

2005

ANNUAL REPORT

BANQUE DE FRANCE

To
The President of the Republic
And Parliament

By Governor Christian Noyer



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In its new format, the Banque de France's *Annual Report 2005* describes the central bank's structures and organisational methods, before going on to provide a summary of the economic environment and the implementation of monetary policy, to give a more detailed account of the Banque de France's main tasks and activities, and to present its annual accounts.

The Banque de France's activities correspond to three main objectives:

- monetary stability, enabling the value of money to be maintained;
- financial stability, underpinned by a robust financial system and, notably, by secure and efficient payment systems;
- the carrying out of public service and general interest tasks entrusted to the Banque de France by the State on behalf of private individuals, public administrations, enterprises and banks.

Within the framework of the Eurosystem, comprising the European Central Bank (ECB) and the national central banks (NCBs) of the euro area, the Banque de France's primary objective is to maintain price stability. By keeping inflation low, stable and predictable, the Eurosystem contributes to economic prosperity. Monetary stability underpins economic agents' confidence in the euro, our money: ensuring the former guarantees the stability of the latter. To this end, the Banque de France takes part, within the decentralised framework of the Eurosystem, in the preparation, the implementation and the explanation of the euro area's monetary policy. It also ensures the quality of currency in circulation.

Financial stability benefits from monetary stability, which is a necessary, but not sufficient, prerequisite for it. Financial stability also depends on the resilience of the financial sector and the smooth functioning in all circumstances of market infrastructures, notably payment systems. The Banque de France therefore carries out regular assessments of the vulnerabilities of the financial system and endeavours to contribute to their alleviation. The objective of financial stability underpins several of the Bank's tasks at a national

level, notably the authorisation and supervision of credit institutions and investment firms, the oversight of means of payment and payment systems, and the assessment of the financial position of companies.

Lastly, the Banque de France is an institution in charge of the production and management of banknotes and coins, and to which the State has entrusted various specific tasks on behalf of private individuals, regional and local authorities, enterprises and banks. The Public Service Contract signed with the State on 10 June 2003 defines the Banque de France's obligations and lays down the conditions of access to the services it provides, as well as its commitments to improving the quality of the services performed with respect to household overindebtedness and the monitoring of economic developments and labour pools in the regions.

The Banque de France's *Annual Report* comprises four chapters:

- The first is devoted to *Governance*, which is at the heart of the Banque de France's concerns. The internal decision-making structures determine the Bank's strategic orientations in a collegial manner and are responsible for the institution's development over the medium term. The Banque de France aims to act with maximum transparency and to communicate effectively, as an accountable institution of the French Republic.
- The second, *The environment and implementation of monetary policy*, presents the main economic developments during the year under review, at a global level, in the euro area and in France, in order to put the monetary policy decisions and their implementation in context.
- The third, *The Banque de France, a key player in the economy*, describes the tasks the Banque de France carries out at the international, European and national levels, and presents the numerous fora in which it participates. All of the different facets of its activities are illustrated in the light of the main events of 2005 and with the aid of some key data.
- The last chapter presents *the Accounts of the Banque de France* for the year under review.

Faced with a rapidly-changing environment and guided by its constant concern to provide the best service at the lowest cost to the public, the Banque de France must not only have an effective, sound and transparent governance structure but also be capable of establishing links and partnerships with its counterparts in the European System of Central Banks (ESCB).

Over the past few years, the activities carried out within the Eurosystem by the NCBs have been clearly divided into the tasks that are within the remit of the Eurosystem and those that come under national legislations. Both have progressively taken two new factors into account: the faster pace of changes and the competitive environment in which these activities are carried out.

These two factors have led the Banque de France to adjust its management and move towards a rigorous application of the core principles of governance. The effectiveness of its decision-making structures depends not only on a clear definition of the responsibilities of each of the Bank's management bodies, but also on the implementation of collegial working methods, within the General Council and the Monetary Policy Council but also within the Executive Committee. In an ever-changing economic environment, decisions should be taken within a framework that gives weight to the exchange of ideas and co-operation at all levels of the enterprise.

The Banks adopts this type of collegial approach to corporate governance during its annual strategic discussions when it defines, costs and prioritises its objectives in terms of projects and activities for the next financial year and over the medium term.

The principle of prudence in risk management, which central banks, more than any other enterprise, are required to comply with, calls for a clear definition and rigorous application of internal control mechanisms. The Banque de France has decided to set up a number of structures that reflect the importance it attaches to risk monitoring and internal control: the Risk Committee, the "Assets-Liabilities" Committee and the General Council Audit Committee.

In addition, the Court of Auditors oversees the activities of the Banque de France.

Efficient, and organised so as to make its choices as relevant as possible, the Banque de France, an institution of the French Republic, carries out its missions in a fully transparent manner. The Governor of the Bank appears regularly before Parliament and the Government to report on the tasks that it carries out in the framework of the Treaty on European Union, those entrusted to it by French law, or under the public service contract and the various agreements signed with the State.

The Banque de France also intends to be a major player within the ESCB. The Governor is a member of the Governing Council of the European Central Bank and takes part in its decision-making. The Banque de France's success can also be measured by the responsibilities it has within the various fora and working groups in which its experts participate.

Given its range of tasks and the important nature of its messages, the Banque de France has developed a communication policy aimed at a very diverse audience, including high school students, academics, financial sector professionals and the general public.

I | Management bodies

III | The Governors of the Banque de France

The Governor, Christian Noyer, assisted by two Deputy Governors, is responsible for managing the Banque de France. He chairs the Monetary Policy Council (MPC) and the General Council, preparing and implementing their decisions. He makes appointments to posts at the Bank and represents the institution in dealings with third parties.

The Governor and Deputy Governors are appointed by decree by the Council of Ministers for a six-year irrevocable term, which may be renewed once.

The Governor has delegated to the Directors General his powers for ensuring compliance with legal, regulatory and contractual provisions governing hygiene and security, working hours, staff representation and contracting.

The Governors of the Banque de France



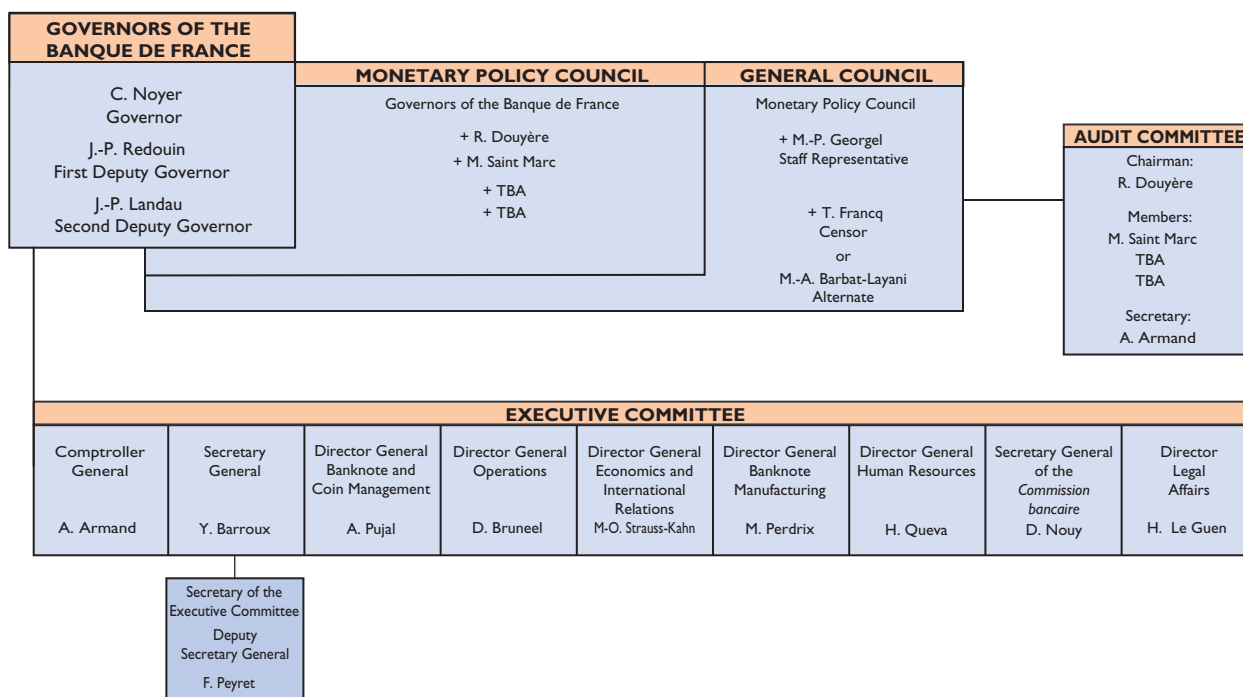
Jean-Paul Redouin

Christian Noyer

Jean-Pierre Landau

Management bodies of the Banque de France

1 February 2006



The Deputy Governors have delegated to the Directors General their responsibility for signing, on behalf of the Governor and within the remit of the departments under their authority, all individual deeds and decisions, agreements and documents relating to the activities of the Directorate General. They retain responsibility for taking regulatory decisions.

1|2 The Monetary Policy Council

According to the legislation governing the Banque de France, the Monetary Policy Council (MPC) is a key element of its independence. Appointed by mutual consent by Parliament and the Government, Monetary Policy Council members give the Governor an independent insight into monetary policy, which reflects the diversity of their experiences and the performance of their duties “exclusive of any other paid or unpaid professional activities”. The MPC analyses the “implications of monetary policy conducted within the framework of the European System of Central Banks” and takes the specific decisions that are necessary to transpose into the national body of regulations the decisions adopted by the ECB Governing Council regarding monetary policy operations and the implementation of the Eurosystem’s collateral and risk control framework.

Moreover, MPC members maintain very valuable contacts with a number of opinion leaders, business managers and bankers, in particular in the regions, where they are responsible for providing information and explanations about the Eurosystem’s strategy and monetary policy decisions. In these regions, they take part in meetings organised by regional managers and are regularly involved in the work of the advisory councils of France’s different *départements*.

The MPC comprises seven members: the Governor, who chairs the Council and has the casting vote, the two Deputy Governors, and four other members appointed by decree by the Council of Ministers from

a list containing three times as many names as seats to be filled. This list is drawn up by consensus, or failing that, in equal parts by the Presidents of the Senate, the National Assembly and the Economic and Social Council. These four members serve a six-year irrevocable and non-renewable term, subject to the special provisions set forth in Article L142-3 of the French Monetary and Financial Code on the Banque de France’s Statute. Members may not engage in any other professional activity, except for teaching or positions held in international organisations.

Under the terms of Article L142-4 of the Monetary and Financial Code, “the Prime Minister and the Minister of the Economy and Finance may attend meetings of the Monetary Policy Council, but may not vote. They may submit proposals for consideration by the Council. If the Minister of the Economy and Finance is unable to attend a meeting, he may, where necessary, be represented by a person specifically appointed and especially empowered to do so.”

Since 1 January 1999, the role of the MPC, pursuant to Act 98-357 of 12 May 1998, has come within the framework of the Banque de France’s participation in the European System of Central Banks (ESCB).

1|3 Independence of the Governor and of the Monetary Policy Council

The independence of the Banque de France, as a member of the European System of Central Banks, implies the independence of the Governor, Deputy Governors and Monetary Policy Council members.

According to Article L 141-1 of the French Monetary and Financial Code, the Banque de France, represented by its Governor, Deputy Governors or any other member of the Monetary Policy Council, shall neither seek nor accept instructions from the Government or any other body in the performance of the tasks arising from its participation in the European System of Central Banks.

Governors of the Banque de France



Christian Noyer
Governor
Appointed on 1 November 2003



Jean-Paul Redouin
First Deputy Governor
Appointed in January 2006
Second Deputy Governor
from January 2000 to December 2005



Jean-Pierre Landau
Second Deputy Governor
Appointed in January 2006

Members of the Monetary Policy Council



Raymond Douyère
Appointed in January 2000



Michèle Saint Marc
Appointed in January 2000



TBA

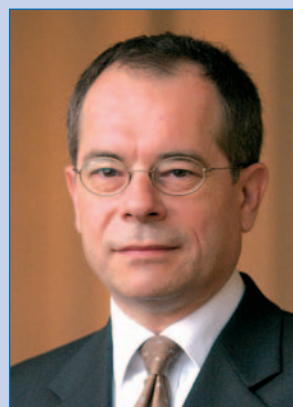


TBA

Members of the General Council



Marie-Paule Georgel
Staff Representative
Re-elected in 2005



Thierry Francq
Censor

1|4 The General Council

The General Council is made up of the members of the Monetary Policy Council and the Banque de France Staff Representative, Marie-Paule Georgel, elected for a term of six years (she was re-elected in 2005). A censor, or his/her alternate, appointed by the Minister of the Economy, Finance and Industry, attends the Council's meetings in his capacity as representative of the French State, the sole shareholder of the Banque de France, and may submit proposals to the Council and oppose any of its decisions.

The General Council is in charge of administering the Bank. It examines issues relating to the terms of employment of the Bank's staff, which are submitted for approval to the relevant Ministers, and decides on the use of the Bank's own funds. It draws up the Bank's expenditure estimates and annual accounts and makes proposals for the allocation of profits. The General Council met 11 times in 2005.

In accordance with the above-mentioned principles, the General Council is, in particular, responsible for examining the Banque de France's short and medium-term strategy. Thus, each year, it takes a look at the Bank's business plan for the following year and reviews the state of preparation of the projects underway. It also examines the draft report on the implementation of the Public Service Contract. Within the framework of the Bank's previously defined real-estate strategy, it took a series of decisions concerning the sale of a number of rental properties and closed branches.

1|5 The Audit Committee

Under the decision of 22 October 2004, the General Council set up an Audit Committee, made up of the four non-executive members of the General Council, who are members of the MPC. Its chairman (Pierre Guillen until December 2005) is appointed by the General Council, on the proposal of the Governor. The Comptroller General of the Banque de France provides the secretariat for the Committee.

The responsibilities and operating rules of the Audit Committee are specified in a charter annexed to the General Council Decision (see Official Bulletin of the Banque de France, No. 74, February 2005). Its remit covers financial information, external and internal

audit, internal control and risk control; in all these fields, the Audit Committee may hear any Banque de France executive as well as auditors. It reports back to the General Council.

The Audit Committee met five times in 2005. Its work focused, in particular, on the settlement of the 2004 annual accounts. In this regard, the Bank's auditors presented their report to the Committee. The Committee was also informed of the main conclusions of the internal audit engagements and the results of the work on operational risk management. Lastly, the Committee took part in the drawing up of the internal audit programme for 2006.

All in all, the creation of the Audit Committee has contributed to strengthening the governance structure of the Banque de France by enhancing the already comprehensive internal control and risk management system, which is considered by the Bank's auditors as "in line with best practices".

1|6 The Executive Committee

Both in its plenary and reduced form, the Executive Committee is at the heart of the operational functioning of the Banque de France. It constitutes the forum in which the Bank's managers exchange their viewpoints on a range of subjects of common interest in order to facilitate the collegial decision-making process.

The Executive Committee, which is chaired by the Governor, comprises the Deputy Governors, the Directors General, the Deputy Secretary General for Strategy and Planning and the Legal Affairs Director. The Committee examines issues relating to the strategy and internal management of the Bank. The meetings of the Executive Committee may be prepared, if necessary, by smaller committees involving the Bank executives directly concerned.

The operating mode of the Executive Committee was reviewed in 2005 to further reinforce its operational capacity by reducing its number of members and redefining its remit.

The Executive Committee met 20 times in 2005. It examined issues relating to the Bank's strategy and structural reforms (in particular the reform of the Banque de France's branch network

The Executive Committee



and the reorganisation of processes), human resource management (recruitment, pay, training, profit-sharing, ethics), risk analysis and resource allocation.

I|7 The College of Regional Managers

The objective of the reform of the Banque de France's branch network, launched in 2004 and scheduled to be completed by 1 July 2006, is essentially to enable the Bank to better respond to the changes in its environment and activities, and to better meet the expectations of its main partners. But this reform also aims to promote a new, more decentralised and more efficient operating mode on two levels:

- the region, which is the management level. The regional manager, i. e. the manager of the branch in the region's capital, co-ordinates and supervises the activity of the various branches throughout the region, and ensures the homogeneity and quality of the work carried out;

- the *département*, which is the operational level. The departmental branch is in charge of implementing the objectives assigned to the branch network, which is in closest proximity to the Banque de France's usual partners (banks, companies, individuals, local authorities and administrative bodies).

Regional managers are responsible for fostering initiatives and promoting good practices in all operational fields. They are also in charge of regional fiscal management, the use of financial control instruments, the supervision and maintenance of the Bank's property, staff training schemes and the various initiatives relating to risk control. In these different tasks, regional managers are assisted by the branch staff and special advisors. They rely on a regional board of directors, in which the main regional heads of unit take part.

Regional managers are supported by a specific structure in charge of supervising operations and procedures: the "regional risk control unit". The role of this unit is to carry out second-level checks of the departmental control structures, but also to organise

and co-ordinate all control and security-related activities across the region.

In view of their responsibilities, the regional managers are the prime contacts of the Governors and Head Office managers of the Banque de France for any questions relating to the branch network. The College of Regional Managers is chaired by the Secretary General and the Branch Network Manager; it also includes the five regional inspectors. The meetings, held once every two months, are devoted to discussing the projects of the heads of the business areas relating to the branch network and examining the activities carried out by the network. They also constitute a forum for sharing experience.

2 | Strategic planning and management

2|1 Strategic planning

Every year, operational managers and support function managers are called upon to propose, in keeping with the general guidelines laid down by the Governor, a series of strategic axes that will underlie their activity during the following year within a medium-term perspective. These proposals, which include requirements in terms of financial and human resources, are examined during a special Executive Committee meeting. The priorities of the Banque de France are subsequently decided on, ranked and assessed.

A progress report on the implementation of the initiatives laid down in this strategic plan is then presented to the Executive Committee during the year.

In 2005, the priorities defined by the Banque de France's governing authorities were essentially threefold:

- developing all monetary policy tools that may be used to improve the Bank's economic and financial analysis, in particular the modernisation of the statistical tool and focusing research work on specific topics (in particular, inflation, fiscal policy and employment);

- enhancing the Bank's surveillance and supervisory function and consolidating its "financial stability" function;

- improving the quality of its services provided to individuals and local authorities in the framework of the Public Service Contract.

In order to implement these three priorities, the business area heads were invited to systematically opt for the organisation and working methods that would make it possible to provide the best service at the lowest cost.

2|2 Operational management

The strategic decisions concerning the implementation of the Bank's operations and the key support functions are formulated by internal advisory committees.

Two bodies play a crucial role in the conduct of investment policies and market operations: the "Assets-Liabilities" Committee and the Risk Committee.

The Assets-Liabilities Committee advises the Governor on the Bank's portfolio investment strategy (both for euro and foreign currency denominated portfolios). It issues opinions, in particular, on the volume of investment, its allocation by types of asset and its duration.

The Risk Committee, chaired by a Deputy Governor, sets the conditions under which market operations should be conducted for the Bank's portfolios as a whole. In this regard, it draws up the list of authorised issuers, countries and instruments, validates the methodologies for measuring risk and the performance of market activities, sets the risk limits for these operations and examines the audit, control and activity reports relevant to its field of competence.

The Bank's support functions also operate on a collegial basis, through two committees placed under the authority of the Secretary General. The IT Strategy Group is responsible for defining the Bank's short and medium-term policy with respect to IT investment, while the Real Estate Investment Committee is in charge of managing the Bank's real estate assets.

2|3 Internal organisation

In 2005, several structural reforms of varying size were either launched or pursued, with a view to improving the Bank's adjustment capacity to the changes in its tasks. The most significant ones, in terms of the number of employees or sites affected, concerned banknote printing and the branch network. On a smaller scale, several operational directorates general were reorganised at the Head Office, while all units were invited to propose and implement ways of reorganising processes.

Reforms to the Directorates General at the Head Office

In the Directorate General Economics and International Relations (DGEI)

The DGEI was reorganised to enable the Bank's research departments to take up three crucial challenges for the institution:

- the importance of research to underpin and lend weight to monetary and financial decisions;
- the need to bring together macroeconomic analyses on France within the euro area and provide an overview of the rest of the world;
- the drive to improve the quality of business surveys and strengthen the Bank's methodological capacity in this area.

Three new directorates were created – on the basis of the existing structures – in order to meet these objectives:

- the Research Directorate;
- the Economic Forecasts and Analysis Directorate;
- the Surveys and Economic Publications Directorate.

Each directorate has its own specific core business, time-frame or working rhythm, and tools:

- the Research Directorate's core business is research: it develops medium to long-term projects based on conceptual decision-making models. This new

directorate focuses on issues relating to monetary and financial policy and their interactions with the real economy. Its studies and publications are intended to underpin and lend weight to the Bank's monetary and financial decisions. A number of comparative articles, as well as the recent audit report on research conducted at the ECB, have indeed highlighted the importance of this function within a central bank, to provide a basis for decisions and explain them to the public, and strengthen the Bank's standing through high quality publications. The Research Directorate will work in conjunction with other research-oriented departments at the Banque de France, the Banque de France Foundation for Research and academia;

- the Economic Forecasts and Analysis Directorate, whose core business is macroeconomic analysis and forecasting, is in charge of establishing relationships between the current environment and short and medium-term forecasts using more or less complex econometric models. These exercises make it possible to place France in a euro area context, both in terms of assessments and forecasts, and provide an overview of the world's major regions and their economic relations, within a single department;

- the core business of the Surveys and Economic Publications Directorate is the processing and dissemination of information. Relying on tried and tested statistical and publishing techniques, it conducts surveys and produces publications, most often on a monthly basis, in conjunction with the Banque de France's branch network, other departments of the Bank and various external partners. In order to harmonise practices in terms of business survey methodology, all of the economic surveys have been brought within the remit of one single unit and a new department in charge of methodological developments, IT and quality has been set up.

In the Directorate General Operations

The Back Office Directorate was set up in order to group together within a single administrative unit the processing of market operations, both securities and cash operations. This reorganisation is justified by the complementary nature of the functions inherent in the processing of these two categories of operations as well as the anticipated functional and technical synergies. A distinction can also be made between the institutional activities, managed by the Back Office, and the operations conducted for members of staff

(who are now the only Banque de France account holders), managed by an ad-hoc structure. The two Directorates previously in charge of processing these two types of operations were broken up. The Back Office also conducts Government bond auctions on behalf of the *Agence France Trésor* (via TELSAT).

Reform of the branch network

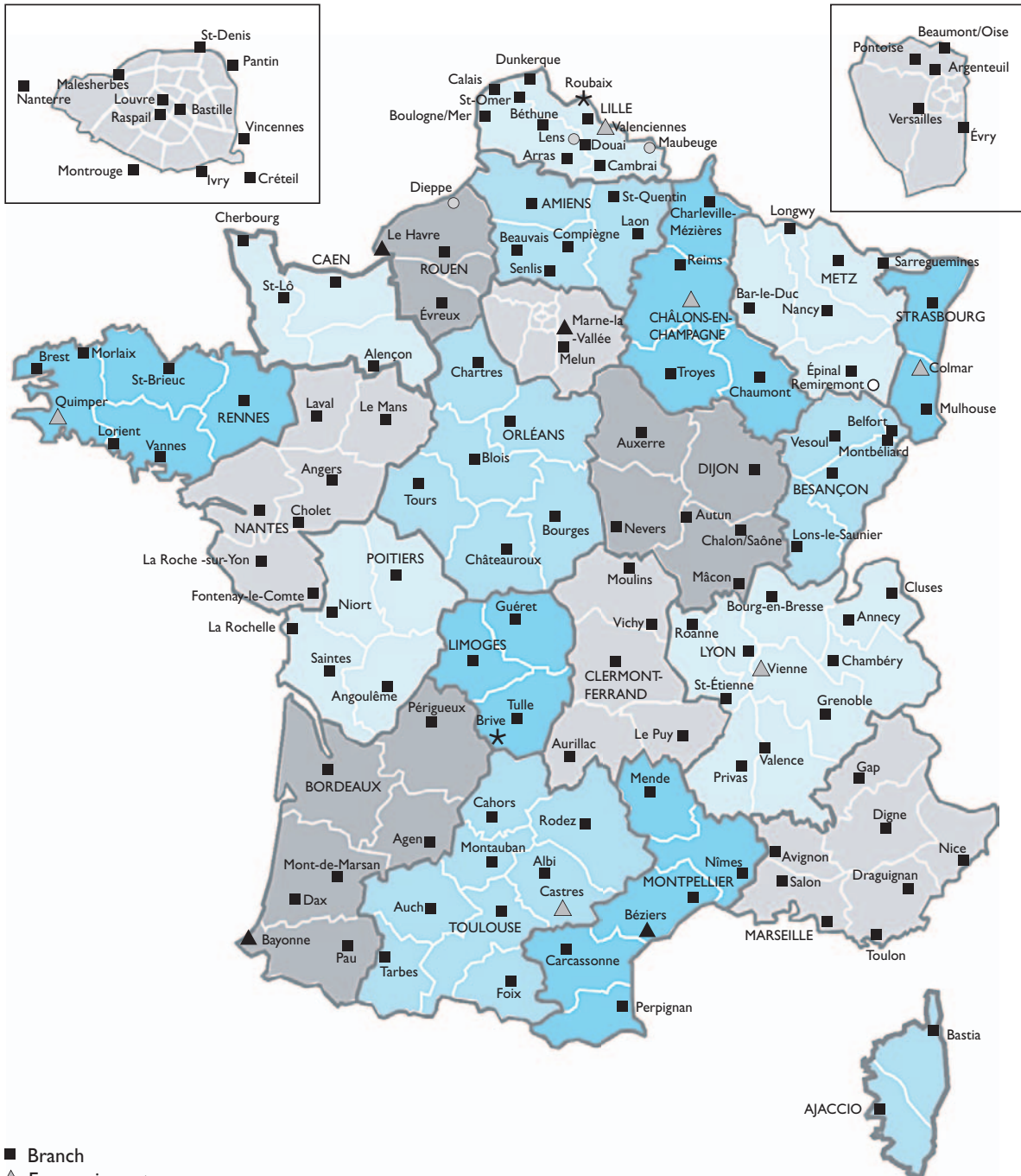
Following numerous consultations, both internal and with the Government, local representatives of territorial units and the finance committees of the two Chambers of Parliament, the branch network restructuring project was adopted by a decision of the Banque de France's General Council on 5 December 2003. It takes account – within the framework of the Eurosystem – of the technological and economic developments in its activities, matters relating to regional development, the specific organisational features of the French administrative system and the particular nature of the services provided to users.

This regional network enables the Banque de France to fully carry out all the tasks and responsibilities assigned to it by the Treaty on European Union and by French law, while remaining consistent with the objective of providing the best services at the lowest cost to the public. Furthermore, this reform also allows the Banque de France to retain its ability to offer a quality service to its users, in particular with regard to household debt and access to basic banking services.

This reform of the regional branch network and retail banking activities is scheduled to be implemented from September 2004 to July 2006. It involves the closure of 115 branches, resulting in a network of 96 departmental branches, of which 68 will retain cash activities. This regional network will be supplemented by 32 other sites carrying out different tasks: 21 economic centres, four of which will handle cash activities, seven household debt centres, and four currency circulation management centres. In order to ensure that the requirements of the users of public services provided by the Bank are met (household debt, access to payment incident databases and the right to basic banking services), and in accordance with the Public Service Contract concluded with the Government, customer service and information offices have been set up in towns where the Banque de France, after closing its branches, retains neither an economic centre nor a centre for processing applications to the household debt commission. These offices are located on the premises of other administrative bodies, such as town halls or *sous-préfectures*. The co-ordination of activities in the regions is managed by the 22 Banque de France regional head offices located in each of the regional capitals.

On 1 July 2005 – the second stage of the network restructuring project – 34 branches had been closed, five others had been converted into economic centres, two into currency circulation management centres and three into household debt centres. At the same time, 36 new customer service and information offices had been opened.

The Banque de France network at end-2005



- Branch
- ▲ Economic centre
- ▲ Economic centre carrying out cash operations
- Household debt centre
- ★ Currency circulation management centre

Cities with regional head offices are indicated in capitals (e.g. LILLE)

The Banque de France network at end-2006



2|4 Human resource management

Skills management

As regards human resources, the Bank continued to lay the foundations for the manpower and skills planning function, with a view to anticipating the impact of technological progress on employment, boosting productivity and making high-level contributions both at the national and ESCB levels.

Against this backdrop of rapid changes and as part of its strategy geared towards developing high value-added tasks, which require ever increasing levels of competence, the Banque de France has set out to strengthen the skills of employees more upstream, ensure their employability in the long run and facilitate the redeployment of those employees who have either lost their job or whose tasks have changed.

The negotiations that are being conducted with a view to improving the Bank's training activities, pursuant to the Act of 4 May 2004, are part of this strategy. Priority has been given to defining the ways in which the individual right to training might be exercised. The aim of this reform is to enable employees to have a greater say in training and advancement-related matters and to support them in their individual career paths. It also seeks to achieve greater synergy between skills development and a more quality-oriented and individual-focused human resource management policy.

Staff

On 31 December 2005, the Banque de France counted 13,972 full-time equivalent staff, down by 9.4% on the previous year. This reduction is expected to total 27% for the period 1993-2006.

While the statutory staff can be broken down almost equally between men and women, the large share of men among contract staff is attributable to the overriding proportion of men among the security personnel.

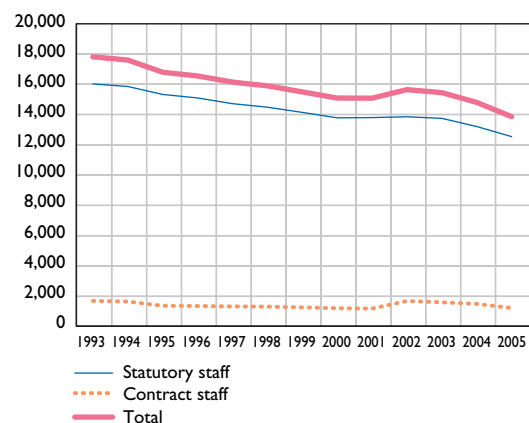
The statutory staff is mainly in the 30-49 age bracket, with the average age standing at 45.2 at end-2005.

Some 42% of staff members work at the Head Office, 51% in the branch network and 7% in printing services.

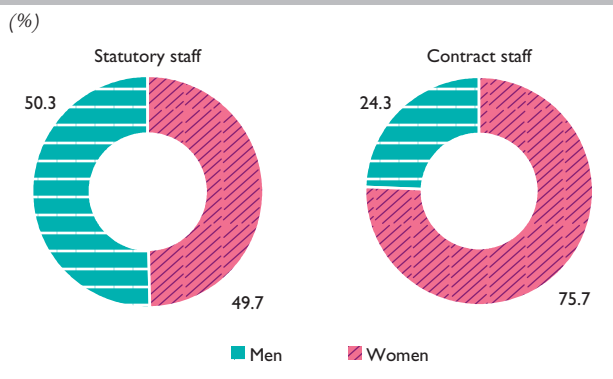
Staff levels		
<i>(Full-time equivalent staff at 31 December)</i>		
	2004	2005
STATUTORY STAFF	13,323	12,652
Male	6,580	6,282
Female	6,743	6,370
Head office	5,695	5,588
Management	1,536	1,518
Other categories	4,159	4,070
Branch network	6,659	6,199
Management	996	921
Other categories	5,663	5,278
Printing services	969	865
Management	14	11
Other categories	955	854
CONTRACT STAFF	1,595	1,320
Specially-recruited staff	327	342
Head office	217	218
Printing services	110	124
Other staff (excluding occasional workers)	1,268	978
Security staff	991	758
Cleaning and other staff	277	220
TOTAL STAFF	14,918	13,972
Male	7,796	7,281
Female	7,122	6,691

Change in staff numbers

(Full-time equivalent staff)



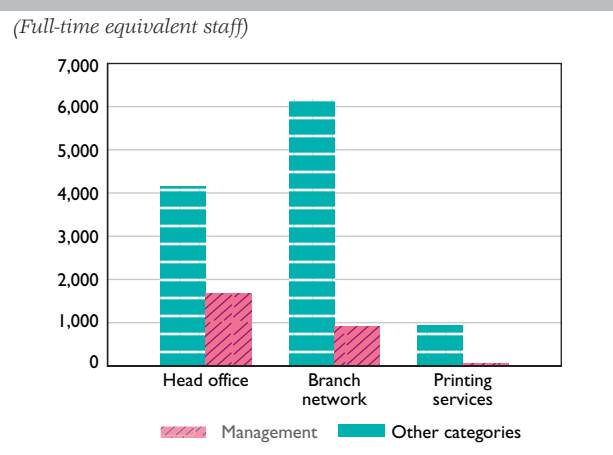
Male/female breakdown



Breakdown of statutory staff by age bracket



Location of full-time staff



Secondments of Banque de France staff to external organisations

In 2005, the Bank pursued its policy of seconding its staff to external organisations:

- 50 members of the Bank's staff were seconded to various French organisations, including the Financial Markets Authority, the French overseas departments note-issuing bank and several ministries;
- 86 members of staff were seconded abroad to European institutions, international organisations and embassies, notably the European Central Bank (36 members), the International Monetary Fund and the Bank for International Settlements.

2|5 Risk control and quality approach

Internal audit

The internal audit covers all of the Bank's operational units, processes and activities. It is conducted at the Head Office, the regional administrative centres and in the branch network; its organisation is therefore structured accordingly. Relying on a work programme developed according to a risk-based approach, the internal audit aims to offer the Banque de France's managing authorities an objective and independent guarantee as to the quality of the management, risk control and internal audit processes. By helping the Bank to attain its objectives, the internal audit contributes to improving corporate governance. The international standards for the professional practice of internal auditing as defined by the Institute of Internal Auditors serve as a reference at both the organisational and auditor levels; thus the Comptroller General, the head of the General Inspectorate, reports directly to the Governor and the Audit Committee.

The work of the internal audit fits clearly into the framework of the ESCB. The Comptroller General and the head of the Head Office Audit are permanent members of the ESCB Internal Auditors Committee

that meets several times a year at the ECB. Together with their NCB and ECB counterparts, they are in charge of defining the ESCB's audit programme and overseeing the conduct of the audit missions. The committee then submits its conclusions to the Governing Council.

Representatives of the internal audit function take part in the methodological work conducted in the framework of the G10 conferences and working groups set up by the Bank for International Settlements. They also participate in benchmarking exercises aimed at identifying best professional practices. Lastly, a large number of delegations of internal auditors from issuing banks in developing countries attend training sessions in Paris, while Banque de France inspectors conduct on-site technical assistance missions abroad.

In 2005, the Head Office Audit set out to develop a quality management system that would be in compliance with the ISO 9001-2000 standard.

Risk prevention

Since 2002, the Banque de France has implemented a risk management approach (the AMARIS method) aimed at:

- strengthening the internal control function thanks to a common framework for operational risk control;
- promoting the adoption of the best practices recommended by the Basel Committee in this area.

The following organisation was put in place:

- in each Directorate General, risk managers are in charge of mapping operational risks and assisting in the implementation of risk-reduction action plans; in addition, in each regional branch, a risk control unit is responsible for ensuring that the control mechanisms are properly implemented.
- within the Risk Prevention Directorate, attached to the Comptroller General, a special unit is in charge of providing assessments, co-ordinating work and reporting its results to the Bank's top management;
- the Directors General and risk managers meet twice a year in the framework of the Internal Control Co-ordination Committee, chaired by the Comptroller

General. It is charged with supervising the progress made towards tighter risk control in all of the Banque de France's fields of activity.

A report on risk analysis and the action plans implemented in 2005, based on a general risk map updated every six months, was presented to the Executive Committee.

Quality approach

In addition to managing risk, the Banque de France has set out to develop a policy aimed at improving and enhancing the quality of services provided to its clients. In this respect, a large number of internal processes have been optimised and have already been awarded external certifications, notably the ISO 9001-2000 certification. In 2005, headway was made towards implementing the quality management system. Several certified processes were audited by a certification body (BVQI), which confirmed the certifications previously awarded:

- the graphics and supply chains at the Property and General Services Directorate;
- banknote printing at the Directorate General Banknote Manufacturing;
- cash activities, including assistance to the branch network's cash activities at the Banknote and Coin Maintenance and Relations with Institutional Clients Directorate;
- all processes at the Banking Services Directorate;
- French component of TARGET1 at the Payment Systems Directorate.

In 2006, the Banque de France plans to obtain the ISO 9001-2000 certification in a number of new areas for all or part of its activities (Head Office Audit at the General Inspectorate) or have the certification extended to all of the processes within a directorate (Data Processing and Telecommunications Directorate).

At the same time, a number of quality-related initiatives have been launched, in particular in the real-estate sector (reorganisation of the Head Office departments, maintenance and renovation of buildings, energy-saving projects).

3 | Transparency and responsibility

3|1 Relations with Parliament and the Government

Annual Report and hearings of the Governor

The independence of the Banque de France within the framework of the ESCB goes hand in hand with total transparency as regards the manner in which it carries out its tasks. This transparency is achieved, in particular, through the publication of an *Annual Report* submitted to the French President and Parliament and the regular hearings of the Governor organised by the specialised committees of the National Assembly and the Senate. On 14 April 2005, the Governor appeared before the Finance, Budgetary Control and National Economic Accounts Committee of the Senate to comment on the economic and financial environment as well as the internal functioning of the Banque de France, and on 29 June 2005, he appeared before the Foreign Affairs Committee of the National Assembly to answer questions on the future of the euro following the referendum on the ratification of the European Constitution.

Censor to the General Council and reports by the Court of Auditors

The Censor, the Government representative to the General Council, is responsible for supervising the Bank's internal management. In this respect, he/she is authorised to give an opinion on, and even oppose, any of the decisions of the Banque de France. The Bank's internal management is also regularly audited by the Court of Auditors, which examines the manner in which the Bank carries out its tasks and activities, in particular in terms of their financial implications. As for other public bodies subject to the Court of Auditors' supervision, the results of these investigations are published in a report available to the public. The last report was published in March 2005.

Special agreements with the State

In order to properly assess the efficiency of the Banque de France in the light of the national and international provisions governing its activity, it is important that the means by which it provides services to the national community be clearly specified. This is the purpose of the agreements that

define the nature of the services that the Banque de France provides on behalf of the State as well as the conditions under which it receives compensation. The main agreements between the Banque de France and the State concern the processing of household debt, the issuance of coins, the management of the Central Cheque Register and the Treasury's account, the drawing up of France's balance of payments and international investment position, and the management of debt consolidation agreements with indebted countries.

3|2 Specific rules applicable to Banque de France staff

Conditions of staff employment

Roughly 90% of employees come under the Conditions of Employment for Banque de France Staff, which mainly govern recruitment, promotion and discipline. According to these rules, external recruitment is carried out through competitive examinations or tests.

The areas that are not covered by the Conditions of Employment are governed by the Labour Code, except in the event of incompatibility with the Bank's public service missions.

A little over 10% of Banque de France employees are contract staff. A proportion of managers and special advisers are recruited for specific tasks that require both technical expertise and prior professional experience that the statutory staff of the Bank do not possess (architects, engineers, etc.). The other categories of contract employees are security, cleaning and medical staff.

Code of Financial Ethics

Banque de France employees are bound by the confidentiality obligations laid down in Article L142-9 of the French Monetary and Financial Code. They are prohibited from taking or accepting any holding or interest in, or remuneration from another company, unless a derogation is granted by the Governor. These provisions do not apply to the production of scientific, literary or artistic work.

Banque de France employees are also subject to a Code of Financial Ethics, which aims to prevent any

behaviour that might be detrimental to the Bank and conflicts of interest. The strictest provisions apply to employees whose duties in any way involve the negotiation of procurement contracts on the Bank's behalf or employees liable to hold non-public information. An Ethics Officer is responsible for making sure that the Code is complied with.

3|3 Communication

The Banque de France's communication strategy aimed at the general public, the media and professionals also contributes to fostering greater transparency about the Bank's central banking mission within the Eurosystem.

The Eurosystem is co-ordinated so as to communicate as clearly and effectively possible. In order to facilitate access to the Eurosystem's documentation, the Banque de France translates into French and disseminates the ECB's press releases and major publications.

In addition to press releases and the usual press relations, the Banque de France uses various other vehicles of communication to convey its messages and publicise its tasks, in particular the *Annual Report*, the *Banque de France Bulletin* (monthly) and the *Financial Stability Review* (biannual).

In accordance with the law, the *Annual Report* is submitted to the President of the French Republic and Parliament. It covers the Banque de France's operations, monetary policy and outlook. It

is accompanied by a letter from the Governor, which presents the Bank's main viewpoints on economic and monetary issues.

In order to make its communication more readily available, the Banque de France regularly posts its publications, reports and other information on its website (www.banque-france.fr). The Bank's publications and part of its website are translated into English so as to communicate its economic message to an international audience.

Specific initiatives in 2005

For the sake of consistency, the Banque de France has reviewed its entire publications charter in order to improve the visibility of its publications. The new version of the Banque de France Bulletin was released in July 2005. The new publication rules shall also be progressively applied to the reports and studies published on behalf of the bodies and institutions for which the Banque de France provides the secretariat.

In March 2005, the Bank launched its updated website, featuring a more modern content layout and a more user-friendly access to the various sections.

A special system for the online dissemination of statistical data common to all NCBs and the ECB was set up in December 2005. Thanks to this system, Eurosystem central banks are able to simultaneously put online a set of identical and up-to-date information.

THE ENVIRONMENT AND IMPLEMENTATION OF MONETARY POLICY

Despite a series of adverse shocks, economic activity in the euro area's main trading partners remained dynamic in 2005 (Section 1|1).

However, in spite of the robust expansion of the global economy, euro area exports grew at a slower pace than world demand for them and the euro area registered only modest growth in 2005. This growth was primarily underpinned by firm domestic demand, as businesses and households took advantage of very low interest rates and easy access to credit. At the same time, inflation remained above 2% and money supply and credit aggregates continued to expand rapidly. These factors contributed to an abundance of liquidity that could generate risks to price stability in the longer run. The European Central Bank Governing Council reviewed the short-term and long-term determinants of future inflation and decided to adjust the accommodative stance of the single monetary policy. Consequently, the Council raised the Bank's key rates at its last meeting of the year (Section 1|2).

The Banque de France's implementation of the single monetary policy at the national level was marked by a continuation of the trends seen in 2004, including an increase in banks' refinancing requirements, fine-tuning of banking liquidity, and greater cross-border use of collateral by banks seeking central bank refinancing. The ECB's key rates were unchanged for the greater part of the year and variations in the yield curve were mainly the result of changing inflation expectations (Section 1|3).

I | The international environment

I|I Economic growth in countries outside the euro area

The United States

In the United States, economic growth was close to its potential in 2005. The limited impact of the particularly devastating hurricane season and high oil prices contributed to a slight slowing of growth. GDP expanded at an annual average rate of 3.5%, compared to 4.2% in 2004. The main engine of growth was household consumption, which remained buoyant,

posting an annual average growth rate of 3.6%, after 3.9% in 2004. The effects of tax incentives introduced to boost consumption in previous years came to end, but household spending was nonetheless bolstered by a continued improvement in employment conditions and rising house prices. Net creation of new non-farm jobs remained strong in 2005, with 2,000,000 new jobs, following 2,100,000 in the previous year, and the unemployment rate continued to fall, from 5.5% in 2004 to 5.1% in 2005.

At the same time, competition from Asian imports and a solid performance in terms of unit wage costs throughout the year limited the pass-through of higher commodity prices to consumer prices, with the exception of energy prices. These factors also averted "second round" effects leading to a substantial increase in wages. The consumer price index showed that the inflation rate increased from 2.7% in 2004 to 3.4% in 2005. If more volatile energy and food prices are excluded, the inflation rate rose from 1.8% in 2004 to 2.2% in 2005.

However, persistent macro-financial imbalances still undermine the sustainability of the United States' current economic performance. The current account deficit continued to widen, from 5.7% GDP points in 2004 to 6.4 GDP points in 2005, despite a fall in public sector dissaving. The general government deficit shrank from 4.7% in 2004 to 3.8% in 2005. But this improvement in public finances, which results *inter alia* from higher tax revenues derived from the strong surge in corporate profits, is expected to be cancelled out in the short term by the increase in expenditure triggered by hurricanes Katrina and Rita. Furthermore, the continuing rise in household debt levels, which averaged 109.2% of GDP in 2005, up from 104.3% in 2004, makes households vulnerable to a substantial interest rate hike or a sudden drop in house prices.

Japan and emerging Asian economies

Japan's economic growth, which resumed in 2002 and 2003, appeared to be on a sounder footing in 2005. It is now driven primarily by strong domestic demand and is, therefore, less dependent on export demand. Japan's GDP expanded at an annual average rate of 2.8% in 2005, compared to 2.3% in 2004. Household consumption was bolstered by gradual improvements

NB: The statistics given in this chapter were updated to 31 March.

Main economic indicators for the United States and Japan

(%)

	United States		Japan	
	2004	2005	2004	2005
Gross domestic product (a)	4.2	3.5	2.3	2.8
Industrial production (a)	4.1	3.2	5.6	1.3
Consumer prices (b)	2.7	3.4	0.0	-0.3
Unemployment rate (a)	5.5	5.1	4.7	4.4
General government deficit (c)	-4.7	-3.8	-6.5	-6.5
General government debt (c)	63.8	64.0	156.3	158.9
Current account balance (c)	-5.7	-6.4	3.8	3.6

(a) Annual average change.

(b) Headline national index, annual average change.

(c) As a % of GDP.

Sources: national sources, OECD.

in employment and wages. Business investment benefited from the huge efforts that companies have made since the early 1990s to pay down their debts and strengthen their finances.

Overall, deflationary pressures within the Japanese economy continued to ease throughout 2005. The annual rate of change of consumer prices remained negative both for headline and core inflation (excluding fresh food products), posting a 0.3% dip in 2005, after 0.0% in 2004. The Bank of Japan forecasts anticipate a positive change in the core inflation index in 2006, as the negative output gap between actual GDP and potential GDP narrows and the ongoing financial recovery in the banking sector promotes a resumption of bank lending in the country.

Japan and the emerging Asian economies posted large current account surpluses in 2005, amounting to 3.6 GDP points for Japan and 4.4 GDP points for the emerging economies. They showed a record surplus on their trade with the United States, which stood at 2.3 GDP points for Japan, China and the newly industrialised countries (NICs) combined. The strong growth of the emerging Asian economies as a whole was given a particular boost by the Chinese and Indian economies, which in 2005 posted GDP growth rates of 9.9% and 8.4% respectively.

The euro area's partners inside the European Union

In the United Kingdom, private consumption growth slowed from 3.6% in 2004 to 1.9% in 2005. Housing prices slowed sharply between mid-2004 and mid-2005. This can be attributed to monetary policy tightening in 2003 and 2004, which virtually wiped out the wealth effects that had been driving households' spending. Consequently, the United Kingdom's GDP growth slowed from 3.2% in 2004 to 1.8% in 2005, thus falling below its growth potential. However a pick-up in growth was observed at the end of 2005.

GDP growth in the New Member States (NMSs) of the EU slowed from an annual average rate of 5.0% in 2004 to 4.2% in 2005. However, this figure masks discrepancies between countries. Some of them enjoyed a further acceleration of growth in 2005, as was the case in Estonia, Latvia and the Czech Republic, while other countries, such as Poland, suffered a sharper slowdown in growth.

Against the backdrop of slower overall growth, inflation fell from 4.1% in 2004 to 2.7% in 2005, and general government deficits widened, from an average of 3.6% of GDP in 2004 to 3.8% in 2005, with an especially large increase in the Hungarian deficit.

Even though the current account deficit of the NMSs decreased in 2005, it was still very large, at an average of 3.1% of GDP, following 5.4% of GDP in 2004. Estonia, Latvia and Hungary recorded particularly large deficits, in excess of 7% of GDP.

Economic indicators for the major NMSs
Estimates for 2005

(%)

	Hungary		Poland		Czech Republic		Slovakia	
	2004	2005	2004	2005	2004	2005	2004	2005
Gross domestic product (a)	4.1	3.6	5.4	3.4	4.4	4.9	5.5	5.1
Consumer prices (b)	6.8	3.7	3.5	2.1	2.8	3.2	7.4	2.9
General government deficit (c)	-5.7	-6.5	-3.9	-3.5	-2.9	-3.6	-3.1	-4.0
Current account balance including the capital account (c)	-8.8	-7.6	-3.9	0.1	-5.7	-2.7	-3.1	-6.4

(a) Annual average change.

(b) Year-on-year increase in national headline index (harmonised index for Slovakia).

(c) As a % of GDP.

Source: ESCB.

1|2 Foreign exchange and commodity markets

Foreign exchange markets

The decline in the US dollar, which started in 2002, halted in 2005. Its nominal effective exchange rate vis-à-vis the United States' main trading partners even posted a year-on-year increase of 3.4%, as the US economy continued to enjoy strong growth and the Federal Reserve System raised its key interest rates. The rate increases in 2005 totalled 200 basis points, putting the Fed Funds rate at 4.25% at the end of the year.

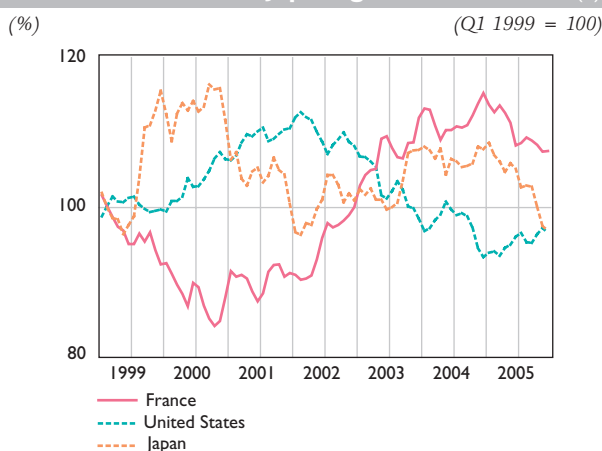
The dollar strengthened against the euro by nearly 12% in year-on-year terms, with the value of the euro falling from more than USD 1.30 at the end of 2004, to USD 1.19 at the end of 2005. The dollar posted even stronger gains against the yen, totalling more than 14% (JPY 103.9 to the dollar at the end of 2004 after JPY 118.5 to the dollar at end-2005). The euro remained relatively stable against the yen. Despite some volatility over the course of the year, the euro was up by only around 1% against the yen between the end of 2004 and end-2005.

Rising oil and commodity prices

Oil prices continued to rise in 2005. The price of a barrel of Brent crude was up by nearly 43.7% to more than USD 57 at the end of the year, after peaking at USD 64 a barrel in August, in the wake of the devastation caused by hurricane Katrina. Most other commodity prices also rose in 2005. The Banque de France index of commodity prices, excluding energy, showed a 15.5% increase over the year.

Stagnant supply capacity and a large increase in demand, especially in the United States and China, have caused persistent pressures on the oil market. Despite the recessionary and potentially inflationary effects of higher oil prices, the euro area may benefit from an increase in demand stemming from the recycling of the oil-exporting countries' surplus income.

Nominal effective exchange rates of France, the United States and Japan against 56 countries (a)



Sources: ECB, OECD, BIS, IMF
Calculations: Banque de France.

(a) The list of 56 countries is given in the Methodological Notes to the statistics section of the Bulletin de la Banque de France.

Oil prices and commodity index



Sources: Datastream, Banque de France.

2 | Eurosystem monetary policy decisions

2|1 Background

In accordance with the 1993 Treaty on European Union, the primary objective of the Eurosystem's monetary policy is to ensure price stability. The Eurosystem's monetary policy can best contribute to sustainable and balanced growth in the euro area by anchoring inflation expectations at a low and stable level.

At the end of 1998, the ECB Governing Council adopted a monetary policy strategy aimed at providing a comprehensive, coherent and transparent framework for making decisions on the appropriate level for key rates and explaining these decisions to the public. This strategy was reviewed and reaffirmed in May 2003.

The Eurosystem's strategy starts with a quantitative definition of price stability, i.e. an annual increase in the Harmonised Index of Consumer Prices (HICP) below, but close to, 2% in the euro area over the medium term. The Eurosystem's strategy also calls for an assessment of risks to price stability based on a broadly-based analysis of available economic information organised around two "pillars", corresponding to two complementary approaches to inflation and its causes. The first pillar is the "economic" analysis based on tracking a wide range of economic and financial indicators likely to provide information about inflationary pressures in the short and medium term, such as data on real growth, prices and costs, the labour market, foreign exchange rates and fiscal policies. The second pillar is the "monetary" analysis, which focuses more on the outlook for the medium and long term, cross-checking the findings of the economic analysis against developments in money supply and credit aggregates.

The following discussion explores the main economic developments in 2005 from this two-fold perspective.

2|2 Euro area economic review

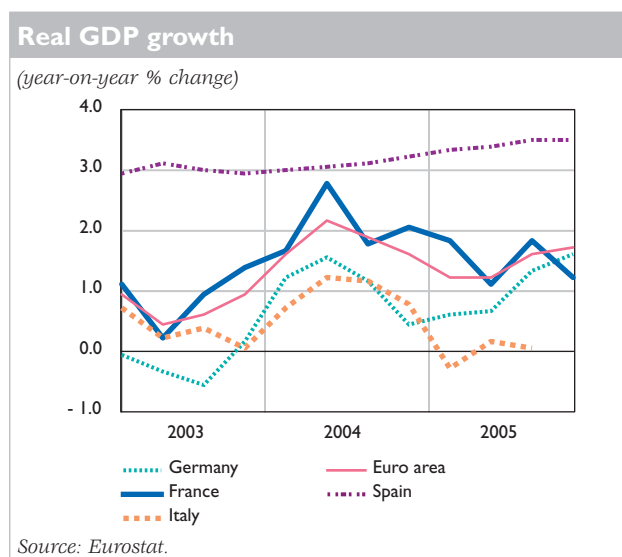
Economic growth

GDP grew at a modest annual average rate of 1.4%, as compared with 2.1% in 2004, continuing the economic slowdown that started in the second half of 2004. The euro area's economic performance was hampered by the international environment, with slower world growth and higher oil prices.

Most of the euro area countries posted slower growth in 2005 than in 2004, and the dispersion of GDP growth rates increased slightly. Even though France's growth slowed to 1.4%, it matched the euro area growth rate, whereas Germany's growth rate of 1.1% fell short of the euro area rate and Spain's 3.5% growth substantially exceeded it.

Growth was driven by contrasting factors.

- In the euro area as a whole, foreign trade made a negative 0.3-percentage-point contribution to GDP growth in 2005. The increase in exports over the year failed to offset the growth of imports stemming from stronger domestic demand. Net exports dragged growth in France down by 1 percentage point for the third year in a row and eroded growth in Spain as well. By contrast, net exports played a key role in bolstering growth in Germany and the Netherlands.



The euro area's current account balance deteriorated by more than EUR 70 billion to post a deficit of EUR 28 billion, or 0.3% of GDP. The goods surplus in particular shrank by nearly EUR 50 billion as a result of trade in energy products. France's current account balance posted a proportionately greater deficit than that of the euro area. France's deficit stood at EUR 34 billion in 2005, or 2% of GDP (see Box 1). The growing deficit on energy products only accounts for one-half of the increase in the deficit on goods.

- In the euro area as a whole, domestic demand, excluding inventories, made a positive contribution of 1.5 percentage points to GDP growth in 2005, after 1.4 points in 2004. Domestic demand strongly underpinned growth in some countries such as France (see Box 2), and Spain, where it contributed 2.2 points to GDP growth. By contrast, it contributed only 0.2 points to Germany's growth.

Box 1

Current account transactions in France's balance of payments

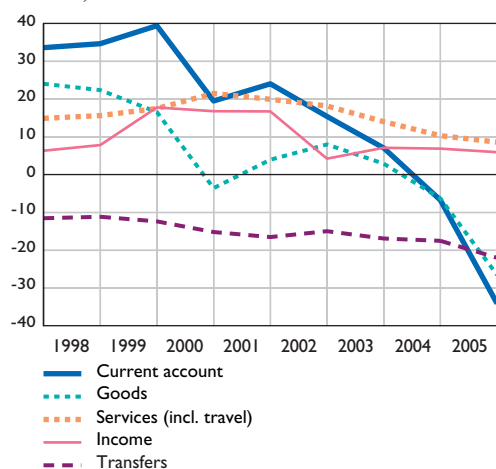
France's current account balance showed a deficit of EUR 34 billion¹ in 2005, equivalent to around 2% of GDP, against a deficit of EUR 7 billion in 2004. Six years ago, the current account showed a surplus of nearly 3% of GDP. The worsening of the deficit is primarily due to trade in goods, as well as a gradually increasing deficit on other transactions (services, income and transfers).

The increase in France's energy bill accounts for one-half of the very large fall in the goods balance, which was down by EUR 20 billion. Other factors include the weak growth of French exports. Overall, trade in goods accounted for three-quarters of the deterioration in the current account balance in 2005, and about 60% since 1999.

The services balance, excluding travel, shrank for the fifth year in a row and posted a slight deficit, whereas in 1999 it had shown a surplus of more than EUR 5 billion. Over the period as a whole, the decline stems primarily from the shrinking balance on miscellaneous business services (some EUR 3 billion) and merchanting (approximately EUR 2 billion). It was partially offset by an improvement in the royalties balance (EUR 2 billion). The balances on the other services items were more stable, but their combined contribution declined by about EUR 3 billion.

Current account Gross balances

(EUR billions)



Source: French balance of payments.

The surplus on the travel item continued to shrink, from EUR 12 billion in 1999 and EUR 10 billion in 2004 to EUR 9 billion in 2005. French residents' spending abroad grew more quickly than non-residents' spending in France.

The income account surplus was down by EUR 1 billion, to EUR 6 billion, as a result of the decline in income from both direct investment and other investment, which outweighed the recovery in portfolio investment income. Income accounts for a small share of the larger current account deficit in 2005, but it has made a significant contribution to the deficit since 1999.

Net outward current transfers increased by EUR 4 billion to reach EUR 22 billion, as expenditure linked to the expansion of the European Union increased. Each year, current transfers constitute about one-sixth of the deterioration of the current account deficit.

¹ These observations are based on provisional figures for 2005. More detailed results and commentary will be published in the Annual Report on France's Balance of Payments and International Investment Position to be released in July 2006.

• Changes in inventories made a positive contribution to growth in most euro area countries, but this contribution was smaller, at 0.2 points, in the euro area as a whole, compared to 0.4 points in 2004. In the largest euro area countries, changes in inventories boosted growth. For example, such changes contributed 0.2 points to growth in France and Germany in 2005.

Financial conditions in the euro area were favourable for businesses and households and bolstered investment expenditure. Continuing the trend seen in 2004, banks' credit standards remained fairly flexible, although a slight tightening was observed towards the end of the year. Furthermore, lending rates followed a downward trend in 2005 (see section on the monetary analysis below). Against this backdrop, investment expenditure, excluding construction, grew particularly rapidly in France and Germany. However, investment expenditure was down in Italy, which may account for the slower growth of investment for the euro area

as a whole in 2005 compared to 2004. Investment in construction was also up slightly in the euro area in 2005, notably as a result of an increase in France, and in spite of a continuing decline in Germany.

The euro area unemployment rate fell in 2005, continuing the trend that started in 2004. It stood at 8.3% in December 2005, compared to 8.8% one year earlier. The decrease was associated with further job creation, which continued at a similar pace to that in 2004 (0.6%, after 0.7% the previous year), and with the introduction of labour market reforms in some countries.

The decrease in the unemployment rate, as measured by Eurostat, was broadly based across Member States, and was particularly marked in Spain, where it dropped from 10.3% in December 2004 to 8.5% in December 2005. The decrease in the unemployment rate was smaller in France, where it fell from 9.6% to 9.2%, and in Germany, where it fell from 9.6% to 9.5%.

Box 2

Factors contributing to growth in France and the euro area

(annual averages, %)

	Euro area				France			
	2002	2003	2004	2005	2002	2003	2004	2005
GDP	1.0	0.7	1.8	1.4	1.3	0.9	2.1	1.4
Net exports	0.5	-0.6	0.0	-0.3	0.0	-0.9	-1.1	-1.0
Changes in inventories	-0.3	0.2	0.4	0.2	-0.4	-0.1	0.8	0.2
Domestic demand excl. inventories	0.7	1.1	1.4	1.5	1.6	1.9	2.3	2.2
<i>o/w: Private consumption</i>	0.5	0.6	0.8	0.8	1.3	0.9	1.3	1.2
<i>Public consumption</i>	0.5	0.3	0.2	0.3	0.7	0.5	0.6	0.4
Gross fixed capital formation	-0.3	0.2	0.4	0.5	-0.3	0.5	0.4	0.7

Sources: Eurostat, INSEE.

In 2005, France's GDP growth rate matched that of the euro area at 1.4%, whereas for several years previously France had posted a higher growth rate.

Domestic demand made a larger contribution to GDP growth in France than it did in the euro area as a whole. The large contribution of domestic demand to French GDP growth stems primarily from strong private and public consumption. The aggregate contribution of domestic demand, excluding inventories, to GDP growth from 2001 to 2005 amounted to 10.3 percentage points in France, and 6.4 percentage points in the euro area.

By contrast, net exports made a larger contribution to euro area GDP growth than they did to French GDP growth over the entire period.

Inflation

The euro area inflation rate remained above 2% in 2005, with large month-to-month variations owing to the volatility of energy prices. HICP inflation stood at 2.3% in year-on-year terms and at 2.2% as an annual average. This means that annual average headline inflation in the euro area has hovered between 2.1% and 2.3% since 2000. However, 2005 saw strongly differentiated developments in headline inflation, on the one hand, and core inflation excluding energy prices, on the other hand.

The sharp rises in oil prices that began in the summer of 2004 continued into the new year and prices remained at a high level after the summer of 2005. This increase had a direct impact on inflation, pushing up fuel and heating oil prices: as a consequence, the increase in the prices of oil products contributed more than 0.5 percentage points to headline inflation.

The transmission of the oil shock into inflation, excluding energy prices, was limited and offset by other factors. Inflation excluding such volatile components as fresh food and energy prices actually

decreased from an annual average rate of 2.1% in 2004 to 1.5% in 2005. Several factors can explain this development (for France, see Box 3).

Pressures on the euro area economy were kept in check. The capacity utilisation rate in the goods and services market was below its long-term average. The unemployment rate fell only slowly after its peak in December 2003, which held down year-on-year increases in France's per capita wages and unit labour costs to 1.6% and 0.7% respectively in the third quarter of 2005 (see Box 4).

Government measures to hold down consumer prices made a smaller contribution to the core inflation rate in 2005 than they did in 2004. Indirect taxes, especially on tobacco, were raised in 2004, and many measures were introduced that reduced healthcare coverage. These measures had a large impact on the HICP, because the index covers healthcare spending by households. In 2005, the contribution of all such measures to the inflation rate returned to the average observed since 2000, and decreased by 0.2 points in annual average terms.

Box 3

Inflation in France

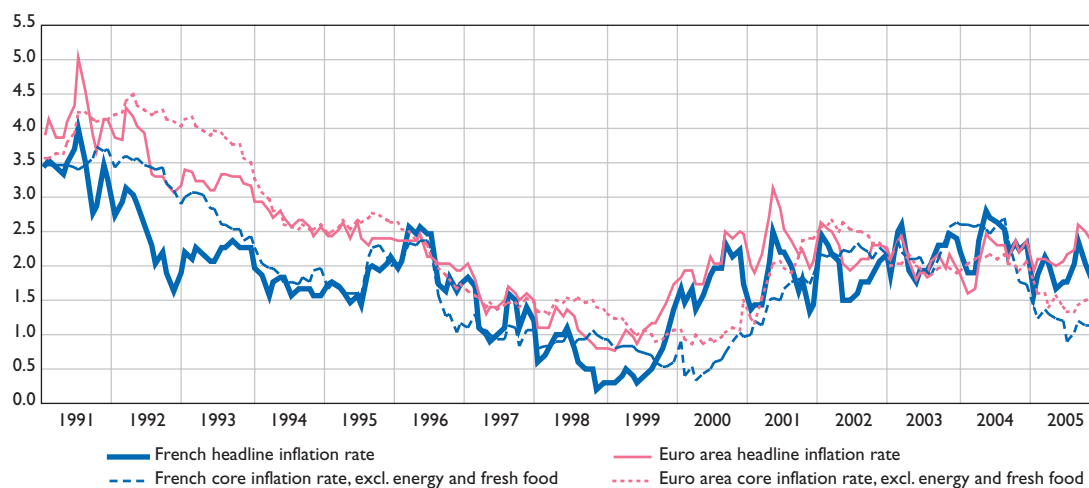
The inflation rate in France stood at 1.8% in December 2005, compared to 2.3% in December 2004. This was far lower than the average euro area inflation rate, which stood at 2.2% in 2005 and 2.4% in 2004. The lower French rate marked a return to the situation that prevailed between 1991 – when a harmonised measurement of consumer prices was first made available within the euro area – and 2002. During this period, the French inflation rate was an average 0.6 percentage points lower than the euro area inflation rate. This was in contrast to 2003 and 2004, when France's inflation rate was an average 0.1 percentage point higher than the euro area rate, as tobacco prices increased, contributing 0.5 percentage point to the headline inflation rate, and healthcare coverage was reduced, adding between 0.1 and 0.2 percentage point to the headline inflation rate.

As in the rest of the euro area, France's core inflation rate, which excludes fresh food and energy prices from the HICP, diverged from the headline inflation rate, with a year-on-year rise of 1.2% in 2005, compared to 1.7% in 2004. The same factors that explain this trend in the euro area also hold true for France. Signs of pressure on the goods and services market, as well as on the labour market, were still moderate. The capacity utilisation rate, as measured by the Banque de France, stayed below its long-term average of 84.6%. The unemployment rate, as measured by INSEE, rose to 10.1% in March 2005 before easing from May onwards to stand at 9.6% in December 2005. The contribution of government measures to inflation decreased in 2005, having been at an exceptional level in 2004. Import prices, excluding energy prices, were down, which had a slightly deflationary impact.

*However, France's inflation differed from that of the euro area in three ways. **Firstly**, although wage costs were kept in check by productivity gains, individual pay levels have been driven up by several successive large increases in the purchasing power of the*

Headline and core inflation rates in France and the euro area

(%)



Source: Eurostat.

statutory minimum wage since 1995, with even larger increases taking place from 2003. As a result of these hikes, the proportion of wage earners paid the statutory minimum wage is at a historically high level of 15.6%, which may augment the risk of high pay claims in the future to re-establish the pay scale upward from the minimum wage. *Secondly*, prices in the services sector are rising at rates that have not been seen in France since 1993. The impact of increases in the minimum wage has been very strong in the personal services sector (hairdressing) and in the hotel and catering sector, where the concentration of minimum-wage jobs is much higher than in the rest of the economy. The respective proportions of minimum-wage jobs in these two sectors are 50% and 34%, compared to 15.6% in the economy as a whole. A tight housing market and big increases in construction costs have also driven up rents. *Thirdly*, contributing to lower inflation in France this time, retail prices rose much more slowly than usual because of the Jacob Act, which promotes greater competition between retailers. This Act re-established the producers' right to make distributors compete for their products, lowered the price threshold for selling at a loss, which is illegal, defined the notion of sales services that were charged to producers and enhanced the legal recourse available to producers against distributors.

The lagged impact of the stronger euro on final prices helped to keep import prices down, except for energy, even though the euro lost ground in 2005. At the same time, the partial lifting of import quotas for Chinese textiles helped to increase competition between producing countries and, to some extent, to curb textile price increases.

In addition, producers in sectors that use a great deal of oil, such as road and air transport, and plastics, did not pass on the full cost of higher oil prices. Wage earners did not pass it on either, and the consequent loss of purchasing power hindered consumption and

investment, further moderating global inflationary pressures.

All in all, the second-round effect of the oil shock was limited in 2005. This means that the full impact of the first-round effects was not reflected in euro area inflation, since consumer prices for gas are not raised immediately in response to world prices. The strength of the international economy should lead to a gradual recovery in growth and persistently high oil prices. As was the case in 2000 and 2001, this could result in an increase in the core inflation rate, which might converge with the headline inflation rate.

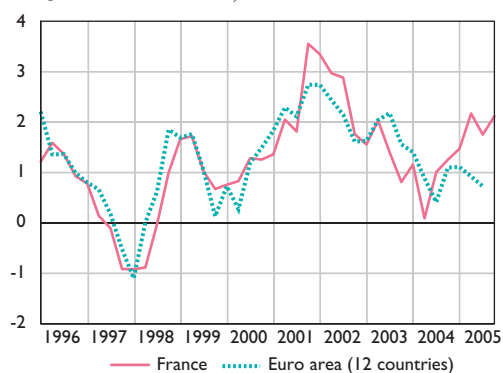
Box 4

Unit labour costs in France and the euro area

Unit labour costs for the French economy as a whole rose faster in 2005, increasing at a year-on-year rate of 2.1% in the fourth quarter, compared to 1.3% in the fourth quarter of 2004. The increase is primarily attributable to slower productivity growth, which stood at 1.2% in the fourth quarter of 2005, compared to 1.8% in the fourth quarter of 2004, as well as slightly faster growth of nominal per capita wages, which rose by 3.3% in the fourth quarter of 2005, compared to 3.0% in the fourth quarter of 2004.

Unit labour costs in France and the euro area
Economy as a whole

(year-on-year increase as a %)



Sources: INSEE, Eurostat.
Calculations: Banque de France.

An analysis by sector shows that nominal per capita wages rose more rapidly in the manufacturing sector than in the market services sector. However, taking account of the usual differential in productivity growth between these two sectors, unit labour costs in the market services sector posted a year-on-year increase of 1.9% in the last quarter of 2005, compared to an increase of 1.1% in the manufacturing sector.

According to the latest available data for the third quarter of 2005, the year-on-year increase in unit labour costs in the euro area was 0.8%, which is lower than the 1.8% increase recorded in France. Productivity gains in the euro area were lower, at 0.8%, compared to 1.5% in France, but the increase in per capita wage costs in the euro area was also much smaller, at 1.6%, as opposed to 3.2% in France.

Public finances

Data from the updated stability programmes show that the euro area government deficit should be slightly smaller in 2005 at 2.6%, following 2.7% in 2004. This result falls short of the original targets, primarily because of the excessive deficits in several Member States, i.e. Portugal, Italy, Germany and Greece. France announced that its deficit would stand at 2.9%. In most of these countries, insufficient improvement of public finances in recent years has not left any room for manoeuvre.

Recent structural reforms involving healthcare and pensions in France and Germany, for example, have had little visible impact on public finances, but they could help provide some leeway in the medium term.

Large-scale use of one-off measures to improve public finances continued in 2005, especially in France.

The euro area government debt stabilised at a level of approximately 71% of GDP. However, the fiscal situation improved in some countries, such as Spain, Finland and Ireland, which posted fiscal surpluses and debt levels under 60%. This means that they are able to conduct accommodative contracyclical fiscal policies to sustain economic activity. Other countries, such as Belgium and the Netherlands, made major efforts to move towards a balanced budget and to further reduce their debt. They enjoyed the fruits of their past efforts and used them to continue strengthening their public finances, even though the macroeconomic environment is relatively flat.

Box 5

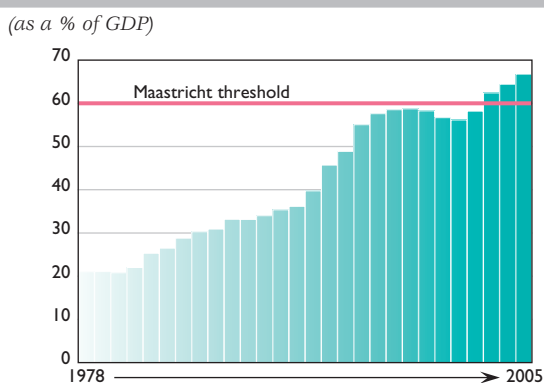
Public finances in France

The Pèbereau Report highlighted developments in France’s government debt, which increased by some 30 GDP points in 15 years. It rose by 19 points between 1991 and 1995, and by another 10.6 points between 2001 and 2005. This trend is particularly worrying as lower interest rates made it possible to reduce the nominal interest rate on the debt from more than 7.5% in 1993, to 5.8% in 1998, and to 4.2% in 2004. At the same time, the rate of tax and social security contributions have been at a high level of around 43.3% of GDP on average for 15 years, with a peak between 1996 and 2000 (44.2% on average and 44.9% in 1999) and an increase of 1.3 percentage points between 2003 and 2005. As a result, France once again found itself on the brink of an excessive deficit in 2005¹ because it failed to keep government expenditure in check. Central government expenditure stabilised in real terms, but the expenditure of general government continued to grow rapidly as many responsibilities were transferred to other levels of government. More specifically, social welfare spending continued to expand at a sustained pace. However, the provisional results now available show that the growth of health care spending slowed sharply from its record high of 7.1% in 2002 to about 3.8% in 2005. Barring any revision of the 2004 data, this figure is close to the initial national target for health insurance spending for 2005, which was set at 3.2%. Furthermore, the growth of the Government’s wage bill, stemming primarily from across-the-board increases in civil service pay, caused a further deepening of the social security deficit.

Around one-half of the reduction of the general government deficit from 3.7% in 2004 to 2.9% in 2005 is attributable to the payment of EUR 8.4 billion, equivalent to about 0.5% of GDP, that the electricity utility EDF made to the Government in compensation for the transfer of its pension liabilities towards its employees to the general social security fund. When adjusted for such payments made in 2004 and 2005, the general government deficit shrank by 0.4 percentage point.

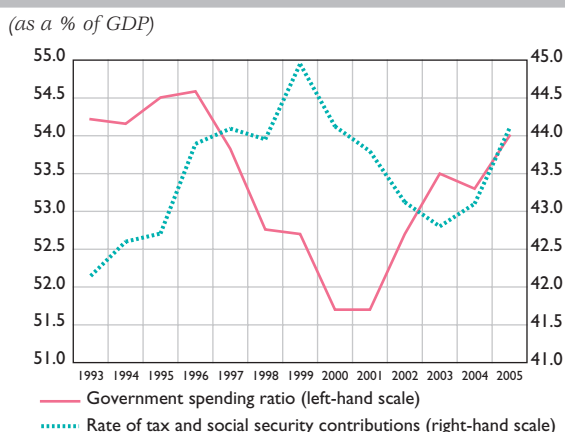
France’s government debt ratio

Base 1995 from 1978 to 1994 (data subject to revision), base 2000 since 1995



Sources: National accounts, INSEE.

Rate of tax and social security contributions, and government spending ratio



Sources: National accounts, INSEE.

NB: Tax and social security contributions are not the only source of general government revenue, which is also made up of non-tax revenue. Consequently, the difference between the government spending ratio and the rate of tax and social security contributions is not equal to the government deficit as a percentage of GDP.

¹ INSEE published a provisional version of preliminary government deficit data, as defined by the National Accounts, on 31 March 2006. The notification of the 2005 accounts was sent to the European Commission at that time and Eurostat was due to publish the accounts at the end of April.

2|3 Monetary analysis and developments in financing conditions

Monetary developments in the euro area and in France

The expansion of M3 in the euro area accelerated up until the autumn, continuing the trend that started in the second half of 2004. Low interest rates boosted the growth of the most liquid components of the broad M3 aggregate, such as overnight deposits and, to a lesser extent, other monetary deposits. The expansion of negotiable instruments, on the other hand, slowed considerably. The prevailing low level of interest rates also continued to stimulate lending to the private sector, especially housing loans. These developments exacerbated the abundance of liquidity in the euro area, which generates risks to medium and long-term price stability.

The growth of France's contribution to M3 was, once again, greater than that of the euro area aggregate. Negotiable instruments, particularly money market fund shares/units, continued to expand at a relatively sustained pace.

The expansion of lending to the private sector outstripped nominal GDP growth. In the euro area, this lending grew by 9.2% in 2005, after expanding by 7.2% in 2004; in France, growth rates were lower, at 8.6% in 2005 and 8.4% in 2004. This is especially true of lending to non-financial corporations (NFCs) and, more specifically, loans for capital expenditure. On the other hand, growth of housing loans was much stronger in France (14.6% in 2005 and 12.2% in 2004) than in the euro area as a whole (11.5% in 2005 and 10.0% in 2004).

Lending rates and financing conditions

In France and the euro area as a whole, interest rates on new loans fell overall between the end of 2004 and the end of 2005, but most lending rates had started to rise again in the last few months of 2005.

The decline in lending rates was sharper, overall, for loans to households, such as consumer loans and housing loans with a fixed rate or an initial rate fixation period (IRFP) of more than a year. Interest rates on such loans were down by a total of 20 basis

Monetary developments in France and in the euro area

(outstanding amounts in EUR billions, year-on-year % changes)

	Euro area (a)				France			
	Amount outstanding at 31 December 2005	Annual growth rate (b)			Amount outstanding at 31 December 2005	Annual growth rate (b)		
		2003	2004	2005		2003	2004	2005
Monetary aggregates (seasonally adjusted) or Main monetary assets (c)								
Currency in circulation	514.8	24.9	17.0	13.7	–	–	–	–
+ Overnight deposits	2,902.5	8.6	7.6	10.9	446.8	6.6	5.8	10.6
= M1	3,417.4	10.6	9.0	11.3				
+ Other monetary deposits	2,649.9	4.6	4.4	5.4	444.5	5.7	5.4	5.0
o/w Deposits with agreed maturity up to 2 years	1,109.1	-2.8	-0.1	6.6	53.1	-16.9	-7.6	15.4
Deposits redeemable at notice up to 3 months	1,540.8	10.4	7.4	4.3	391.4	10.0	7.3	3.7
= M2	6,067.2	7.6	6.7	8.5	–	–	–	–
+ Negotiable instruments	990.1	3.8	6.2	0.8	395.6	2.5	12.1	6.6
o/w Money market fund shares/units	626.6	11.0	3.6	-1.0	291.6	8.3	8.4	5.8
Debt securities with maturity up to 2 years	131.1	-14.9	12.3	20.3	67.4	-25.7	13.6	31.3
= M3	7,057.3	7.1	6.6	7.3	–	–	–	–
French contribution to M3	–	–	–	–	1,290.4	3.8	7.6	7.9
Credit to the private sector (unadjusted data)	8,292.4	5.5	7.2	9.2	1,384.4	5.1	8.4	8.6
o/w Loans to NFCs	3,406.3	3.5	5.4	8.1	576.6	-1.1	6.0	6.8
Consumer loans	553.8	2.8	6.0	7.8	137.2	5.0	4.4	5.5
Housing loans to households	2,917.8	8.1	10.0	11.5	502.4	10.1	12.2	14.6

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

(b) Data adjusted for reclassifications and valuation effects.

(c) Transactions of French MFIs with other French residents.

points or 40 basis points respectively in France and the euro area as a whole. Generally speaking, households continued to enjoy accommodative financing conditions, which helped boost the expansion of credit. The combined total of new loans over twelve months increased substantially in all categories of lending to households. In aggregate, new consumer loans and housing loans expanded by about 20% in France and 15% in the euro area.

Lending rates for non-financial corporations on fixed rate loans and loans with an IRFP of more than one year also declined, but to varying degrees, in France and the euro area as a whole. On the other hand, the rates applied to variable rate loans or loans with an IRFP of less than a year, which account for the bulk of lending in this sector, showed little change between

end-2004 and end-2005. They declined slightly until the autumn and then started climbing, as the ECB raised its key rates in early December, returning to the same level, or even a little higher, as at the end of 2004.

Against this backdrop, new loans to NFCs also increased substantially. The combined total of new loans (excluding overdrafts) over twelve months was up by nearly 40% in France and by nearly 15% in the euro area as a whole.

Lending rates on most categories of loans to households and non-financial corporations were lower in France than the corresponding average rates for the euro area.

Box 6

Rapid expansion of housing loans in France

The current rapid expansion of housing loans in France continues the period of growth in real terms that started in 1996. This is the longest period of such growth in recent history. The “exuberance” of housing loans is not by any means limited to France. It is even stronger in some of the other euro area countries, such as Spain and Italy.¹

A whole series of factors are at play in this phenomenon, starting with the fall in lending rates to historical lows in both nominal and real terms. Other factors include rising rents, increasing fears about the future of pension systems and, to a lesser extent, low returns on savings and households’ persistent wariness about investing in equities.

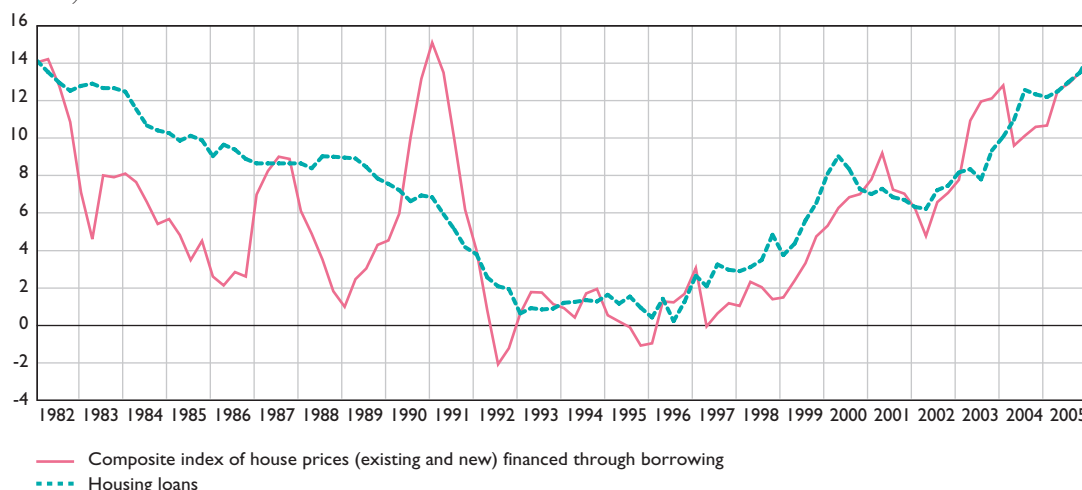
The growth of housing loans has remained robust, even though the triggering factors – including relatively low house prices and moderate household debt levels – no longer exist, with the exception of low interest rates. This is mainly attributable to the increasingly intense interaction between rising prices for existing housing and the expansion of new housing loans. Loans for new housing play only a minor role in the current situation.

This means that a financial component, i.e. rising house prices, especially the prices of existing housing, is the leading factor in the growth of housing loans in France.

¹ See the special report on household debt levels in the December 2005 Bulletin de la Banque de France and the articles “What role do financial factors play in house price dynamics?” (Banque de France Bulletin Digest, February 2005) and “L’évolution actuelle du crédit à l’habitat en France est-elle soutenable ?” (Banque de France Bulletin, August 2005).

Housing loans and house prices

(growth as a %)



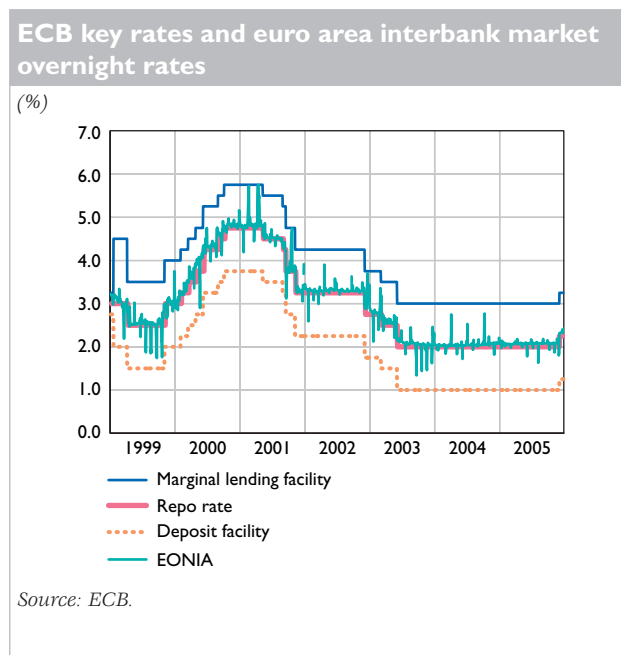
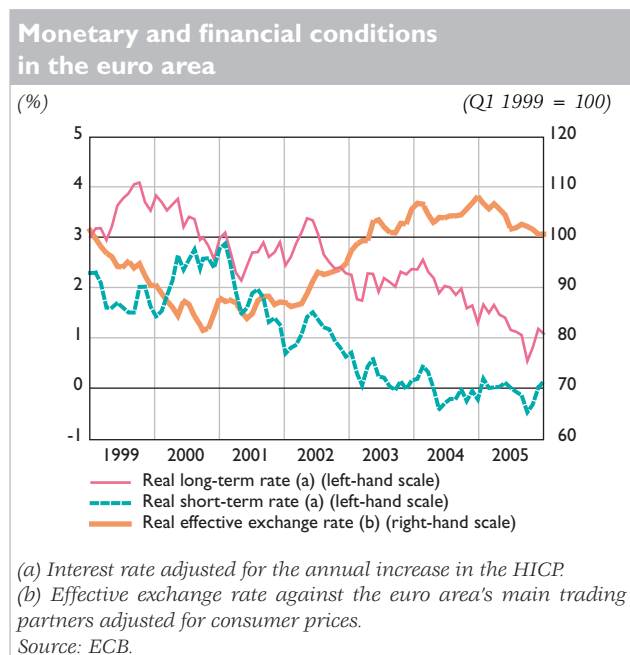
Sources: INSEE, FNAIM, Banque de France.
Calculations: Banque de France.

This dynamic should lose momentum with the already substantial decline in households' solvency. For the time being, however, it is continuing as credit institutions are offering fairly accommodative terms to borrowers, as can be seen in the latest quarterly surveys of bank lending in France. Lending policies are promoting long-term loans, with the average maturity of housing loans having increased from 12 years in the early 1990s to around 17 years.

Longer-term loans increase the risk of maturity mismatches for credit institutions as the proportion of their total liabilities maturing at more than two years declined from nearly 21% at the end of 1998 to around 17% at end-2004. Furthermore, variable rate loans have shown very strong growth in recent years. Although such loans usually come with a maximum rate cap, they still leave borrowers exposed to substantial interest rate risk. If short-term interest rates were to rise sharply, borrowers' solvency could rapidly be eroded by higher loan payments, which might lead to a sudden deterioration in the creditworthiness of the lending institutions.

The self-perpetuating process of rising house prices and expanding housing loans will eventually encounter its limits, which will be determined by the borrowers' finite ability to pay.

House prices have shown some signs of slowing down, but they are still rising at a rapid pace. According to the French realtors' federation, the FNAIM, prices for existing housing rose by some 10% in 2005, compared to a 15.5% rise in 2004. On the other hand, the growth in loans was still very strong and no slackening was observed at the end of 2005.



The ECB raised its key rates on 1 December 2005

The ECB Governing Council decided to increase the Bank's key rates by 25 basis points at its meeting on 1 December 2005, after keeping them at historically low levels for two and a half years. The rate hike raised the minimum bid rate on the Eurosystem's main refinancing operations to 2.25%.

This decision reflects the Council's determination to adjust the accommodative monetary policy stance and to take account of the risks to price stability identified by the economic analysis and confirmed by cross-checking its findings with the monetary analysis. Even though it seemed that economic growth was stronger in the second half of 2005, and inflation was well below the 2% mark at the end of the year, the increase in liquidity in the euro area pointed to stronger inflationary risks in the medium and long term, as inflation expectations were revised upwards. Despite this increase in key rates, nominal and real interest rates were still at very low levels at the end of 2005. This was true for yields on financial markets and the lending rates applied by euro area credit institutions. Meanwhile, the real effective exchange rate in the euro area, which had declined throughout 2005, had practically returned to its early 1999 level. All in all, monetary and financial conditions remained

very favourable at the end of the year. Monetary policy continued to be accommodative and provided major support for economic growth and employment in the euro area.

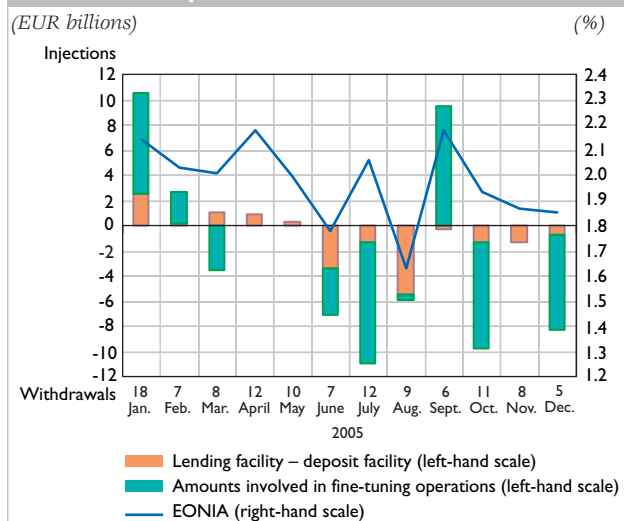
3 | Implementation of monetary policy by the Banque de France

3|1 Refinancing the banking system

The liquidity requirements of euro area banks continued to expand in 2005, rising by 21% from EUR 311.8 billion in 2004 to an average of EUR 377.4 billion. The main factor underlying the increase was the 15% expansion of currency in circulation. The Eurosystem raised slightly the proportion of refinancing granted with a 3-month maturity in its refinancing operations from 22.5% in 2004 to 23.2%. This increase was offset by a reduction in the share of main refinancing operations, which carry a maturity of one week, from 77.5% in 2004 to 76.8%.

French banks increased their participation in refinancing operations. The refinancing allocated

Use of standing facilities and fine-tuning operations on the last day of the reserve maintenance period



to French banks increased from 4.5% in 2004 to an average of 5.3% in 2005. French banks received an average of EUR 18.9 billion in main refinancing operations, which represents a 41% increase over 2004, and EUR 1.5 billion in longer-term operations, representing an increase of 131%.

The changes made to the operational framework of monetary policy in March 2004 produced their full effect in 2005, after the requisite period of adjustment by money market participants. More specifically, the shortening of the maturity of operations from two weeks to one week led to an increase in the number of operations. This increase, together with the size of the liquidity shortfall in the euro area, has given rise to pressure on the interbank market and spurred credit institutions, which have large refinancing requirements, to seek the bulk of the liquidity that they need from their national central bank.

In 2005, the Eurosystem engaged in a more active policy to correct imbalances, even minor ones, in banking liquidity towards the end of the reserve maintenance period and thus meet the recurring demand from banks. The number of fine-tuning operations in 2005 was up considerably, with nine such operations carried out, compared to only three in 2004 and one in 2003. Of the nine fine-tuning operations, three were variable rate liquidity injections and six were fixed-rate liquidity withdrawals. The amounts allocated through these operations ranged

from EUR 0.5 billion to EUR 9.6 billion. This policy led to a decrease in the use of the standing facilities in 2005.

The volume of collateral used for monetary policy operations in France increased by 59% as refinancing requirements increased. The volume of collateral used for intra-day operations increased by 14%. The total growth of collateral used for all operations combined stood at 27%. This meant that banks had to hold considerably more assets eligible as collateral for Eurosystem operations. Improvements to the Eurosystem collateral arrangements included eligibility of debt instruments issued by entities established in the G10 countries outside the European Economic Area.

Most of the securities used as collateral in the euro area as a whole are government securities, but the share of such securities fell sharply from 82% in 2004 to 65% in 2005 as the share of private sector securities increased (especially asset-backed securities and bonds). The share of cross-border collateral has increased steadily at the expense of domestic collateral. This is a sign of the increasing integration of monetary policy implementation in the euro area. In the case of the collateral used by French banks, 58% consists of cross-border collateral. Of this cross-border collateral, 69.5% is made up of government securities from other euro area countries.

As a result of greater transparency and improved market information about liquidity conditions, along with a more active intervention policy, the overnight rate stayed very close to the marginal rate applied to main refinancing operations and it was less volatile. On the other hand, the differential between the minimum bid rate and the marginal rate widened from 1.6 basis points in 2004 to 5.3 basis points in 2005, signalling a change in the bidding behaviour of credit institutions.

3|2 Short-term interest rates

The ECB's key rates were unchanged until the hike on 1 December. Variations in the yield curve were mainly the result of changing interest rate expectations.

- The yield curve flattened between January and June and was even slightly inverted on 23 June,

when the 12-month EURIBOR stood at 2.06%, which was 28 basis points lower than on 3 January. In the meantime, the one-month EURIBOR stood at 2.10%, down 2 basis points from its level at the start of the year. The flattening of the yield curve came as economic growth slowed down in the euro area.

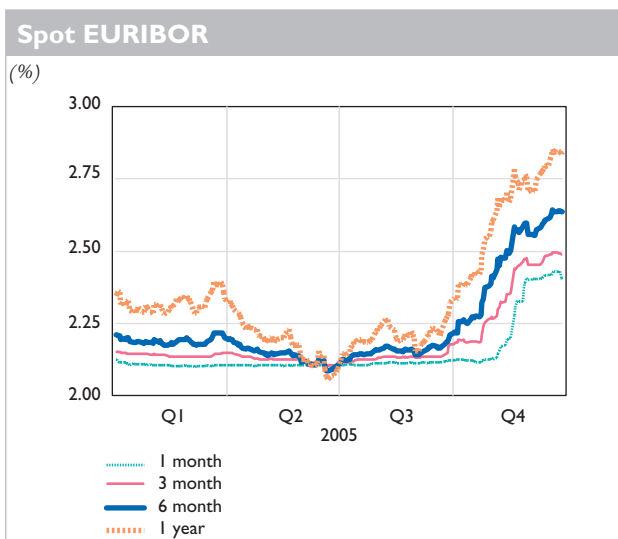
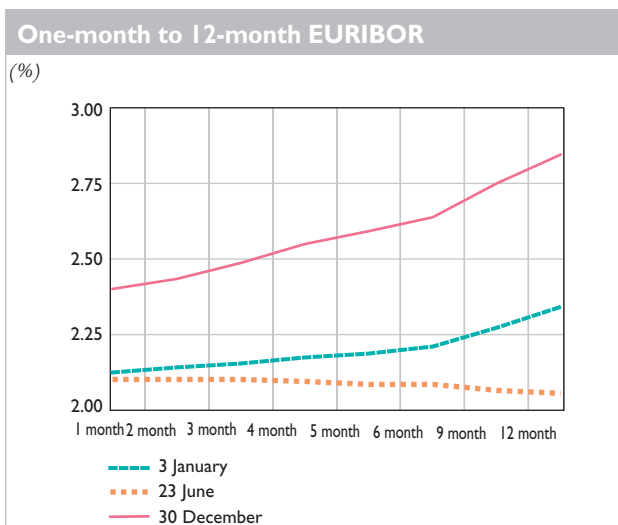
- Starting in July, the yield curve steepened significantly, especially after September, as economic growth in Europe picked up again and inflationary pressures increased. The increase in the Harmonised Index of Consumer Prices stood at 2.5% in September and October. The markets' expectations of monetary policy tightening grew stronger as the year drew to a close, leading to a steeper yield curve. The differential between the one-month rate, which stood at 2.40% at 30 December, and the one-year rate, which stood at 2.84% at 30 December, reached 44 basis points at the end of the year, as opposed to 22 basis points at the beginning of January.

3|3 Reserve requirements

The number of institutions subject to reserve requirements in France declined by 4.5% from 906 in December 2004 to 865 in December 2005. This development stemmed from the organisational rationalisation and mergers that continued in the banking sector in 2005.

The average daily reserve requirement increased steadily throughout 2005, rising by 11.2%, from EUR 25 billion to EUR 27.8 billion. French banks' share of total reserves set aside by euro area banks remained stable at about 18%.

Very few infringements of reserve requirements occurred in 2005. Their number fell from 49 in 2003 and 36 in 2004 to 15 in 2005.



THE BANQUE DE FRANCE, A KEY PLAYER IN THE ECONOMY

The two major aspects of the Banque de France's role testify to its position in the financial and economic landscape:

- an active contribution to the decisions taken in the framework of numerous European and international bodies and working groups, as well as the exercise of key responsibilities in all national financial supervision structures and representation at the local and regional levels, formalised in the Public Service Contract concluded with the State;
- a concrete contribution to the national economy via its core monetary, financial and general interest tasks.

I | An institution at the centre of the economic and financial sphere

I | I Relations with the ESCB

Governing Council of the ECB

As a euro area Member State central bank, the Banque de France is part both of the European System of Central Banks (ESCB), which comprises the 25 national central banks (NCBs) of the European Union (EU) and the European Central Bank (ECB), and of the Eurosystem, a term referring to the ECB and the 12 euro area NCBs. Since 1999, the Eurosystem has carried out the main tasks related to the single monetary policy of the euro area.

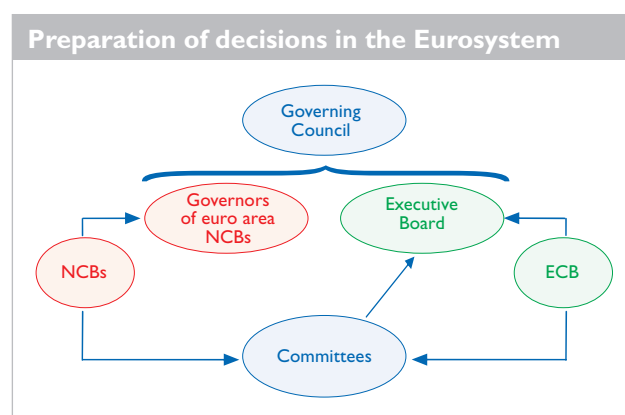
The ECB's Governing Council is the supreme decision-making body of the ESCB. It comprises the 12 Governors of the euro area countries, including the Governor of the Banque de France, and the six members of the ECB's Executive Board, including the President and Vice-President of the ECB. The Governing Council defines monetary policy for the euro area and establishes guidelines for its implementation. It takes the decisions necessary for conducting foreign exchange operations, holding and managing the ECB's official foreign exchange reserves, and promoting the smooth operation of payment systems. The Governing Council also adopts the ECB's budget.

The Eurosystem is a decentralised system. The Governing Council takes the decisions concerning

monetary policy on the basis of information that has been collected and previously analysed by the NCBs and the ECB. National credit institutions have access to central bank money in euro via NCBs, i.e. the Banque de France in the case of France. Each NCB implements the single monetary policy in a decentralised manner in its own economy, in accordance with the rules established by the Governing Council and the Executive Board of the ECB.

ESCB Committees and decisions in the Eurosystem

The ESCB has set up a network of 14 committees, made up of representatives from the NCBs and the ECB, which provide assistance to the ECB's decision-making bodies. These committees are chaired by high-ranking officials from the ECB or NCBs. They play an important role in preparing the decisions of the Governing Council and greatly contribute to the co-operation between central banks in their respective fields of responsibility, as defined by the Governing Council: internal audit, banknotes, budgetary matters, communication, accounting and monetary income, legal issues, market operations, monetary policy, international relations, statistics, banking supervision, information systems, and payment and settlement systems.



I | 2 International and bilateral relations

The Banque de France takes part in the major international discussions within various bodies.

- The Governor of the Banque de France is Alternate Governor for France of the International Monetary Fund (IMF). In this capacity, he participates in

meetings of the International Monetary and Financial Committee (IMFC) as well as in the IMF's Annual Meeting.

- The Banque de France participates in the work of the Group of Seven (G7), which comprises France, the United States, Canada, the United Kingdom, Germany, Italy and Japan. Moreover, the Governor of the Banque de France is a member of the G10, which consists of members of the G7 and Belgium, the Netherlands, Sweden and Switzerland.

- The Banque de France takes part in meetings of the G20, which brings together the G7 and the major emerging countries.

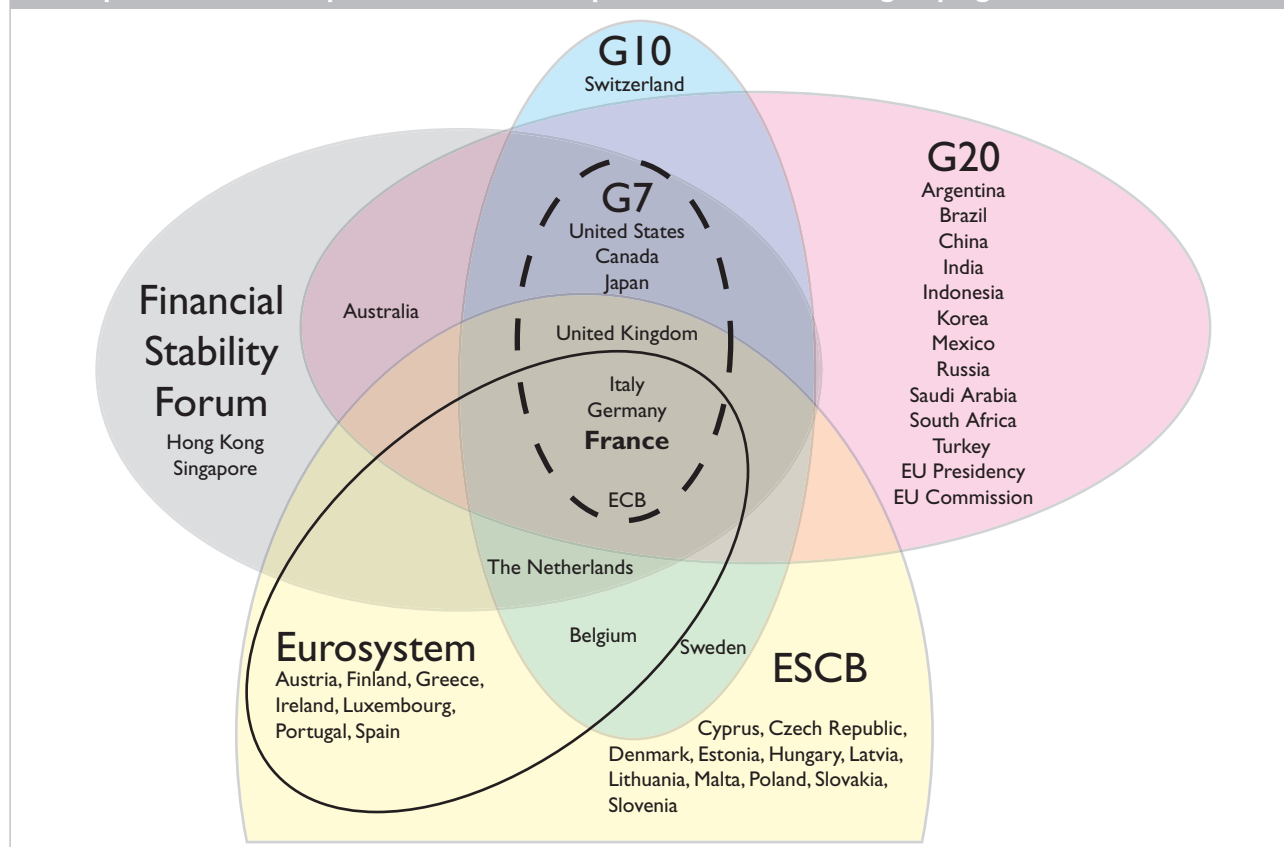
- The Banque de France is a founder member of the Bank for International Settlements (BIS). It participates in the bi-monthly meetings at the BIS that bring together the main central banks and, in the context of G10 central bank activities, it contributes to the work of the different committees, in particular the Basel Committee on Banking Supervision.

- The Governor of the Banque de France or its representatives and experts participate in the work carried out by the economic and financial bodies of the European Union, in particular in the framework of the informal meetings of the ECOFIN Council and the meetings of the Economic and Financial Committee.

- The Banque de France also takes part in the discussions and tasks of many international and regional institutions such as the Financial Stability Forum (FSF), the Organisation for Economic Co-operation and Development (OECD) and multilateral development institutions. It manages the debt agreements reached within the framework of the Paris Club.

- The Governor of the Banque de France participates in the meetings of the Franc Area Ministers of Finance, for which the Banque de France provides the secretariat. In this capacity, it provided support to the working groups that meet outside these ministerial meetings on the following topics: remittances from migrant workers, micro-finance, and convergence within the Franc Area.

Participation of the Banque de France in European and international groupings



The Banque de France participated in work on future EU enlargement (Bulgaria and Romania signed the Accession Treaty on 25 April 2005, and talks with Turkey and Croatia opened on 3 October 2005) and in the preparation of the entry of new currencies to the exchange rate mechanism (ERM II): the Cyprus pound, the Latvian lats and the Maltese lira on 29 April 2005 and the Slovakian koruna on 28 November 2005.

The Banque de France, together with Banca d'Italia and De Nederlandsche Bank, signed a twinning agreement with the National Bank of Romania in spring 2005, with a view to the latter participating in the ESCB; moreover, the Bank was appointed to head a second twinning project with the National Bank of Bulgaria.

In February 2005, in co-operation with the ECB, the Banque de France organised the second ESCB/Mediterranean countries seminar in Cannes.

In addition, the Banque de France offers training programmes and technical assistance to the central banks of accession countries and of Franc Area, Francophone, Middle Eastern and CIS countries and some Asian countries such as China, etc.

Key data for 2005

- 22 meetings of the ECB Governing Council
- Some 20 other European meetings (Economic and Financial Committee and the French/German Economic and Financial Committee)
- Some 20 meetings of international (IMF, BIS, G7, G10, G20, OECD, FSF) and regional (e.g. the Franc Area) organisations or bodies
- 12 bilateral debt agreements signed
- 125 short-term assignments and 7 long-term secondments in the framework of technical co-operation
- 51 training seminars and 40 study visits arranged for over 2,300 trainees from foreign central banks

1|3 The role of the Banque de France in financial sector supervisory bodies

The CECEI and the *Commission bancaire*

The Governor of the Banque de France chairs the *Comité des établissements de crédit et des entreprises*

1 At 31 December 2005, they numbered 31 (see Appendix).

d'investissement (CECEI – Credit Institutions and Investment Firms Committee), which delivers the necessary authorisations for the setting-up, development and restructuring of these institutions. He also chairs the *Commission bancaire*, which is charged with their prudential supervision (solvency, liquidity, internal control, the fight against money laundering and the financing of terrorism, etc.).

The CCLRF, the CCSF and the other French financial market authorities

The Banque de France is a member of the other French financial market authorities, which comprise the *Comité consultatif de la législation et de la réglementation financières* (CCLRF – Advisory Committee on Financial Legislation and Regulation), the *Autorité des marchés financiers* (AMF – Financial Markets Authority) and the *Autorité de contrôle des assurances et des mutuelles* (ACAM – Insurance Supervisory Authority). The Banque de France's regional managers are the AMF's representatives in the regions. The Banque de France provides the secretariat of the General Secretariat of the *Commission bancaire*, the CECEI, the *Comité consultatif du secteur financier* (CCSF – Advisory Committee on the Financial Sector) and, in part, the CCLRF.

1|4 The Advisory Council (*Conseil consultatif*)

The role of the Advisory Council is to provide the Banque de France's governing authorities with information and advice regarding the state and outlook of the various sectors of the economy.

Its members,¹ appointed for three years by the General Council on the proposal of the Governor, are selected from among leading figures from different sectors of the economy. In 2005, 11 meetings were held.

1|5 Local economic relations in the framework of the Public Service Contract

In each of their geographical areas, Banque de France branch managers or their representatives provide local economic and administrative officials with the expertise of the Banque de France in its different fields of competence, which cover a large area of the economic and financial sector. The Banque de France

organises meetings with the advisory councils of the different *départements*, which, once or twice a year, bring together the branch manager, a number of the main economic players in the *département* and the paymaster-general.

This essential contribution to the economy of the regions was formalised in the Public Service Contract signed with the State on 10 June 2003. This contract defines the duties incumbent on the Banque de France as part of its public and general interest services. It lays down the conditions of access to the services it provides and the commitments to improving the quality of the services performed for users in the context of its work relating to household overindebtedness and to the monitoring of economic developments and labour pools in the regions.

2 | The tasks and activities of the Banque de France

Categorising the tasks of the Banque de France is a difficult exercise, especially given that a number of its activities pertain directly to the functioning of the Eurosystem, whereas others are specific tasks that have, in most cases, been assigned to it by law. However, the core tasks and activities of the Banque de France contribute to achieving three objectives:

- monetary stability;
- financial stability, which is the responsibility both of the Eurosystem and the NCBs;
- the provision of specific services to private individuals, public administrations, and the banking and financial sector.

2|1 The Banque de France and monetary stability

In addition to the duties relating to European and international relations described in the previous section, the following activities may be classified under this heading:

- preparation and implementation of monetary policy;

Tasks conducted within the framework of monetary policy

The Banque de France performs its central bank tasks within the framework of the Eurosystem, which is made up of the European Central Bank (ECB) and the euro area national central banks. The primary objective of monetary policy – as laid down in the Maastricht Treaty – is to ensure price stability.

The Banque de France provides the Eurosystem with an array of business analyses, statistics and studies on the French economy, which are used to define monetary policy. It makes an assessment of the economic situation across the euro area for the Governor of the Banque de France, who participates in the meetings of the ECB Governing Council, which is responsible for interest rate policy. The Banque de France, which is charged with the implementation of the single monetary policy in France, refinances French banks by supplying them with the liquidity they require.

- management of foreign currency reserves;
- statistics and research;
- production and management of banknotes and coins.

The preparation and implementation of monetary policy

Readers may refer to Chapter 2 (*The environment and implementation of monetary policy*) for a presentation of the monetary policy decisions taken in the year under review.

In 2005, there were a number of developments in the area of monetary policy operations.

- The Banque de France participated in working groups to establish a single list of eligible collateral for the Eurosystem's credit operations.
- The first stage towards the single list was completed on 1 July 2005 with the inclusion of euro-denominated debt instruments issued by entities established in those G10 countries that are not part of the European Economic Area (EEA). In addition, equities were removed from the list of eligible assets for countries that accepted them.

- The second stage was defined by the decision of the Governing Council of 18 February 2005 to include bank loans as of 1 January 2007 in the future single list of eligible collateral for Eurosystem credit operations, provided that they meet the common eligibility and creditworthiness criteria. As of 1 January 2012, only bank loans above the minimum threshold of EUR 500,000 shall be eligible.

- Improvements were made to the Eurosystem's operational framework. In particular, it set up the Eurosystem Credit Assessment Framework (ECAAF), which defines and harmonises the techniques and rules establishing its requirement for "high credit standards" of eligible collateral.

- Lastly, the Banque de France implemented a new asset valuation system to improve the quality of the valuation of assets eligible for monetary policy operations.

Securities eligible for the management of foreign exchange reserves are mainly those issued by sovereigns, supranationals or issuers with a government guarantee.

The management of foreign exchange reserves

Foreign exchange assets diversified and actively managed

In 2005, the diversification of the foreign exchange investment strategy continued, with a view to optimising the risk/return profile of these assets.

Foreign exchange assets are mainly managed in the trading book and invested in short-term money market instruments or liquid bonds. However, a small proportion of these assets are now held in investment portfolios in the form of long-term held-to-maturity securities.

Tasks carried out in the management of foreign exchange reserves

The Banque de France holds and manages the country's gold and foreign exchange reserves; it also manages part of the ECB's foreign exchange reserves. In the framework of the decisions taken by the ECB Governing Council, it may be required to intervene on foreign exchange markets.

Key data for 2005

*EUR 67.5 billion in foreign exchange reserves
2,824 tonnes of gold, worth EUR 39.5 billion
USD 28 billion in foreign currency holdings*

Further gold sales in the framework of the central bank agreement

In 2005, the Banque de France sold 161 tonnes of gold. These sales reflect market transactions in the framework of the agreement reached between 15 European central banks to limit overall gold sales to a maximum of 500 tonnes per year over a five-year period commencing on 27 September 2004; they also include a marginal off-market transaction with the BIS (3.5 tonnes) in the framework of the acquisition by the Banque de France of BIS shares.

At the end of 2005, the Banque de France's gold reserves stood at 2,824 tonnes.

The management of ECB foreign reserve assets

In the framework of the decentralised management of the ECB's foreign reserve assets, the Banque de France manages dollar and yen reserves proportionate to its share in the subscribed capital of the ECB. In the same way as national foreign exchange reserves, these portfolios are actively managed, in accordance with investment benchmarks defined by the ECB.

Services offered for the management of foreign exchange reserves in euro

Since 1 January 2005, the Banque de France has greatly contributed to the provision of services offered by the Eurosystem for the management of foreign exchange reserves in euro of non-euro area central banks and international organisations. This activity expanded substantially during the year, both in terms of strengthening ties with existing clients and developing and diversifying contacts. Assets held enjoy legal immunity.

The Banque de France is now one of the two main players in the provision of these services in the Eurosystem. In this respect, it helps promote the euro as a reserve currency and facilitates the placement of French government securities.

Research and statistics

The operational participation in the implementation of monetary policy and the explanation of this policy are inconceivable without the basis provided by in-depth research and the compilation and analysis of economic, monetary and financial statistics.

Growing European and international demand in the area of statistics

As regards monetary, financial and interest rate statistics, the Banque de France has implemented the Notice of the ECB on the imposition of sanctions for infringements of balance sheet statistical reporting requirements, as well as participating in the drafting of the ECB opinion on statistical reporting requirements for certain financial institutions including insurance corporations and pension funds.

Moreover, as part of the rationalisation of the reporting framework, the Banque de France carried out a comparison of the calculation of usury ceilings and the ESCB's interest rate statistics.

As regards national financial accounts, work was completed on the new national accounting system – published in spring 2005 – in particular with regard to interest flow estimates.

As part of its responsibility in the field of balance of payments (b.o.p.) and international investment position (i.i.p.) statistics, the Banque de France contributed to studies conducted by the *Conseil national de l'information statistique* (CNIS – National Council of Statistical Information) on measuring international trade in services, which resulted in the CNIS recommending a supplementary survey among firms that are not direct reporting companies. The growing use of bank balance sheets as a source of balance of payments data was favoured together with, in parallel, a reduction in the use of specific data on "other investment" (deposits and loans).

Work continued on modernising the processing of economic surveys, and the procedures for working day adjustments and seasonally adjusted data were thoroughly reviewed.

Furthermore, the Banque de France technically consolidated its internal and external statistical information system by participating in the ESCB's joint

publication project. This consists in posting on the websites of the ECB and Eurosystem NCBs, in their respective languages, several thousand consistent statistical series for the Member States and the euro area.

Refining analyses and developing the "studies and research" function

The Banque de France contributed to the forecasting exercises conducted by the Eurosystem. The estimation of a macroeconomic model for the entire euro area was completed, and a model for euro area inflation is currently being developed.

Tasks carried out in the area of research and statistics

In this area, the Banque de France:

- draws up the French components of the monetary, financial, and balance of payments statistics that the ECB then aggregates for the whole of the euro area;
- produces a large body of financial statistics pertaining to national accounting;
- compiles France's b.o.p. and i.i.p. statistics for the Government;
- conducts a monthly business survey;
- analyses France's international economic environment and makes growth and inflation projections within the framework of the Eurosystem;
- produces a large array of publications, including the Banque de France Bulletin and the Financial Stability Review;
- contributes to economic and financial research through its own studies, retranscribed and published, in particular in the Notes d'études et de recherche (NER) series, and through the work of the Fondation Banque de France and the organisation of or participation in symposia.

Key data for 2005

29,200 statistical series published in French by the Banque des séries monétaires et économiques (BSME – Monetary and Economic Statistics Data Bank) and 3,800 series in English

2,300 statistical series relating to the euro area and Member States were posted online as part of the Banque de France's contribution to the ESCB's joint publication system

13,000 companies surveyed to produce the monthly business survey

2,900 companies reporting monthly and 21.5 million items of information processed to compile the b.o.p.

The Banque de France continued and stepped up its work on inflation persistence. In particular, studies on the statistical analysis of individual consumer price data and survey data were completed and published in articles in the *Bulletin de la Banque de France* and in more specialised documents (*Notes d'études et de recherche*) on its website.

In addition to these topics, a number of studies were also devoted to current account imbalances. The Banque de France also published in its *Financial Stability Review* and its *Bulletin* studies on the sustainability of emerging market debt, the restructuring of sovereign debt, regional integration and the international role of the euro.

The Banque de France organised a number of symposia and seminars.

In June 2005, it organised an international seminar on the topic of disparities in terms of growth and economic cycles together with experts from the Deutsche Bundesbank and Banca d'Italia.

In July, the seminar organised by the Banque de France, in co-operation with the Ministry of the Economy, Finance and Industry, the World Economic Forum and the Reinventing Bretton-Woods Committee, focused on the topic "The evolving role of the Bretton Woods Institutions: where do we stand?".

The Banque de France's international symposium, which took place in Paris on 4 November 2005, was devoted to the topic "Productivity, competitiveness and globalisation" and brought together, in addition to some 20 speakers, over 100 participants, central bank Governors, academics, members of research institutes and decision-makers from the private sector.

The *Fondation de la Banque de France pour la Recherche en économie monétaire, financière et bancaire* (Banque de France Foundation for Monetary, Financial and Banking Economic Research) put out its tenth request for proposals for research projects that it finances via grants. In the framework of its new guest researcher programme, it received academics from France and other countries wishing to co-operate on a study with Banque de France teams. It organised its fourth *Journées* in February 2005, on the topic "Micro, macro and international liquidity". Furthermore, in order to consolidate its work and increase its resources, the Banque de France granted it an exceptional

endowment of EUR 6.7 million, bringing its equity to EUR 8.7 million. With a view to broadening its activity, the Foundation decided to set up a Scientific Council comprising representatives from French and international academia in order to create a forum for discussing its strategic orientations.

Production and management of banknotes and coins

Tasks carried out in the production and management of banknotes and coins

The Bank operates a paper-mill at Vic-le-Comte and printing works at Chamalières in the Auvergne. Both industrial sites have received a quality and environment certification. While it focuses on the production of euro banknotes, the Banque de France also supplies foreign central banks in the framework of institutional partnerships and the provision of specialised engineering services.

The Banque de France puts euro banknotes and coins into circulation. Through its branch network throughout France, it supplies cash to credit institutions, which then distribute it to the public. The Bank is charged with ensuring the quality of all banknotes in circulation in France and sorts the notes in order to identify and remove from circulation all counterfeit, worn, torn and stained bills.

Key data for 2005

748 million euro banknotes printed
6.4 billion banknotes sorted
6.5 billion banknotes distributed by the Banque de France
6.3 billion banknotes received at the Banque de France
1.1 billion coins put into circulation
38 coin recycling agreements signed between the Banque de France and its partners in the cash-handling industry

Banknote printing

Following record banknote production in 2004, the Banque de France printed an equally large quantity of banknotes in 2005: almost 1.2 billion (euro and export). After strong export activity in 2004 resulting from exceptional orders (due to changes in banknote series), the euro/export ratio in 2005 stood at 62% for euro banknotes and 38% for banknotes for export. The quota of euro banknotes allocated to the Banque

de France as part of the Eurosystem's pooling system² will continue to expand in the next few years due to the increases in euro banknotes in circulation and the preparation of the future "euro 2" series.

As a consequence, the Banque de France is preparing to produce between 1.8 and 2.2 billion banknotes per year over the 2006-2011 period, due to the rise in its euro quota and the consolidation of its export markets.

As part of its industrial plan, at the end of 2005, the Banque de France decided to reinforce production capacity by scheduling investment in a second sheet-fed printing line and a fifth automatic sorting machine (to ensure the online quality control of finished banknotes), in order to acquire the resources necessary to cope with the acceleration in its production schedule both in qualitative and quantitative terms. Scheduled to come into service in early 2007, this new equipment will complete the technological update that includes investment made over the past few years at the Chamalières printing works (purchase of two new state-of-the-art automatic banknote checking machines that came into service in 2005) and at the Vic-le-Comte paper-mill (installation of a twin-jet system on one of the paper machines in 2005).

As regards the restructuring plan, the programme to reduce staffing levels as part of Phase 2 of the DGFB's industrial recovery plan (2002-2006) was implemented in 2005 in line with the specified objectives: over 84% of age-related retirements were effective by the end of 2005. The target of the plan (950 full-time equivalent staff, head office and branches combined, by the end of 2006) will therefore probably be attained.

At the same time, substantial efforts were made in terms of manpower and skill planning, with a view to retraining staff for redeployment and increasingly technical posts.

Lastly, at the European level, the Banque de France played an active role in the preparation of the future "euro 2" series – which should be circulated by the end of this decade – and, in particular, in designing and selecting the security features to be included in the new series, whose specifications are expected to be finalised by the end of 2006.

Managing currency in circulation

In 2005, much work was carried out in the framework of the Bank's management of currency in circulation:

- the restructuring of the Banque de France's branch network continued, with cash operations discontinued in another 19 branches, bringing to 88 (excluding the head office branch) at the end of the year, the number of these "institutional" branches (these branches are so termed because they carry out transactions with "institutional" customers, i.e. credit institutions, the Treasury and cash-in-transit companies);
- as part of the decentralised pooling system and the adjustment of banknote stocks between euro area central banks, the Banque de France supplied foreign central banks with 320.1 million banknotes and imported 731.8 million;
- Decree 2005-487 of 18 May 2005 on the recycling of euro banknotes and coins laid down the legal framework for recycling and made compulsory the technical European standards adopted by the ECB Governing Council on 16 December 2004.³ The decree entered into force on 17 January 2006. The Banque de France is responsible for the on and off-site monitoring of professional cash handlers that opt to recycle banknotes. The latter will have to sign agreements with the Banque de France in this respect;
- the new European standards on the packaging of euro coins came into force on 1 February 2005 in France and resulted in a considerable change in the pattern of the flows in 2005, causing withdrawals and deposits to decline by 21.0% and 10.5% respectively relative to 2004;
- the exchange of franc coins, which had ceased to be legal tender on 18 February 2002, ended on 17 February 2005. Since 1 January 2002, the return of franc coins (except 100-franc coins) has accounted for 59.0% of the estimated real circulation (9.8 billion coins), i.e. 5.8 billion coins.

Since the introduction of the euro on 1 January 2002, "circulation" has designated all euro banknotes issued within the Eurosystem. At end-2005, banknote circulation in the Eurosystem amounted to

² A pooling system was set up in 2002 among national central banks for the production of euro banknotes in the Eurosystem: each NCB specialises in the production of different banknotes, which are then partly exchanged between participating NCBs.

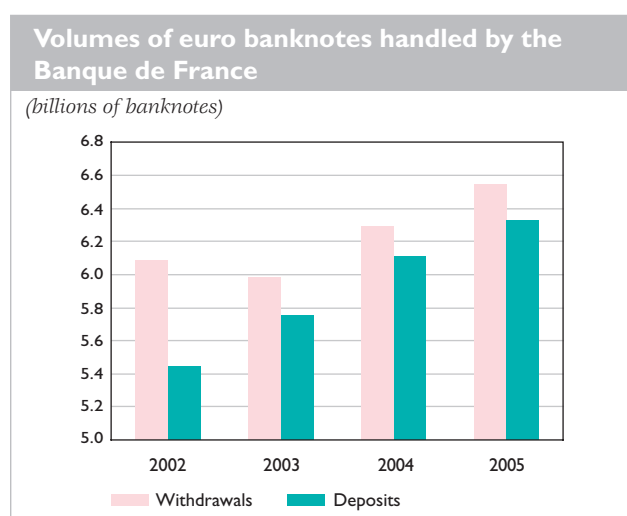
³ "Framework for the detection of counterfeits and fitness sorting by credit institutions and other professional cash handlers", ECB Governing Council, 16 December 2004.

EUR 565.2 billion, of which EUR 108.2 billion (19.1%)⁴ was recorded on the balance sheet of the Banque de France.

The growth of net issuance in France at the end of 2005 mainly stems from transaction banknotes (EUR 5, 10, 20 and 50 notes), whose net issuance rose in value terms by 14.7%, compared with 9.2% in the Eurosystem. This difference is due to the greater use in France of medium-value denominations. Conversely, net issuance in France of large-value denominations (EUR 100, 200, and 500 notes) recorded the slowest growth in the area. As a result, the average value of euro banknotes put into circulation in France decreased mechanically, falling from EUR 28.1 at the end of 2004 to EUR 27.7 at end-2005.

It may be noted, by way of comparison, that more than one out of every three EUR 20 banknotes, but less than one out of every ten EUR 500 notes circulating in the euro area is withdrawn in France.

The growth of volumes handled by the Banque de France slowed in 2005, but remained sustained. Deposits (6.3 billion banknotes amounting to EUR 147 billion) and withdrawals (6.5 billion banknotes amounting to EUR 152 billion) grew in volume terms by 3.6% and 4.0% respectively.



The growth rate of net issuance of coins in France remained stable year-on-year in value terms at 6.4%. It stood at 13.2% for net issuance in volume terms, down from 15.7% at-end 2004. At the end of 2005, 78.3% of total net currency outflows (sum of withdrawals - sum of deposits) were made up of copper coins, due to the low rate of return of these coins to the Banque de France.

2|2 The Banque de France and financial stability

This heading covers:

- banking supervision and activities relating to financial stability;
- the security of settlement systems and means of payment.

Banking supervision and financial stability

Work on the convergence of national supervisory practices within the European Union

The European Capital Adequacy Directive has been adopted and is currently being implemented in France. As the use of an internal ratings based approach to credit risk requires prior authorisation by the *Commission bancaire*, in the second half of 2005, the General Secretariat of the *Commission bancaire* initiated on-site assessments of the systems implemented within credit institutions that had expressed the intention of adopting this approach.

Work continued on adapting the information reported to the *Commission bancaire* to the new international accounting standards, with the COREP (Common reporting framework) and FINREP (consolidated financial reporting framework based on the IFRS) projects reaching their final phases within the framework of the Committee of European Banking Supervisors (CEBS).

The directive on financial conglomerates was implemented.

⁴ Pursuant to the ECB's Decision of 6 December 2001 on the issue of euro banknotes, 8% of the total value of euro banknotes in circulation is allocated to the ECB, while the remainder is allotted to the different NCBs in proportion to their paid-up shares in the capital of the ECB (20.8% for France in 2004 and 2005). These sums are included in the liability base of each NCB under "Banknotes in circulation" (for France, $20.8\% \times (100 - 8)\%$ of currency in circulation in the Eurosystem = 19.1%).

Work on financial stability

The year 2005 saw the creation, under the auspices of the Banque de France and with the co-operation of the *Fédération bancaire française* (French Banking Federation), of a high-level group charged with examining issues of common interest relating to the business continuity of the Paris financial centre in the event of a major crisis. This group is made up of representatives of major financial institutions, infrastructures, as well as regulatory and supervisory authorities.

Several units working on monetary stability, market operations, payment and clearing and settlement systems, and the supervision of credit institutions and investment firms, collectively perform the Banque de France's financial stability tasks. The activities and positions of the Banque de France are co-ordinated internally thanks to a network-based organisation.

The Financial Stability Committee, an internal body that brings together the two Deputy Governors, the Directorate General Operations, the General Secretariats of the *Commission bancaire* and the CECEI, the Directorate General Economics and International Relations and, where necessary, the General Secretariat of the Banque de France, examined, *inter alia*, the new regulatory framework for securitisation in France, the project for labelling European money market instruments, issues relating to alternative investment management, and the application of Basel II.

Within the framework of its *Financial Stability Review*, the Banque de France called on institutions in the financial sector to ensure the appropriate management of risk in the event of a marked rise in long-term interest rates and spreads. Certain topical issues were dealt with in greater depth in articles on the functioning of the CDO (collateralised debt obligation) market, interest rate risk for financial institutions, the prudential impact of the new accounting standards and the limitations of Value at Risk figures disclosed by banks.

Tasks carried out in banking supervision and financial stability

The Banque de France, the Comité des établissements de crédit et des entreprises d'investissement (CECEI – Credit Institutions and Investment Firms Committee), the Commission bancaire (CB) and the Comité consultatif sur la législation et la réglementation financières (CCLRF – Advisory Committee on Financial Legislation and Regulation, which also works in the field of insurance) contribute to the smooth functioning of the banking sector and the financial system. The various players carry out the following tasks:

- delivering the authorisations and licences required for credit institutions and investment firms to carry out their activities;
- ensuring these institutions' compliance with the banking and financial regulations in force through off-site monitoring and on-site inspections, and supervising the negotiable debt securities market;
- drafting and implementing the legal texts governing the banking and financial sector, analysing the regulatory issues relating to the functioning of financial markets, in the context of the harmonisation of European and international rules;
- identifying the risk factors underlying financial developments and assessing the strategic issues linked to financial stability. The Banque de France contributes, within financial bodies or international organisations, to strengthening financial stability and the robustness of the financial system, particularly through co-operation between central banks, financial sector supervisory authorities and government agencies.

Key data for 2005

1,006 institutions subject to supervision
857 credit institutions and 149 investment firms
Commission bancaire
171 on-site inspections; 130 individual letters requesting improvements or letters of injunction; 21 proceedings leading to penalties
CECEI
324 individual cases examined, of which 24 authorisations and 61 revocations of authorisation
Banque de France
Validation and posting on the Banque de France's website of the information memoranda of over 400 issuers of negotiable debt securities

The Banque de France and the security of settlement systems and means of payment

TARGET2

In 2005, as part of its role in managing interbank systems, the Banque de France, in a joint project with the Deutsche Bundesbank and the Banca d'Italia, helped to set up the single shared platform that will constitute the core of the TARGET2 settlement system. This project reached an important milestone with the publication on 30 November 2005 of the final version of the future system's detailed functional specifications.

On 21 October 2005, the ECB Governing Council published a new Progress Report that focused mainly on:

- the timetable for the launch of the future system: 19 November 2007 for countries migrating in the first wave, 18 February 2008 for countries migrating in the second wave and 19 May 2008 for those migrating in the final wave;

Tasks carried out in respect of payment systems

The Banque de France is charged with ensuring the smooth functioning and security of payment systems and securities clearing and settlement systems.

It is responsible for ensuring the security of cashless means of payment and the relevance of the applicable standards in this area. Within this framework, the Governor chairs the Observatory for Payment Card Security for which the Banque de France provides the secretariat.

The Banque de France keeps the accounts of credit institutions and manages the French component of the European TARGET system, which ensures the secure cross-border settlement of large-value payments and thereby the smooth functioning of the euro area interbank market.

Key data for 2005

1,100 accounts of credit institutions and investment firms (of which roughly 150 accounts in the TBF system, France's real-time gross settlement system)
EUR 476 billion worth of payments processed daily in TBF
25% of TARGET traffic transits via TBF

- the pricing of services (core services, pooling of liquidity, ancillary systems settlement);
- the description of the business day.

The Banque de France is making preparations for the Paris financial centre's migration to TARGET2, which is scheduled for 18 February 2008. As part of these preparations, a steering group for migration to TARGET2, which is headed by the Banque de France, has been set up. The French banking community is informed of TARGET2-related issues via various channels: topic-specific workshops, information bulletins, direct mailing and a dedicated section on its website.⁵

Oversight of settlement systems and means of payment

As part of its task of overseeing payment systems and market infrastructures, the Banque de France assessed the securities clearing house LCH.Clearnet SA in co-ordination with the other competent French and European authorities. The Banque de France thus completed the assessment of all the systems on the French financial market. The assessment reports found that, on the whole, settlement systems boasted a good level of security and efficiency.

The Banque de France monitors the action plans that the operators of the different systems must implement to ensure compliance with the relevant standards. The protection mechanism against settlement risk in the revocable channel of the RGV 2 securities settlement system was implemented, with February 2005 seeing the creation of a guarantee fund.

The Banque de France is finalising the oversight mechanism for settlement systems. The collection of statistical data required for the oversight of all of the systems became operational in the course of 2005. The next step will entail an assessment of TARGET2 by the Eurosystem as part of its oversight function, prior to the launch of the system.

In July 2005, the Banque de France, as part of its task of overseeing means of payment, published the *Objectifs de sécurité pour le système de paiement par chèque* (Security objectives for cheque payment systems),⁶ which serve as a reference for a questionnaire to

⁵ Document available on the Banque de France's website at: http://www.banque-france.fr/fr/sys_mone_fin/target2/target2.htm.

⁶ Document available on the Banque de France's website at: http://www.banque-france.fr/fr/sys_mone_fin/telechar/rapports/lob_secu_cheq.pdf.

which, from 2006 onwards, institutions will be required to respond annually as part of their risk control reporting.

In 2005, the Banque de France was charged with overseeing the security of a new means of payment, the *chèque emploi service universel* (CESU), the all-purpose employment service cheque instituted by Act 2005-841 of 26 July 2005 for the development of home services, which incorporates various measures fostering social cohesion. In 2006, the Bank will draw up a security framework for the CESU as part of the authorisation procedure for issuers.

In its *Annual Report*⁷ released in July 2005, the Observatory for Payment Card Security, chaired by the Governor of the Banque de France, published a study on the security of remote payments, as well as recommendations designed to combat the theft of personal identity data on the Internet (a practice known as “phishing”) and their use in remote payments, particularly by improving authentication methods. In addition, the decrease in fraud linked to cross-border card transactions, as shown by the fraud statistics compiled by the Observatory, is proof of the positive impact of the implementation, by all the players involved – card-issuing or transaction acquiring institutions and accepting merchants – of security measures specific to these transactions.

The oversight mechanism was also supplemented with a questionnaire for drawing up a profile of means of payment, defined in co-operation with the banking industry, which will provide more in-depth knowledge of the payments market and enable the ECB and BIS to publish harmonised statistics. This improved insight into the European market is of significant importance in the context of the creation of the Single Euro Payments Area (SEPA) project being conducted by the European banking community and followed very closely by Eurosystem central banks.

2|3 The other tasks specific to the Banque de France

The Banque de France’s other tasks are centred on the provision of services to the State (traditional central banking tasks, first among which is the management of the Treasury account), to private

individuals (household debt commissions, right of access to banking services, mediation, etc.), public administrations and the banking community (information on non-financial corporations).

The management of an account and of payment means on behalf of the Treasury

In 2005, the EVCLI project to update the management of institutional clients’ accounts, designed to equip the Bank with a high-performance and advanced tool, entered the detailed functional specifications phase. This project, which should become operational in 2007, is all the more important since it is coupled with the provision to the Public Accounts Directorate of a similar application (ALTAIR) designed to manage 140,000 local authority and public institution accounts.

Services to public administrations

With the development of the Government’s regional strategic plans (PASER) and the growing economic responsibilities of regions with regard to assistance to companies, the Banque de France’s local representatives are increasingly called upon by public administrations and regional and local authorities for their economic and financial expertise. In 2005, they thus took part in over 2,000 working meetings.

Tasks carried out in the management of the Treasury’s account

In accordance with the agreement of April 2002 between the State and the Banque de France, the latter:

- manages the Treasury’s central account;
- implements the national and international settlement and collection circuits in euro and foreign currency that make it possible to carry out flow transactions on behalf of its customers;
- manages all these services, while complying with the quality and risk control indicators laid down in the agreement.

Key data for 2005

Transactions performed on behalf of the State:

- 188 million cheques collected
- 251 million direct debits presented
- 228 million credit transfers initiated

⁷ The Observatory for Payment Card Security annual reports are available in English on the Observatory’s website at: <http://www.observatoire-cartes.fr>.

The Banque de France responds positively to these requests insofar as it is competent in the area concerned, its intervention is not liable to jeopardise its neutrality nor, of course, the confidentiality obligations with which it must comply, and as long as it is appropriately compensated for its services should they require the implementation of special resources. Pursuant to the provisions of Article 3 of the Public Service Contract, these activities entail, whenever necessary, the signing of agreements that lay down the conditions for the repayment of the costs incurred.

Tasks carried out in the context of relations with public administrations

In accordance with the Public Service Contract signed with the State, the support the Banque de France offers to public administrations in the execution of their economic activities is two-fold:

- its representatives serve as experts on committees charged with monitoring and addressing the main economic issues (Comité interministériel de restructuration industrielle – CIRI, Comité départemental d'examen des problèmes de financement des entreprises – CODEFI), as well as on committees that give their opinion on requests for government assistance;*
- it monitors economic developments and labour pools in the regions. In accordance with various agreements and contracts, it provides public administrations with services that enable them to support local companies (GEODE), to assess the positions of companies whose head offices are in the region (Localised Cyclical and Structural Economic Analysis – ACSEL) or monitor a specific group of companies, for example those that have received assistance in previous years.*

Key data for 2005

In accordance with the 2003-2006 Public Service Contract signed between the Banque de France and the State:

- 51,000 technical opinions delivered by commissions for monitoring and granting assistance to companies;*
- 2,100 GEODE economic and financial assessments performed in collaboration with business leaders. This included 272 assessments carried out within the framework of 63 agreements and contracts with public administrations and 20 ACSEL analyses conducted and presented to public officials.*

In addition to the continuation of activities aimed at promoting the use of the GEODE economic and financial assistance service, in co-operation with regional and departmental councils, in 2005 emphasis was mainly placed on making the ACSEL service available to the regions and a number of other territorial units.

Lastly, master agreements signalling the desire of the regions and the Banque de France to collaborate with regard to monitoring companies that have received regional assistance, company assessments (GEODE) or regional assessments (ACSEL), were signed with the regional council of Brittany in October 2004 and the regional council of Burgundy in July 2005.

Data on non-financial corporations

FIBEN and Banque de France ratings

The Banque de France rating is a reference for the banking industry, first of all with regard to refinancing operations. It is used by the Banque de France to assess the quality of assets pledged by banks as collateral for their monetary policy operations, particularly in weekly tenders. This practice was reinforced by the decisions taken by the ECB Governing Council in 2004 and 2005, which further enabled banks to use bank loans as underlying assets for monetary policy operations irrespective of the euro area country concerned and confirmed that the Banque de France's rating complied with the stringent operational requirements defined at the European level.

Tasks carried out in respect of company data

The Banque de France has managed the FIBEN company database since 1982 to cater for its own needs, those of the Commission bancaire and the banking industry and to provide company managers with an external assessment of their company's financial position relative to that of other firms.

Key data for 2005

- 3.5 million entities listed in FIBEN*
- 220,000 companies rated on the basis of tax or consolidated statements*
- 44,000 meetings with company managers*

The *Commission bancaire* uses the FIBEN database and the Banque de France rating to assess the “company credit risk” incurred by the institutions that it supervises. FIBEN and the Banque de France rating provide credit institutions with a database that helps them to refine their decision-making, monitor their risks over time and complete their own information and rating systems.

All companies are informed of their ratings. The Banque de France seeks to promote a transparent and co-operative approach with regard to the companies rated and to explain the reasons behind its rating decisions. It also has an active and targeted communication strategy vis-à-vis credit institutions, chartered accountants, trade unions and, more generally, professions that are likely to relay the Banque de France’s initiatives aimed at raising awareness of financial factors and preventing difficulties.

Through FIBEN, the Banque de France contributes to the quality of financial reporting, which is a prerequisite for smooth relations between banks and companies and fosters financial stability.

Enhancing the quality of services provided to users of ratings

In 2005, the Banque de France placed strong focus on the quality of the new rating, which complies with Basel II rules and was implemented in April 2004. The rules were thus adapted at the end of 2005 to take account of the new law for rescuing companies in distress. New information modules were also drafted, particularly on consolidated accounts drawn up in accordance with IFRS standards and on the online consultation of financial organisational charts.

Companies were informed, particularly in the course of individual meetings with managers, of the methods used in the new ratings. Information given to companies also covered the expected consequences of the implementation of Basel II rules on risk measurement.

In addition, the Banque de France considerably enriched the central database on credit risk incorporated in FIBEN, which contains monthly statements reporting bank lending to companies. The collection threshold was reduced from EUR 76,000 to EUR 25,000 at the start of 2006, increasing the number of companies monitored from roughly 1 million to

over 2 million. In addition, following consultations with the banking industry, the recording of operations such as factoring will be significantly improved. This financial project will provide the banking system with a pool of information that is accessible online and will enhance the knowledge of small companies.

Ongoing projects aimed at increasing productivity and quality

The Banque de France has embarked on a process reengineering project with regard to the “collection, analysis and dissemination of data on non-financial companies” that will span the 2002-2009 period with a special focus on the dematerialisation of the collection of descriptive and accounting information. Through these projects, the Banque de France is ensuring that it has financial information that is up-to-date and of good quality and that it generates funds to increase the value provided to users while reducing operating costs.

Services provided in the area of relations between private agents and the financial sphere

National databases

The management of national databases was enhanced by improving information exchange processes with the banking industry. This development was reflected in the continuing roll-out, initiated in 2004, of the

Tasks carried out in database management

The Banque de France manages the household payment incident databases:

- the National Register of Household Credit Repayment Incidents (FICP), which records clear-cut payment incidents related to credit granted to natural persons as well as measures for handling cases of household overindebtedness;
- the Central Cheque Register (FCC), which records payment incidents related to the use of cheques and bank cards, with the aim of improving the security of payment instruments;
- the National Register of Irregular Cheques (FNCI), which compiles and disseminates data, on stolen or lost cheques in particular, to merchants and service providers seeking to verify the validity of cheques.

Key data for 2005

70 million consultations of the FCC
2.27 million individuals registered in the FICP

system enabling the input of data and consultation via Internet, replacing old methods such as telex or videotex and also enabling the phase-out of paper-based forms.

Other tasks carried out in respect of relations with private individuals

The Banque de France carries out a number of tasks that are entrusted to it for the most part by law:

- it has provided the secretariat for the household debt commissions since the set-up of the mechanism for dealing with situations of household overindebtedness;
- it processes requests to allow individuals to exercise their right of access to banking services, which entitles all persons domiciled in France without a deposit account to open such an account;
- it provides the secretariat for the Banking Mediation Committee, which is chaired by the Governor and is responsible for supervising the mechanism set up in 2003 and drafting an annual report on mediation;
- it helps to inform private individuals on banking regulations and practices via its "Infobanque" service;
- it manages the database on banking and financial sales activities on behalf of the Autorité des marchés financiers (AMF – Financial Markets Authority), the Comité des établissements de crédit et des entreprises d'investissement (CECEI – Credit Institutions and Investment Firms Committee) and the Autorité de contrôle des assurances et des mutuelles (ACAM – Insurance Supervisory Authority).

Key data for 2005

182,000 cases submitted to the household debt commissions

26,700 applications for access to banking services

application for processing cases of overindebtedness used by the Banque de France's branch network units was also ongoing. The setting-up of a more ergonomic and high-performance tool will also make it possible to facilitate the production of data on the different types of overindebtedness and its development, in accordance with the objectives set forth in the Public Service Contract signed between the Banque de France and the State for the 2003-2006 period.

Access to banking services

The Banque de France also participated in work on combating exclusion from banking services, conducted particularly in the framework of the *Comité consultatif du secteur financier* (CCSF – Advisory Committee on the Financial Sector), in order to improve access to banking services. This should allow all natural or legal persons domiciled in France to open a deposit account.

Informing private individuals and banking mediation

Efforts to improve the quality of information provided to private individuals resulted in the setting-up of a database on sales activities, which may be consulted on the website www.demarcheurs-financiers.fr, and in the creation, in the context of the publication of the second assessment on banking mediation, of a directory of contact addresses of mediators that may be consulted on the Banque de France's website (www.banque-france.fr/fr/instit/telechar/services/mediateurs.pdf).

Overindebtedness

In the area of household overindebtedness, efforts toward putting in place the legislative reform that entails the personal recovery procedure continued and several initiatives were conducted to develop convergent assessments between commissions and magistrates. Meanwhile, 2005 saw the publication of a typological survey which, following on from that of 2001, highlighted the key quantitative elements and the main sociological characteristics of situations of excessive household debt. The project to overhaul the

THE ACCOUNTS OF THE BANQUE DE FRANCE

I | Report on assets, liabilities and results

The accounts for the year ended 31 December 2005 were approved by the General Council at its meeting of 10 April 2006. They showed a net profit of EUR 522 million, confirming the positive trend of the previous year. This improvement reflects an increase in monetary income resulting from strong growth in banknote circulation within the Eurosystem and a better return on foreign exchange assets, against a background of tight control over operating costs.

In the interests of clarity, this section discusses aggregated balance sheet and profit and loss items extracted from the published accounts, which are presented in accordance with the Order of the Minister of Economy, Finance and Industry of 7 February 2000 (see below). Details of the accounting principles applied by the Banque de France are provided in the notes to the annual accounts.

II | Assets and liabilities

During 2005, the Banque de France strengthened its financial position, thanks largely to a significant increase in net sources of funds from banknote operations, which rose by EUR 11.2 billion year-on-year. Changes in other sources of funds were relatively marginal.

Financial position

(year-end amounts, EUR million)

	2005	2004	Change 2005/2004
Net sources of funds from banknote operations	106,942	95,768	11,173
Gold and foreign exchange assets	-25,138	-26,691	1,553
Net position with credit institutions, the ESCB and the ECB	-73,631	-63,580	-10,051
Euro-denominated portfolios	-18,088	-14,854	-3,233
Net position with customers	5,773	5,759	14
Other transactions	4,142	3,598	544
Total	0	0	0

No sign: net source of funds (liability); minus sign: net asset position.

These additional sources of funds significantly increased the amount of euro-denominated assets, which rose from 66% to 72% of net interest-bearing assets on average over the year. Gold and foreign exchange assets (net of revaluation accounts) fell slightly due to further sales of gold and a reduction in the net position with the IMF, despite an increase in other foreign exchange assets.

Net sources of funds from banknote operations

Net sources of funds from banknote operations

(year-end amounts, EUR million)

	2005	2004	Change 2005/2004
Banknotes issued by the Banque de France	50,841	45,773	5,068
Adjustment to the allocation mechanism based on the ECB's capital key	66,733	58,497	8,236
Allocation of 8% of banknotes to the ECB	-9,406	-8,342	-1,064
Banknotes in circulation allocated to the Banque de France (balance sheet item P1)	108,168	95,928	12,240
Advance to the IEDOM	-2,576	-2,042	-533
Net sources of funds from banknote operations (euro banknotes)	105,593	93,886	11,707
French franc banknotes	1,349	1,882	-533

Euro banknotes

Since the introduction of euro banknotes at the start of 2002, 92% of the total amount of euro banknotes in circulation has been allocated at each month-end between each of the national central banks (NCBs) in the Eurosystem in proportion to its subscription to the capital of the European Central Bank (ECB). The remaining 8% is allocated to the ECB.

Having rapidly returned to the levels seen prior to the introduction of euro banknotes, the amount issued by the Eurosystem has grown at a pace which, though slower than previously, is nonetheless exceptionally high (annual average of 15.3% in 2005). Under the formula for allocating banknotes between euro area NCBs, this growth was reflected in a year-on-year increase of EUR 12.2 billion in net sources of funds from euro banknote operations in the accounts of the Banque de France.

The share of euro banknotes allocated to the Banque de France is substantially higher than net issues of euro banknotes carried out by the Bank. The difference constitutes a claim on the ESCB (balance sheet item A8.3), the bulk of which bears interest at the marginal rate applied to main refinancing operations. The size of this adjustment reflects a number of factors, including the traditionally weak demand for banknotes in France, the inflow of banknotes into France as a result of tourism, and the fact that demand from outside the euro area is to a fairly large extent met by other NCBs in the Eurosystem.

The IEDOM is the Banque de France's correspondent responsible for managing banknote circulation in the overseas departments and in the departmental unit of Mayotte and the territorial unit of Saint Pierre and Miquelon. It receives a non-interest-bearing advance in return for the notes it distributes in the name of and on behalf of the Banque de France. This advance corresponds to 3% of France's banknote allocation, and rose by EUR 533 million from one year-end to the next as a result of the increase in banknotes in circulation. This advance is eliminated in the Banque de France/IEDOM combined accounts.

French franc banknotes

French franc banknotes not yet handed in to the Banque de France constitute a purely domestic source of funds, classified as a miscellaneous liability (balance sheet item P11). At 31 December 2005, French franc banknotes represented a liability of EUR 1.35 billion, EUR 533 million lower than at end 2004, due to notes handed in to the Banque de France and a EUR 412 million payment to the French State for notes issued but not presented for exchange.

Gold and foreign exchange transactions

The balance sheet items used to record gold and foreign exchange transactions were affected by the substantial fluctuations in exchange rates. After the strong rise in the euro of recent years, the trend was reversed in 2005, leading to a marked increase in assets and revaluation accounts.

Gold and foreign exchange transactions

(year-end amounts, EUR million)

	2005	2004	Change 2005/2004
Assets	69,863	59,903	9,959
Gold	39,511	30,866	8,645
Foreign exchange assets and investments	27,156	24,407	2,749
Relations with the IMF	3,196	4,631	-1,435
Liabilities	44,724	33,212	11,512
External liabilities			
Foreign exchange liabilities	1,362	3,496	-2,134
Counterpart to SDR allocations	1,313	1,235	78
Revaluation reserves			
Revaluation accounts (gold, foreign exchange assets and securities denominated in foreign currencies)	19,866	7,216	12,650
Revaluation reserve of State gold reserves	19,239	18,613	626
Revaluation reserve of State foreign exchange reserves	2,944	2,651	293
Total gold and foreign exchange	-25,138	-26,691	1,553

Year-end revaluation rates

	Gold (per kg)	US Dollar (EUR/USD)	Special Drawing Rights (EUR/SDR)
End December 2004	10,338.5	1.3621	0.8775
End December 2005	13,980.9	1.1797	0.8265

Gold reserves

Against a backdrop of high gold prices, the Banque de France's gold reserves decreased by 161 tonnes, and at year-end stood at 2,824 tonnes. This reduction mainly reflects market transactions, carried out in accordance with the agreement reached between 15 European central banks to limit overall gold sales to a maximum of 500 tonnes per year over a five-year period commencing on 27 September 2004. Despite these sales, the sharp rise in gold prices increased the value of Banque de France gold reserves by EUR 8.6 billion from one year-end to the next.

Realised foreign exchange gains during the year ended 31 December 2005 of EUR 626 million were allocated to the "Revaluation reserve of State gold reserves". The gold revaluation account opened on 1 January 1999, which tracks unrealised capital gains from that date, stood at EUR 17.1 billion at year-end.

Foreign exchange assets and operations with the International Monetary Fund

Net foreign exchange assets increased by EUR 4.9 billion from one year-end to the next. Much of this rise was due to the 15% appreciation of the US dollar against the euro, but it also reflected the purchase of foreign exchange assets with proceeds from sales of gold.

Despite the rise in the exchange rate of Special Drawing Rights (SDRs) against the euro, the claim on the IMF fell by 30% to EUR 3.2 billion due to reimbursements of financing provided by the IMF to Argentina and Brazil.

Inter-currency arbitrage and reimbursements of SDRs generated EUR 293 million of net foreign exchange gains, taken to the "Revaluation reserve of State foreign exchange reserves". The foreign exchange asset revaluation account, which had a zero balance at the start of the year, showed an unrealised gain of EUR 2.8 billion at the end of the year.

Net position with euro area credit institutions and with the ESCB

Net position with credit institutions

From one year-end to the next, refinancing obtained by credit institutions from the Banque de France increased by EUR 6.5 billion, while refinancing obtained from the rest of the euro area (reflected in intra-ESCB accounts used to record transactions processed through TARGET) fell by EUR 3.3 billion. With minimum reserve deposits virtually unchanged, the net lending position with credit institutions increased by EUR 2.8 billion. On an annual average basis, this net position was close to zero, as it was in 2004.

Net position with euro area credit institutions and with the ESCB

(year-end amounts, EUR million)

	2005	2004	Change 2005/2004
Assets	33,428	31,305	2,123
Loans granted in the framework of monetary policy operations	20,576	14,066	6,510
Other euro-denominated loans to euro area credit institutions	1,385	2,425	-1,040
Intra-ESCB TARGET accounts	11,467	14,814	-3,348
Liabilities	25,745	26,423	-678
Current accounts of banks with minimum reserve obligations	25,730	26,407	-677
Other deposits from euro area credit institutions	15	16	0
Net position with credit institutions	-7,683	-4,882	-2,800
Claim on the Eurosystem for banknotes in circulation	57,525	50,278	7,247
Claim on the ECB for foreign exchange assets transferred	8,423	8,419	4
Other net positions with the ESCB	-65,948	-58,698	-7,251
Net position	-73,631	-63,580	-10,051

Other claims on the ESCB

This comprises (i) the claim arising on the ESCB for the difference between banknotes issued by the Banque de France and the banknotes allocated to the Banque de France under the mechanism described above (see "Net sources of funds from banknote operations" and (ii) the claim arising from foreign exchange assets transferred to the ECB, which is denominated in euros and of which 85% (to take account of the 15% transferred in the form of gold) bears interest at the marginal rate applied to Eurosystem main refinancing operations.

The Banque de France's euro-denominated portfolios

Euro-denominated monetary portfolios¹

The increase of EUR 3.1 billion in 2005 reflects the management framework adopted by the Eurosystem in 2003, which allows NCBs to build up their portfolios within annually-reviewed limits.

¹ From an accounting standpoint, this aggregate item comprises balance sheet item A7, "Euro-denominated fixed-income securities", which consists of the Bank's available-for-sale portfolios, and the portion of A11 "Other euro-and foreign currency denominated financial assets" consisting of the euro-denominated held-to-maturity portfolio. Available-for-sale portfolios are stated net of revaluation accounts, which are shown on the liabilities side of the balance sheet in item P13.2.

Euro-denominated portfolios			
<i>(year-end amounts, EUR million)</i>			
	2005	2004	Change 2005/2004
Euro-denominated monetary portfolios	14,480	11,338	3,142
Available-for-sale	6,933	5,562	1,371
Held-to-maturity	7,547	5,776	1,771
Own funds investment portfolio	3,607	3,516	92
Available-for-sale	1,599	1,528	71
Held-to-maturity	768	784	-17
Participating interest in the ECB	835	835	0
Other participating interests	405	368	38
Euro-denominated securities	18,088	14,854	3,233

Own funds investment portfolios

These portfolios showed a slight increase, mainly as a result of an increase in the Banque de France's interest in the capital of the BIS in connection with the reinvestment by the BIS of the "American tranche".

Operations with institutional customers

Operations with the French Treasury

In the absence of any other financing, the partial reimbursement at the start of 2005 of the advance in respect of coins accounts for the majority of the EUR 101 million increase in the net credit position with the French Treasury, which stood at EUR 239 million at year-end.

Other operations with institutional customers

Operations with institutional customers, primarily central banks from outside the euro area who use the Banque de France to invest some of their foreign exchange reserves, showed a marked rise in 2005. These transactions are recorded in dedicated accounts, and matched by market investments. Consequently, liabilities and assets both increased by EUR 11.6 billion.

Operations with institutional customers			
<i>(year-end amounts, EUR million)</i>			
	2005	2004	Change 2005/2004
Assets	13,835	2,226	11,609
Advance in respect of coins	82	157	-75
Other advances to the French Treasury	0	0	0
Euro-denominated claims on non-euro area residents	122	453	-330
Other banking operations	13,631	1,617	12,014
Liabilities	19,608	7,985	11,623
French Treasury current account	320	295	26
Euro-denominated deposits from euro area residents (other than the French Treasury)	3,660	2,684	976
Euro-denominated deposits from non-euro area residents	6,975	3,239	3,736
Other banking operations	8,653	1,767	6,886
Net position with customers	5,773	5,759	14

Other transactions

The net balance on other transactions at 31 December 2005 was EUR 4,142 million. The year-on-year increase of EUR 544 million was largely a result of the higher profit for the year.

Other transactions			
<i>(year-end amounts, EUR million)</i>			
	2005	2004	Change 2005/2004
Assets	4,137	4,186	-49
Other claims on the Eurosystem	18	22	-4
Miscellaneous assets	3,269	3,271	-2
Fixed assets	850	893	-43
Liabilities	8,279	7,784	495
Other liabilities to the Eurosystem	132	112	20
Items in course of settlement	244	163	81
Miscellaneous liabilities	3,221	3,055	166
Other provisions for liabilities and charges	535	843	-308
Fund for general risks and accelerated tax depreciation	438	345	93
Capital, reserves and retained earnings	3,186	3,185	2
Net profit for the year	522	82	440
Net balance of other transactions	4,142	3,598	544

The net reduction of EUR 308 million in “Other provisions for liabilities and charges” represents the utilisation of the provision booked to cover the French share of ECB realised foreign exchange losses for 2004. This provision was established in the 2004 closing balance sheet by a transfer from the “Revaluation reserve of State foreign exchange reserves”.

In the light of trends in the euro-denominated and foreign currency securities portfolios held by the Banque de France, an additional charge of EUR 65 million was made to the fund for general risks.

1|2 Results

Net profit for the year ended 31 December 2005 was EUR 522 million, the highest level since 2001.²

Net income on activities

Net income on activities			
(12 months, EUR millions)			
	2005	2004 <i>pro forma</i>	Change 2005/2004
Net income on activities of the Banque de France	2,659	1,967	692
Euro monetary income	1,222	857	365
Income from refinancing of the banking system	588	517	71
Pooling of monetary income	737	441	296
Income from available-for-sale and held-to-maturity portfolios	392	309	83
Interest on claims arising on transfer of reserve assets to the ECB	148	144	4
Interest paid on minimum reserves	-574	-507	-67
Other interest-bearing accounts	-69	-47	-22
Foreign currency monetary income	905	505	400
ECB and IEDOM dividends	20	2	18
Net profit from non-monetary activities	513	603	-91

Monetary income on euro and foreign exchange transactions accounts for 80% of net income on activities of the Banque de France, which amounted to a total of EUR 2,659 million in 2005. Overall,

² Certain reclassifications made in the 2005 published accounts have led the Bank to restate the 2004 accounts on a *pro forma* basis for comparability purposes. In particular, capitalised production costs and rebilled expenses, treated as income on activities of the Banque de France in 2004, are now netted off operating expenses.

³ The net result of the pooling of monetary income is the final component of the mechanism for the monthly adjustment of the claim arising on the Eurosystem for banknotes issued; it takes account of intra-month trends in banknote circulation, deposits made by credit institutions, and income actually derived from refinancing. In the case of the Banque de France, the pooling of monetary income generated additional income of EUR 18 million in 2005, a decrease of EUR 4 million relative to 2004.

monetary income rose by EUR 765 million to EUR 2,127 million, while non-monetary income fell by EUR 91 million to EUR 513 million.

Euro monetary income

Monetary income from euro transactions is the biggest component of income for the Banque de France. It represents the excess of income derived from euro monetary assets (refinancing of the banking system, securities portfolios, pooling of Eurosystem monetary income) over the interest paid on deposits from credit institutions, mainly comprising minimum reserves. Net monetary income rose by EUR 365 million to EUR 1,222 million.

This marked increase was due to a rise in income from the allocation of monetary income by the Eurosystem (interest on intra-ESCB balances corresponding to adjustments to banknotes in circulation – see above – and net result of pooling of monetary income³) and, to a lesser extent, to extra income generated by the available-for-sale and held-to-maturity portfolios. In both cases, these good performances reflect the higher volume of interest-bearing investments, given that euro area interest rates remained low on an annual average basis. Over 2005 as a whole, the average interest rate on main refinancing operations was 2.08%, compared with 2.02% in 2004.

Foreign currency monetary income

Foreign currency monetary portfolios generated income of EUR 905 million, an increase of EUR 400 million over the 2004 figure.

This increase was attributable partly to the expansion and diversification of the Bank's portfolios, but mainly to a better rate of return on those assets, with short-term investments denominated in US dollars benefiting from the ongoing rise in American interest rates. On average over the year, the rate of return on foreign currency assets was 3.3%, against 1.9% in 2004.

ECB and IEDOM dividends

Because the ECB made a loss in 2004, it did not pay a dividend in 2005. The ECB returned to profit at

the operating level in 2005, but took advantage of this improvement to reconstitute its provision for currency and interest rate risks, which had been utilised in full over previous years. Consequently, the ECB reported a zero net profit for the year. This also meant that no interim dividend was paid to the Banque de France in respect of ECB seigniorage income, rather than the EUR 181 million that could have been paid.

The dividend paid by the IEDOM in 2005 in respect of the year ended 31 December 2004 was EUR 20 million, an increase of EUR 18 million.

Net profit from non-monetary activities

Non-monetary activities generated a net profit of EUR 513 million, a decrease of EUR 91 million compared to the previous year. After stripping out EUR 43 million received in 2004 in settlement of a very old transaction, the remaining decrease was due to:

- income from the provision of services to the State, which fell by EUR 28 million, largely as a result of the completion of the withdrawal of French franc coins;
- other income from services, including the sale of goods to other central banks (banknote exports), financial intermediation services for international institutions, and provision of services to commercial banks (including management of payment media and databases). Overall, net income of this type fell by EUR 19 million, primarily due to a temporary reduction in sales by the Banque de France (Directorate General Banknote Manufacturing) to foreign central banks.

Income from the portfolios in which the Bank's own funds and the Employee Reserve Fund are invested was unchanged overall at EUR 204 million.

Operating expenses

Operating expenses			
<i>(12 months, EUR millions)</i>			
	2005	2004	Change
		<i>pro forma</i>	2005/2004
Operating expenses	-1,735	-1,742	7
Personnel and related expenses	-1,310	-1,319	9
Taxes other than income tax	-27	-25	-1
Provisions, depreciation and amortisation	-152	-146	-6
Capitalised production	19	23	-4
Other operating expenses	-266	-275	9

Note: Figures are calculated by aggregating amounts expressed in thousands of euros in the detailed accounts, and rounding the aggregate to the nearest million.

Operating expenses were virtually unchanged year-on-year at EUR 1,735 million (2004: EUR 1,742 million).

The slight reduction in personnel expenses reflects a combination of factors. The effect of a 1% general pay rise, and of the reactivation of the statutory employee profit-sharing scheme as a result of the profit recorded by the Banque de France in 2005, was more than offset by headcount reductions and by a downward adjustment in the provision for paid leave entitlement, which is now calculated using individual employee data rather than by statistical averages.

Depreciation and amortisation expenses increased slightly in 2005 following a reassessment of the useful lives of certain assets.

Other operating expenses dropped slightly, reflecting the roll-out of the reform of the Banque de France's branch network and the discontinuation of retail banking activities, leading to the gradual utilisation of the provisions established in the 31 December 2003 balance sheet and a reduction in the cost of structures

set up to implement these plans. On a more structural level, the closure of sites in the French regions (29 in 2004, 34 in 2005) is starting to help reduce overheads.

Profit for the year

The exceptional gain of EUR 66 million recorded in the year ended 31 December 2005 comprises gains on the disposal of property, including the first operating premises to be vacated as a result of the reform of the Bank's branch network.

After the EUR 65 million addition to the fund for general risks (see above) and an accelerated tax depreciation charge of EUR 28 million, and after a corporate income tax charge of EUR 375 million, net

profit for the year ended 31 December 2005 amounted to EUR 522 million.

Main profit and loss account balances

(12 months, EUR millions)

	2005	2004 <i>pro forma</i>	Change 2005/2004
Net income on activities of the Banque de France	2,659	1,967	692
Operating expenses	-1,735	-1,742	8
Profit before tax and exceptional items	924	225	699
Net transfer to fund for general risks and accelerated tax depreciation	-93	-65	-28
Exceptional items	66	60	7
Corporate income tax	-375	-138	-238
Profit for the year	522	82	440

Note: Figures are calculated by aggregating amounts expressed in thousands of euros in the detailed accounts, and rounding the aggregate to the nearest million.

2 | Annual accounts

2|1 Balance sheet and profit and loss account

Balance sheet at 31 December 2005

(EUR thousands)

Notes	Item	ASSETS	2005	2004
1	A1	Gold	39,507,645	30,863,385
2	A2	Foreign exchange assets (excl. relations with the IMF)	24,687,349	22,926,947
		2.1 Foreign exchange assets held with non-euro area residents	18,291,833	20,114,885
		2.2 Foreign exchange assets held with euro area residents	6,395,517	2,812,062
3	A3	Relations with the IMF	3,195,523	4,630,980
		3.1 Financing provided to the IMF	2,448,475	3,986,750
		3.2 Acquisitions of Special Drawing Rights	747,048	644,230
5	A4	Euro-denominated claims on non-euro area residents	122,290	452,713
4	A5	Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations	20,575,924	14,065,811
5	A6	Other euro-denominated loans to euro area credit institutions	1,384,866	2,424,659
6	A7	Euro-denominated fixed-income securities	6,933,578	5,566,425
	A8	Relations within the Eurosystem	78,268,292	74,369,025
		8.1 Participating interest in the ECB	835,280	835,280
		8.2 Claims arising on the transfer of reserve assets to the ECB	8,423,055	8,419,357
8		8.3 Claims on the Eurosystem for euro banknotes in circulation	57,525,285	50,278,352
9		8.4 Other claims on the Eurosystem	11,484,671	14,836,036
10	A9	Advances to the IEDOM	2,575,561	2,042,152
11	A10	Claims on the French Treasury	81,555	156,555
12	A11	Other euro-and foreign currency denominated financial assets	26,707,357	11,797,065
13	A12	Miscellaneous	3,006,174	2,989,126
14	A13	Fixed assets	1,255,776	1,261,158
		13.1 Tangible and intangible assets	850,417	893,302
		13.2 Participating interests (other than interest in the ECB)	405,358	367,856
TOTAL ASSETS			208,301,890	173,546,001

Notes	Item	LIABILITIES	2005	2004
15	P1	Banknotes in circulation	108,168,212	95,928,058
4	P2	Euro-denominated liabilities to euro area credit institutions in the framework of monetary policy operations	25,729,808	26,407,216
		2.1 Current accounts	25,729,808	26,407,216
		2.2 Other liabilities	–	–
	P3	Other euro-denominated liabilities to euro area credit institutions	15,245	15,518
16	P4	Euro-denominated liabilities to non-euro area residents	6,974,567	3,238,834
2	P5	Foreign exchange liabilities	1,362,175	3,496,390
3	P6	Counterpart to SDR allocations	1,313,052	1,235,105
	P7	Relations within the Eurosystem	131,980	111,548
17	P8	Euro-denominated liabilities to other euro area residents	3,980,370	2,978,763
		8.1 Treasury's account	320,452	294,895
		8.2 Other liabilities	3,659,918	2,683,868
18	P9	Items in course of settlement	244,188	162,917
19	P10	Banking transactions	8,653,076	1,767,464
20	P11	Miscellaneous	4,569,928	4,936,961
21	P12	Provisions for liabilities and charges	535,362	843,386
22	P13	Revaluation accounts	20,294,455	7,548,218
	P14	Fund for general risks and accelerated tax depreciation	438,265	345,000
	P15	Revaluation reserve of State gold reserves	19,239,149	18,613,484
	P16	Revaluation reserve of State foreign exchange reserves	2,943,893	2,650,723
23	P17	Capital, reserves and retained earnings	3,186,372	3,184,577
	P18	Profit for the year	521,794	81,838
TOTAL LIABILITIES			208,301,890	173,546,001

2005 profit and loss account

(EUR thousands)

Notes	Item		2005	2004
	I.	Net income on activities of the Banque de France	2,659,355	1,998,003
24	1.1.	Net interest income	2,220,412	1,403,325
		1.1.1 Interest and related income	3,170,359	2,043,422
		1.1.2 Interest and related expenses	-949,947	-640,097
25	1.2.	Net income/loss on financial transactions	-36,279	283,827
		1.2.1 Net of realised gains/losses and unrealised losses on foreign exchange	918,836	-1,479,616
		1.2.2 Net of charges to/releases from foreign exchange revaluation reserves	-918,836	1,758,348
		1.2.3 Net of other income and expenses on financial transactions	-36,279	5,095
	1.3.	Commission	5,655	7,347
		1.3.1 Commission (income)	47,823	49,799
		1.3.2 Commission (expense)	-42,169	-42,452
26	1.4.	Income from equity securities and participating interests	51,987	71,695
27	1.5.	Net result of pooling of monetary income	17,883	-257,135
28	1.6.	Net of other income and expenses	399,698	488,944
	2.	Operating expenses	-1,735,432	-1,773,187
29	2.1.	Personnel and related expenses	-1,310,275	-1,318,914
	2.2.	Taxes other than income tax	-26,500	-25,009
	2.3.	Provisions, depreciation and amortisation	-151,529	-145,912
	2.4.	Net of other operating income and expenses	-247,128	-283,352
		Profit before tax and exceptional items (1 + 2)	923,923	224,817
	3.	Net charge to the fund for general risks and accelerated tax depreciation	-93,265	-65,000
30	4.	Exceptional items	66,436	59,753
		4.1 Exceptional income	66,436	59,753
		4.2 Exceptional expenses	-	-
31	5.	Corporate income tax	-375,299	-137,731
		Profit for the year (1 + 2 + 3 + 4 + 5)	521,794	81,838

2|2 Notes to the annual accounts

Accounting principles and valuation methods

Legal framework

The annual accounts of the Banque de France are presented in accordance with the Order of the Minister of the Economy, Finance and Industry of 7 February 2000. Their structure is designed to reflect the specific nature of the tasks carried out by the Bank within the framework of the ESCB and its diverse range of activities. The accounts are expressed in thousands of euro.

The accounting and valuation methods applied by the Banque de France are defined in Article R 144-6 of the Monetary and Financial Code, which specifies that:

- The Banque de France must comply with the accounting and valuation methods laid down by the Governing Council of the ECB in its 5 December 2002 Guideline

for all activities carried out within the framework of the ESCB. This Guideline establishes in particular the accounting rules applicable to refinancing operations for the banking sector, foreign currency transactions carried out in the course of foreign exchange reserve management, and the issue of banknotes.

- The accounting rules established by the Accounting Regulations Committee (CRC) apply to all the other activities of the Bank. However, the Bank's General Council may, after consulting with the Monetary Policy Council (*Conseil de la politique monétaire* – CPM), also decide to apply the accounting and valuation rules recommended by the ECB to its other activities.

Until 2002, the Banque de France applied the accounting rules set by the Accounting Regulations Committee to all of its non-ESCB activities. With effect from 1 January 2003, the Banque de France has extended the accounting methods laid down by the Governing Council of the ECB in its 5 December 2002 Guideline to cover the securities portfolios recorded in asset item A11.

Valuation methods

Foreign exchange gains/losses

Spot and forward purchases and sales of foreign currencies are recorded in off-balance sheet accounts at the trade date. They are recognised in the balance sheet at the settlement date.

Foreign exchange gains/losses on State gold and currency reserves

Realised gains/losses are computed for each currency. Every day, a weighted average price is calculated, firstly on inflows (spot or forward purchases on the trade date and income in foreign currencies, in particular daily accrued interest), and secondly on outflows (spot or forward sales on the trade date and expenses in foreign currencies, in particular accrued interest in foreign currencies). The realised gain/loss is calculated by applying the difference between these average prices to the lower of the day's inflows or outflows.

Where outflows exceed inflows, a second realised gain/loss is calculated, equating to the difference between the net outflows of the day valued at the average outflow price on the one hand, and at the average price of the day's opening position on the other. Where inflows exceed outflows, the net inflow is added to the assets held at the beginning of the day, thus changing the average price of the position.

Gold and foreign exchange positions are valued at year-end on the basis of the rates/prices prevailing on the last business day of the year. Unrealised gains are recorded as liabilities in the revaluation accounts (item P13). Unrealised losses are taken to the profit and loss account in item 1.2.1. Unrealised gains and losses are not netted.

Revaluation reserve of State gold reserves and revaluation reserves of State foreign exchange reserves

In order to neutralise the impact on the Bank's profit and loss account of realised gains and losses and of unrealised losses at year-end, the 31 March 1999 agreement between the State and the Banque de France on management of and accounting for State foreign exchange reserves (as supplemented by the rider dated 26 November 2002) requires the impact to be cancelled out by debiting or crediting the

profit and loss account, with the matching entry posted to the revaluation reserve of State foreign exchange reserves or the revaluation reserve of State gold reserves. However, the amount of net foreign exchange gains taken to the revaluation reserves is limited to the net profit for the year before the transfer to the reserves.

Other foreign exchange gains/losses

The Banque de France applies Regulation 89-01 of the *Comité de la réglementation bancaire et financière* (CRBF – Banking and Financial Regulation Committee) to foreign exchange operations that are not connected to its main responsibilities. Foreign currency deposits and investments are marked to market on the last business day of the year. Realised and unrealised foreign exchange gains and losses are posted to the profit and loss account in item 1.2.3 "Net of other income and expenses on financial transactions". Accrued income and expenses are translated into euro at the rate prevailing on the day the transaction is recorded. Forward foreign exchange hedges are valued at the closing date exchange rate.

Securities portfolio (excluding pension fund)

The Banque de France holds held-to-maturity securities, shown in asset item A11. These are fixed-income securities which the Banque de France has decided to retain to maturity, and which it is able to retain to maturity. Unrealised gains and losses on these securities are not recognised in the accounts.

Other fixed-income securities are shown in either asset item A2 or asset item A7, depending on whether they are (i) securities denominated in foreign currencies held in connection with foreign exchange reserve management, or (ii) euro-denominated securities. The only exception concerns securities linked to the Bank's own funds, included in asset item A11.

Variable-yield securities are recorded in item A11.

Gains and losses on disposals of fixed-income securities not held to maturity, and on variable-yield securities, are calculated on the basis of the weighted average cost of each line of securities. At the end of the year, securities are marked to market line-by-line on the last business day of the year. Unrealised gains are recorded as liabilities in revaluation accounts (item P13). Unrealised losses are booked as expenses

on financial transactions (profit and loss account item 1.2.3). Unrealised gains and losses are not netted.

For all fixed-income securities, differences between the acquisition and redemption price are spread over the remaining life of the securities on a discounted basis.

The valuation methods used for securities held in connection with the pension reserve fund of Banque de France employees are described in the section on the pension scheme below.

Forward financial instruments

In connection with the management of its portfolios of euro-denominated and foreign currency denominated securities, the Banque de France may use interest rate futures traded on organised markets. In accordance with Article 16 of the ECB Governing Council Guideline of 5 December 2002 (see "Legal framework" above), these transactions are recorded off-balance sheet at the notional amount, while daily margin calls paid or received are recognised in the profit and loss account.

Tangible and intangible fixed assets

Tangible and intangible fixed assets are accounted for and valued in accordance with CRC Regulation 2002-10 of 12 December 2002.

Land is recorded at cost. Buildings and equipment are carried at historical cost, less depreciation or provisions for impairment set up since they were brought into service. Costs incurred in developing computer applications intended to be used over a number of years are capitalised using the following method: project management and ownership costs are recorded in the profit and loss account as operating expenses; an intangible asset of the same amount is recognised in the balance sheet, but cancelled out by a matching credit recorded under profit and loss item 2.4 "Net of other operating income and expenses".

In accordance with Article 322-1 of the French General Chart of Accounts (*Plan comptable général* - PCG), the depreciation period for each asset is determined on the basis of its probable useful life. Components of the Bank's property assets are depreciated over 50, 33, 20 or 10 years, depending on the type of

asset. Computer equipment is depreciated over 4, 5 or 10 years, and most other equipment over periods ranging from 2 to 10 years. Purchased software is amortised over 3 or 5 years. All fixed assets are depreciated using the straight line method.

The Banque de France records accelerated tax depreciation for assets that can be depreciated more rapidly for tax purposes than for accounting purposes.

Fund for general risks

In 1998, the Banque de France set up a fund for general risks to cover any general risks inherent in the activities of a central bank. Charges to and releases from this fund are recorded in the profit and loss account.

Pension scheme

Banque de France employees are entitled to a special pension scheme. Their pensions, paid out by the reserve fund of Banque de France employees, are partly funded by the income from a dedicated securities portfolio set up over time.

Securities purchased by the Bank to this end are segregated assets and are recorded under balance sheet item A12 "Miscellaneous". The capital of the reserve fund is recorded in liability item P11 "Miscellaneous". Securities purchased are recorded in accordance with CRBF Regulation 90-01 as available-for-sale and held-to-maturity securities. Differences between acquisition and redemption prices are amortised over the residual life of the securities on a straight-line basis for bonds and annual-interest Treasury notes (BTANs), and on a discounted basis for other securities. Unrealised losses on available-for-sale securities are provided for on a line-by-line basis. However, under the rules of the reserve fund, realised gains and losses and unrealised losses recognised in the profit and loss account require a matching charge to or withdrawal from the capital of the reserve fund.

Retirement expenses are included in the profit and loss account item 2.1 "Personnel and related expenses". The proceeds of the reserve fund's securities portfolios are recorded in profit and loss account item 1.6 "Net of other income and expenses".

Information on balance sheet, off-balance sheet, and profit and loss items

A certain amount of confidential information relating to operations carried out in the exercise of the Banque de France's core tasks is not disclosed, in accordance with decisions taken by the General Council following recommendations by the Monetary Policy Council and pursuant to Article R144-6 of the Monetary and Financial Code.

Balance sheet

Note 1: Gold

In 2004, the Eurosystem central banks, the Swiss National Bank and the Sveriges Riksbank renewed the agreement capping their sales of gold. Under the new agreement, entered into for a five-year period commencing on 27 September 2004, annual sales by the 15 central banks may not exceed 500 tonnes.

In addition to sales on the gold market, the Banque de France also increased its interest in the capital of the BIS during 2005, with part of the consideration paid in the form of gold (see note 14).

Note 2: Foreign exchange assets and liabilities

Foreign exchange reserves are invested in overnight deposits, fixed-term deposits, reverse

Foreign exchange assets and liabilities (excluding relations with the IMF)		
Asset item A2 and liability item P5 (EUR thousands)		
	2005	2004
ASSETS		
Foreign exchange assets		
Overnight deposits	142,811	44,633
Fixed-term deposits	5,949,319	4,175,840
Securities received under repurchase agreements	651,583	3,962,896
Fixed-income securities	17,785,616	14,642,200
Accrued interest receivable	158,020	101,378
Total	24,687,349	22,926,947
LIABILITIES		
Foreign exchange liabilities		
Securities delivered under repurchase agreements	1,361,648	3,495,685
Accrued interest payable	527	705
Total	1,362,175	3,496,390

repo transactions with delivery of securities, and fixed-income securities. The Bank may also borrow foreign currencies in the form of repurchase agreements with delivery of securities, recorded in liability item P5.

The Banque de France also owns fixed-income held-to-maturity securities denominated in foreign currencies. In accordance with standardised Eurosystem accounting rules, these securities are classified in asset item A11.

Note 3: Relations with the IMF

The amount of financing provided to the IMF is equivalent to the euro value of:

- the portion of France's share in the capital of the IMF settled in gold and other foreign exchange assets, uplifted for net euro usage by the IMF, in particular euro-denominated drawings and repayments by member countries vis-à-vis France;

Relations with the IMF		
Asset item A3 and liability item P6 (EUR thousands)		
	2005	2004
ASSETS		
Financing provided to the IMF	2,436,655	3,974,048
Acquisitions of SDRs	743,340	641,891
Accrued interest receivable	15,528	15,041
Total	3,195,523	4,630,980
LIABILITIES		
Counterpart to SDR allocations	1,306,535	1,230,620
Accrued interest payable	6,517	4,485
Total	1,313,052	1,235,105

- drawings made within the framework of the General Arrangements to Borrow and the New Arrangements to Borrow.

The item "Acquisitions of SDRs" (Special Drawing Rights) includes the euro equivalent of the SDRs held by France. The amount shown here should be taken together with that recorded in liability item P6 "Counterpart to SDR allocations" to determine France's net SDR position.

Note 4: Monetary policy operations

Asset item A5 and liability item P2.2 show operations carried out by the Banque de France within the framework of the single monetary policy of the Eurosystem.

Euro-denominated loans to euro area credit institutions within the framework of monetary policy operations		
Asset item A5		
<i>(EUR thousands)</i>		
	2005	2004
Main refinancing operations	19,048,000	13,527,167
Longer-term refinancing operations	1,521,479	535,006
Fine-tuning operations	–	–
Structural operations	–	–
Marginal lending facility	–	–
Margin calls paid	–	–
Accrued interest receivable	6,445	3,638
Total	20,575,924	14,065,811

Euro-denominated liabilities to euro area credit institutions within the framework of monetary policy operations		
Liability item P2		
<i>(EUR thousands)</i>		
	2005	2004
Current accounts	25,681,411	26,373,471
Other liabilities	–	–
Deposit facilities	–	–
Collection of fixed-term deposits	–	–
Repurchase agreements	–	–
Margin calls received	–	–
Accrued interest payable	48,397	33,745
Total	25,729,808	26,407,216

Liability item P2.1 comprises the current accounts opened by credit institutions in the books of the Banque de France. These accounts mainly comprise minimum reserves. With effect from 2004, the minimum reserve build-up period begins on the main refinancing operation settlement date following the Governing Council meeting at which the monthly assessment of monetary policy direction is made (Article 7 of EC Regulation 1745/2003 of the ECB,

dated 12 September 2003). Minimum reserves are remunerated at the marginal rate applied to main refinancing operations.

Note 5: Items A4 “Euro-denominated claims on non-euro area residents” and A6 “Other euro-denominated loans to euro area credit institutions”

These items include euro-denominated investments linked to euro-denominated deposits recorded in liability item P4 (see note 16). These claims and loans, which do not relate to monetary policy operations, are split between these two asset items according to whether the counterparty is located within or outside the euro area.

Note 6: Euro-denominated securities

Euro-denominated fixed-income securities					
Asset item A7					
<i>(EUR thousands)</i>					
	2005				2004
	< 3 months	3 - 12 months	> 1 year	Total	
Securities	1,963,720	1,805,241	3,025,274	6,794,235	5,515,904
Accrued interest receivable	na	na	na	139,343	50,521
Total	–	–	–	6,933,578	5,566,425

na: not available

These securities are valued using the weighted average cost method and may be sold prior to maturity. At the end of the year, unrealised losses are recorded in the balance sheet, in “Revaluation accounts”.

Note 7: Claims arising on the transfer of reserve assets to the ECB

This claim held by the Banque de France results from the transfer of foreign exchange reserves to the ECB. The claim is denominated in euro and is equivalent to the euro value of the transferred foreign exchange reserves as at the date of the transfer. It is remunerated at the marginal rate applied to main refinancing operations, adjusted to reflect the fact that the gold component of the transferred reserve assets is not remunerated.

Claims arising on the transfer of reserve assets to the ECB

Asset item A8.2

(EUR thousands)

	2005	2004
Claims arising on the transfer of reserve assets to the ECB	8,275,331	8,275,328
Accrued interest receivable	147,724	144,028
Total	8,423,055	8,419,357

Note 8: Claim on the Eurosystem for euro banknotes in circulation

The intra-ESCB claim arising from the allocation of euro banknotes within the Eurosystem and the liability to the ECB relating to the 8% share of euro banknotes in circulation are shown as a net amount in item A8.3 "Claim on the Eurosystem for euro banknotes in circulation", along with accrued interest receivable as at 31 December 2005. The remuneration of this net claim, and the related adjustments over the 2002-2007 period, are shown in profit and loss item 1.1.1 "Interest and related income" (see note 15 "Banknotes in circulation").

Note 9: Other claims on the Eurosystem

Asset item A8.4 mainly reflects France's net claim arising on cross-border transfers via TARGET with other NCBs in the ESCB. This position is remunerated at the marginal rate applied to main refinancing operations. The interest is paid monthly on the second business day of the month to which it relates. This item also includes any income receivable from the ECB in respect of the distribution of the balance of monetary income (see note 27 to the profit and loss account).

Other claims on the Eurosystem

Asset item A8.4

(EUR thousands)

	2005	2004
TARGET and lori/nostri claim of Eurosystem NCBs	11,448,348	14,796,473
Accrued interest receivable	18,440	17,861
Other claims on the Eurosystem	17,883	21,702
Total	11,484,671	14,836,036

Note 10: Advance to the IEDOM

The circulation of banknotes in the overseas departments, the territorial unit of Saint Pierre and Miquelon and the departmental unit of Mayotte is managed by the *Institut d'émission des départements d'outre-mer* (IEDOM), the French overseas departments note-issuing bank, in the name of, on behalf of and under the authority of the Banque de France.

To this end, the Banque de France grants the IEDOM a non-interest-bearing advance for an amount corresponding to an estimate of the value of the banknotes in circulation in the territories concerned.

Note 11: Claims on the French Treasury in respect of coins

Article L141-3 of the Monetary and Financial Code prohibits the Banque de France from advancing funds to the Treasury or any other public body or State-owned corporation. However, Article 6 of EU Council Regulation 3603/93 authorises national central banks to advance funds to the public sector in respect of coins, provided that the advance represents less than 10% of coins in circulation.

The claim of the Banque de France on the French Treasury in respect of coins is non-interest-bearing.

Note 12: Other euro-and foreign currency denominated financial assets

Other euro-and foreign currency denominated financial assets		
Asset item A11		
(EUR thousands)		
	2005	2004
Fixed-income securities held to maturity (a) (b)	10,576,552	7,888,854
Other fixed-income securities and variable-yield securities	2,026,426	1,855,442
Advances against securities (c)	5,673	5,338
Other transactions (d)	13,868,227	1,884,967
Accrued interest receivable	230,479	162,464
Total euro-and foreign currency denominated financial assets	26,707,357	11,797,065

(a) In 2005, none of these securities was transferred to any other or sold prior to maturity.

(b) Of which foreign currency denominated securities: EUR 2,435,412 thousand.

(c) Advances against securities are customer loans guaranteed by pledged securities.

(d) This item mainly comprises investments linked to euro-denominated or foreign currency denominated liabilities, recorded in liability items P4 and P10 respectively.

Fixed-income securities		
Asset item A11		
(EUR thousands)		
	2005	2004
Unamortised premium	368,028	91,916
Unamortised discount	45,203	276,007

Securities portfolios				
Asset item A11				
(EUR thousands)				
	2005			2004
	Fixed-income securities held to maturity	Other securities	Total	Total
Fixed-income securities				
Government securities	8,044,391	133,248	8,177,639	258,841
Securities issued by public bodies	1,176,111	15,382	1,191,493	7,549,050
Other issuers	1,356,050		1,356,050	260,701
Accrued interest receivable	206,671	716	207,387	151,877
Net balance sheet value	10,783,223	149,346	10,392,569	8,220,470
Equities and other variable-yield securities				
French and foreign mutual funds		873,649	873,649	838,377
Capitalisation mutual funds		932,160	932,160	779,463
Other variable-yield securities		71,987	71,987	57,864
Net balance sheet value	1,877,796	1,877,796	1,877,796	1,675,704

Note 13: Miscellaneous

Miscellaneous		
Asset item A12		
(EUR thousands)		
	2005	2004
Accrued income, prepaid expenses, etc.	102,071	236,160
Accrued income	89,916	220,017
Prepaid expenses	10,399	8,394
Other items	1,756	7,749
Miscellaneous	2,904,103	2,752,966
Total	3,006,174	2,989,126

Note 14: Fixed assets

Fixed assets				
Asset item A8.1 and A13				
(EUR thousands)				
	31 Dec. 2005	Increases (a)	Decreases (a)	31 Dec. 2004
Participating interest in the ECB (gross value)	829,874			829,874
Translation difference on participating interest in the ECB	5,406			5,406
Participating interest in the ECB (balance sheet value)	835,280	-	-	835,280
Participating interests other than the ECB (gross value)	405,358	37,502		367,856
Intangible fixed assets	389,432	46,969	16,634	359,097
Amortisation	291,456	27,912	153	263,697
Net	97,976	19,057	16,481	95,400
Tangible fixed assets	2,112,591	592,016	592,965	2,113,540
Depreciation and provisions	1,360,149	274,924	230,413	1,315,638
Net	752,442	317,092	362,552	797,902
Total tangible and intangible fixed assets (net value)	850,417			893,302

(a) Increases and decreases also include transfers between fixed asset accounts.

Information relating to subsidiaries and participating interests at 31 December 2005						
Asset item A8.1 and A13.2						
(EUR thousands, % share)						
	Asset item	Listed	% share capital held	2005 Shareholders' equity	2005 profit/loss equity	2005 book value
BIS	A13.2	No	9.16	12,267,272	448,760	405,261
ECB	A8.1	No	20.80	4,089,278	0	829,874
La Prévoyance immobilière	A13.2	No	98.20	3,579	206	ns
Banque de France Gestion	A13.2	No	99.99	2,135	4,410	ns

ns: not significant

Participating interest in the ECB

Under Article 28 of the ESCB Statute, the capital of the ECB is held solely by the NCBs of the ESCB. The formula for determining the capital subscription of each NCB to the ECB (the “capital key”) is defined in Article 29.3 of the ESCB Statute and adjusted every five years. The first five-yearly adjustment was made on 1 January 2004. On 1 May 2004, a second adjustment to the key was made as a result of the accession of ten new Member States.

Interest held by the Banque de France in the capital of the ECB		
(%)		
To 31 December 2003	From 1 January 2004 to 30 April 2004	From 1 May 2004
16.8337	16.5175	14.8712

Since 1 May 2004, the interest held by the Banque de France in the subscribed capital of the ECB has been EUR 827,533 thousand, representing 20.8% of the capital.

As a result of the aforementioned change in the capital key, each NCB's share in the shareholders' equity of the ECB also changed on 31 December 2003 and 30 April 2004. This change is also incorporated in asset item A8.1 “Participating interest in the ECB”.

Participating interest in the BIS

The Extraordinary General Meeting of the Bank for International Settlements (BIS) of 8 January 2001 amended the bylaws of the BIS in order to restrict the right to hold shares in the BIS to national central banks. Subsequently, the BIS repurchased 72,648 shares held by private (i.e. non-NCB) shareholders over which the central banks of the United States, Belgium and France exercised the voting rights. These shares were redistributed in November 2004 and May 2005 to existing member central banks. It was as a result of this redistribution that the Banque de France increased its interest in the BIS.

Note 15: Banknotes in circulation

The ECB and the 12 euro area NCBs, which together comprise the Eurosystem, have issued euro

banknotes since 1 January 2002. The total value of euro banknotes in circulation in the Eurosystem is allocated on the last working day of each month in accordance with the banknote allocation key.⁴

The ECB has been allocated an 8% share of the total value of euro banknotes in circulation; the remaining 92% has been allocated to euro area NCBs according to their weightings in the ECB's capital key. The share of banknotes in circulation allocated to each NCB is disclosed in the liability item “Banknotes in circulation”.

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances (see asset item A8.3).

From 2002 to 2007, the intra-Eurosystem balances arising from euro banknote allocation are being adjusted in order to avoid significant changes in the NCBs' income positions as compared with previous years.⁵ The adjustments are effected by taking into account the differences between, on the one hand, the average value of banknotes in circulation of each NCB in the period between July 1999 and June 2001 and, on the other hand, the average value of banknotes that would have been allocated to them during that period under the ECB's banknote allocation key. The adjustments will be reduced in annual stages until the end of 2007, after which income on banknotes will be allocated fully between the NCBs in proportion to their paid-up share in the ECB's capital.

Interest income and expense on these balances are cleared through the accounts of the ECB and included in “Net interest income” in the profit and loss account.

The ECB Governing Council has decided that the ECB's seigniorage income arising from the 8% share of euro banknotes in circulation allocated to it will be distributed separately to the NCBs in the form of an interim distribution of profit.⁶ This income is distributed in full unless the ECB's net profit for the year is less than the income earned on euro banknotes in circulation and unless the Governing Council decides to reduce this income by the amount of the costs incurred by the ECB

⁴ ECB Decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15).

⁵ ECB Decision of 6 December 2001 on the allocation of monetary income from 2002 (ECB/2001/16).

⁶ ECB Decision of 21 November 2002 on the distribution of the income of the ECB on euro banknotes in circulation to the NCBs of participating Member States (ECB/2002/09).

on the issuance and storage of euro banknotes. With respect to 2005, the ECB Governing Council decided, on the basis of its estimate, that this income would be retained in full by the ECB. As at 31 December 2005, the matching liability reversing out the interim dividends received during 2005 and repaid to the ECB at the start of 2006 is included in liability item P7 "Relations within the Eurosystem".

French franc banknotes, which ceased to be legal tender on 17 February 2002, may be exchanged until 17 February 2012. Prior to that date, French franc banknotes in circulation but not yet remitted to the Treasury will continue to be recorded as a liability of the Banque de France. This liability has since 1 January 2003 been included in balance sheet item P11 "Miscellaneous".

Note 16: Euro-denominated liabilities to non-euro area residents

This item comprises credit balances in euro (excluding TARGET) with central banks, commercial banks and non-financial customers in non-Eurosystem member countries. In most cases, the assets matching these liabilities are included in asset items A4 or A6 (see note 5) or asset item A11 (see note 12), depending on whether they are invested in the same currency or are covered by cross-currency swaps (see "Off-balance sheet items" below).

Euro-denominated liabilities to non-euro area residents		
Liability item P4		
(EUR thousands)		
	2005	2004
Euro-denominated liabilities to non-euro area residents	6,955,285	3,234,770
Accrued interest payable	19,282	4,064
Total	6,974,567	3,238,834

Note 17: Euro-denominated liabilities to other euro area residents

Liability item P8.1 comprises the Treasury's account, which since 1 May 2002 has been remunerated at the marginal rate applied to main refinancing operations up to EUR 300 million; above this amount, it is remunerated at the deposit facility rate. Interest is credited to the Treasury's account on the last business day of the month.

Liability item P8.2, "Other liabilities", mainly comprises:

- the current account with the IEDOM, the assets matching this liability being mainly recorded in asset item A9 "Advances to the IEDOM" (see note 10); and
- guarantee deposits (mutual funds and individual guarantees) set up since February 2005 by participants in the RELIT + system (the irrevocable deferred securities settlement system of Euroclear France).

Euro-denominated liabilities to other euro area residents		
Liability item P8		
(EUR thousands)		
	2005	2004
Treasury's account	320,221	294,870
Other liabilities	3,654,786	2,679,984
Accrued interest payable	5,363	3,909
Total	3,980,370	2,978,763

Note 18: Items in course of settlement

In compliance with banking rules, balance sheet item P9 "Items in course of settlement" includes only items (primarily cheques) debited or credited to a customer's account but not yet credited or debited to a credit institution's account, and vice versa.

Note 19: Banking transactions

This item mainly comprises overnight and fixed-term deposits denominated in foreign currencies constituted by French or foreign public bodies. The management of such foreign currency transactions is totally separate from the management of the State's foreign exchange reserves. The assets matching these liabilities, which may be covered by cross-currency swaps, are included either in asset item A11 (see note 12) or in item A4 or A6 (see note 5), depending on whether they are invested in a foreign currency or in euro.

Euro-denominated deposits made by institutional customers (other than monetary financial institutions) and private customers are recorded in liability item P8.2.

Banking transactions

Liability item P10

(EUR thousands)

	2005	2004
Overnight deposits	579,660	565,233
Other banking transactions	8,035,949	1,198,162
Accrued interest payable	37,467	4,069
Total	8,653,076	1,767,464

Note 20: Miscellaneous

This item includes in particular the capital of the reserve fund of Banque de France employees (see below, "Pension obligations") and French franc banknotes still in circulation (see note 15).

Miscellaneous

Liability item P11

(EUR thousands)

	2005	2004
Deferred income, accrued expenses, etc	330,715	277,778
Accrued expenses	266,215	277,790
Deferred income, etc.	64,500	-12
French franc banknotes in circulation	1,349,053	1,882,353
Miscellaneous	2,890,160	2,776,830
Total	4,569,928	4,936,961

Note 21: Provisions for liabilities and charges

Provisions for liabilities and charges mainly comprise:

- provisions for restructuring relating to the "cash activities" and "banknote printing" plans, the plan to adapt the Banque de France's branch network, and the plan to discontinue retail banking activities;
- provisions relating to the early retirement incentive plan for employees reaching the end of their career;
- provisions for retirement benefits;
- provisions for various social liabilities (death benefits, long-service medals, extended sick leave, pensions for industrial injuries);

Provisions for liabilities and charges

Liability item P12

(EUR thousands)

	2005	Increase	Decrease	2004
Provisions for restructuring	329,908	-	26,799	356,707
Provisions for changing the age pyramid	28,625	-	5,633	34,258
Provisions for retirement benefits	98,855	2,164	-	96,691
Other	77,974	5,179	282,935	355,730
Total	535,362	7,343	315,367	843,386

- provisions for major repairs.

Note 22: Revaluation accounts

Gold and foreign exchange assets and liabilities are revalued at the reference prices indicated by the ECB on 31 December 2005. The unrealised gain on gold was calculated using a price of EUR 13,980.9 per kilogram of fine gold, compared with EUR 10,338.5 at end 2004.

The revaluation rates used for the US dollar and Special Drawing Rights (SDRs) at 31 December 2005 were:

- 1 euro = 1.1797 US dollars, compared with 1.3621 at end-2004;
- 1 euro = 0.8265 SDRs, compared with 0.8775 at end-2004.

Revaluation accounts

(EUR thousands)

	2005	2004
Revaluation account – gold	17,110,745	7,215,319
Revaluation account – foreign exchange	2,752,060	-
Revaluation account – securities	431,650	332,899
Total	20,294,455	7,548,218

Note 23: Capital, reserves and retained earnings

In accordance with Article 39 of the Amending Finance Act 2004-1485 of 30 December 2004, which introduced changes to the tax regime on long-term capital gains, the Banque de France transferred EUR 200 million from the special long-term capital gains reserve to ordinary reserves during 2005.

Capital, reserves and retained earnings

Liability item P17

(EUR thousands)

	2005	2004
Capital	457,347	457,347
Reserves	2,712,184	2,713,123
Statutory reserves	204,116	200,024
Long-term capital gains	100,323	300,324
Other reserves (a)	2,407,745	2,212,776
Retained earnings	16,841	14,107
Total	3,186,372	3,184,577

(a) Under the Decree of 3 December 1993, the Bank must maintain reserves to finance its investments. The Bank is also its own insurer with respect to civil liability risks, claims on property it owns and damage to this property by third parties. The "Other reserves" item chiefly comprises these two types of reserves.

Off-balance sheet items

Off-balance sheet items

(EUR thousands)

	2005	2004
Securities receivable	988,710	–
Securities deliverable	41,806	–

The Banque de France collects euro-denominated deposits from non-euro area residents, in particular foreign central banks and international bodies; these deposits are recorded in liability item P4. The Banque de France also collects foreign currency denominated deposits, mainly from non-resident institutions; these deposits are recorded in liability item P10.

These euro-denominated or foreign currency denominated deposits are invested either in the same currency or in a different currency. In the latter case, the foreign exchange risk is neutralised by cross-currency swaps of the same amount and maturity as the deposit. These foreign-currency deposits and investments, and the related spot and forward foreign exchange transactions, form part of an activity that is totally separate and independent from the management of foreign exchange reserves. Consequently, they are recorded in dedicated accounts separate from those used for the management of foreign exchange reserves, and are valued in accordance with the standards issued by the CRC (see "Other foreign exchange gains/losses in section 2|2 "Valuation methods", and note 19).

The table below shows amounts of foreign currency receivable and deliverable at 31 December 2005 in

respect of these transactions carried out independently of the management of foreign exchange reserves.

Forward foreign exchange transactions with customers

(EUR thousands)

	Foreign currency receivable	Foreign currency payable
EUR	5,239,264	120,051
Foreign currencies	6,738,995	11,883,197
Total	11,978,259	12,003,248

Pension obligations

Banque de France employees benefit from a pension scheme set up by an Imperial Decree of 16 January 1808 and currently governed by the amended Decree 68-300 of 29 March 1968. The Banque de France pension scheme belongs to the category of "special" schemes. Like the general and supplementary retirement benefit plans (AGIRC and ARRCO), which pay the pensions of employees in industry, business and the service sector, the Banque de France's special pension scheme pays Bank retirees all the pension benefits acquired in the course of their career at the Bank.

The pension scheme is therefore a fully-fledged component of the mandatory old-age insurance scheme, like the other special schemes and the general and supplementary schemes.

At 31 December 2005, the net amount of the Bank's pension obligations to its staff stood at EUR 6,803,168 thousand, after deducting the book value of the securities portfolio of the reserve fund of the Bank's employees.

Pension obligations

(EUR thousands)

	2005	2004
Obligations to retirees	3,465,258	3,496,380
Obligations to current workforce	3,337,910	3,144,446
Total	6,803,168	6,640,826

These obligations were calculated taking into account all working employees and retirees, and their dependants. The amount of the liabilities to working employees was determined using a prospective method with career-end salaries on the

basis of a retirement age of 60. A discount rate of 4.5% and an inflation rate of 2.0% were applied to the calculations.

No provisions have been made for these obligations in the balance sheet.

However, benefits payable upon retirement (not included in the obligations shown above), are provided for in the Bank's balance sheet (see note 21).

Profit and loss account

Note 24: Net interest income

Net interest income		
<i>(EUR thousands)</i>		
	2005	2004
Interest on foreign exchange assets	873,467	448,856
Interest on claims on the IMF	92,946	84,461
Interest on lending to credit institutions	432,002	290,566
Interest on euro-denominated securities	153,272	116,097
Interest on claims arising on transfer of reserve assets to the ECB	147,724	144,028
Interest on net claims on the Eurosystem	157,395	227,569
Interest on the net euro banknote position	719,112	419,762
Interest on euro-and foreign currency denominated financial assets	594,441	312,084
of which: Interest on available-for-sale securities	981	1,003
Interest on held-to-maturity securities	375,723	266,322
Other interest	217,737	44,758
Total interest and related income (A)	3,170,359	2,043,422
Interest on euro-denominated liabilities to monetary financial institutions in the euro area	-634,261	-551,635
of which: Interest paid on minimum reserves	-573,929	-507,336
Interest on euro-denominated liabilities to non-euro area residents	-	-1
Interest on foreign exchange liabilities	-68,464	-28,517
Interest on counterpart to SDR allocations	-33,684	-23,467
Interest paid on the Treasury account	-2,669	-3,060
Other interests	-210,869	-33,418
Total interest and related expenses (B)	-949,947	-640,097
Net interest income (C = A + B)	2,220,412	1,403,325

Note 25: Net gain/loss on financial transactions

In 2005, the net balance of realised gold and foreign exchange gains and losses was a gain of EUR 918,836 thousand.

In accordance with the agreement of 31 March 1999 between the State and the Banque de France on management of and accounting for State foreign exchange reserves, supplemented by a rider dated 26 November 2002, the realised gains on gold and foreign exchange were allocated, respectively, to the "Revaluation reserve of State gold reserves" or the "Revaluation reserve of State foreign exchange reserves", with the matching entry taken to the profit and loss account (item 1.2.2):

- EUR 626,665 thousand was allocated to the "Revaluation reserve of State gold reserves";
- EUR 293,171 thousand was allocated to the "Revaluation reserve of State foreign exchange reserves".

Net of other income and expenses on financial transactions		
<i>(EUR thousands)</i>		
	2005	2004
Net gain/loss on foreign currency denominated securities (a) (b) (c)	-49,626	-22,856
Net gain/loss on euro-denominated securities included in item A7 (b) (c)	-11,319	8,436
Net gain/loss on available-for-sale securities included in item A11 (b)	15,419	13,293
Net foreign exchange gain/loss (excluding foreign exchange reserves management)	9,247	6,222
Total	-36,279	5,095

a) Excluding the impact of foreign exchange fluctuations, shown in profit and loss item 1.2.1.
 (b) These items include realised gains and losses, and unrealised losses at year-end.
 (c) These items also include margin calls on interest rate futures and forwards.

Note 26: Income from equity securities and participating interests

In 2005, the ECB did not pay a dividend in respect of the 2004 financial year. In addition, the ECB retained its 2005 seigniorage income in full following the Governing Council's decision based on the ECB's forecast results. Consequently, in 2005 the Banque de France did not receive its share, amounting to EUR 180,652 thousand in the form of an interim dividend (see note 15).

Income from equity securities and participating interests

Profit and loss item P1.4

(EUR thousands)

	2005	2004
ECB dividend	–	–
Dividends from other participating interests	34,211	13,699
Dividends from available-for-sale securities (a)	17,776	56,939
Other income	–	1,057
Total	51,987	71,695

(a) In 2004, Employee Reserve Fund dividends, which amounted to EUR 38,981 thousand, were included in profit and loss item 1.4. In 2005, these dividends are included in profit and loss item 1.6.

Note 27: Net result of pooling of monetary income

The monetary income of each NCB is determined by measuring the actual annual income derived from the earmarkable assets held against its liability base.

The liability base is composed of the following items: banknotes in circulation; liabilities to credit institutions related to euro-denominated monetary policy operations; intra-Eurosystem liabilities arising from TARGET transactions; and net intra-Eurosystem liabilities resulting from the allocation of euro banknotes within the Eurosystem. Any interest accruing on liabilities included in the liability base is deducted from the monetary income to be pooled.

Earmarkable assets consist of the following items: euro-denominated lending to euro area credit institutions in the framework of monetary policy operations; claims arising on the transfer of reserve assets to the ECB; the net intra-Eurosystem claim arising from TARGET transactions; the net intra-Eurosystem claim arising from the allocation of euro banknotes within the Eurosystem; and a limited amount of gold in proportion to each NCB's interest in the ECB's capital under the capital key. Gold is deemed not to generate any income. Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference is offset

by applying to the value of the difference the average rate of return on the earmarkable assets of all the NCBs taken together.

The monetary income pooled by the Eurosystem is allocated between NCBs according to the subscribed capital key. The difference between the monetary income pooled by the Banque de France (EUR 2,021,038 thousand) and that reallocated to the Bank (EUR 2,038,921 thousand) constitutes the net result arising from the calculation of monetary income recorded in profit and loss item 1.5.

Net result of pooling of monetary income

Profit and loss item P1.5

(EUR thousands)

	2005	2004
Net result of pooling of monetary income	17,883	21,597
Monetary income waived	–	-278,733
Net balance on pooling of monetary income	17,883	-257,135

Note 28: Net of other income and expenses

Net of other income and expenses

Profit and loss item P1.6

(EUR thousands)

	2005	2004
Remuneration for services rendered to the State	162,339	190,230
Other income (a) (b) (c)	243,660	305,453
Total other income (A)	405,999	495,682
Total other expenses (B)	-6,301	-6,739
Net of other income and expenses (C = A + B)	399,698	488,944

(a) Includes fees charged for use of the databases managed by the Banque de France (FNCL, FICP, FCC, FIBEN).

(b) In 2004, capitalised production costs and some rebilled expenses, totalling EUR 30,791 thousand, were included in profit and loss item 1.6. In 2005, these items are included in profit and loss item 2.4.

(c) In 2004, Employee Reserve Fund dividends were included in profit and loss item 1.4. In 2005, these dividends are included in profit and loss item 1.6.

Note 29: Personnel and related expenses

Personnel and related expenses Profit and loss item P2.I		
<i>(EUR thousands)</i>		
	2005	2004
Salaries, wages and related taxes	-729,439	-757,319
Social security expenses	-145,694	-150,759
Retirement expenses	-400,156	-393,121
Profit-sharing and incentive plans	-34,986	-17,715
Total personnel expenses	-1,310,275	-1,318,914

Note 30: Exceptional items

Exceptional items for the year ended 31 December 2005 comprise net gains arising on:

- the block sale of residential property previously let by the Banque de France as lessor;
- the sale of some of the branches closed as part of the reform of the Banque de France regional network.

Note 31: Corporate income tax

All expenses and income covered by the agreement of 31 March 1999 between the State and the Banque de France on management of and accounting for State foreign exchange reserves, supplemented by a rider dated 26 November 2002 (see section 2|2, "Valuation

methods"), the impact of which on the Banque de France's profits is cancelled out by an equivalent reduction or increase in the "Revaluation reserve of State gold reserves" or the "Revaluation reserve of State foreign exchange reserves" as the case may be, fall outside the scope of corporate income tax. For 2005, this applies to the net realised gains on gold and foreign exchange allocated to the "Revaluation reserve of State gold reserves" and the "Revaluation reserve of State foreign exchange reserves", respectively.

Corporate income tax Profit and loss item P5		
<i>(EUR thousands)</i>		
	2005	2004
Income taxes for the year	375,299	137,731
<i>On recurring income</i>	<i>352,091</i>	<i>116,559</i>
<i>On exceptional items</i>	<i>23,208</i>	<i>21,172</i>

Other information

Remuneration of management bodies		
<i>(EUR thousands)</i>		
	2005	2004
Total remuneration paid to management bodies (a)	2,280	2,268

(a) The members of the Monetary Policy Council and the Directors General constitute the management bodies of the Bank.

2|3 Auditors' report on the annual accounts of the Banque de France

Mazars & Guérard

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REPORT OF THE AUDITORS ON THE ANNUAL ACCOUNTS

Year ended 31 December 2005

In accordance with our appointment as auditors by the General Council, we hereby report to you for the year ended 31 December 2005 on:

- the audit of the accompanying annual accounts of the Banque de France;
- the basis for our assessments;
- the specific procedures required by Article R 144-8 of the Monetary and Financial Code.

The annual accounts have been approved by the Governor. Our role is to express an opinion on these annual accounts, based on our audit.

Opinion on the annual accounts

We conducted our audit in accordance with professional standards applicable in France; these standards require that we plan and perform the audit

to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual accounts give a true and fair view of the financial position and the assets and liabilities of the Banque de France as at 31 December 2005, and of the results of its operations for the year then ended, in compliance with the accounting rules and principles set out by the European System of Central Banks for central banking activities and securities portfolios (other than those of the Employee Reserve Fund), and with French accounting rules and principles for other activities.

Without qualifying our opinion, we draw your attention to the following matters:

- The notes to the annual accounts provide a detailed description of the presentation and accounting principles applied by the Bank, a number of which are specific to the European System of Central Banks (ESCB).
- As explained in notes to the annual accounts, the General Council, exercising the right provided for in Article R144-6 of the Monetary and Financial Code, assessed the level of detail of the financial information published.

Basis for our assessments

As required by Article L.823-9 of the Commercial Code relating to the basis for our assessments, we draw your attention to the following:

- The Banque de France has updated the provisions for liabilities and charges established in 2003 to cover the plan to adapt the Bank's branch network and the plan to discontinue retail banking activities, as described in Note 21 to the annual accounts.

As part of our assessment:

- we reviewed the process applied by the Bank in estimating these liabilities and determining the amount of provision required;
- we satisfied ourselves as to the reasonableness of these estimates.

- As indicated in Note 31 to the annual accounts, the Banque de France believes that all expenses and income covered by the agreement of 31 March 1999 between the State and the Banque de France on management of and accounting for State foreign exchange reserves, supplemented by a rider dated 26 November 2002, the impact of which on profits is cancelled out by an equivalent reduction or increase in the "Revaluation reserve of State gold reserves" or the "Revaluation reserve of State foreign exchange reserves" as the case may be, fall outside the scope of corporate income tax. In 2005, this applied in particular to net gains on sales of gold.

As part of our assessment, we reviewed documentation supplied by the Banque de France in support of these positions, and satisfied ourselves as to their reasonableness.

Our assessment of these issues was made within the context of our audit approach to the annual accounts taken as a whole, and contributed to our opinion as expressed in the first part of this report.

Specific procedures and disclosures

We have also performed the other procedures required by the law, in accordance with professional standards applicable in France.

We have no comment to make as to the fair presentation and consistency with the annual accounts of the information given in the report on the Bank's assets, liabilities and results.

La Défense and Neuilly-sur-Seine, 10 April 2006

The Auditors

Mazars & Guérard
Charles de Boisriou
Jean-Louis Lebrun

Deloitte & associés
Pascal Pincemin

3 | Combined accounts

3|1 Combined balance sheet and profit and loss account

Combined balance sheet at 31 December 2005			
Item	ASSETS	2005	2004
A1	Gold	39,507,645	30,863,385
	Foreign exchange assets (excl. relations with the IMF)	24,687,349	22,926,947
A2	2.1 Foreign exchange assets held with non-euro area residents	18,291,833	20,114,885
	2.2 Foreign exchange assets held with euro area residents	6,395,517	2,812,062
	Relations with the IMF	3,195,523	4,630,980
A3	3.1 Financing provided to the IMF	2,448,475	3,986,750
	3.2 Acquisitions of Special Drawing Rights	747,048	644,230
A4	Euro-denominated claims on non-euro area residents	122,290	452,713
A5	Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations	20,575,924	14,065,811
A6	Other euro-denominated loans to euro area credit institutions	1,385,050	2,425,174
A7	Euro-denominated securities	6,933,578	5,566,425
A8	Relations within the Eurosystem	78,268,292	74,369,025
	8.1 Participating interest in the ECB	835,280	835,280
	8.2 Claims arising on the transfer of reserve assets to the ECB	8,423,055	8,419,357
	8.3 Claim on the Eurosystem for euro banknotes in circulation	57,525,285	50,278,352
	8.4 Other claims on the Eurosystem	11,484,671	14,386,036
A9	Claims on the French Treasury for coins	81,555	156,555
A10	Other euro-and foreign currency denominated financial assets	26,710,082	11,800,021
A11	Miscellaneous	3,250,665	3,246,572
A12	Fixed assets	1,273,325	1,278,029
	12.1 Tangible and intangible assets	859,725	901,932
	12.2 Participating interests (other than interest in the ECB)	413,600	376,097
	TOTAL ASSETS	205,991,279	171,781,638
Item	LIABILITIES	2005	2004
P1	Banknotes in circulation	108,168,212	95,928,058
P2	Euro-denominated liabilities to euro area credit institutions in the framework of monetary policy operations	25,729,808	26,407,216
	2.1 Current accounts	25,729,808	26,407,216
	2.2 Other liabilities	0	–
P3	Other euro-denominated liabilities to euro area credit institutions	15,245	15,518
P4	Euro-denominated liabilities to non-euro area residents	6,974,567	3,238,834
P5	Foreign exchange liabilities	1,362,175	3,496,390
P6	Counterpart to SDR allocations	1,313,052	1,235,105
P7	Relations within the Eurosystem	131,980	111,548
P8	Euro-denominated liabilities to other euro area residents	1,246,093	784,489
	8.1 Treasury's account	452,471	395,206
	8.2 Other liabilities	793,622	389,284
P9	Items in course of settlement	247,182	168,634
P10	Banking transactions	8,653,076	1,767,465
P11	Miscellaneous	4,577,969	4,956,829
P12	Provisions for liabilities and charges	549,800	860,541
P13	Revaluation accounts	20,294,455	7,548,218
P14	Fund for general risks	410,000	345,000
P15	Revaluation reserve of State gold reserves	19,239,149	18,613,484
P16	Revaluation reserve of State foreign exchange reserves	2,943,893	2,650,723
P17	Capital, reserves and retained earnings	3,570,572	3,552,591
	17.1 IEDOM capital grant, reserves and retained earnings	135,487	134,696
	17.2 Banque de France capital, reserves and retained earnings	3,435,085	3,417,895
P18	Profit for the year	564,050	100,995
	TOTAL LIABILITIES	205,991,279	171,781,638

2005 Combined profit and loss account

(EUR thousands)

Item	2005	2004
1. Net income on activities of the Banque de France	2,717,039	2,047,444
1.1. Net interest income	2,274,932	1,444,730
1.1.1 Interest and related income	3,170,699	2,043,938
1.1.2 Interest and related expenses	-895,766	-599,208
1.2. Net income/loss on financial transactions	-36,279	283,828
1.2.1 Net of realised gains/losses and unrealised losses on foreign exchange	918,836	-1,479,616
1.2.2 Net of charges to/releases from foreign exchange revaluation reserves	-918,836	-1,758,348
1.2.3 Net of other income and expenses on financial transactions	-36,279	5,095
1.3. Commission	5,657	7,352
1.3.1 Commission (income)	47,826	49,804
1.3.2 Commission (expense)	-42,169	-42,452
1.4. Income from equity securities and participating interests	31,987	69,695
1.5. Net result of pooling of monetary income	17,883	-257,135
1.6. Net of other income and expenses	422,860	498,975
2. Operating expenses	-1,782,914	-1,814,907
2.1. Personnel and related expenses	-1,333,816	1,331,583
2.2. Taxes other than income tax	-27,993	-26,524
2.3. Provisions, depreciation and amortisation	-153,084	-149,026
2.4. Other operating expenses	-268,021	-307,774
Profit before tax and exceptional items (1 + 2)	934,125	232,537
3. Net charge to the fund for general risks	-65,000	-65,000
4. Exceptional items	66,436	59,753
4.1. Exceptional income	66,436	59,753
4.2. Exceptional expenses	0	-
5. Corporate income tax	-371,511	-126,295
PROFIT FOR THE YEAR (1 + 2 + 3 + 4 + 5)	564,050	100,995

3|2 Notes to the combined annual accounts

Scope of consolidation

Undertakings excluded from the consolidation

At 31 December 2005, the Banque de France held a participating interest in four undertakings (see Note 14 to the balance sheet of the Banque de France).

The Banque de France holds an interest of over 20% in three of these undertakings.

The interests in Banque de France Gestion and *La Prévoyance Immobilière* are excluded from the consolidation on grounds of immateriality.

Under the Statute of the ESCB and ECB, the ECB Governing Council functions in such a way that the Banque de France does not exert control or significant influence over the ECB. Monetary policy is defined by the Governing Council, composed of 17 members, on the basis of the "one man, one vote" principle, in compliance with Article 10.2 of the Statute.

Consolidation of the *Institut d'émission des départements d'outre-mer (IEDOM)*

In compliance with Order No. 2000-347 of 19 April 2000, amending Order No. 59-74 of 7 January 1959 reforming issuance arrangements in the overseas departments of Guadeloupe, French Guiana, Martinique and Réunion, the French overseas departments note-issuing bank (IEDOM) came under the control of the Banque de France as from 1 July 2000. The Banque de France does not, however, hold an equity interest in the IEDOM.

The IEDOM is a national, financially autonomous, public institution with legal personality. It receives a capital grant from the State.

It is administered by a supervisory board composed of 15 members, seven of whom are appointed by the Governor of the Banque de France for a four-year term. The Governor, or his representative, chairs the supervisory board.

The Director General of the IEDOM is appointed by the chairman of the supervisory board.

The IEDOM pays the balance of its net profits, after the constitution of reserves, to the Banque de France. Any losses are borne by the Banque de France.

Article 9 of the aforementioned Order states that the accounts of the IEDOM are to be consolidated with those of the Banque de France.

Activities of the IEDOM

The IEDOM's catchment area is the four overseas departments of Guadeloupe, French Guiana, Martinique and Réunion, the territorial unit of Saint Pierre and Miquelon and the departmental unit of Mayotte.

Its tasks are:

- tasks carried out within the framework of the ESCB (putting banknotes into circulation, and implementing the minimum reserve system);
- relations with the Treasury (keeping current accounts with paymasters-general and their accredited representatives, and centralising transactions);
- executing transfers of public and private funds between metropolitan France and the territorial units in its catchment area;
- providing services to the banking community and the public (keeping of data files, economic and monetary studies, processing of household debt files) within the framework of legal, regulatory and contractual provisions.

Accounting principles and valuation methods used in the combined accounts

The same accounting principles and valuation methods apply to both the combined accounts and the individual annual accounts of the Banque de France, except in the computation of corporate income tax which, in the combined accounts, takes into account all temporary timing differences arising for tax purposes.

Information on individual items in the combined balance sheet and profit and loss account

A net deferred tax asset of EUR 238,880 thousand is included in item A11 "Miscellaneous" in the combined balance sheet. It arises solely on temporary timing differences between the recognition of expenses and income for accounting purposes and their recognition for tax purposes. This asset is made up of the items shown in the table below.

Deferred tax assets and liabilities		
<i>(EUR thousands)</i>		
	Deferred tax assets	Deferred tax liabilities
Income temporarily exempted from taxation		33,750
Tax on unrealised gains and losses on mutual funds	71,512	
Other deferred tax relating to securities	20,126	
Provisions not deductible for tax purposes	183,673	
Charges deducted for tax purposes but not yet recognised in the accounts		10,284
Other recurring timing differences	7,603	
Total	282,914	44,034

The matching entry for this deferred tax asset is split between:

- the tax charge for the year, which in 2005 is EUR 4,846 thousand lower than in the individual annual accounts for fiscal 2005;
- liability item P17 "Capital, reserves and retained earnings", which includes the balance of EUR 234,034 thousand, representing the net deferred tax asset at the start of fiscal 2005.

Apart from the recognition of deferred taxes, the principal consolidation adjustments are (i) the elimination of inter-institutional transactions

with the IEDOM and (ii) the elimination of tax-regulated provisions (all of which were initially recognised in 2005) from the balance sheet and of charges to/releases from the profit and loss account.

Eliminations of inter-institution transactions relate to:

- the advance to the IEDOM (asset item A9 in the individual balance sheet of the Banque de France);
- the IEDOM's current account with the Banque de France (included in liability item P8.2 in the individual balance sheet);
- interest paid on the IEDOM current account (included in item 1.1.2 "Interest and related expenses" in the individual profit and loss account);
- and the dividend paid by the IEDOM (included in item 1.4 "Income from equity securities and participating interests" in the individual profit and loss account).

3|3 Auditors' report on the combined annual accounts

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BANQUE DE FRANCE

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RCS Paris B 572 104 891

**REPORT OF THE AUDITORS ON THE
COMBINED ANNUAL ACCOUNTS**

Year ended 31 December 2005

In accordance with our appointment as auditors by the General Council, we have audited the accompanying combined annual accounts of the Banque de France and the *Institut d'émission des départements d'outre-mer* – IEDOM (French overseas departments note-issuing bank), expressed in euro, for the year ended 31 December 2005.

The combined annual accounts have been approved by the Governor. Our role is to express an opinion on these annual accounts, based on our audit.

Opinion on the combined accounts

We conducted our audit in accordance with professional standards applicable in France; these standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined annual accounts, prepared in accordance with Article 9 of Order no. 2000-347 of 19 April 2000, give a true and fair view of the financial position and the assets and liabilities of the Banque de France and the IEDOM combined as at 31 December 2005, and of the results of their operations for the year then ended, in compliance with the accounting rules and principles set out by the European System of Central Banks for central banking activities and securities portfolios (other than those of the Employee Reserve Fund), and with French accounting rules and principles for other activities.

Without qualifying our opinion, we draw your attention to the following matters:

- In establishing the combined annual accounts of the Banque de France and the IEDOM, inter-institutional transactions have been eliminated and deferred taxation has been recognised. These adjustments are described in the summary notes to the combined annual accounts. With the exception of deferred taxes, the impact of which is described in the notes to the combined annual accounts, these adjustments do not materially affect the overall annual accounts.

- The notes to the annual accounts and to the combined annual accounts provide a detailed description of the presentation and accounting principles applied in the combined annual accounts, a number of which are specific to the European System of Central Banks (ESCB).
- As explained in the notes to the annual accounts, the General Council, exercising the right provided for in article R144-6 of the Monetary and Financial Code, assessed the level of detail of the financial information published.
- For reasons described above, the combined annual accounts are not specifically commented on in the report on the Bank's assets, liabilities and results.

Basis for our assessments

As required by Article L.823-9 of the Commercial Code relating to the basis for our assessments, we draw your attention to the following:

- The Banque de France has updated the provisions for liabilities and charges established in 2003 to cover the plan to adapt the Bank's branch network and the plan to discontinue retail banking activities, as described in Note 21 to the annual accounts.

As part of our assessment:

- we reviewed the process applied by the Banque de France in estimating these liabilities and determining the amount of provision required;
- we satisfied ourselves as to the reasonableness of these estimates.

- As indicated in Note 31 to the annual accounts, the Banque de France believes that all expenses and income covered by the agreement of 31 March 1999 between the State and the Banque de France on management of and accounting for State foreign exchange reserves, supplemented by a rider dated 26 November 2002, the impact of which on profits is cancelled out by an equivalent reduction or increase in the "Revaluation reserve of State gold reserves" or the "Revaluation reserve of State foreign exchange reserves" as the case may be, fall outside the scope of corporate income tax. In 2005, this applied in particular to net gains on sales of gold.

As part of our assessment, we reviewed documentation supplied by the Banque de France in support of these positions, and satisfied ourselves as to their reasonableness.

- As indicated in the notes to the combined accounts, the Banque de France shows a net deferred tax asset of EUR 239 million as at 31 December 2005. The Bank believes that profits earned in future periods will enable this asset to be recovered.

As part of our assessment, we reviewed documentation supplied by the Bank in support of this position, and satisfied ourselves as to its reasonableness.

Our assessment of these issues was made within the context of our audit approach to the combined accounts taken as a whole, and contributed to our opinion as expressed in the first part of this report.

La Défense et Neuilly-sur-Seine, le 10 avril 2006

The Auditors

Mazars & Guérard

Charles de Boisriou

Jean-Louis Lebrun

Deloitte & associés

Pascal Pincemin

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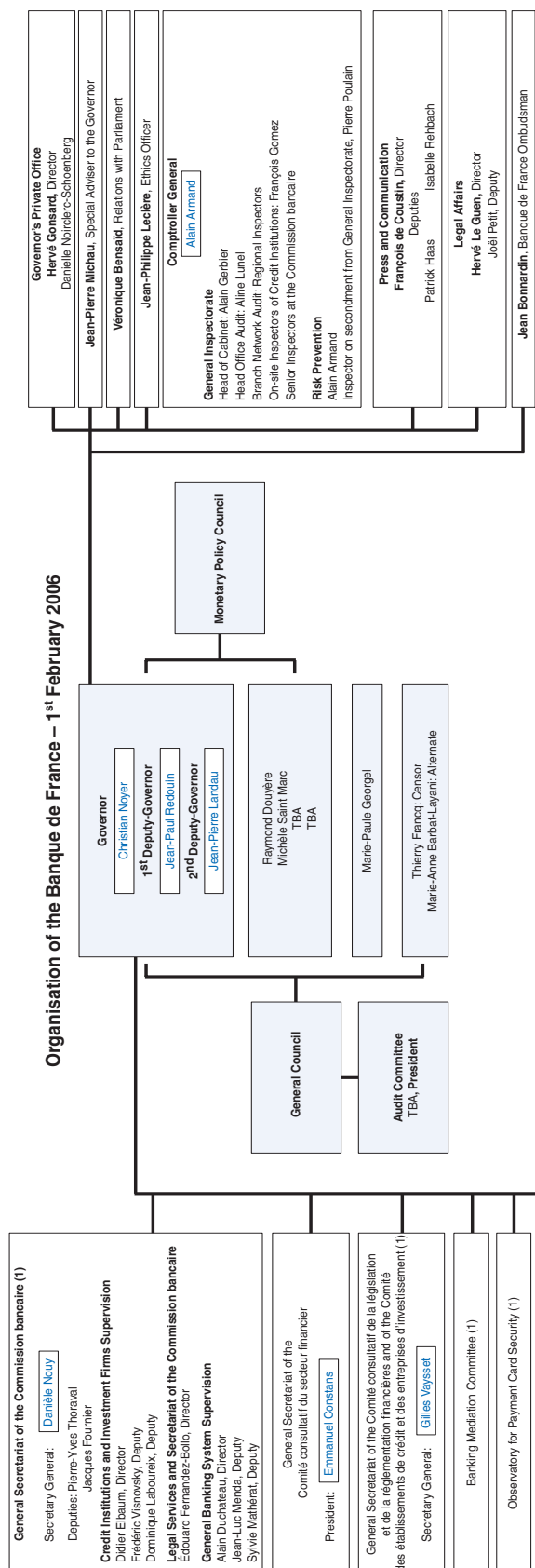
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Advisory Council at 31 December 2005

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Denis Ranque	Chairman and CEO of Thalès
Louis Schweitzer	Chairman of the Board of Renault
Ernest-Antoine Seillière	Chairman of the Supervisory Board of Wendel Investissement
Serge Tchuruk	Chairman and CEO of Alcatel
Thierry de la Tour d'Artaise	Chairman and CEO of Seb



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* Delegate Director for Statistics

132 branches, 10 economic centres, 4 household debt centres and 2 currency circulation management centres

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