Analysts focused in particular on topics related to protectionism, corporate tax cuts and major infrastructure projects, the cornerstones of a programme perceived to be reflationary.

C1 Stock indices in 2016

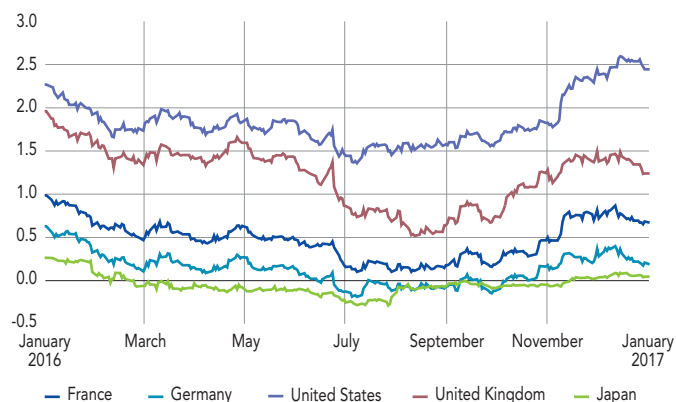
(1 January 2016 = 100)



Sources: Bloomberg, Morgan Stanley.

C2 Ten-year government bond yields in 2016

(%)



Source: Bloomberg.

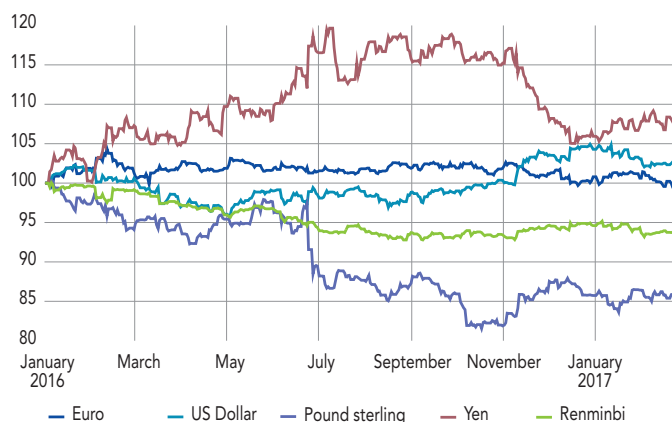
Euro area: market resilience

In March 2016, the European Central Bank (ECB) lowered its three key interest rates: the interest rates on the main refinancing operations (by 5 bps to 0.00%), the marginal lending facility

(by 5 bps to 0.25%) and the deposit facility (by 10 bps to -0.40%). As regards the asset purchase programmes, the monthly volume was expanded from EUR 60 billion to EUR 80 billion up to March 2017, while a new specific programme targeted bonds issued

C3 Nominal effective exchange rates of the main currencies in 2016 (61 trading partners)

(1 January 2016 = 100)



Note: A rise in the nominal effective exchange rate corresponds to an appreciation of the currency against its trading partners.
Source: BIS.

by non-bank corporations (see Box 1). At 31 December 2016, the stock of securities purchased by the Eurosystem totalled EUR 1,511.5 billion,¹ including EUR 1,254.6 billion in government bonds as part of the Public Sector Purchase Programme (PSPP) and EUR 51.1 billion in bonds issued by non-bank corporations under the Corporate Sector Purchase Programme (CSPP). The new targeted long-term refinancing operations (TLTRO II) completed the adjustments to the Eurosystem's monetary policy framework. Chapter 3 of this report analyses in depth the different aspects of the ECB's monetary policy.

In this highly accommodative environment, euro area government bond

yield curves continued to flatten, accompanied by a fall in yields across the whole maturity spectrum, thus continuing to foster extremely favourable financing conditions for most euro area Member States. The yield on the 10-year German Bund fell by 42 bps from 0.63% at the start of the year to 0.21% at the end of the year, after dipping into negative territory between end-June and mid-October, while the yield on the 10-year French Treasury bond (OAT) dropped by 30 bps from 0.99% at the start of the year to 0.69% at the end of the year (see Chart 2). In Southern Europe, the yield on the 10-year Spanish government bond fell by 39 bps to stand at 1.38% at the end of the year. However, the yields on Italian and Portuguese government

bonds, affected by a political and banking sector environment perceived as unfavourable by market participants, rose by 22 bps and 125 bps respectively to reach 1.82% and 3.76% at the end of the year.

Emerging countries: cautious return of investors and growing internationalisation of the renminbi

Despite a mixed 2016, investors showed renewed interest in emerging economies, thanks to the improvement in their economic outlook for 2017 (continued strong growth in China, inflation generally contained in Latin America), the structural reforms undertaken (Argentina, Brazil), and the recovery in commodity prices. Thanks to these factors, investors cautiously returned to these countries' assets which offered higher returns than those of developed countries. In China, the renminbi further consolidated its global currency status, entering in October the IMF's Special Drawing Rights (SDR) basket alongside the dollar, the euro, the yen and the pound sterling, even though its use had decreased due to its depreciation. Indeed, the Chinese currency depreciated by 7% against the US dollar in 2016 and by 6% in effective terms (see Chart 3).

¹ Figures presented on the ECB's website at book value as at 31 December 2016 at amortised cost.

Box 1

IMPLEMENTATION OF THE CORPORATE SECTOR PURCHASE PROGRAMME (CSPP)

On 10 March 2016, the ECB Governing Council decided to launch a new corporate sector securities purchase programme to supplement the Asset Purchase Programme put in place a year previously. The aim of the CSPP is to purchase bonds issued by non-bank corporations established in the euro area. These companies must be rated “investment grade” (i.e. a credit rating of BBB- or over) and their eligible debt instruments must have a remaining maturity of between 6 months and 30 years.

This programme contributes directly to enhancing the financing of companies in the euro area

In the framework of this programme, the Banque de France purchases eligible French corporate debt, whose pool represents around 30% of the European market.

On 8 June, the Banque de France commenced its purchases, totalling EUR 15.7 billion at 31 December 2016, or around 30% of the total amount of EUR 51.1 billion purchased by the six national central banks in charge of implementing the programme.

Impact of the CSPP on the corporate bond market

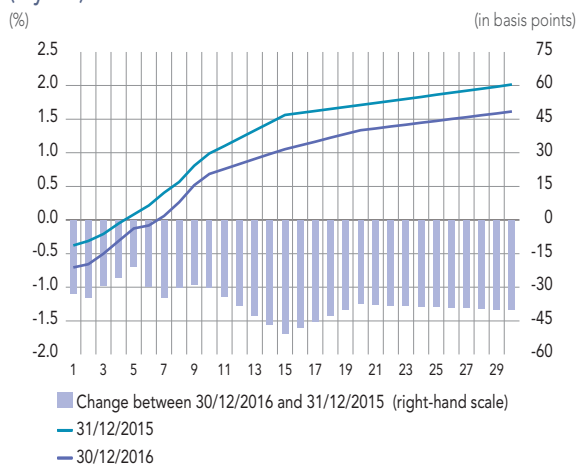
A decline in risk premia was observed on the credit market and in the CSPP-eligible universe.

Against this backdrop of rising government bond yields, (see Chart Ca), the iBoxx Corporate bond index fell from 140 bps in early March 2016 to 80 bps in August and has remained at around that level since then, with most of the narrowing of credit spreads occurring just after the ECB’s announcement in March. In the corporate bond market, the decline in yields was the most pronounced for eligible securities. Accordingly, the iTraxx Main Index of investment grade borrowers’ CDS, reflecting the default risk premium on this type of bond, lastingly fell to a level below that of the iTraxx Senior Financials Index (CDS on the senior debt of financial sector companies), whereas it had exhibited very similar levels before March 2016 (see Chart Cb).

The CSPP resulted not only in an increase in the price of the securities concerned, but also in a sharp rise in corporate issuance volumes.

In 2016, European investment grade debt issuance volumes reached over EUR 280 billion, greatly exceeding the issuance record seen in 2009 (EUR 253 billion). As a rule, companies experienced no difficulties in placing them with investors, and issuance premia fell sharply.

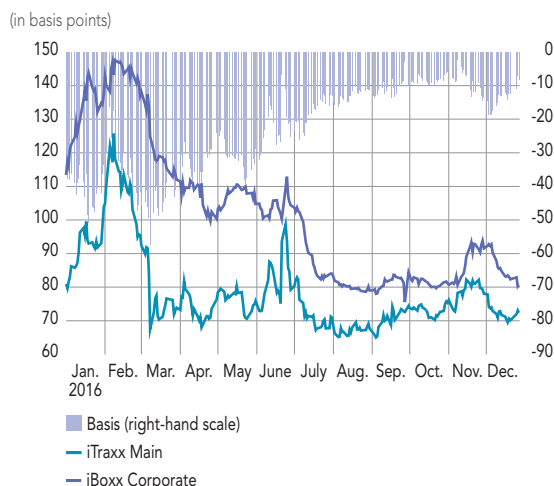
Ca Change in French government bond yields by maturity (in years) at end-2015 and end-2016



Note: French government bond yield curves by maturity, at 31 December 2015 and 31 December 2016. The chart also shows the difference in basis points between the two dates.
Source: Bloomberg.

1 The iTraxx Main spread is the notional value of an “insurance premium” against European corporate bond defaults, and is expressed in basis points (one point equals 0.01%). The iBoxx Corporate spread, expressed in basis points, corresponds to the excess yield over the benchmark swap curve, of European corporate bonds with an average maturity of 5 years and with a credit rating of between AAA and BBB-. The “base” expresses the spread, in basis points, between these two indices. The iTraxx Senior Financial spread (CDS premium) is the notional value of an “insurance premium” against the default of the “senior” bonds (i.e. bonds with specific guarantees and are repaid before other debt obligations) of 25 investment grade European banks and insurers, and is expressed in basis points.

Cb Change in credit spreads in 2016



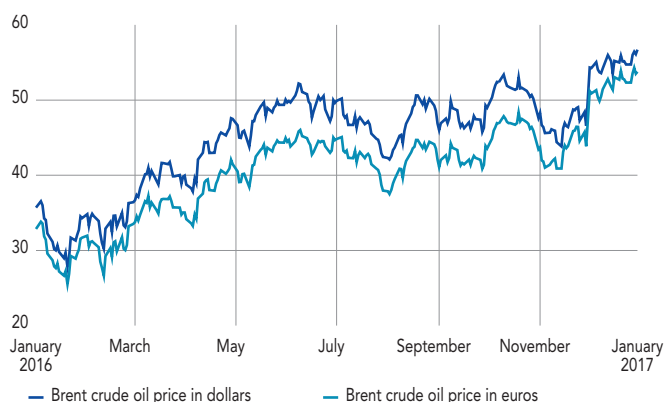
Note: See note 1 below for clarification on the spreads.
Source: Bloomberg.

Sharp rise in commodity prices

In 2016, commodity prices rose significantly, due to both higher-than-expected global demand from emerging countries and China in particular, and lower supply.

After hitting a low at the start of the year, Brent crude oil prices increased by around 70% between January and December 2016, from USD 32 to USD 55 (see Chart 4). This rise in Brent

C4 Brent oil prices



Source: Datastream.

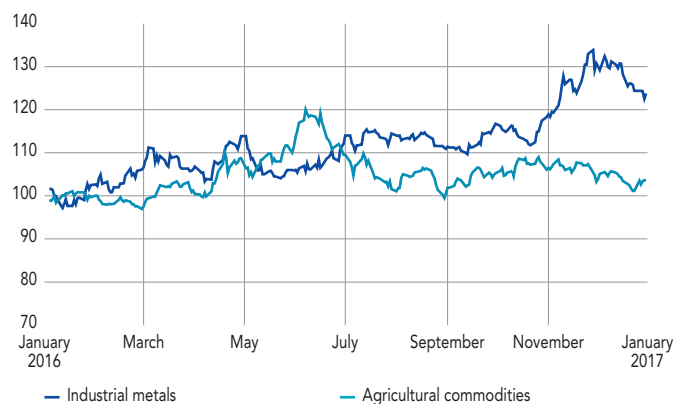
prices in 2016 can mainly be attributed to numerous supply disruptions in Nigeria and Libya between January and June. Despite a relative stability between June and September, prices rose sharply at the end of the year (16% in December 2016) fuelled by an agreement between non-OPEC countries to reduce production. The prices of other energy commodities also trended upwards in 2016: the price of US natural gas increased by 80% year-on-year in December 2016, while that of Australian coal gained 60%.

As regards agricultural commodity prices, adverse weather conditions in Argentina propped up soya prices in the first half of the year. Conversely, sugar and cocoa prices fell, due to bumper harvests. Overall, the agricultural commodity price index went up by a modest 4% over the year (see Chart 5).

As regards non-precious metals, which are extremely sensitive to global demand, China's sustained growth (6.7% in 2016) contributed to the across-the-board improvement in markets in 2016. Despite a relatively stable period at the start of the year, the global index of metal prices was up 20% year-on-year in December 2016. This rise was chiefly driven by zinc

C5 Metal and agricultural commodity price indices in 2016

(prices in dollars, 1 January 2016 = 100)



Sources: S&P, GSCI.

and copper prices. In an uncertain economic and political environment, precious metal prices, due to their "safe-haven" status, picked up very considerably over the period.

Economic activity outside the euro area

Industrialised countries: slowdown in economic activity in the United States but post-Brexit resilience in the United Kingdom

In the United States, growth stood at 1.6% in 2016 (see Chart 6), down sharply on 2015 (2.6%). Labour market indicators continued to

improve and household consumer spending remained the main driver of US growth, but the significant slowdown in private investment and the negative contribution of the inventory cycle weighed on growth, in particular at the start of the year. These developments were partly due to the sharp fall in investment in the energy sector, following the decline in commodity prices at the end of 2015. Nevertheless, fears of a cyclical downturn at the end of 2015 slowly vanished, allowing the Fed to continue to gradually tighten its monetary policy, with a second interest rate hike in December 2016, after that of December 2015.

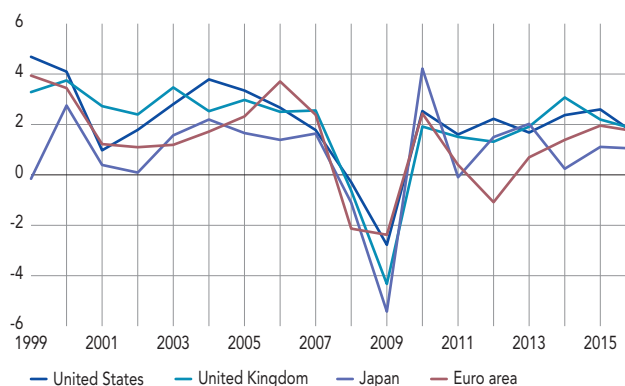
Labour market indicators showed a further improvement in 2016 with

an average of around 187,000 net job creations monthly (after 226,000 in 2015). The unemployment rate stood at 4.9% on average over the year (after 5.3% in 2015), a level close to the estimated structural unemployment rate. The labour force participation rate slightly rose in 2016 (62.8%, after 62.7% in 2015), for the first time in ten years; it nevertheless remained below the peak observed in 2000 (67.1%) and its 2008 level (66.0%). The significant decline in the unemployment rate was only at this stage accompanied by a modest rise in nominal wages, which grew by 2.6% on average in 2016.

Industrial production contracted in 2016. This decrease is partly attributable to the difficulties of the energy sector. Moreover, even though dollar appreciation in nominal effective terms slowed down considerably in 2016, the effect of dollar appreciation in 2015 continued no doubt to affect the US export sector, as did the weakness of global demand. Export growth therefore remained sluggish, at 0.4% in 2016, after 0.1% in 2015, whereas imports decelerated (1.2% in 2016, against 4.6% in 2015) notably due to the slowdown in private investment and the inventory cycle.

C6 GDP growth rate in industrialised countries

(Annual average - %)



Sources: National statistics offices, Eurostat.

The rebound in energy prices and ongoing increases in rents underpinned inflation in 2016. The Personal Consumption Expenditures (PCE) index, followed by the Fed, was up by 1.1% in 2016, after 0.4% in 2015. Underlying inflation, which excludes energy and food prices, reached (also according to the PCE index) 1.7% for 2016 as a whole, after 1.4% in 2015.

Lastly, the federal deficit increased in the 2016 fiscal year. The deficit reached 4.4% of GDP in 2016, after

3.5% in 2015, which corresponds to its highest level since 2013. The Congressional Budget Office (CBO) now estimates that federal debt held by the public reached 77.0% of GDP in 2016 (after 73.3% at the end of 2015).

In the United Kingdom, the result of the Brexit referendum surprised most observers. However, the negative effects on economic activity remain moderate at this stage. Economic growth was relatively resilient throughout 2016 at 1.8% on average

Key figures in 2016

 **1.8%**
growth in the
United Kingdom

 **1.6%**
growth in the
United States

over the year (see Chart 6 above), even though it was down on that of 2015 (2.2%). The services sector was the main driver, while the contributions of the construction and industrial production sectors were weak.

The labour market continued to recover throughout 2016. Job creations translated into a swift decline in the unemployment rate, which fell by 0.3 percentage point over the year to 4.8% in December. Real wages continued to strengthen throughout the year.

The residential property market was relatively buoyant, despite a number of fluctuations related to the introduction of stamp duties in April and the Brexit referendum two months later. The volume and number of loans granted reached the highest level since 2010. The gap between demand and supply on the real estate market continued to push house prices up, across the country, which nevertheless remained slightly less vigorous on average than in 2015 (7.7%, after 8.9% according to the Halifax House Price Index). Available housing stock was at its lowest level since 1980, reflecting housing market tensions.

The goods and services deficit remained sizeable at around

2.0% of GDP in 2016, unchanged from 2015. The current account deficit was relatively stable in 2016 (4.4% of GDP, compared with 4.3% in 2015). The government deficit, as defined in the Maastricht Treaty, narrowed in 2016 to approximately 3.0% of GDP from 4.3 % in 2015. Government debt totalled 89.3% of GDP in 2016 after 89% in 2015.

After registering zero inflation in 2015 (the lowest level ever recorded in the United Kingdom since the publication of the first price series in 1989), the consumer price index rose in 2016, reaching 0.7% on average over the year. This increase in inflation is mainly attributable to the rebound in commodity prices as well as, since Brexit, the effects of sterling depreciation and the attendant rise in imported inflation.

In 2016, following the result of the referendum, the Bank of England reinforced the accommodative nature of its monetary stance by lowering its main refinancing rate (Bank Rate) to 0.25%, and by raising the volume of securities purchases as of 4 August 2016.

In Japan, economic activity slowed slightly in 2016, with real GDP expanding by 1.0%, after 1.1%

in 2015 (see Chart 6). Nevertheless, most short-term indicators, which had declined in the first half of 2016, started rising in the last few months of the year. The different components of GDP were resilient to the short and long-term adverse factors. With a stagnation in real wages, growth in private consumption was limited to 0.4%. Despite the favourable financing conditions and abundant liquidity, corporate investment (1.0% in 2016, after 1.2% in 2015) was affected by the weakness of domestic demand and suffered in 2016 from the high degree of uncertainty surrounding global economic conditions. Foreign trade was dampened by the slowdown in growth in Asia and by the appreciation of the yen's nominal effective exchange rate in 2016.

Macroeconomic policies lent major support to growth. Monetary policy, which was already extremely expansionary with massive purchases of Japanese government bonds amounting to JPY 80 trillion per year (or 16% of GDP), was loosened further. The Bank of Japan decided to apply a negative rate of 0.1 percent to banks' excess reserves in January and almost doubled the pace of its private asset purchases in July. Since September, monetary

policy has been directly targeting the government bond yield curve with the aim of keeping the 10-year yield at around 0%. Fiscal policy was also more expansionary. After stating that it would put off until 2019 the two-percentage point rise in VAT planned for April 2017, the government announced for 2017-2018 a fiscal package of 1.5 percentage points including infrastructure spending and measures to support SMEs.

The primary balance deteriorated and continued to be markedly negative (−4.2% of GDP, against −3.5% in 2015); government debt remained the highest in the OECD at 233.7% of GDP, and 91% of this debt was held by residents.

Inflation, which was affected by yen appreciation, was slightly negative in 2016 at −0.1%, after 0.8% in 2015. However, after falling for several months as of March, year-on-year inflation rebounded as of September thanks to the more stable yen and favourable global price dynamics. Despite the very low unemployment rate (3.1% in December 2016), flat nominal wages nevertheless continued to depress underlying inflation, which stood at 0.6%, after 1.4% in 2015.

Emerging countries: the economic situation stabilised, while risks persisted

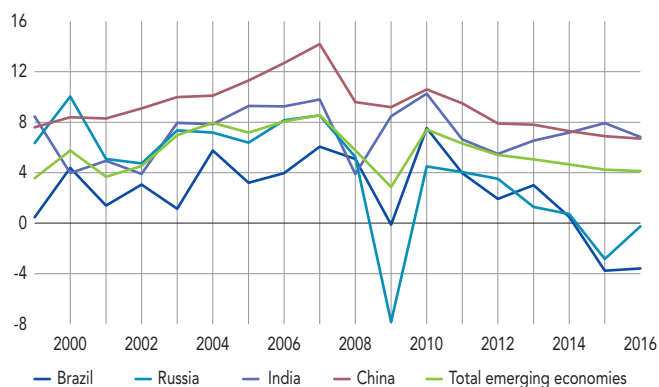
Economic growth stabilised in 2016 for emerging economies as a whole (4.1% according to the IMF), after slowing down for five consecutive years. However, situations differed significantly across countries (see Chart 7 and Table 1). The recession in Russia eased considerably, thanks to higher oil prices and more stable inflation. Nevertheless, the recession in Brazil remained serious, due to high inflation and deteriorating economic confidence. Economic activity in China was robust, despite a very slight slowdown, largely reflecting the stimulus measures implemented by

the authorities. India remained one of the most dynamic economies; the demonetisation initiative of end-2016 only appears to have had a temporary impact of −0.3% to −0.5% on growth over the 2016-2017 fiscal year, without calling into question the strength of short and medium-term growth.

After the financial turmoil of 2015, the financing conditions of many emerging countries stabilised in 2016, with a narrowing of credit spreads, stronger equity markets and relatively stable exchange rates. After a low in 2015, net capital flows to emerging countries recovered somewhat in 2016, while nonetheless remaining in negative territory, particularly due to capital outflows from China and Russia. Lastly, the

C7 GDP growth in emerging economies

(Annual average - %)



Source: IMF.

T1 Main economic indicators for the BRICs

	Brazil		Russia		India		China	
	2015	2016	2015	2016	2015	2016	2015	2016
Nominal GDP (USD billion)	1,801	1,799	1,366	1,281	2,088	2,256	11,226	11,218
Change in real GDP (%)	-3.8	-3.6	-2.8	-0.2	7.9	6.8	6.9	6.7
Inflation (%)	9.0	8.7	15.5	7.1	4.9	4.9	1.4	2.0
Fiscal balance (% of GDP)	-10.3	-9.0	-3.4	-3.7	-7.1	-6.6	-2.8	-3.7
Current account (% of GDP)	-3.3	-1.3	5.1	1.7	-1.1	-0.9	2.7	1.8
Gross government debt (% of GDP)	72.5	78.3	15.9	17.0	69.6	69.5	42.6	46.2
Foreign exchange reserves (USD billion)	356	365	368	378	350	359	3,330	3,011
Change in reserves (%)	-1.9	2.4	-4.4	2.5	17.3	8.7	-13.3	-9.6

National sources for reserves and inflation. Other data: IMF, *World Economic Outlook*, April 2017.

Brexit referendum of June 2016 only had a very limited impact on most emerging countries.

Despite signs of a recovery in 2016, emerging countries continue to face major risks. One source of considerable concern is corporate debt in major emerging economies, in particular dollar-denominated debt, which rose, on average, from 55% of GDP in 2006 to 110% of GDP in

late 2015, according to data from the Bank for International Settlements (BIS). Furthermore, US monetary policy developments, although still largely uncertain, could affect emerging economies, via (i) a financial channel: major fiscal stimulus could result in a significant tightening of US monetary policy, which could lead to tougher financing conditions in emerging countries; (ii) a trade channel: a resurgence of protectionism would

affect the emerging economies that are highly dependent on the US market, in particular Mexico, and to a lesser extent China, India, Brazil, and Malaysia; (iii) a risk of a reduction in direct investment. Lastly, the sluggishness of world trade and the rise of protectionism, together with the political and geopolitical risks, also represent downside risks for emerging countries in the short and medium term.

2

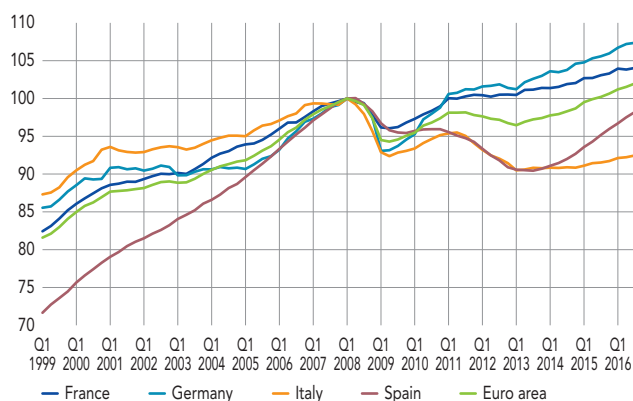
The economic recovery of the euro area and France is confirmed, in a context of still low inflation but dynamic monetary and financial developments

The recovery continues, at a more dynamic pace in the euro area than in France

Euro area: growth remains relatively robust

The euro area GDP grew by 1.7% in 2016, after 1.9% in 2015 and 1.3% in 2014. The different euro area countries display this common trend, marked by a relative stability of their growth rate in 2016 compared to 2015, but with contrasting trends: among the four main economies in the area, the strength of the rebound in the Spanish economy following the sharp recession of 2008-2013 is confirmed, with a growth rate of 3.2%, as in 2015 (see Chart 8). Germany and Italy record higher growth rates than in 2015: 1.8% in Germany, after 1.5% in 2015, and 1.0% in Italy, after 0.7%. On the other hand, activity in France did not accelerate in 2016 compared to the previous year, with a growth rate of 1.1% (after 1.0% in 2015), below that of the euro area.

C8 Real GDP
(100 = 1st quarter 2008)



Source: Eurostat.

Private consumption in the euro area grew at a rate relatively close to that of its public consumption (2.0% in 2016, after 1.8% in 2015, and 1.8%, after 1.3%). Growth in total investment continued to increase (3.4% in 2016, after 3.0% in 2015). Exports slowed markedly (2.9%, after 6.0% in 2015), at a steeper pace than imports (4.2%, after 6.1%). The net contribution of foreign trade to growth is therefore negative at 0.4 percentage points (pp) in 2016, the contribution of inventory changes being zero.

France: the growth rate is virtually stable

In France, average annual GDP growth, adjusted for working day variations, stood at 1.1% in 2016, after 1.0% in 2015 (see Table 2). Household consumption increased by 2.1% (after 1.3% in 2015) and general government consumption by 1.2%, after 1.1% in 2015. Total investment accelerated sharply in 2016 (2.7%), following a moderate increase in 2015 (0.9%). Household investment rebounded by 2.4%,

after several years of protracted decline (–2.1% in 2015), but that of general government continued to recede, down 0.2% following a 3.1% decline in 2015, in a context of fiscal consolidation. Investment of non-financial corporations continued to grow very strongly (3.4% in 2016, after 2.9% in 2015), partly owing to the effects of the extra depreciation, which boosted investment in capital goods mainly at the start of the year.² On the other hand, exports rose only slightly (1.9% in 2016, after 4.0% in 2015), largely exceeded by the growth of imports (4.2%, after 5.5% in 2015). The contribution of foreign trade to growth was therefore negative, at –0.8 percentage point (against –0.6 percentage point in 2015). The contribution of inventory changes stood at –0.1 percentage point in 2016 (after 0.3 percentage point in 2015). According to Banque de France forecasts performed in June 2017 as part of the Broad Macroeconomic Projection Exercise (BMPE), France’s

T2 French GDP and its components

(chain-linked volumes; % quarterly changes and annual averages; data adjusted for seasonal and working day variations)

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2015	2016
GDP	0.6	-0.1	0.2	0.5	1.0	1.1
Imports	0.6	-1.1	2.8	0.6	5.5	4.2
Household consumption	1.3	0.3	0.1	0.6	1.3	2.1
Government consumption	0.3	0.3	0.3	0.3	1.1	1.2
Total GFCF	1.1	-0.1	0.2	0.5	0.9	2.7
o/w: NFC ^{a)}	1.6	-0.3	-0.2	0.9	2.9	3.4
o/w: households	0.8	0.7	0.9	0.9	-2.1	2.4
o/w: government	-0.5	-0.6	0.0	-1.5	-3.1	-0.2
Exports	0.3	0.2	0.6	1.0	4.0	1.9
Contribution of components						
Foreign trade	-0.1	0.4	-0.7	0.1	-0.6	-0.8
Domestic demand (excl. inventories)	1.0	0.2	0.1	0.5	1.2	2.0
Inventory changes	-0.4	-0.7	0.7	-0.2	0.3	-0.1

a) Non-financial corporations.
Source: Insee.

GDP growth is expected to reach at least 1.4% in 2017, and then 1.6% in 2018 and 2019 (see Box 3).

The growth profile in 2016 was characterised by two slight peaks of 0.6% and 0.5% at the beginning and at the end of the year respectively, essentially in response to the surges in domestic demand. Exports, which were very weak during the first three quarters, recovered at the end of the year (see Box 2).

This weakness in foreign trade can be explained in particular by the delivery difficulties encountered by both the aeronautics sector and the fall in agricultural production due to the unfavourable weather conditions of the past year (down 5.2%, with a negative 0.1 point impact on GDP growth). The decline

² The measure allowing companies to increase the amount they write down for certain capital goods, which was introduced on 15 April 2015 to encourage companies to make productive investments, and which was due to run until 14 April 2016, was extended until 14 April 2017.



Key figures for France in 2016



1.1%
GDP growth



3.4%
increase in the investment
of non-financial corporations



10.1%
unemployment rate
as defined by the ILO

Box 2

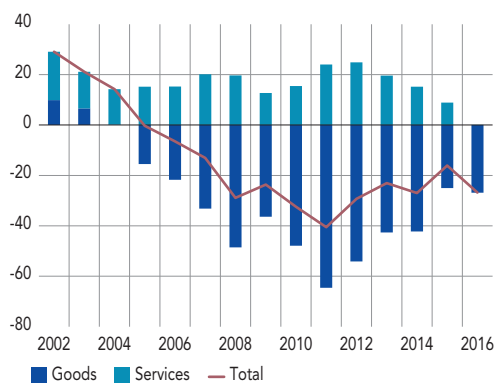
IN 2016, FRANCE'S TRADE DEFICIT DEEPENED DESPITE FAVOURABLE ENERGY PRICES

After a gradual improvement between 2011 and 2015, the trade deficit on goods and services deepened in 2016, reaching EUR 26.8 billion (after EUR 16.1 billion in 2015, balance of payments data, in current euro). This is due to the deterioration in the balance on non-energy goods (EUR 3.1 billion, after EUR 12.8 billion in 2015) and by the decline in trade in services (nil balance in 2016, after a surplus of EUR 8.9 billion in 2015). The decrease in the surplus on services has been particularly strong since 2012, amounting to EUR 24.8 billion in four years. The decrease in the energy deficit (from EUR 37.8 billion in 2015 to EUR 29.9 billion in 2016 – free on board [FOB] data) explains that, in fine, the deficit on goods only posted a moderate increase from EUR 25.0 billion in 2015 to EUR 26.8 billion in 2016¹ (see Chart Ca).

The deterioration in the non-energy trade balance is due to the stagnation of French exports (0.1% on an annual average in nominal terms in 2016) and sustained growth in imports (3.4% in 2016).

Ca France's balance of goods and services

(EUR billions)



Source: Banque de France, balance of payments.

In volume terms, exports declined sharply (1.2% year-on-year, compared with 6.0% in 2015), while imports remained brisk (3.6%). These developments occurred in a context of an appreciation of the euro's effective exchange rate (3.7% on an annual average), which depressed the price competitiveness of the euro area as a whole. However, unlike France, the performance of foreign trade in Germany, Spain and Italy improved.

In 2016, the export performance of the French economy measured by a market share indicator² dropped by a further 1%, which, together with the slowdown in world demand (2.1%, against 3.1% in 2015) explains the very small increase in exports over the past year.

¹ Within trade in goods, the merchandise trade, published by the Directorate General of Customs and Excise (DGDDI), alone posted a deficit of EUR 48.1 billion. The transition from merchandise trade to trade in goods is carried out by the Banque de France, essentially by making FOB/FOB records of all transactions, retaining within merchandise trade only those flows leading to a change in economic ownership, and finally by adding goods procured in ports by carriers and merchanting.

² Ratio of total French exports in volume terms to the world demand addressed to France, measured with the import volumes of partner countries, weighted by their share in French exports.

Exceptional negative elements occurred in 2016 in areas such as aeronautical deliveries, agricultural production due to adverse climatic conditions and tourism due to the terrorist attacks, but other elements played a positive role (key contracts in maritime construction, etc.). Ultimately, excluding energy, the balance of these exceptional items is only moderately negative. France's share of euro area exports, which had stabilised at 12.2% between 2014 and 2015, fell to less than 12.1% in 2016.

Moreover, the strong growth in imports observed since 2013 continued. This increase can be partly explained by the nature of the growth in activity in 2016, driven in particular by components with a high import content: business investment (4% on an annual average in 2016), household energy consumption, capital goods (especially during the transition to high-definition DTT) and transport equipment. However, the composition of growth is not sufficient to explain the increase in imports, since the propensity to import³ increased by 2% in 2016.

³ Ratio of imports in volume terms to an external demand indicator.

in agricultural production resulted in a deterioration in the trade balance and a decrease in inventory changes. A return to normal could support GDP growth in 2017, notably with a rebound in exports.

As regards households, the fall in the price of oil-related products, which continued until the beginning of 2016, led to a significant increase in purchasing power (1.8%, after 0.8% in 2015). This improvement partly boosted consumption, also supported by savings, which fell slightly to 14.0% of gross disposable income (after 14.3% in 2015). Household income was

also supported by the acceleration in labour income (2.0%, after 1.5% in 2015). Total employment posted a marked increase (0.6%, after 0.2% in 2015), in particular salaried employment (0.7%, after 0.3% in 2015), which represents about 90% of total employment. The unemployment rate stood at 10.1% of the working population, down from 10.4% in 2015. In a context of virtually zero inflation, per capita wages rose by 1.2% in 2016 (after 1.1% in 2015) throughout the economy, and by 1.3% (after 1.2% in 2015) in the private sector (non-financial corporations, financial corporations, and sole traders – NFCs, FCs and STs).

As regards businesses (NFCs, FCs and STs), the fall in oil prices contributed to supporting the rise in value added prices (0.5%, after 1.2% in 2015), even if the increase was minor. However, unit labour costs increased sharply compared to 2015 (1.1%, after a 0.5% decrease in 2015, taking into account the effects of the tax credit for competitiveness and employment). In addition, productivity declined slightly in 2016 by 0.1%, following a 0.6% improvement in 2015, due to the very strong increase in private sector employment (1.1%, after 0.4% in 2015). As a result, the gross operating surplus of businesses only

Box 3

BANQUE DE FRANCE FORECASTS IN JUNE 2017

French GDP growth stood at 1.1% in 2016, thanks in particular to factors supportive of domestic demand, which were partially offset by the strongly negative contribution of foreign trade. Annual average GDP growth is now expected to gradually increase to at least **1.4% in 2017**, and then **1.6% in 2018 and 2019**, at a faster pace than potential growth, leading to a decline in the output gap. However, the growth rate of activity in France would still be lower than in the euro area. This projection is based on technical assumptions and quarterly accounts closed on 16 May 2017.

It does not take into account economic policy guidelines and post-election reforms or changes in economic agents' expectations, which may have an impact on the composition and level of activity and inflation. These projections must therefore be understood as reflecting the current underlying dynamics, as a function of past economic policy choices and the expected international context, before the impact of future economic policy choices, as well as possible external shocks.

The growth in the purchasing power of households, observed in 2016 in the wake of the fall in the price of oil, is expected to weaken. The rise in energy inflation should only be gradually offset by a recovery in wage income. Household consumption is therefore expected to slow down slightly, in particular in 2017.

Business investment should continue to be supported by stronger economic activity and low interest rates, despite a high level of debt. However, its growth rate should be lower than in 2016, when the impact of the extra depreciation allowance, which will end in April 2017, was significant. Despite this slowdown, the corporate investment rate in 2018 should exceed the peak of 2008, after recording a marked recovery since 2013. The improvement in the margin rate of non-financial corporations (NFCs) should stabilise in 2017, as a result of the increase in the price of oil, assuming the measures to improve competitiveness remain constant (CICE-PRS), but should then pick up slowly until 2019, to come close to the average observed from 1996 to 2008.

Household investment should continue to benefit from temporary factors in 2017 such as zero interest loans, the Pinel scheme and low credit rates. However, housing investment is hampered by demographic factors in the medium term.

Despite an increase in exports, French export market shares declined in 2016. This weak performance can partly be explained by exceptional events (poor agricultural harvests, Airbus production chain difficulties, tourism), which suggests a rebound in French market shares in 2017 and 2018 if these items return to their usual level.

Moreover, French foreign trade should benefit from a more favourable international environment, with an acceleration of world demand, revised upwards since our previous publication. French exports could therefore start to recover in 2017, despite a disappointing start to the year. The contribution of foreign trade to French growth should then be less negative in 2017 than in the last three years and should become positive again in 2018 and 2019.

Inflation, as measured by the Harmonised Index of Consumer Prices (HICP), is expected to recover: after 0.3% in 2016, it should rise on average to **1.2% in 2017**, driven up by its energy component. Its monthly profile should, however, be irregular, marked by significant fluctuations, mainly due to its energy and food components. **It should remain stable in 2018**, but with a more balanced contribution from its various components: inflation excluding food and energy should remain at 0.6% on an annual average in 2017, but should pick up from 2018, in particular as a result of the fall in the unemployment rate and the rise in non-energy import prices. This trend should continue in 2019, supported in particular by the gradual acceleration in nominal wages. Total inflation and inflation excluding food and energy should therefore converge, to increase to **1.4% in 2019**.

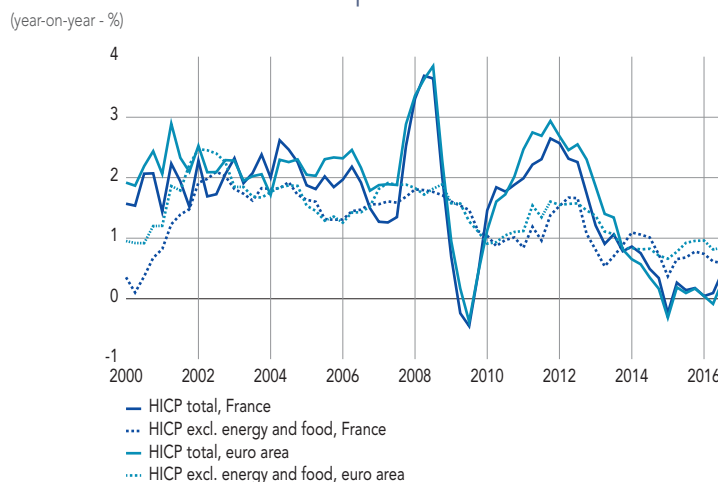
On the basis of information available at the time of writing, after 3.4% of GDP in 2016, the public deficit is likely to remain slightly above the EU ceiling of 3.0%, at 3.1% in 2017. Tax and social security contributions should slightly increase temporarily in 2017, by 0.1 percentage point (pp) of GDP, as a result of the postponement to 2018 of the tax and social security contributions relief measures under the Responsibility and Solidarity Pact (PRS) and the early levying of certain taxes (in particular corporate tax). The ratio of public expenditure (excluding tax credits) to GDP should decrease by 0.2 pp: after a rise in public expenditure less well contained in 2016 than in 2014 and 2015, moderation should continue in 2017 according to the Initial Budget Act (LFI), but largely on account of a decline in the debt burden. The primary structural adjustment – excluding the debt burden – calculated according to the European Commission methodology should be zero. The divergence from the forecast of a negative 2.8% fiscal balance in 2017, in the LFI updated by the April stability programme, stems in similar proportions from lower nominal GDP growth and a sharper increase in expenditure in our projections. In this context, public debt should increase in 2017, to 96.8% of GDP (up 0.5 pp), and then again over the rest of the forecast horizon. In 2018 and 2019, the government deficit at the time of writing is projected to be around 3%, with a slightly negative structural effort. These projections integrate the tax hikes already voted, but with a return based on our economic growth projections. They also include an increase in spending at a pace close to that of previous years, but which differs significantly from the projections of the stability programme, in the absence of any sufficiently specified measures to be adopted at the time of writing in our projection. A fortiori, the savings measures announced during the presidential campaign, which are essential to return below the 3% ceiling, are not yet taken into account here.

rose by 0.4% (after 5.4% in 2015) and the margin rate declined in 2016 (37.4% of value added, after 37.8% in 2015, for NFCs, FCs and STs).

Inflation in the euro area and France remained low in 2016

Inflation in the euro area picked up slightly in 2016: on average, the Harmonised Index of Consumer Prices (HICP) inched up by 0.2% in 2016, after 0.0% in 2015. However, the year-on-year growth rate of the HICP increased markedly during 2016. It was negative between February and May 2016, with a low point at -0.2% in April 2016 (see Chart 9). Total inflation then gradually picked up again, reaching a year-on-year growth rate of 1.1% in December 2016. Inflation excluding energy and food remained low in 2016, at an annual average of 0.9% , up only 0.1 percentage point from 2015. Contrary to total inflation, the sub-annual pattern of year-on-year inflation excluding energy and food remained relatively stable in 2016, fluctuating at around 0.8% to 0.9% , with a peak at 1.0% in January and March 2016. The year-on-year

C9 Harmonised index of consumer prices



Source: Eurostat.

growth rate of inflation excluding energy and food stood at 0.9% in December 2016.

The rise in the price of a barrel of oil in 2016 largely explains the upturn in total inflation in the euro area at the end of the year. After reaching a low point in January 2016 (EUR 28/barrel), the price per barrel climbed steadily over the year to stand at EUR 55 in December 2016. The increase in the price per barrel has an immediate direct positive impact on the energy component of the HICP through oil-related products directly consumed by households. The indirect effects are

slower to materialise. On an annual average, energy price inflation was negative in 2016, at -5.1% , after -6.8% in 2015, due to the prices at the start of the year. However, it was largely positive in December (2.6% year-on-year). Prices of manufactured products were slightly more dynamic in 2016, inching up by 0.4% on an annual average, compared with a 0.3% increase in 2015. On the other hand, prices of services slowed slightly in 2016, posting an average annual growth rate of 1.1% , down from 1.2% in 2015. Food prices were also slightly less dynamic than the previous year (0.9% compared to 1.0% in 2015).

As in the euro area, total inflation (HICP) in France rebounded slightly in 2016, reaching an annual average of 0.3%, after 0.1% in 2015. Year-on-year, consumer prices in France decreased temporarily between February and April 2016 (around -0.1% year-on-year), before picking up to stand at 0.8% in December 2016. As in the euro area, the rise in inflation at the end of the year is mainly due to the increase in oil prices. Average annual energy prices receded by 2.6% in 2016, compared with a decline of 4.5% in 2015. In December 2016, they were up by 4.1% year-on-year. Food inflation, however, edged up slightly in 2016, but remained weak (0.5% on an annual average, compared with 0.4% in 2015).

Inflation excluding energy and food remained low in 2016 at an annual average of 0.6%, unchanged from 2015, and below the euro area rate. Year-on-year, inflation excluding energy and food fluctuated between 0.4% (December 2016) and 0.9% (January 2016). Inflation in manufactured product prices picked up somewhat (0.0% on an annual average, against -0.3% in 2015), supported by the buoyant import

prices of non-energy goods in 2015. This recovery was offset by a further slowdown in the prices of services: on an annual average, prices of services rose by 1.0% in 2016 (compared with 1.2% in 2015). The fall in wage costs brought about by the Responsibility and Solidarity Pact and the tax credit for competitiveness and employment (CICE), as well as a certain wage moderation in 2016 in a context of high unemployment (see Box 4), contributed to limiting price increases in highly labour intensive activities. In addition, the slowdown in rents, linked in particular to the low levels of past inflation, also contributed to dampening the rise in the prices of services.

CPI (Consumer Price Index) inflation, which differs slightly from the HICP,³ stood at an annual average of 0.2% in 2016, compared with 0.0% in 2015.

In conclusion, inflation in 2016, both in the euro area and in France, was lower than projected by the Eurosystem in its forecasting exercise published at the end of 2015 (0.2% on an annual average, as against 1.0% projected for the euro area) mainly due to the unexpected fall in oil prices until January 2016.

Dynamic monetary and financial developments in 2016

Slight acceleration in the euro area money supply in 2016

The annual growth of the euro area M3 monetary aggregate strengthened slightly in 2016, climbing from 4.7% in 2015 to 5.0%⁴ (see Table 3 below). The French component of the European M3 aggregate posted a sharper increase, at 6.3%, after 3.3% in 2015. In the euro area, growth in overnight deposits remained high, although slightly less dynamic than in 2015 (9.7% in 2016, after 11.3% in 2015). The low opportunity cost of holding liquid assets continued to support money supply growth. In addition, the decline in other monetary deposits was less pronounced (-2.4%, after -3.3%), while the growth rate of marketable instruments became positive again at 8.3%, after -3.5% in 2015.

³ The scope of the CPI is slightly different from that of the HICP: the CPI tracks gross prices, while the HICP follows prices net of government reimbursements.

⁴ In this Chapter, annual growth rates are year-on-year growth rates. In addition, changes in outstandings are adjusted for any reclassifications and valuation effects (as well as exchange rate effects for certain series).

Box 4

WAGE BARGAINING PROCESSES IN EUROPE

There is no European wage bargaining model: its degree of centralisation, its place within the normative structure and the indicators used to determine wage developments differ from country to country.

The influence of the State on wage bargaining varies across countries. It is non-existent in the United Kingdom, excluding the effect of the minimum wage (whose level relative to the median wage is lower than in Portugal and France) and strong in Belgium, where the law governs wage developments for two years. In countries such as Germany, the Netherlands and Sweden where the social partners are the main negotiators, the law establishes an institutional framework for negotiation. In France and Portugal, the State indirectly intervenes in negotiations by setting the minimum wage;¹ In France, a 1% increase in the minimum wage (SMIC) results in a 0.25% increase in the industry-level minimum wage.²

French law requires companies to conduct annual wage negotiations. In Belgium they must be held every two years and in Sweden every three years. Elsewhere, in the absence of any legal obligation, the frequency of changes to wage agreements is mostly one year in Portugal and the United Kingdom, between one and two years in Germany and the Netherlands, between two and three years in Spain and three years in Italy.

In Belgium, wage changes are linked to inflation. Elsewhere, although there is no explicit reference to the indexation of wages to inflation, the projected price trend is a key indicator of wage bargaining. Inflation is then calculated nationally, for example for three years in Italy. Productivity is also a reference indicator in the Netherlands and Germany, and productivity levels are taken into account in discussions between trade unions and business representatives.

Since the crisis, **common trends have emerged in Europe**. Negotiations have become **decentralised**: the terms for extending branch-level negotiations have been curtailed in Spain and Portugal, and firm-level agreements have been relaxed in Italy and Portugal. This movement has been coupled with **a strengthening of internal flexibility**. Players other than trade unions intervene in firm-level bargaining (work councils in Germany, staff representatives in Italy) in a context where unionisation rates have declined everywhere.

Another element of convergence is that wage regulation tools have frequently been the subject of reforms leading to a form of wage moderation. The recent period has thus been characterised by a significant slowdown in real wages in Europe, minimum wages have posted relatively slow growth and the wedge between the total cost of a worker for the firm and the net wage received by that employee has been reduced.

1 Cette (G.), Chouard (V.) and Verdugo (G.) (2012), "Les effets des hausses du SMIC sur le salaire moyen", Insee, *Économie et statistique*, No. 448-449, pp. 3-26.

2 Gautier (E.), Fougère (D.) and Roux (S.) (2016), "The impact of the national minimum wage on industry level wage bargaining in France", Banque de France, *Document de travail*, No. 587, March.

T3 Monetary aggregates in the euro area and in France, 2014-2015-2016

(outstanding amounts in EUR billions, growth rates in %, data adjusted for seasonal variations)

Monetary aggregates (seasonally adjusted) or main monetary assets ^d	Euro area ^{a)}				France ^{d)}			
	Outstanding 2016	Annual growth rate ^{b)}			Outstanding 2016	Annual growth rate ^{b)}		
	2016	2014	2015	2016	2016	2014	2015	2016
+ Banknotes and coins in circulation	1,073	6.5	6.8	3.5				
+ Overnight deposits	6,116	8.4	11.3	9.7	833	8.6	14.8	10.7
= M1	7,189	8	10.5	8.8	833	8.6	14.8	10.7
+ Other monetary deposits	3,498	-2.3	-3.3	-2.4	750	-0.5	-0.3	0.6
o/w: deposits redeemable at notice of up to 3 months	2,177	0.2	0.6	0.8	613	-1.5	-1.3	1.1
o/w: deposits with an agreed maturity of up to 2 years	1,321	-5.4	-8.6	-7.3	137	3.6	3.9	-1.5
= M2	10,687	3.7	5.2	4.8	1,583	3.5	6.7	5.7
+ Marketable instruments	685	4.4	-3.5	8.3	356	-0.3	-2.0	5.8
o/w: money market fund shares/units	519	2.5	11.9	8.3	263	-5.9	3.8	3.4
o/w: repos	70	2.9	-39.1	-5.9	20	-4.6	-28.0	-5.1
o/w: debt securities issued with a maturity of up to 2 years	95	19.9	-25.3	22.4	73	30.0	-11.6	19.6
= M3	11,372	3.8	4.7	5	1,940	2.8	5.0	5.7
+ Gross monetary liabilities vis-à-vis the rest of the euro area					173	8.7	-14.8	11.2
- Gross monetary assets vis-à-vis the rest of the euro area					40	-10.0	-7.6	-1.9
French component of euro area M3 monetary aggregate^{a)}					2,073	3.6	3.3	6.3

a) Transactions of euro area monetary financial institutions (MFIs) with other euro area residents.

b) Changes adjusted for reclassifications and other valuations.

c) Transactions of resident MFIs with other French residents.

d) French resident MFI liabilities, maturing in less than 2 years, (excluding banknotes and coins in circulation) towards the money-holding sector of the euro area (euro area residents excluding MFIs, central government and clearinghouse) and, by extension, this sector's deposits with central government.

Sources: Banque de France, ECB.

The acceleration in the French component of the euro area M3 aggregate is mainly driven by the increase in marketable instruments (5.8%, after -2.0%) and monetary external liabilities vis-à-vis the rest of the euro area (11.2%, after -14.8%), while overnight deposits slowed despite continuing to increase strongly (10.7%, after 14.8%).

Dynamic growth of credit to non-financial corporations in France

The distribution of credit is more dynamic in France than in the other major countries of the euro area. Loans extended to French non-financial corporations (NFCs) increased at an annual rate

of 5.0% in 2016, after 4.2% in 2015 (see Chart 10). This dynamism was driven by the acceleration in investment loans, which were up by 4.4%, after 3.1% in 2015 and to a lesser extent by the acceleration in treasury loans, which rose by 7.7%, after 6.6% in 2015. In 2016, outstanding loans receded again in Spain, falling by 0.8%, after



Key figures for 2016



5.0%
the growth of euro area
M3 monetary aggregate



5.0%
the growth in outstanding loans to
resident non-financial corporations
(including securitised loans)



4.5%
the growth in outstanding loans
to resident individuals (including
securitised loans)

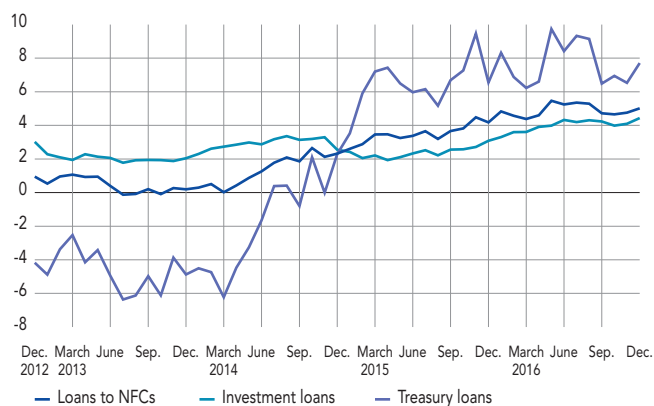
declining by 1.2% in 2015, while they rose slightly in Italy, edging up by 0.3%, after a decrease of 0.5%. In Germany, they accelerated, increasing by 3.5%, after 0.8% in 2015, but without progressing as rapidly as in France.

The growth rate of debt securities issued by French non-financial corporations increased sharply to stand at 7.5% in 2016, after 4.5% in 2015. Overall, NFC debt accelerated to 6.0% in December 2016, after 4.3% in December 2015. These debt dynamics are concomitant with the fall in the cost of equity (see Box 5).

Rise in the distribution of household loans

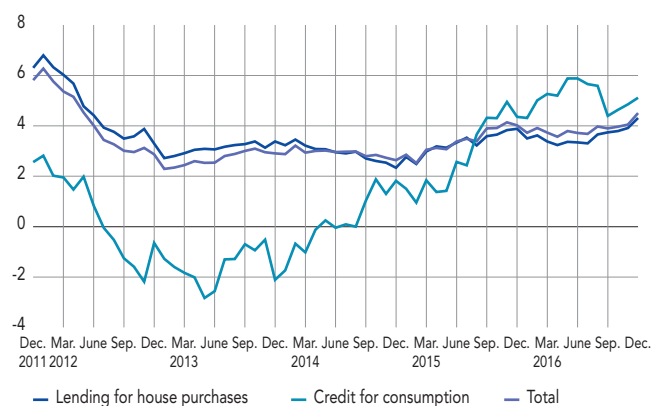
The growth of loans to individuals sharpened in France, rising by 4.5% in 2016, after 4.0% in 2015, as a result of the stronger increase in lending for house purchases (4.3%, compared with 3.9% in 2015) and credit for consumption (5.1%, after 4.4% in 2015) – see Chart 11. As in previous years, the distribution of household loans grew more in France than in the other major euro area economies (Germany: 2.8%; Italy: 1.9%; and Spain: -1.3%).

C10 Annual growth rate of credit to non-financial corporations, adjusted for securitisation, in France (%)



Source: Banque de France.

C11 Annual growth rate of credit to individuals in France (%)



Source: Banque de France.

Box 5

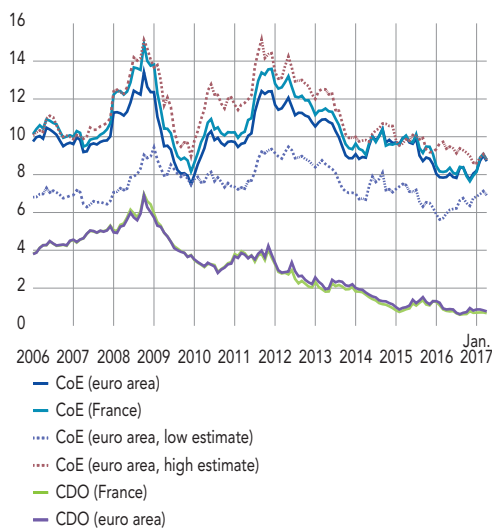
COST OF EQUITY: ON A DOWNWARD TREND SINCE 2011, BUT STILL RELATIVELY HIGH

The cost of equity affects companies' ability to invest, in particular in innovative projects with more uncertain and longer-term returns. The cost of equity of a company can be defined as the return expected by an investor to acquire a share of that company.

Chart Ca represents an estimate of the cost of equity of large companies in the euro area and France from January 2006 to March 2017.¹ The cost of equity of large European companies has decreased by about 4 percentage points since its peak in September 2011, and remained stable in 2016 to stand at around 8% on 30 January 2017. In France, the cost of equity has receded by 5 percentage points since September 2011 to also stand at around

Ca Cost of equity (CoE) of listed non-financial corporations in the euro area and in France between 2006 and January 2017

(100 = 1st quarter 2008)



Sources: Eurosystem, Datastream, Bloomberg and Banque de France calculations.

8 % in January 2017, a level below its pre-crisis level. The sensitivity of the estimates to the assumptions of the business valuation model (see below) is highlighted by the dotted line representation of a high and low estimate for the euro area. In January 2017, the low estimate was 6.8% compared to 8.6% for the high estimate. The gap between these two estimates has narrowed significantly since the peak of 2011.

The range of estimates points to the fact that there is no single measure of the cost of equity. This varies according to company size or to whether share buybacks are included in the measure of investors' expected returns.

The cost of equity decreases as company size increases, which implies a higher dividend payout rate for small companies than for large ones. Indeed, small companies have a less liquid and higher risk capital market than large ones, for example due to greater information asymmetries and a higher probability of default. Thus, leaving the

¹ The cost of equity is estimated using the financial asset valuation model (Medaf) where betas are calculated individually and the risk premium is estimated using a perpetual growth model of European equity market dividends – see Mazet-Sonilhac (C.) and Mésonnier (J.-S.) (2016), «The cost of equity for large non-financial companies in the euro area: an estimation over the last decade», *Banque de France Bulletin*, No. 207, October, pp. 33-45.

methodology unchanged, the cost of equity estimated for the 260 largest European companies in terms of market capitalisation is 0.6 point lower than that of the largest 1,460.

Share buybacks also play an important role in the estimation of the cost of equity. This method of shareholder remuneration is commonly used by listed companies. They account for about one-third of shareholder remuneration in recent years and therefore cannot be overlooked. **Taking account of share buybacks increases the estimated average level of cost of equity by approximately 2 percentage points over the 2006-2016 period.** In January 2017, this gap narrowed considerably. The cost without share buybacks amounts to 7.6%, compared to 8.2% with share buybacks.

The cost of equity is an important variable for financing innovation. Indeed, this financing must be tailored to the length of the projects and to the increased uncertainty of their returns. Equity financing a priori meets these risk and long-term criteria better than debt financing. However, financing a risky project through equity is generally more costly than through debt (banking or bond), since the required return must cover a higher risk of loss and the debt enjoys tax advantages over equity since interest payments are deductible.

Thus, companies must compare ex ante the additional cost of equity financing relative to bank financing: when this additional cost is too great and exceeds the project's estimated internal rate of return, it becomes an obstacle to investment. Despite the decline in the cost of equity, **this «additional cost» over bond debt increased by 140 basis points for large euro area companies and by 110 basis points for large French companies between January 2006 and January 2017**, mainly due to the sharp decline in bond yields, influenced by the Eurosystem's monetary policy (see Chart Ca). By comparison with interest rates on bank debt, the additional cost increased by 30 basis points for the euro area and decreased by 60 basis points for France.

3

In an environment of heightened uncertainty, strengthening of monetary policy and financial stability measures

Strengthening of monetary policy measures at the beginning of 2016 in an uncertain macroeconomic context

The deterioration of economic and financial conditions at the beginning of 2016 made it necessary to enhance monetary policy measures which were already very accommodative

The measures taken by the Eurosystem as of mid-2014 to address deflationary risk in the euro area, including targeted long-term refinancing operations (TLTROs) and the expanded Asset Purchase Programme (APP), as well as the lowering of the deposit facility rate, proved effective: the measures implemented improved financing conditions for companies

and households and contributed to the recovery.

However, at the beginning of 2016, economic and financial conditions deteriorated against a background of increasing disinflationary pressures linked to a series of economic shocks, low commodity and oil prices and a slowing of growth in emerging economies,⁵ creating a risk of disanchoring expectations. If inflation stays too low for too long, economic agents may revise their inflation expectations downwards, creating second-round effects. Indeed, lower inflation expectations influence economic agents' price and wage-setting behaviour, which can in turn keep inflation low.

These challenging outlooks warranted a robust monetary policy

response. At its meeting of March 2016 the Governing Council therefore recalibrated all of its measures to support its price stability objective.⁶ In particular, it (i) cut its key rates by lowering the interest rate on the main refinancing operations by 5 basis points (bps), the rate on the marginal lending facility by 5 bps and the rate on the deposit facility by 10 bps, to 0%, 0.25% and -0.40% respectively (see Chart 12); (ii) expanded its monthly asset purchases to EUR 80 billion starting from April 2016 and increased the issuer and issue share limits for the purchase of certain securities from 33% to 50%;⁷ and (iii) launched a new series of four targeted long-term refinancing operations (TLTRO II) starting in June 2016, each with a four-year maturity at the rate of the main refinancing operations



Key figures in 2016



1,511.5

billion stock of securities held by the Eurosystem as at 31 December (recognised in the accounts at amortised cost)



1.7

additional percentage points of growth in the euro area for 2016-2019 (estimate) owing to monetary policy measures

⁵ In March 2016, the European Central Bank cut its 2016 inflation forecasts for the euro area to 0.1%, down from 1%.

⁶ The Governing Council supplemented the Asset Purchase Programme with the Corporate Sector Purchase Programme (CSPP) – see Box 1.

⁷ Securities issued by eligible international organisations and multilateral development banks.

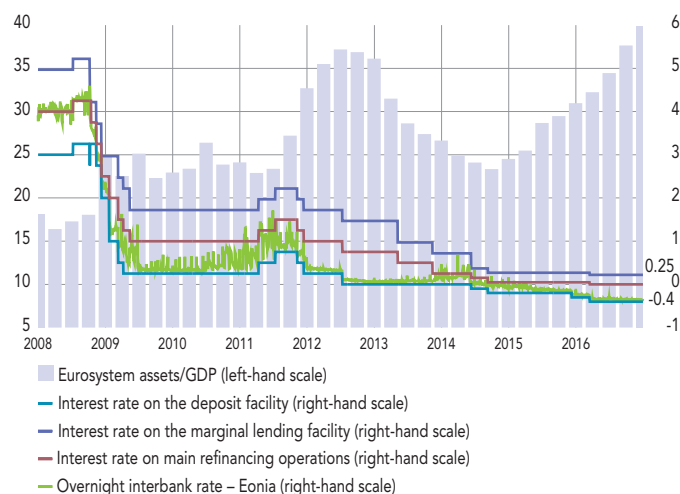
Note: Figures presented on the ECB's website at book value as at 31 December 2016 at amortised cost.

prevailing at the time of take-up.⁸ Lastly, the Governing Council clarified its forward guidance on key interest rates, stating that it expected “interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases”. It reaffirmed that purchases would run until the end of March 2017 or beyond, if necessary. This set of measures was designed to ease financing conditions in the private sector and stimulate new credit provision, thereby reinforcing economic growth and countering the heightened risks to the price stability objective in the euro area.

Activity in the euro area showed signs of resilience in the second half of 2016 while underlying inflation remained persistently low

The highly accommodative stance of monetary policy and its expansion in March 2016 bolstered economic activity in the euro area in an environment of growing uncertainty. Volatility in the financial markets increased following the Brexit referendum. Post-Brexit geopolitical uncertainty and diminished growth expectations in certain emerging economies also continued to have a dampening effect on euro area

C12 Key rates, Eonia and size of the Eurosystem’s balance sheet (%)



Source: ECB.

exports in the second half of 2016. Growth forecasts were therefore revised downwards slightly in the September 2016 Eurosystem projections.⁹ In this context, the outlooks for growth and inflation remain dependent on very flexible financing conditions. At the end of the year, the euro area economy remained resilient despite the climate of political uncertainty. Growth took a steady upward trajectory, sustained by a strengthening of domestic demand, an increase in disposable income and a considerable drop in unemployment, as well as improved lending conditions. Inflation also rose, driven by the hike in energy prices.

December package of measures designed to maintain the monetary policy stance

The accommodative monetary policy stance was prolonged in December 2016. The Governing Council decided to (i) extend the horizon of the APP from April 2017 to December 2017 (at a monthly pace of EUR 60 billion) or beyond, pending a sustained adjustment in the path of inflation, and (ii) change the parameters of the APP by reducing the minimum remaining

⁸ The last TLTRO II was run in March 2017.

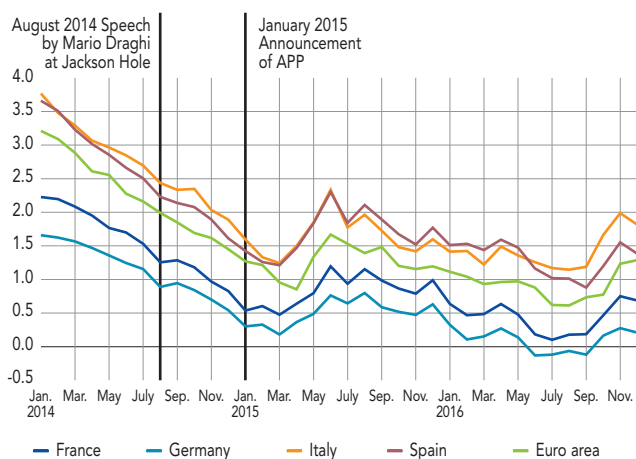
⁹ Projections revised downwards by -0.1 percentage point for 2016, 2017 and 2018.

maturity for eligible public sector securities from two years to one year, permitting, to the extent necessary, purchases of securities with a yield to maturity below the interest rate on the deposit facility. The Governing Council continued its strategy of providing forward guidance on interest rates, and underlined in particular that it envisaged expanding the APP in terms of size and/or duration should the economic outlook or financial conditions become less favourable.

Monetary policy measures continued to improve financing conditions in the euro area and the global macroeconomic context

The highly accommodative stance of monetary policy passed through effectively to lending conditions. As a result of the measures taken since 2014, there was a drop in future short-term interest rate expectations, an even greater drop in euro area government bond yields and, notably, a reduction in heterogeneity among the sovereign bond yields of Member States (see Chart 13). This drop was also passed on to bank rates as lending to the private sector increased and the euro depreciated.

C13 Developments in 10-year sovereign bond yields (%)



Source: ECB.

Since 2014 these monetary policy measures have had a considerable impact¹⁰ on macroeconomic variables throughout the euro area (see Box 6 for a more disaggregated analysis). The cumulated impact for the 2016-2019 period is estimated at 1.7 additional percentage points for both inflation and growth.

The 2016 set of measures led to improved conditions at the start of 2017

The decisions taken in 2016 resulted in particular in the Eurosystem's purchase of a stock of securities valued at EUR 1,511.5 billion,¹¹ including EUR 1,254.6 billion in

sovereign bonds as part of the Public Sector Purchase Programme (PSPP) and EUR 51.1 billion in bonds issued by non-bank corporations under the Corporate Sector Purchase Programme (CSPP). These decisions made it possible to maintain very favourable financing conditions, which are essential to ensuring a sustained path of inflation towards levels below, but close to, 2% over the medium term.

¹⁰ See Marx (M.), Nguyen (B.) and Sahuc (J.-G.) (2016), "Monetary policy measures in the euro area and their effects since 2014", *Rue de la Banque*, No. 32, October, and *Bulletin de la Banque de France*, No. 205, May-June, pp. 5-24, and the summary of the press conference held by Mario Draghi at the ECB, 9 March 2017.

¹¹ Figures presented on the ECB's website at book value as at 31 December 2016 at amortised cost.

Inflation went up at the beginning of 2017, mainly as a result of changes in energy and food prices. Inflationary pressures remained low, while inflation expectations edged closer to 2% and the risk of deflation largely disappeared.

A resilient financial and banking system despite uncertainties, thanks to close prudential supervision

Exposure of the French financial system to risk is under control

The French financial system remains resilient to a range of shocks and its exposure to risk is well managed. In 2016, political uncertainties influenced market developments and continued to have an impact in the first half of 2017 owing to upcoming elections in several countries. The rise in interest rates and the steepening of the yield curve observed since summer 2016 are currently having a beneficial effect on the profitability of financial institutions. Interest rates nevertheless remain historically low, fuelling the increase in non-financial sector debt levels, and their sharp

increase would be damaging for the economic system. Given these circumstances, the macroprudential authorities have carried out several exercises aimed at measuring these risks and have implemented a number of tools, in particular with regard to international risks.

The elections in the United States and the rate-increase decisions by the Federal Reserve at the end of 2016 and the beginning of 2017 led to a rise in interest rates and inflation expectations (supported by the increase in the price of oil in 2016) worldwide, creating risks throughout the financial system as a result of the effects of valuation, debt refinancing and the rebalancing of portfolios (see Chapter 1 for a detailed presentation of the international economic context). The latter are already under way, evidenced by the transfer of capital from emerging economies to advanced ones, and by the shift from risky exposure (mainly corporate) to sovereign debt with rising yields and above all to equity markets, which have seen valuations rise sharply since November 2016.

Regarding financial institutions, banks could be sensitive to sudden interest rate hikes, their assets being largely composed of fixed-rate loans

– a high proportion of which were renegotiated to lower rates in 2015 and 2016 – while their liabilities are largely made up of market financing, which is directly affected by rate increases. For insurers and asset management companies, a rapid rise in interest rates could lead to mass withdrawals by savers looking for higher yields. To cope with this, the institutions could be forced to liquidise assets, causing losses which could exacerbate the deterioration of market conditions.

An increase in lending to the various non-financial sectors can also be observed.

After several years of falling prices, the French residential real estate sector appears to be rebounding, supported by an environment of low rates which boosts the debt capacity of households (see the end of Chapter 2 on monetary and financial developments). In the commercial real estate sector, valuations are still high and rising; however, recent stress tests carried out at the request of the High Council for Financial Stability (see the discussion on macroprudential policy below) show that a market reversal would have a minimal impact on the financial system in France.

Box 6

THE REDISTRIBUTIVE EFFECTS OF MONETARY POLICY

Several commentators have expressed concerns about the potential undesirable consequences of monetary policy measures in terms of inequalities and implicit transfers between countries. Redistribution effects can be **macroeconomic and financial**.

The principal effect of an accommodative monetary policy stance is a drop in **unemployment**, which mainly benefits lower income households.¹ The measures taken since 2014 have had a significant effect on labour force participation and employment. More specifically, the euro area unemployment rate fell from 11.5% to 9.6% between August 2014² and December 2016 (from 10.4% to 10.1% in France). The increase in employment is reflected, among other things, by a 3.7% rise in the real disposable income of households between mid-2014 and end-2016, driven largely by the increase in labour resources.

Another effect is caused by changes to **incomes linked to interest-rate drops**. These reduce the interest payments received by savers and the interest paid by those in debt. Although the economy as a whole has benefited from this, the effects differ from sector to sector. The State (and therefore taxpayers) and companies pay less interest, whereas households and financial institutions, as net savers, receive less. In addition, these effects reduce inequalities between households, as they lead to a redistribution of wealth from saver households to indebted households.

Price stability also ensures **intergenerational equality** by avoiding the redistribution effects of an unexpected change in inflation. In that regard, a study carried out in the euro area³ showed that an unexpected drop in inflation causes wealth to be redistributed from the young (debtors) to the old (creditors). Therefore, increasing inflation from 1% to 2% per year would benefit young middle-class households.

Lastly, **wealth effects arising from increases in the prices of financial assets or real estate** benefit those who hold them, and could increase wealth inequality. An estimate based on the exposure of households to different kinds of assets puts the cumulative effect of these variations on the net wealth of all households at around

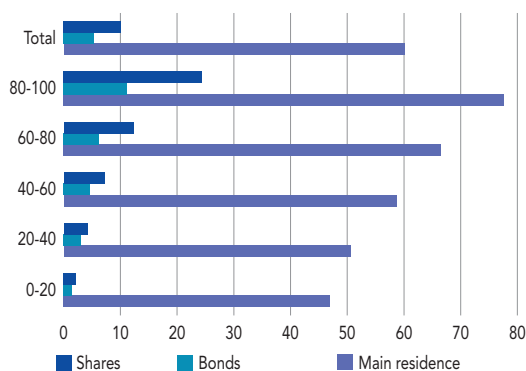
1 Ampudia Fraile (M.), Pavlickova (A.), Slacalek (J.) and Vogel (E.) (2016), "Household heterogeneity in the euro area since the onset of the Great Recession", *Journal of Policy Modeling*, Vol. 38, No. 1, pp. 181-197.

2 Date of Mario Draghi's announcement of the programme at Jackson Hole.

3 Adam (K.) and Zhu (J.) (2016), "Price level changes and the redistribution of nominal wealth across the euro area", *Journal of the European Economic Association*, Vol. 14, No. 4, pp. 871-906, August.

Ca Household financial assets by asset type and income level

(by income distribution percentile, %)



Note: The Chart only shows the rate of participation for main residences, shares and obligations. It categorises households into percentiles of income distribution; for example, "80-100" represents the wealthiest 20% of households.
Source: Eurosystem, HFCS.⁶

3% between mid-2014 and end-2016.⁴ Chart Ca, based on data from the Household Finance and Consumption Survey (HFCS), shows the proportion of household wealth held in bonds, shares and real estate. The largest investment of most households (around 60%) is their main residence, while 5% to 10% of households hold shares or bonds. Bond holding is very rare. Therefore, wealth and income inequalities are mainly affected by variations in share or real estate prices. A simulation carried out on the basis of that survey shows that, depending on the composition of their wealth, some households would benefit from such increases in asset prices. Moreover, their transmission to consumption inequality remains limited.⁵

In sum, the redistributive impact of the recent measures results from an improvement in macroeconomic conditions: the price-stability objective allows the risk of deflation and a major recession to be averted and ensures the kind of growth which benefits everyone.

⁴ The house price index has risen by approximately 4% between mid-2014 and end-2016. Asset price indices are more volatile, with a maximum variation range of around 10%. The data on household exposure are taken from Arrondel (L.), Roger (M.) and Savignac (F.) (2013), "Patrimoine et endettement des ménages dans la zone euro : le rôle prépondérant de l'immobilier", *Banque de France Bulletin*, No. 192, 2nd quarter, pp. 81-94.

⁵ Savignac (F.) (2017), "Do wealth inequalities have an impact on consumption?", *Rue de la Banque*, No. 42, April.

⁶ ECB (2013), "The Eurosystem household finance and consumption survey: results from the first wave", *Statistics Paper Series*, No. 2, pp. 23 and 36, April.

In France and in emerging economies alike, non-financial corporation (NFC) debt has continued to increase since the crisis despite deteriorating macroeconomic conditions (see also the end of Chapter 2 on monetary and financial developments). In France, investment took a fairly sharp upturn in 2016 (2.8% for total gross fixed capital formation), but

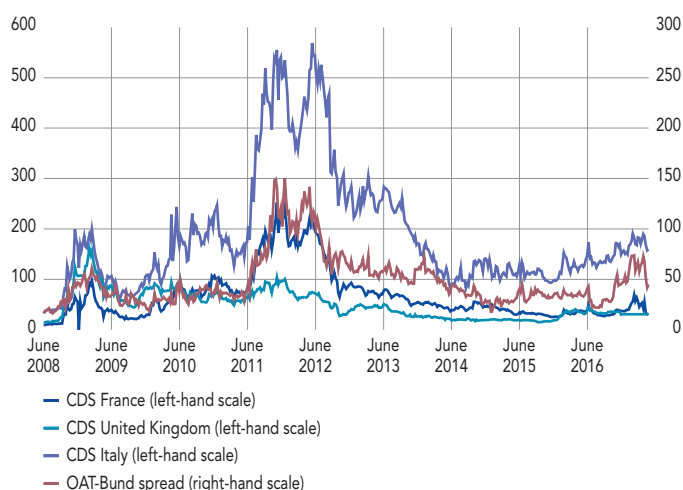
the more rapid increase in NFC debt is being closely monitored, particularly in view of the risk of rates going up.

The high level of public debt in the euro area also creates risks to financial stability against a backdrop of rising rates in 2017. In France, the political risk perceived by the markets

increased from the end of 2016 onwards before decreasing following the outcome of the presidential election. The yield spread between German 10-year Bunds and French 10-year OATs widened significantly, reaching 85 bps on 22 February 2017, its highest level since 2012 (see Chart 14), before returning to 45 bps after the French presidential

C14 Five-year CDS premium by country and OAT-Bund spread

(basis points)



Note: CDS – credit default swap; OAT – French Treasury bond.
Source: Bloomberg.

election. Another widening of credit spreads in Europe, especially for peripheral countries in which the banking sector is vulnerable, would be likely to create risks to financial stability.

The Banque de France and the High Council for Financial Stability work in collaboration with national and European macroprudential authorities to guarantee financial stability

In the light of these risks, macroprudential policy aims to ensure financial stability and prevent

systemic risks from arising, in particular through the use of preventive tools such as countercyclical capital requirements or liquidity requirements for financial system participants. The *Haut Conseil de stabilité financière* (HCSF – High Council for Financial Stability) is France’s macroprudential authority. The HCSF meets every quarter and oversees risks of a “cross-sectional” nature resulting from interconnections between institutions, and risks of a “cyclical” nature linked to the appearance of financial imbalances during the cycle. The Governor of the Banque de France is a member ex-officio,

and is the only one who can propose binding macroprudential measures.

The HCSF makes its macroprudential policy decisions in close collaboration with the ECB and the European Systemic Risk Board (ESRB) in order to ensure that those decisions are relevant and effective throughout the euro area and the European Union. Among the measures decided on in 2016, the HCSF introduced the countercyclical capital buffer, at a rate of 0% of risk-weighted assets. In addition, it recognised the countercyclical buffer rates applied in Norway and Sweden, as well as the rate of the systemic risk buffer in Estonia. Furthermore, the HCSF increased the risk weightings applied to loans secured by residential property in Belgium in view of the risks of overvaluation flagged up by the Belgian authorities. Among its main publications, and in addition to its annual report, the HCSF published an analysis of the risks associated with the commercial real estate market in France¹² and requested that a joint stress test be carried out by the Banque de France, the *Autorité de contrôle prudentiel et de résolution* (ACPR – French Prudential Supervision and Resolution Authority)

¹² HCSF (2016), “Analyse du marché de l’immobilier commercial en France”, Note, September.

and the *Autorité des marchés financiers* (AMF – Financial Markets Authority), specifically on those risks and covering the whole of the French financial system.

Macroprudential policy is a subject of paramount importance to the institutions of the Eurosystem and the European Union, and generates a great deal of reflection. This is demonstrated by the ESRB reports and recommendations drawn up in 2016 in the context of working groups involving decision-makers from across the board, which addressed the following topics: non-bank financing, countercyclical buffers, residential and

commercial real estate, cross-border effects and the voluntary reciprocity of measures. Moreover, the framework of macroprudential policy in the European Union is currently the subject of a consultation launched on 1 August 2016 which could lead to its revision in 2017.

Maintaining close prudential supervision of a banking and insurance sector which is resilient despite the challenges it faces

In the banking domain, the ACPR has kept a close watch on risks to the income, solvency and liquidity

of French banks in an environment of persistently low interest rates, high levels of volatility in the first six months of the year and a slowly improving macroeconomic outlook. Despite these numerous challenges, French banks have posted robust results, mainly owing to improvements in their cost of risk (see Box 7). They have also continued their efforts to fully apply the new liquidity and solvency rules while continuing to finance the economy, as shown by the continued growth in lending to NFCs recorded at end-2016 (5% year-on-year). However, they still need to adapt their business models in response to

Box 7

BANK PROFITABILITY IN A LOW INTEREST RATE ENVIRONMENT

Despite an environment which was characterised, until November, by a continued decline in interest rates, in particular for longer-term maturities, and by market volatility in the first half of 2016, the aggregated net income generated by the main French banks¹ increased by 3.1% to EUR 24.3 billion.

- Net banking income fell by 0.3% to EUR 145.7 billion. This relative stability nevertheless masks some significant opposing developments: the improvement in bank financing conditions on the markets (lower credit spreads) was initially reflected in a reduction in income of around EUR 2 billion as a result of own debt adjustment;² secondly,

¹ BNP Paribas, Société Générale, Groupe Crédit Agricole, Groupe BPCE, Groupe Crédit Mutuel and La Banque Postale.

² It should be noted that for debt which is measured under the fair value option, the value of the instruments must be adjusted at each reporting date on the basis of movements in the issuer's credit spread: in 2016, these accounting effects (which will no longer be recognised as income but as equity in accordance with IFRS 9, which enters into force on 1 January 2018) resulted in a EUR 554 million expense (owing to the effect of the improvement of banks' credit spreads on the value of their liabilities recognised at fair value) against an income of EUR 1,436 million in 2015.

the balance sheet management carried out as part of the reorganisation of Groupe Crédit Agricole³ generated an immediate cost of around EUR 1 billion;⁴ on the other hand, banks benefited from capital gains on the sale of their Visa Europe stakes in the first quarter of 2016,⁵ for a cumulative amount of EUR 2.9 billion.

- As management costs increased by 1.2%, the cost-to-income ratio (the ratio of management costs to net banking income) increased by one percentage point to 67.5%.
- The cost of risk dropped markedly (down 20% from 2015) for all banks and all business lines. French banks benefited from a more secure economic environment, including in international retail banking and in energy-related sectors, and a reduction in provisions for litigation.

This solid performance, which emphasises the relevance of the universal banking model, nevertheless varied across business lines. Retail banking in France was burdened by the interest rate environment, recording a drop of 3.3% in income which was only partially compensated for by increases recorded for specialised financial services (3.4%) and corporate and investment banking (0.9%).

These robust results enabled French banks to continue strengthening their financial structures, as shown, for example, by the further 0.6 percentage-point increase in their aggregate “full CRD4” Common Equity Tier 1 ratio, bringing it to 13.2%, as a result of an increase in own funds (up EUR 20.5 billion from end-2015 to EUR 296 billion).

³ The simplification of the Group structure in terms of the ownership and funding ties between the listed central body Crédit Agricole S.A. (CASA) and the regional banks was one of the four priorities set out in the strategic plan published by the Group in March 2016. This mainly involved the deconsolidation of the regional banks (via a transfer by CASA of cooperative investment certificates and cooperative partner certificates – CCl/CCAs). The reorganisation also involved unwinding the “Switch 1” intragroup guarantee mechanism in its component covering the CCl/CCAs and a refund of the regional banks by CASA of the EUR 5 billion deposit on that guarantee.

⁴ These immediate costs should be followed by savings in the coming years, taking into account the new issues made at low rates.

⁵ On 21 June 2016, the acquisition of Visa Europe, jointly owned by European banks, by the American firm Visa Inc. led to capital gains of EUR 2.9 billion on the sale for all the groups. The impact on net banking income (NBI) and on the group share of net income is almost identical.

the emergence of new players and modify their cost structures.

The stress test carried out by the European Banking Authority (EBA) in 2016 in collaboration with the ACPR confirmed the capacity of the

six main banking groups in France to withstand a large-scale shock, their Common Equity Tier 1 ratio (CET1, a measurement of higher-quality capital) having dropped by 286 basis points on average at year-end, compared with an average

decrease of 380 basis points for all the banks tested.¹³ As was the case during previous tests, this exercise also enabled the ACPR to work

¹³ Fifty-one European banks (of which six are French groups), representing close to 70% of the total assets of the European banking sector, took part in the exercise.

towards increasing our European partners' understanding of the specificities of the French banking system (guaranteed home loans, regulated savings accounts, etc.).

Lastly, the ACPR contributed to the review of the calculation of the solvency ratio denominator (the ratio of own funds to risk-weighted assets) within the framework of the finalisation of Basel III. In the absence of a consensus concerning the floor to be applied to capital requirements calculated using internal models – floor expressed by reference to the standard method – the discussions continued in March 2017, without a specific time frame being given for the close of negotiations.

In the insurance sector, the ACPR carries out its supervision under the Solvency II prudential regime, which has been implemented since 1 January 2016. Solvency II applies to undertakings which pursue insurance activities on a certain scale (turnover of over EUR 5 million or technical reserves of over EUR 25 million), that is, 61% of insurers and 99% of the French internal market. Its implementation further harmonises the supervisory rules applicable to insurance

institutions or groups in Europe, extends requirements regarding reporting to the supervisor and data disclosure and also introduces a reinforced governance framework for companies. Insurers which do not meet the size requirements continue to be supervised under the Solvency I regime.

More specifically, Solvency II requires the preparation of a market value balance sheet and establishes capital requirements based on a method of calculation which takes into account the risks insurance undertakings are exposed to. This allows the effects of an unprecedented low interest rate financial environment to be more accurately demonstrated, which is a point of specific focus for the ACPR regarding long-term life insurance obligations. There has been regular communication with the market and the supervisory teams have made its main players aware of the potential long-term consequences of unchanged underwriting policies and insufficient provision of reserves distributable to policyholders. A stress test carried out by the European Insurance and Occupational Pensions Authority (EIOPA) on a sample of European insurance undertakings, including

17 French insurers, enabled the resilience of the market to persistently low rates to be tested. The ACPR extended the exercise to 17 more undertakings, and in doing so covered 90% of life-insurance obligations on the French market.

The Sapin II Law of 9 December 2016 completes the range of administrative enforcement measures that the ACPR can deploy in individual cases, conferring on the HCSF the power to adopt collective precautionary measures in the event of a serious and specific threat to the financial system (the ACPR having previously been responsible for taking such measures on an individual basis). The power to amend the rules on setting up and releasing profit-sharing reserves – reserves distributable to policyholders enabling returns paid to be spread out over time – is also conferred on the HCSF. The specific modalities for the implementation of such a measure are to be decided on by decree following consultation with the *Conseil d'État*. Lastly, Article 47 of the law provides the possibility for the Government to designate, within a year of the enactment of the law and by order, the ACPR as the resolution authority for the insurance sector.

4

Increased efforts to consolidate the recovery through structural reforms and measures to improve the financing of the economy

At the European and global level, structural reforms and coordinated action to boost investment

Progress towards much-needed economic policy coordination in the euro area

In 2016, the economies of the European Union stepped up their efforts to support growth and increase their resilience. Their endeavours were guided by the European Commission's "virtuous triangle" strategy, promoted since the appointment of Jean-Claude Juncker, which consists in stimulating growth through a combination of fiscal responsibility, structural reforms and increased investment.

Within the European Monetary Union (EMU), there is a crucial need to strengthen the coordination of

monetary, fiscal and structural policies in order to improve their efficiency. Under the present institutional framework, only monetary policy is defined collegially for the entire euro area, while fiscal and structural policies, although governed to an extent by the Stability and Growth Pact and by the excessive macroeconomic imbalances procedure, are still largely determined at national level by individual Member States. The European Semester procedure, introduced in 2011, is designed to increase economic policy coordination by ensuring all members meet commonly defined rules and targets. The exercise consists of several phases: an annual growth survey; the definition of the main policy objectives at the European and euro area levels; the definition of policies and programmes for individual countries; and the implementation of these policies by Member States.

Strengthening the role of the European Semester in coordinating euro area economic policies

In line with the proposals of *The Five Presidents' Report* of June 2015, the European Commission published its first ever recommendation for euro area economic policy in November 2015, as part of the autumn package marking the start of the European Semester. Issued once a year, the guidance aims to ensure that individual Member States take proper account of the shared challenges facing the EMU in their national reforms and initiatives. The 2017 recommendation specifies the need for closer coordination of structural and fiscal policies between those states running a current account deficit and those with a surplus. Deficit countries are advised to implement reforms to boost productivity while at the same time limiting growth in unit labour costs; surplus countries are encouraged to stimulate investment and increase domestic demand.

In 2016, the European Commission published its first ever target figures for euro area fiscal policy

In November 2016, also in line with the recommendations of *The Five Presidents' Report* for completing the EMU, the Commission published its first ever target figures for euro area fiscal policy, again as part of the autumn package. The proposals form a preliminary outline for a coordinated euro area fiscal strategy, and aim to ensure that national fiscal policies support monetary policy in the pursuit of macroeconomic stability. This coordination again implies that states with fiscal headroom use this space to support the economic recovery, and that states subject to the rules of the Stability and Growth Pact comply strictly with its requirements.

The “deepening by doing” recommendation in *The Five Presidents' Report*

These advances illustrate the determination of European institutions to make the EMU more efficient. Their commitment stems from the recognition that a lack of effective economic policy coordination within the euro area hampered efforts to tackle the economic turmoil of recent years. The ongoing debates over whether

countries with fiscal headroom should use it, and whether countries suffering from a lack of competitiveness should accelerate their reforms, only serve to emphasise the failings of the existing framework. The current deliberations over the future of the European Union and the euro area, triggered by the publication of the Commission's White Paper in March 2017, are therefore an ideal opportunity to push for an effective institutional framework for the conduct of coordinated macroeconomic policies.

In Europe, an extension of policies to support investment, demonstrating the commitment to fostering growth

Launched in 2014, the European investment plan got fully underway in 2016, moving closer to its target of unlocking EUR 315 billion of additional investment over three years (2015 to 2018). By January 2017, EUR 31.5 billion of public funds had been invested under the plan's goal to mobilise financing via the European Fund for Strategic Investments (EFSI). This has in turn been used to leverage additional funds from the private sector, triggering EUR 168.8 billion of new

investment in the energy sector, research and development, digital technology and the financing of small and medium enterprises (SMEs).

Announcement in 2016 of a doubling of the Juncker Plan

In September 2016, to maintain this investment stimulus over the longer term, the Commission proposed extending the duration of the EFSI to 2020 and increasing its financial capacity to EUR 500 billion. The Commission has already announced that it intends to work beyond this target to reach EUR 630 billion by 2022, effectively doubling the original duration and capacity of the plan. Some 40% of the EFSI's new resources will be devoted to the SME Window of the plan, which was already increased in July 2016 because of its quick absorption by the market.

The Capital Markets Union, a complement to the Juncker Plan to help mobilise financing for investment

In June 2016, the Commission created the European Investment Project Portal to complete its framework for supporting project promoters and investors. The continuing roll-out of the Capital Markets Union (CMU) should also help to channel

the European Union's abundant savings more effectively into investment. Various challenges remain, however, to increase market integration and facilitate cross-border flows. The European securitisation framework¹⁴ and Banking Union still need to be completed, while the system for dealing with corporate insolvencies needs to be made more efficient. It is also important to better coordinate the CMU action plan with the Juncker Plan and the Banking Union, in order to unlock even greater benefits for the European economy. The impetus going into these separate initiatives could be united behind a single, more ambitious project to create a "Financing Union for Investment and Innovation".

At the global level, new reform commitments to foster growth

Since the Washington Summit in November 2008, the Group of Twenty (G20) has emerged as the main forum for international economic and financial cooperation. In 2016, China took over the G20 presidency from Turkey with the aim of pursuing efforts to stimulate the global economy, notably by paying special attention to growth strategies.

At the summit in Hangzhou, China, in September 2016, G20 heads of state and government adopted an action plan (the "Hangzhou Consensus") calling for greater economic policy coordination to foster growth, the stimulation of global trade and investment to ensure economic growth benefits all countries, and the reform of the financial sector. The agreement also places particular emphasis on development, as well as on international tax cooperation and green finance.

Following on from the target set at the 2014 Brisbane Summit of lifting the G20's cumulative GDP growth by at least 2% by 2018, the national growth strategies set out to achieve this were peer-reviewed in 2016 and then endorsed at Hangzhou.

The Chinese presidency also continued the G20's work on investment. The national investment strategies and commitments set out at the Antalya Summit were integrated into the growth strategies. G20 countries also agreed to promote infrastructure investment, and welcomed the declaration by 11 multilateral development banks in support of these efforts, along with their work to maximise the quality of infrastructure

projects. The Chinese presidency also oversaw the creation of a Global Infrastructure Connectivity Alliance, the secretariat of which is hosted by the World Bank. Its main mission is to increase synergies and cooperation between existing infrastructure interconnectivity programmes.

With regard to financial regulation, the Chinese G20 presidency sought to increase the efficiency of global governance and make further progress towards finalising the regulatory framework. As part of this, it worked on implementing the agenda of financial sector reforms – notably in the over-the-counter derivatives market – which aims to increase the resilience of the financial system and improve the detection of vulnerabilities.

Significant strides were made on tax cooperation in 2016, and especially on the OECD-G20 action plan for preventing base erosion and profit shifting. The plan aims to combat unfair tax optimisation practices among multinational companies and modernise international

14 On 30 May 2017, the presidency of the Council of the EU reached an agreement with European parliament representatives on proposals aimed at facilitating the development of a securitisation market in Europe. <http://www.consilium.europa.eu/fr/press/press-releases/2017/05/30-capital-markets-union-securitisation/>

tax cooperation. Regarding tax transparency, G20 countries agreed to implement the automatic exchange of tax information by 2018 at the latest, and asked the OECD to establish objective criteria by July 2017 for identifying non-cooperative jurisdictions.

The Chinese presidency stepped up efforts to improve the international financial architecture (IFA), by reactivating the G20's IFA working group, co-chaired by France and South Korea. The group notably focused on making the IFA more stable and resilient, limiting the destabilising effects of cross-border capital flows, and strengthening and better organising the global financial safety nets. The International Monetary Fund (IMF) was given a more central role and equipped with a lending toolkit adapted to evolving vulnerabilities. The Paris Club, meanwhile, was made the principal forum for restructuring bilateral sovereign debt.

The reforms to the IMF's quotas and governance officially came into effect in January 2016. The changes are designed to secure the IMF's resources and increase the representation of the main emerging countries, i.e. Brazil, Russia, China

and India. The next general quota review is scheduled to take place in 2019.

Germany took over the G20 presidency from China in December 2016, and identified three priorities: (i) make economies more resilient so they can better respond to external and internal shocks; (ii) establish a Compact with Africa to provide a framework for infrastructure investment in African nations; and (iii) identify ways of reaping the benefits and limiting the risks of the increasing digitalisation of the economy.

In France, major reforms to the financing of the economy and to the labour market, coupled with a gradual improvement in public finances

Measures to support financing

A number of measures have been introduced to make it easier for French companies to finance their growth and activities, and these have in turn fuelled a moderate rise in non-financial corporations' debt levels (see Box 8).

Major reform of short and medium-term market financing

The Paris commercial paper and medium-term note market (NEU CP and NEU MTN, formerly known as the *marché des titres de créances négociables* or TCN market) provides access to competitive and diversified financing, in euro or other currencies, in the form of debt securities. It forms a vast ecosystem comprising high-quality investors (notably money-market funds), financial and non-financial issuers, arrangers, and issuing and paying agents, and is underpinned by robust post-market infrastructures.

In June 2016, the market was completely transformed, becoming the market for Negotiable European Commercial Paper or NEU CP (securities with a maturity of up to one year) and for Negotiable European Medium-Term Notes or NEU MTN (securities with a maturity of more than one year). The main elements of the reform are described in the 2016 *Activity Report* (page 21).

The aim of the changes was to provide economic agents with a market that meets their short and medium-term financing needs, while

Box 8

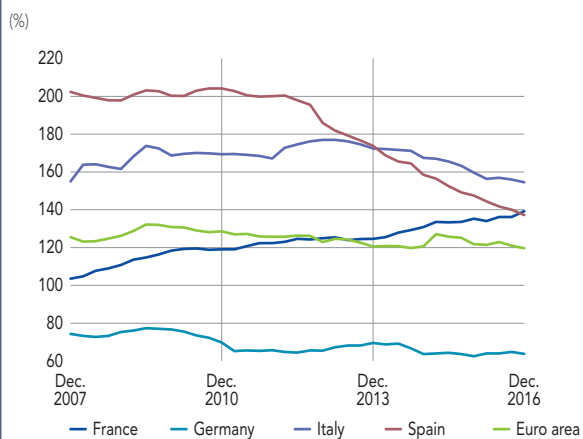
THE DEBT RATIOS OF NON-FINANCIAL CORPORATIONS: DIVERGENCES BETWEEN EURO AREA COUNTRIES AND BETWEEN DIFFERENT COMPANY SIZES

The debt-to-value added ratio of the French non-financial corporate sector (NFCs) is higher than in other major euro area countries

At the end of 2016, France's NFC debt-to-value added ratio was higher than the average for the euro area, lower than that of Italy, similar to that of Spain and higher than that of Germany (see Chart Ca). The increase in France's NFC debt-to-value added ratio since end-2007 contrasts with trends in other large euro area countries that are in the process of deleveraging, where ratios have either stayed the same or fallen.

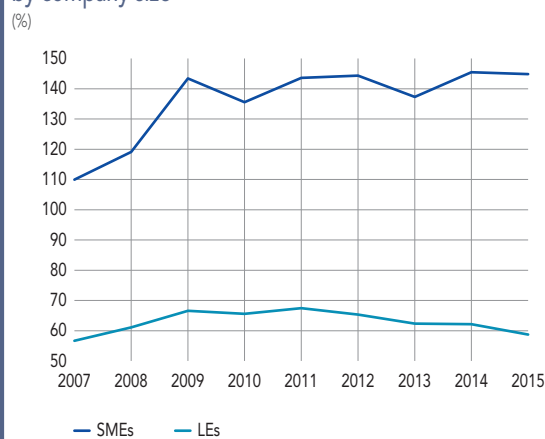
In France, the increase of 35 basis points in the NFC debt-to-value added ratio since 2007 is essentially attributable to large corporations. Of that rise, 26 basis points can be attributed to market financing, and the remaining 9 basis points to bank loans. In 2016, the overall ratio of debt to value added continued to trend upwards, albeit at a lower rate than in 2015. Broken down by firm size, the ratio for intermediate size enterprises (ISEs) rose marginally over the year while for large corporations it remained stable. Conversely, for SMEs the ratio declined (see Chart Cb).

Ca NFC debt-to-value added ratio



Source: Banque de France, national accounting data.

Cb French corporate debt-to-value added ratios, by company size



Source: Banque de France, corporate accounting data.¹

¹ Corporate accounting data differ slightly from national accounting data due to differences in methodology and in the scope covered by the two categories.

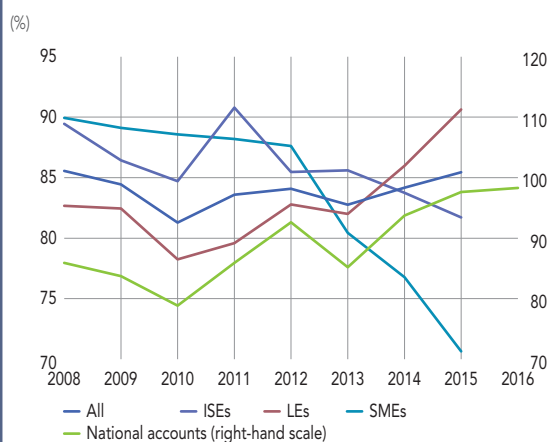
The debt-to-equity ratio remained stable overall

Indeed, the NFC leverage ratio, or ratio of debt to equity, remained stable overall in 2016 (see Chart Cc). Broken down by enterprise size, however, leverage ratios have been declining for SMEs since 2011, but rising in the case of large corporations.

Marked fall in debt service burdens since 2012

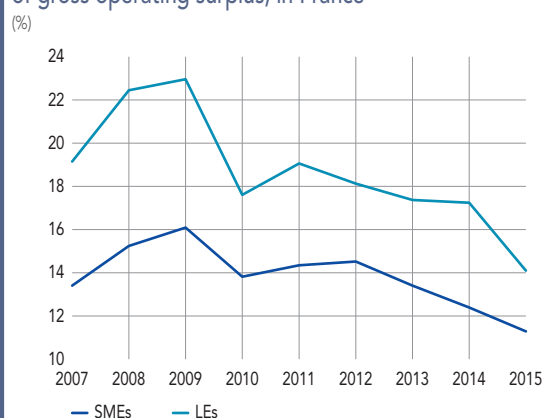
Debt service burdens have declined considerably since 2012 for all companies, owing to the sharp cuts in policy rates. The biggest falls in 2015 were for large corporations, as firms in this category tend to have greater access to capital markets (see Chart Cd). At the macroeconomic level, the downward trend in the debt service burden continued in 2016.

Cc Debt-to-equity ratios in France



Note: For corporate accounts, the ratio is the ratio of financial debt to called-up capital, not adjusted for double-counting; for the national accounts, the ratio is the ratio of debt to the balance of liabilities minus equity assets.
Source: Banque de France.²

Cd Debt service burden as a percentage of gross operating surplus, in France



Source: Banque de France.²

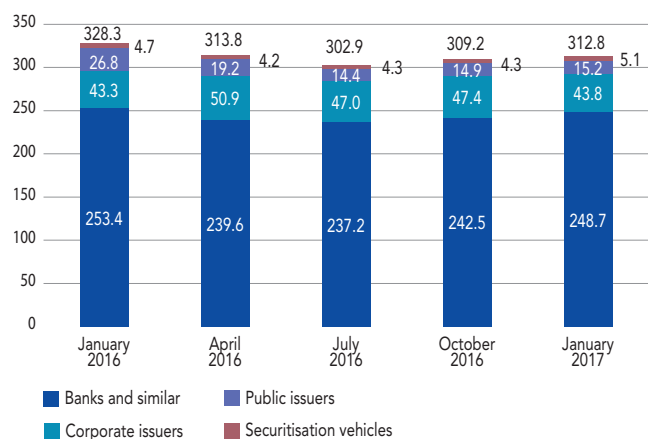
² For further details, see Bureau (B.), Bürker (M.) and Libert (T): "Les entreprises en France en 2015: l'activité marque le pas", *Bulletin de la Banque de France* No. 209, January-February.

also giving them the flexibility to adjust their borrowing according to the business cycle. The reforms were not made specifically with the aim of increasing the amount of issuance. However, since they came into effect, the market has proved relatively dynamic, and is now the third largest commercial paper market in the world, the second largest in Europe and the largest in the euro area, with a total of more than EUR 310 billion of outstanding issuance in January 2017 (see Chart 15a). A diverse range of issuers operate in the market: 364 in total, of which nearly 300 are currently active, with over 600 short- and medium-term programmes, representing a huge potential financing capacity.

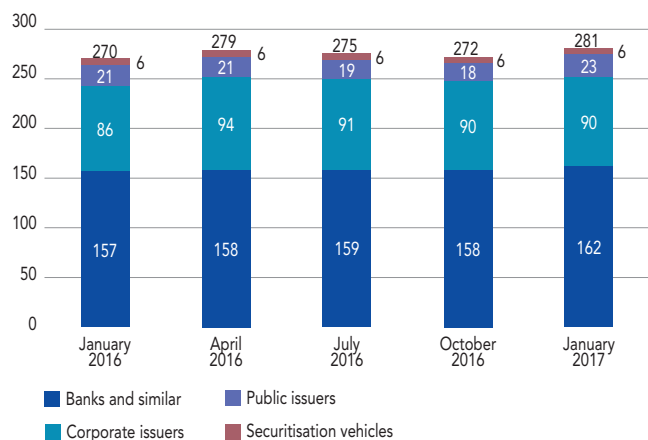
In 2016, 35 new issuers entered the market (a similar number to 2015, after a twofold increase in 2014; see Chart 15b). Of these, 15 were non-financial corporations with unrated programmes or programmes rated A2, P2 or F2; 13 were French or foreign specialist or universal credit institutions; 5 were local authorities (notably for new administrative regions created following the merger of previous regions under the territorial reform); and 2 were public issuers from the hospital and social housing sectors.

C15 Market for short and medium-term financing

a) Outstanding issuance (EUR billions)



b) Active issuers (number)



Note: Active issuers, i.e. with positive outstanding borrowing at the date shown.
Source: Banque de France.

Regarding the size of the issues, trends varied in the NEU CP market in 2016 depending on the type of issuer: for banks and securitisation vehicles, the average issue size

increased to EUR 87.6 million and EUR 63.1 million respectively; for private companies and public issuers, it declined to EUR 24.3 million and EUR 126.5 million. The average

initial maturity of outstanding NEU CP issues by banks and public issuers increased by three days to 315 and 134 days respectively, while for non-financial issuers it fell by three days to 153 days.

Financing conditions remain extremely favourable in the NEU CP market: in January 2017, yields were negative for the highest-rated securities with a maturity up to one year (rated up to A2, P2 or F2 for non-financial issuers, and all ratings for bank issuers).

Easier access to financing for businesses with the Sapin II Law, and appointment of VSE correspondents

One of the most notable steps taken to improve the financing of the national economy was the adoption on 9 December 2016 of the law on transparency, the fight against corruption and the modernisation of the economy, known as the Sapin II Law. The text will facilitate access to debt financing for businesses, by modernising existing bond issuance frameworks and allowing alternative investment funds to originate loans directly, subject to certain conditions. It also clarifies the rules on the sale of unmatured credit claims,

and contains provisions making it easier for businesses to expand.

Since the end of September 2016, the Banque de France has set up a network of some 100 local VSE correspondents across mainland France and the overseas territories. Their role is to meet managers from VSEs (very small enterprises)¹⁵ identify their needs and refer them to professional bodies capable of providing assistance. Six months after its launch, the network had helped more than 1,000 VSEs at various stages in their lifecycle, and had set up more than 20 agreements with professional networks. The offering is designed to meet the needs expressed by VSE managers, and some 88% say they are satisfied with the network.¹⁶

A gradual consolidation of French public finances and a significant improvement in those of the broader euro area, although with some variations across countries

In 2016 France's public deficit narrowed to 3.4% of GDP from 3.6% in 2015, and the government made a firm commitment to bring it down to below the 3.0% EU deficit ceiling by the end of 2017. The primary deficit stood at 1.5% of GDP

at end-2016, a reduction of 0.1 percentage point compared with 2015. The structural deficit was 2.5% of GDP in 2016, down 0.2 percentage point on the previous year (calculated using the European Commission's methodology and figure for potential growth).

Nominal public spending excluding tax credits rose by 1.2% over the year, compared with 0.9% growth in 2015, and average annual growth of 3.3% over the 2002-2014 period. The ratio of public spending (excluding tax credits) to GDP therefore fell by 0.2 percentage point to 55%, after declining by 0.7 percentage point in 2015. This moderation in spending growth was helped by the decline in the debt service burden, which began in 2013 and continued in 2016, and by a low inflation environment. Real primary spending (excluding tax credits and adjusted for CPI excluding tobacco) rose by 1.2% in 2016, after 1.1% growth in 2015 and average annual growth of 1.8% from 2002 to 2014. A number of savings measures were implemented over the year, and the

¹⁵ Under Law No. 2008-776 of 4 August 2008 on the modernisation of the economy, and Decree No. 2008-1354 of 18 December 2008 on the definition of company categories for the purposes of statistical and economic analysis, a very small enterprise is defined as an entity with fewer than ten staff and turnover or a total balance sheet of less than EUR 2 million.

¹⁶ For further information, see the Banque de France 2016 Activity Report, notably pp. 49-50.

spending restriction targets for 2016 set out under the ONDAM (National Objective for Health Insurance Spending) were all met.

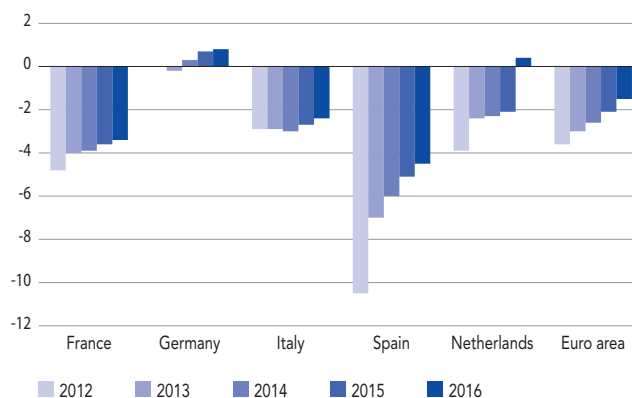
The tax ratio (total tax and social security receipts as a share of GDP) remained stable versus 2015 at 44.4% of GDP. This followed on from two consecutive years of decline, attributable to reductions in employers' taxes and social security contributions (under the tax credit for competitiveness and employment or CICE, the Responsibility and Solidarity Pact or PRS, and the extra depreciation allowance).

France's public debt-to-GDP ratio rose to 96.3% in 2016 from 95.6% in 2015, representing total outstanding borrowing of EUR 2,147 billion.

Overall euro area public finances improved markedly over 2016, although this masked variations across individual countries. The aggregate public deficit for the bloc shrank to 1.5% of GDP from 2.1% in 2015 (see Chart 16). The reduction stemmed essentially from the more buoyant economic environment and low level of interest rates, rather than from any structural adjustment to the region's public finances. Calculated using European Commission methodology,

C16 General government balances

(% of GDP)



Sources: National statistics offices, Eurostat.

the structural deficit is estimated to have remained unchanged in 2016 at 1.0% of potential GDP.

All countries under a financial assistance programme – Cyprus, Spain, Greece, Ireland and Portugal – reported a further sharp improvement in public finances in 2016. Greece in particular managed to turn its finances completely around, posting a budget surplus of 0.7% of GDP after a deficit of 5.9% for 2015. Its primary surplus stood at 3.9% of GDP at end-2016, contrasting with a deficit of 2.3% in 2015. Among the countries subject to an excessive deficit procedure, Portugal cut its deficit to 2.0% of GDP, beating its target of 3.0%; Spain, meanwhile, managed to narrow its deficit to 4.5% of GDP from 5.1% in 2015.

Italy and Belgium both managed to keep their deficits below the 3.0% EU ceiling in 2016, at 2.4% and 2.6% respectively. The Netherlands and Germany, in contrast, posted respective surpluses of 0.4% and 0.8%.

In 2016, among the main euro area countries, France, Spain and Italy continued to post high levels of government debt (at 96.3%, 132.6% and 99.4% of GDP respectively). For Germany and the Netherlands, debt-to-GDP ratios both fell by 3 percentage points, to 68.3% and 62.3% respectively. The aggregate debt-to-GDP ratio for the euro area declined to 89.2% in 2016, down from 2014's peak of 92.0%.

In France, major reforms were implemented in 2016, but potential growth is still too low

Given France's low level of potential growth (1.2% according to the Banque de France), persistently high unemployment rate (10.1% in 2016) and loss of competitiveness over the last two decades, the country drastically needs to implement major reforms, and has already begun to make changes.

The 2017 draft budget increased the CICE tax credit from 6% to 7% of a company's total payroll as of 2017 – excluding salaries over 2.5 times the minimum wage. Similarly, under the PRS, employer contributions for family welfare were reduced by 1.8 percentage points in 2015 (to 3.45%) on wages up to 1.6 times the minimum wage, and this was then extended in 2016 to wages up to 3.5 times the minimum wage. Corporate taxes have also been cut, with the introduction of a second rebate on the corporate social solidarity contribution (C3S),

the elimination in 2016 of the exceptional additional income tax levied on companies, and a cut in the corporate tax rate to 28% in 2017 for SMEs with turnover under EUR 50 million. This lower corporate tax rate is also set to be extended to all companies in 2020.

Under the El Khomri Labour Law (or law on labour, social dialogue and professional pathways), working-time agreements signed at company level now take precedence over branch-level agreements. The text also clarifies the conditions under which companies can make economic redundancies, and sets guidelines on the maximum compensation to be paid out in the event of labour disputes. In addition, the law has created a "personal activity account" allowing individuals to accumulate worker's rights throughout their career and carry them from one job to another – these notably include rights to training and unemployment benefit and specific rights relating to physically demanding jobs.

The Sapin II Law of 9 December 2016 has relaxed some of the regulations for setting up a company. Micro-entrepreneurs, for example, now have a year in which to open a separate bank account, accounting rules for setting up small enterprises have been reduced, and it will be easier to convert sole proprietorships into a different type of company. Moreover, company managers can no longer be convicted of corporate mismanagement if found to have been negligent.

Alongside the Macron and Rebsamen Laws, as well as measures to simplify administrative red-tape and reform the local authorities, these provisions should help to lower labour costs and stimulate employment, innovation and investment. Nonetheless, there are still a number of structural rigidities in the French economy that are holding back the recovery and undermining potential growth. Major reforms are needed to remove these constraints, and these should be seen as creating a stable economic and legislative environment capable of restoring investor confidence.

 Key figures in 2016



3.4%
of GDP: French general government deficit



1.5%
of GDP: euro area aggregate public deficit



96.3%
of GDP: French general government debt as defined by the Maastricht Treaty

Table of illustrations and boxes

Tables

Main economic indicators for the BRICs	16
French GDP and its components	18
Monetary aggregates in the euro area and in France, 2014-2015-2016	26

Charts

Stock indices in 2016	8
Ten-year government bond yields in 2016	8
Nominal effective exchange rates of the main currencies in 2016 (61 trading partners)	9
Change in French government bond yields by maturity (in years) at end-2015 and end-2016	11
Change in credit spreads in 2016	11
Brent oil prices	11
Metal and agricultural commodity price indices in 2016	12
GDP growth rate in industrialised countries	13
GDP growth in emerging economies	15
Real GDP	17
France's balance of goods and services	19
Harmonised index of consumer prices	23
Annual growth rate of credit to non-financial corporations, adjusted for securitisation, in France	27
Annual growth rate of credit to individuals in France	27
Cost of equity (CoE) of listed non-financial corporations in the euro area and in France between 2006 and January 2017	28
Key rates, Eonia and size of the Eurosystem's balance sheet	32
Developments in 10-year sovereign bond yields	33
Household financial assets by asset type and income level	36
Five-year CDS premium by country and OAT-Bund spread	37

NFC debt-to-value added ratio	46
French corporate debt-to-value added ratios, by company size	46
Debt-to-equity ratios in France	47
Debt service burden as a percentage of gross operating surplus, in France	47
Market for short and medium-term financing	47
General government balances	49

Boxes

Implementation of the Corporate Sector Purchase Programme (CSPP)	10
In 2016, France's trade deficit deepened despite favourable energy prices	19
Banque de France forecasts in June 2017	21
Wage bargaining processes in Europe	25
Cost of Equity: on a downward trend since 2011, but still relatively high	28
The redistributive effects of monetary policy	35
Bank profitability in a low interest rate environment	38
The debt ratios of non-financial corporations: divergences between euro area countries and between different company sizes	45

Banque de France
Press and Communication directorate
Imprint: Navis
Registration of copyright: September 2017

