

2010 | ANNUAL REPORT **BANQUE DE FRANCE**

To
The President of the Republic
And Parliament

By Governor Christian Noyer



Introductory letter to the Banque de France's Annual Report

submitted to
the President of the French Republic,
the President of the Senate, and
the President of the National Assembly

by
Christian Noyer, Governor of the Banque de France

2010



I have the honour of submitting to you, as required by law, the report on the operations of the Banque de France, monetary policy and its outlook.

This year, I would like to focus my analysis first on the sovereign debt crisis that occurred in 2010, then on the main challenges that lie ahead: the vital consolidation of public finances and the strengthening of our competitiveness on the one hand, and the issues that central banks will face in the conduct of their monetary policy on the other.

The year 2010 was marked, in Europe, by tensions on the sovereign debt of peripheral countries. It is important to assess the issues at stake.

This crisis is a fiscal crisis, with strong implications for the financial stability of Europe and the world. It is not a monetary crisis. Price stability has been maintained, confidence in the euro is unshaken, the macroeconomic situation of the euro area compares very favourably with that of the other advanced countries. The capital inflows that have been observed in the past few months refute the doubts that have been expressed concerning the solidity of the euro area itself.

Most European countries entered the 2007-2008 crisis with significantly deteriorated fiscal positions and very large structural deficits. The global financial and economic crisis thus hit vulnerable and fragile public finances. As the International Monetary Fund (IMF) showed, the widening deficits and the increasing debt over the past three years are primarily due to a loss in tax revenues caused by the recession, rather than an increase in spending. In addition, in some countries, but not in France, the blanket guarantees granted by governments to the banking sector led to a boom in implicit liabilities, which now have to be honoured.

European countries are not the only ones to have experienced such difficulties. In all the advanced countries, there has been a similar, and in some cases a greater, deterioration in public finances and public debt has jumped by around 30% of GDP on average. Taken as a whole, the situation of the euro area is relatively favourable, with an overall government deficit of 6.3% of GDP, compared with 10.5% for the United States, 9.6% for the United Kingdom and 7.7% for Japan.

But, of course, fiscal policies are domestic and markets and analysts do not regard the euro area as a single entity. They assess the situation of each country separately. Now, the crisis has brought to light the deficiencies, repeatedly pointed out, of the European Union's internal fiscal discipline mechanism. Yet, the founders of the euro had very clearly identified the problem: in a single and financially integrated monetary area, it is unlikely that markets will be sufficient, in normal circumstances, to keep fiscal policies in check and ensure that the main balances are maintained. And when market discipline does occur, it is too late, is often abrupt, and always leads to crises. The objective of the Stability and Growth Pact was to correct these deficiencies. The principles were sound, the framework was appropriate, but its implementation turned out to be extremely weak. Bluntly speaking, peer pressure, on which the Pact is based, failed to ensure that the main balances were achieved and to promote the required adjustments. It was, and remains, necessary to make a "quantum leap" in the structure of economic governance in the euro area.

The decisions taken over the past year, provided they are scrupulously implemented, should help to achieve this objective:

- The Stability and Growth Pact has been strengthened. As regards the "preventive arm", it will be characterised by stricter and better defined criteria, in particular with respect to public debt, by a quantified path for adjusting deficits and by the application of excessive deficit procedures to countries whose debt exceeds the threshold of 60% of GDP, except if its debt is on a downward path.
- The procedures for taking decisions and implementing them will become more rigorous and financial sanctions will be more automatic. Member States have committed themselves to following the recommendations of the European Commission in this area. A qualified majority within the Council will now be needed in order to reject (and no longer approve) these recommendations.
- In addition to the support programme for Greece, the euro area has also set up a new crisis management mechanism. The European Financial Stability Facility (EFSF), which was set up in May 2010 for a period of

three years, has been drawn on to support and finance the Portuguese and Irish programmes. Member States have also approved a longer lasting mechanism due to be implemented in 2013, which is mainly based on the European Stability Mechanism (ESM), with an effective lending capacity of EUR 500 billion. All these mechanisms associate the IMF and the European Commission "in consultation" with the European Central Bank (ECB) to avoid relying solely on peer pressure between Member States and to ensure proper conditionality.

- Lastly, the new EU economic governance framework also includes a procedure for monitoring competitiveness and, in particular, unit production costs. This new component of economic governance is essential. In a monetary union, a country's unit production costs cannot exceed the sum of productivity gains and an inflation rate consistent with the central bank's price stability objective, if this country is to remain competitive and maintain its growth and employment capacity. Public sector wages, which have undeniable spillover effects, must absolutely adhere to this rule. It is because they have ignored it that certain euro area countries are now forced to make painful adjustments to nominal wages.

However, these very important decisions have not been sufficient to fully restore confidence. There are three reasons for this:

- These reforms have been adopted incrementally over quite a long period so that their overall force and coherence may have escaped observers and analysts. During periods of crisis, the ability to communicate coherently and rapidly is vital to the success of public action.
- Public opinion is often wary of financial solidarity between European countries, this being especially apparent when the feeling is expressed that countries have not all been subject to the same degree of collective discipline. There is therefore a limit on the level of acceptable financial transfers, which imposes strict domestic discipline on deficit countries. But this imprecise limit, which has been set progressively during the crisis, has not been sufficiently clear to convince the markets.

- Lastly, the idea of involving the private sector in the management of crises has had a destabilising effect. Indeed, the uncertainty it created has deterred private creditors from continuing to finance countries in temporary difficulty, exacerbating the damage to the economy as a result of extreme tensions on market interest rates and ultimately making the public support needed and the risks of contagion even greater.

Financial crises draw on governments' budgets. In our democratic societies, the final balance struck naturally depends on the political choices made by the elected authorities. It is nonetheless possible to identify the technical conditions needed for a successful outcome:

- Compliance with strict and rigorous conditionality is crucial to the design and implementation of adjustment plans. It is a dangerous illusion to think that such conditionality can be relaxed by virtue of debt reduction or rescheduling. On the contrary, such operations do not in themselves provide any new financing. They always lead, at least initially, to a further drop in confidence and lower capital inflows, which increases the adjustment effort needed.

- The terms of any potential public support need to be clear. They must not cast doubt on countries' future ability to service their debt. The order of seniority must be closely adhered to, as non-observance of the seniority structure could immediately lower the credit standard of future debt.

- Lastly, crisis resolution mechanisms should, of course, only be used as a last resort and cannot replace the effective prevention provided by continuous fiscal discipline.

In this period of tension and turmoil, it is crucial for France to have a credible and sound strategy for consolidating its public finances.

Substantial progress has been made in the following areas:

- Pension reform, which will ensure the long-term sustainability of our pension system. This puts us on a par with all of the other major developed countries and marks our society's adaptation to longer life expectancy, which in itself is a welcome development.

- Controlling health care spending, with the actions in this area already producing visible results: in 2010, for the first time since 1997, the national target for health insurance spending was met, with nominal growth limited to 3%.
- The slowdown in the increase in the public sector wage bill and the freezing of government spending in real terms.
- Regarding government revenue, the abolition of numerous tax loopholes has helped to eliminate economic distortions and to establish a broader and sounder base for public revenue. The abolition of the business tax should stimulate corporate investment, with positive effects in terms of competitiveness.

But much remains to be done. In its stability programme, France has committed itself to reducing its general government deficit to 3% of GDP by 2013. In a context of economic and social difficulties, the temptation may be great to postpone the adjustment. But it is vital to stand firm in achieving this objective.

It is even highly desirable to step up the pace of deficit reduction, by taking advantage of all of the opportunities provided by growth to meet the target or even exceed it and bring the deficit below the 3% threshold by 2013.

We need to be ambitious in order to first stabilise, then reduce, public debt. It is a question of fairness for future generations. It is also a question of prudence, so as not to increase our financial vulnerability. France's creditworthiness is currently recognised and respected. It is an asset that needs to be defended and safeguarded. And to ensure that the level of public debt is brought back down below 60% of GDP, our aim must be to durably maintain a fiscal position that is close to balance. This is particularly true with respect to social spending, which consists entirely of current expenditure: funding this spending by borrowing makes no sense in economic terms.

Reducing deficits is also about keeping or regaining room for manoeuvre, which is extremely useful in the event of shocks. Today, this room for manoeuvre is minimal, or even non-existent, if we take into account the temporary support provided by the low level of

interest rates. And this support will not last forever. The very accommodating monetary policy conducted in the advanced countries will sooner or later come to an end. The predictable –and desirable– increase in domestic demand in the emerging economies will shift the balance at the global level between savings and investment, which may lead to a lasting rise in long-term rates in the developed countries. It would be preferable, when this adjustment occurs, to have restored the balance of our public finances, as otherwise we could be pulled into an uncontrollable spiral of debt and deficits. Urgent action is therefore needed.

Lastly, in the current period of doubt and uncertainty, fiscal consolidation generates confidence and stimulates growth, as shown by the recent economic developments. Belying the pessimistic forecasts of numerous analysts, deficit reduction in France has been accompanied by better-than-expected economic growth rates and a notable improvement in consumer confidence.

To be fully effective, the current measures must be part of a credible long-term framework to reduce and control public deficits that can improve the expectations of economic agents and prompt them to invest. This is the role of the fiscal rules that a large number of advanced countries are gradually adopting and the bill recently approved by the French National Assembly to write a balanced budget into France's constitution is a bold step in that direction. This bill provides for the adoption of a multi-year fiscal planning Act setting the frameworks for the annual finance and social security spending Acts. Annual spending caps and floors on tax revenues will be imposed and non-respect of these limits will be sanctioned by the Constitutional Council. France's financial laws will be given exclusive competence over tax and social security contributions.

Contrary to the fears sometimes expressed, such budgetary rules do not prevent a democratic debate on public finances. Firstly, because, by adopting such rules, it is the national representative body itself that determines the limits to its own decisions. Secondly, and most importantly, because such rules provide a framework for the main balances, but do not in any way affect fundamental budgetary choices such as the nature and level of the different categories of revenues and expenditure, the structure of taxation or the

contribution of local authorities to public initiatives. In effect, if well-defined, fiscal rules should reconcile the fundamental freedom of democratic choice with the credibility generated by the respect of long-term commitments.

Alongside fiscal consolidation, enhancing the competitiveness of our economy is a prerequisite for our future prosperity.

Globalisation has entered a new phase with more intense competition. The crisis has accentuated a rebalancing of the global economy. Emerging countries are playing a central role in the global recovery and their weight is increasing in both global trade and production. The agreement signed six months ago for the redistribution of IMF quotas is both a symbol and a sign. The emergence of this new map of global growth has been accompanied by a growing sentiment of economic insecurity in all developed countries, and this sentiment has been exacerbated by the financial crisis. Many countries are seeing a re-emergence of protectionism and isolationism. For France to succumb to these temptations would be both illusory and dangerous.

Illusory, because firstly the already advanced internationalisation of production processes cannot be reversed and secondly because our competitiveness and employment levels do not depend on our capacity to slow or block imports but rather on our capacity to attract and host the highest possible number of high value-added activities.

Dangerous because history has already shown us the dramatic consequences of such policies: the Siren call of protectionism led, for example, to the years of economic depression after the major financial crisis of the early-1930s. Today, on the contrary, it is the strength of international trade that is providing the opportunity for Europe and France to fully participate in the recovery currently enjoyed by most of the major emerging countries.

However, in the specific area of competitiveness, the performance of the French economy is not particularly good.

For several years now, our balance of payments has shown a persistent weakness: our current account –which was still posting a modest surplus in 2004 (0.4% of GDP)– was in deficit by 1.7% of GDP in 2010. France's share in global exports fell from 4.8% in 2002 to 3.7% in 2010. Foreign direct investment in France has somewhat contracted over recent years, suggesting a deterioration in the relative attractiveness of the French business environment. The rise in France's productivity over the last ten years has been slightly lower than Germany's.

Naturally, part of this phenomenon is due to factors partly or wholly beyond our control. For example, in the major emerging countries, demographic pressures have long been exerting a downward force on wages, although today this trend seems to be reversing, and exchange rate fluctuations can, at least temporarily, modify the relative positions. However, within the euro area and the European Union, our competitiveness is entirely our own responsibility and considering the degree of integration of our economy with those of our partners, it is of vital importance for our national economy.

Wage moderation is essential to ensure our competitiveness. But public policy can also contribute both directly and indirectly. Consider, for example, the residential property market. The continual rise in property prices is contributing to a perceived loss of purchasing power which in turn is fuelling wage claims. Indeed, rising property prices are a source of social malaise and economic rigidity because they prevent household mobility and exacerbate social inequalities. Moreover, the potential of a sharp correction of the property market represents a substantial risk to financial stability. It therefore seems imperative to address the root causes of its current imbalances. Demand-side policies have shown their limitations: fiscal incentives and financial support schemes accompanied by very attractive bank lending conditions have contributed more to fuelling price increases than to raising construction volumes. Today, we probably need to focus more on the supply side by easing a number of administrative and technical constraints which act as barriers to an expansion of the housing stock.

In the period ahead, monetary policy will face major challenges that will complicate the work of central banks.

For over a decade, industrialised countries have benefited from natural disinflation resulting, in particular, from the decline in industrial prices associated with the arrival of major emerging countries on the world market. Today, these dynamics have reversed. Fast-growing emerging economies are also large consumers of energy and commodities. This redistribution of global demand is naturally pushing up prices and impacting us directly. Accordingly, our inflation rate is increasingly influenced by global economic and monetary conditions.

It is fairly widely believed that when inflation is “international”, nothing can be done and it must be accepted. This argument appears straightforward: we cannot fight imported inflation with domestic monetary policy. However, it is flawed. First, because such an attitude would inevitably lead to a rise in domestic inflation: if households and companies observe central bank inertia, they would lose confidence, logically expect higher inflation and push up wages and prices. It is these “second round effects” that rapidly trigger inflationary spirals and that monetary policy must prevent at all costs.

Secondly, the argument is unsound because inflation undermines confidence and, hence, growth. Banque de France surveys show that, along with employment, the outlook for price developments has the greatest influence on consumer confidence. For almost two decades, our fellow citizens have been able to count on the guarantee and security of purchasing power provided by price stability. Over half the labour force today has never experienced inflation.

What does this mean for the Eurosystem?

Since the start of the crisis, the Governing Council of the ECB has maintained an extremely accommodative monetary policy, which has contained the weakening of the euro area economy in an environment of very low inflationary pressures. It now appears necessary for us to very clearly show our determination to prevent

the upward pressures on energy and commodity prices from spilling over to the general level of prices and to keep inflation expectations anchored at levels consistent with price stability.

While the Governing Council is determined to maintain price stability in the medium term, in line with its mandate set out in the Maastricht Treaty, it nevertheless rules out any automaticity or any pre-commitment regarding the pace of adjustment that may be required, thus taking into account the numerous uncertainties affecting the economic environment. Lastly, monetary policy, reflected in the level of interest rates, will remain separate from the provision of liquidity, which aims to ensure the smooth functioning of the markets and a level of financial stability that preserves the integrity of the monetary policy transmission mechanism.

In the developed world, the combination of high public debt levels and the pursuit of non-standard measures by central banks may create confusion. In the euro area, these measures have been carefully calibrated to avoid any ambiguity. Securities purchases have remained very limited and have aimed to ensure the smooth transmission of monetary policy decisions. Their monetary effects were immediately offset by sterilisation.

Lastly, monetary policy is being conducted in a world characterised by persistent financial instability, as evidenced by swings in capital flows and exchange rates and the higher volatility of commodity prices. This is prompting market participants to return to many high-risk financial products offering high yields in the short term.

Against this backdrop, the priorities that the French Presidency of the G20 has set itself appear particularly apposite. The reform of financial regulations must be completed and above all effectively implemented in all countries simultaneously. It is important to ensure that global liquidity is kept well under control. It is legitimate to consider a possible multilateral framework for international capital flows. Lastly, it is appropriate to question the consequences of the “financialisation” of commodities on the level and volatility of prices.

All these topics are being addressed without taboos or prejudices, in a spirit of cooperation. Nobody today disputes the relevance of this approach. An immense amount of work remains to be done and will take many years to complete. But we can make significant progress and achieve major milestones this year.



France is moving into the next decade with numerous advantages: the most favourable demographic developments in Europe, a high level of energy independence, a financial system that has weathered the crisis better than many others, and a strong presence in advanced technologies.

The French economy has demonstrated its resilience during the crisis. Employment and growth were less badly affected than in other countries. And the current phase is proving wrong those who were predicting a less rapid rebound.

The outlook is therefore favourable with many reasons for optimism, provided, however, that the structural weaknesses that are still creating uncertainties for the future are addressed at both the national and European level.

Paris, 9 June 2011

A handwritten signature in black ink, appearing to read 'Christian Noyer', with a horizontal line underneath.

Christian NOYER

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The photographs that illustrate this annual report, taken by Pascal Assailly, Jean Derennes and Philippe Jolivel, capture elements of the Banque de France's rich architectural heritage. These stone, iron and glass features are caught in all their radiance and splendour. The photographs of the General Council and the members of the Executive Committee were taken by Marthe Lemelle.

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A word from the Governor



In 2010, most countries enjoyed economic recovery. This was also true of France, albeit with a number of specific features: household consumption grew and corporate credit picked up more markedly than in our euro area partner countries; however, investment and foreign trade made lower contributions to growth. At the same time, renewed tensions in financial markets were observed, associated with the uncertainty surrounding the state of public finances and sovereign debt dynamics of some euro area countries. Prospects of a lasting recovery and sustainable growth are therefore still far from certain. The Banque de France is committed to playing a part in this recovery, notably by ensuring monetary and financial stability, which is one of its core tasks.

On numerous occasions over the past year, the Bank has taken decisive action to support the economy and the Nation. Three particularly illustrative examples of such action spring to mind.

First, the establishment of the Prudential Supervisory Authority, bringing together the supervision of banks and insurance companies under the auspices of the Banque de France, required a major reorganisation in order to create synergies, adapt to new tasks, and very rapidly roll out significant human resources and logistics. Moreover, as part of its customer protection duties, which ensure that not only laws and regulations are complied with but also that best practices are applied in both professions, new controls were implemented in 2010 and will continue in 2011. Far from merely placing side by side areas of competence that had been separate, this merger created a new architecture, allowed supervisors to acquire new methods and generated a cross-sectoral approach that gives greater leverage to the supervisory authority and the central bank, without blurring the boundary between prudential supervision and monetary policy.

Second, financial stability considerations, underlying all the major international initiatives in which the Banque de France has participated, required, in collaboration with all the relevant players (central banks, academics and the financial sector) an overhaul of previously-conducted analyses and the implementation of a new framework for assessing the risks incurred and the economic and financial impact of recent crises. These different deliberations were taken into account for establishing the scenarios used in the stress tests applied to financial institutions. Using all the analyses and information that we had assembled, these considerations have enabled the Bank to be a valuable partner of the French authorities, and in particular the Ministry of the Economy, Finance and Industry, in the preparation of France's G20 Presidency and in the associated meetings.

Lastly, the Banque de France continued to assist the public authorities in their efforts to monitor and support the economy. The constant updating of economic analyses, the increased provision of statistics on credit, corporate financial situations, competitiveness and foreign trade and the production of economic forecasts, indicators and economic assessments provide essential information for decision-makers, public authorities and business leaders, as well as for resident and non-resident investors.

But the Bank not only closely monitors events and provides information, it is also an active contributor. In the framework of the tasks entrusted to it by the State, such as credit mediation or services to regional and local authorities, drawing on the expertise of its branch managers, it very frequently takes steps to enable companies to gain access to the most appropriate financing conditions and facilitates their administrative procedures. It also assists administrations with their development projects by helping them to understand the local economic environment.

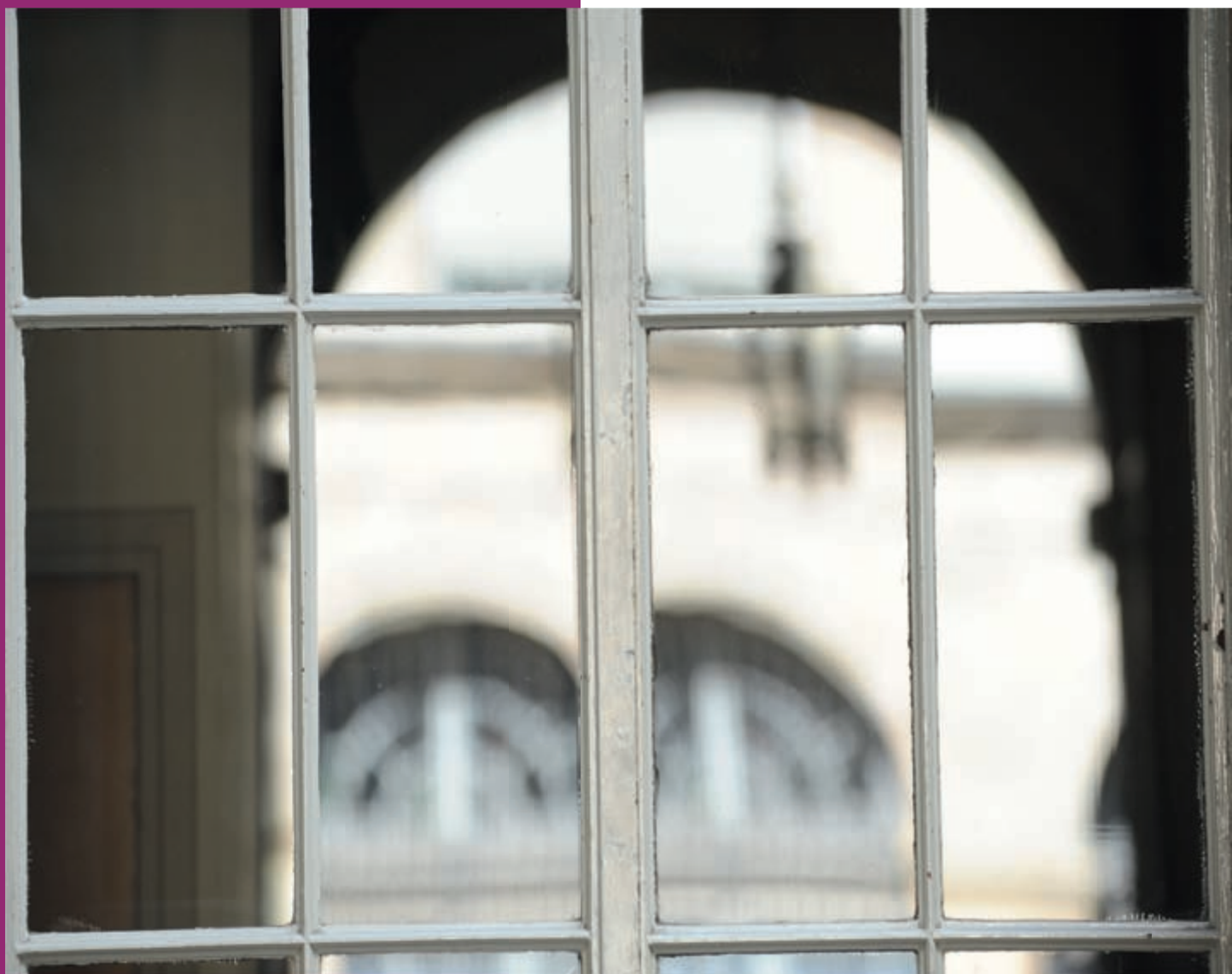
I must also recall that we strive to provide the best service at the best cost. For the past few years, we have implemented structural reforms, such as the reform of the Bank's regional branch network and the improvement of the industrial processes used in banknote manufacturing, in order to reduce operating expenses and bring down our break-even point. In 2010, the latter fell below the 1% mark for the first time.

None of this would have been possible without the skills, energy and efforts delivered in all areas by the staff of the Banque de France whom I wish to thank for their permanent commitment to our duties and to our fellow citizens.

A handwritten signature in black ink, appearing to read 'Christian NOYER', with a horizontal line underneath the name.

Christian NOYER

Monetary policy, financial stability and economic recovery



The recovery, which started in the second half of 2009, gathered pace in 2010, despite the sovereign debt crisis and ongoing risk aversion on financial markets. Recovering its role as a driver for growth, private demand started to respond to monetary and fiscal stimulus. The recovery was global in nature but, whereas emerging countries returned to pre-crisis growth rates, advanced countries did not experience a marked rebound.

In industrialised countries, monetary policies continued to be accommodating, combining historically low key rates with non-standard measures, and government deficits remained high. Phasing out measures to support growth, which are temporary by nature, is now one of the main post-crisis challenges. To meet fiscal consolidation requirements, significant reserves of growth could be found in the implementation of structural reforms. Lastly, drawing on the lessons learned from the financial crisis, financial stability and international coordination continued to be strengthened. The French presidency of the G20, which started at the end of 2010, will provide an opportunity to make headway with reforming financial regulations and the international monetary system, coordinating macroeconomic policies and protecting against commodity price volatility.

1 | INTERNATIONAL ENVIRONMENT

1|1 Capital and commodity markets

Capital markets

Overall, in 2010, the financial markets of developed economies continued to be dominated by a sentiment of risk aversion, fuelled both by uncertainty surrounding economic activity – in particular in the United States – and the sovereign debt crisis affecting certain euro area countries. By contrast, the strength of commodity-exporting emerging markets attracted investors, producing a further episode in 2010 of monetary policy decoupling between developed and emerging economies.

In this context, the monetary policies of the main economic areas remained accommodating. In the

United States and Japan, central banks stepped up their non-standard measures by increasing their securities purchase programmes, leading to a further expansion of bank liquidity. For instance, the Federal Reserve System, while maintaining its target for the federal funds rate at between 0 and 0.25%, proceeded in two stages announcing, on 10 August, that it would reinvest principal payments from agency debt and agency mortgage-backed securities, purchased during its initial securities purchase programme, in longer-term Treasury securities (totalling between USD 250 and USD 300 billion, until June 2011). Then, in November, it announced that it intended to purchase a further USD 600 billion of longer-term Treasury securities by the end of the second quarter of 2011. Consequently, the dollar overnight rate remained stable at around an average of 0.18% throughout 2010. Expectations of monetary tightening fell steadily. While at the start of the year, an interest rate hike was expected in the second half of 2010, in December, the timing of the move was pushed back to the first quarter of 2012. In August, the Bank of Japan upped its supply of fixed-rate loans to banks (from JPY 20 trillion to JPY 30 trillion) and created on 5 October a JPY 5 trillion fund to buy assets over the next twelve months. It also reduced its monetary policy target in October, cutting its uncollateralised overnight rate from 0.1% to a range of between 0 and 0.1%.

In the euro area, the key rate remained unchanged at 1.00%. As regards liquidity management in euro, the combination of maintaining fixed-rate tender procedures with full allotment for all main refinancing operations and the withdrawal of its six- and 12-month LTROs led, as of end-June, to a reduction in excess liquidity that subsequently became more pronounced. This resulted in an increase in volatility of the unsecured overnight rate and an uptrend in this rate. Overall, the three-month Euro Overnight Index Average (EONIA) rose from 0.40% to 0.60%. This also led to an increase in the cost of unsecured interbank lending at longer maturities: the three-month EURIBOR rate rose, from one year-end to the next, from 0.70% to 1%. Moreover, tensions on sovereign debt markets in the euro area led to a certain segmentation of the euro money market and a tightening, in the form of a shortening of maturities and higher interest rates, of European banks' dollar borrowing conditions, in particular in May and June 2010.

This period was also marked by the application in the United States of the new money market fund regulation, which calls for a reduction in portfolio maturities. However, the impact of this was limited, as illustrated by the moderate use of facilities to provide dollar liquidity in May 2010, in the framework of the foreign exchange swap agreement between the ECB and the Federal Reserve.

US and European government bond market developments clearly showed that investors remained risk averse. In the United States, disappointing macroeconomic data, ongoing accommodating monetary policy and expectations of a further securities purchase programme by the Fed, actually announced on 3 November, pushed US bond yields down to historical lows: 2.38% on ten-year Treasury securities at the start of October and 0.32% on two-year notes in early November. The last two months of the year were nevertheless marked by a sharp rise in yields to 0.59% and 3.29% for two-year and ten-year maturities respectively (close to their levels at the start of the year). This rise was fuelled by an improvement in the macroeconomic environment and renewed expectations of higher inflation. UK government bond yield developments were very similar to those of the United States: the yield on the two-year Gilt initially declined by 72 basis points, to stand at 0.60% on 24 August, then gradually rose to 1.10% at end-2010; the yield on the ten-year Gilt reached a historical low at 2.83% on 31 August (against 4% at the very start of 2010) and increased to 3.40% at 31 December.

Japanese bond yields fluctuated within a narrow range, the two-year JGB yield remained almost stable in 2010 at its levels of end-2009, i.e. 0.18%, and the ten-year JGB yield lost a total of 17 basis points over the year to stand at 1.15%.

Yields on government bonds in “core” euro area countries (France, Germany, the Netherlands – as opposed to “peripherals” – mainly Greece, Ireland, Portugal) fell to historically low levels driven by three factors: the “flight to quality” prompted by the peripheral euro area sovereign debt crisis, the supply of interbank liquidity and a close link with US bond market movements.

Yields on two-year French and German notes reached historically low levels at end-May 2010 and at the start

of June, 0.61% and 0.45% respectively. Subsequently, they gradually rose to finish the year at 0.96% and 0.86% respectively, due in particular to the reduction in the liquidity surplus prevailing on the euro area money market. Yields on ten-year French and German bonds declined between January and end-August and reached historically low levels in August (2.46% and 2.11% respectively). They then mirrored the rise in US yields to end the year at 3.36% and 2.96% respectively.

An opposite trend was observed for peripheral euro area sovereign yield spreads due to increasing investor wariness. For instance, pressures on Greek debt, which appeared in the fourth quarter of 2009, intensified significantly at the start of the year. They then spilled over to other euro area countries, notably Ireland and Portugal. Despite the announcement on 2 May of the Greek rescue plan by the European Union and the International Monetary Fund (IMF) totalling EUR 110 billion, these pressures also temporarily spread to the money market as well as covered and uncovered bank bonds, as market participants judged that there were close linkages between sovereign risk and bank risk in the euro area. Pressures then affected the bond market liquidity of core euro area countries. During this period, these concerns affected the performance of the euro. The euro/dollar exchange rate reached its lowest level (1.1923) on 7 June.

Against this backdrop, the Council of the European Union announced on 10 May the creation of a European financial stabilisation mechanism with funds of EUR 500 billion. On the same day, the Governing Council of the ECB announced notably the implementation of the Securities Markets Programme (SMP) to conduct interventions in the euro area public and private debt securities markets with a view to ensuring depth and liquidity in dysfunctional market segments and restoring an appropriate monetary policy transmission mechanism in the euro area. Secondary market purchases by the Eurosystem as of 10 May significantly eased bond market pressures. By way of illustration, on 7 May two-year and ten-year Greek bond yields reached historical highs of 18.26% and 12.45% respectively before falling 1,000 and 450 basis points in one day on 10 May to stand at 7.53% and 7.76% respectively. The publication on 23 July of the results of bank stress tests conducted by the Committee of European Banking Supervisors also calmed pressures

on peripheral bond markets. However, in October, attention turned to the cost for Irish public finances of the restructuring of the domestic bank sector. This put such pressure on the Irish sovereign debt market that Ireland had to request, at end-November, the use of the European Financial Stability Facility, set up in May 2010. A joint EU-IMF bailout was agreed on, totalling EUR 85 billion. The fiscal adjustment plans put in place by Greece and Ireland in the framework of these rescue packages, as well as by Portugal and Spain to prevent a deterioration in borrowing conditions, did not really put investors' minds at rest in 2010. For instance, over the year, Greek, Irish and Portuguese ten-year bond spreads widened by 670, 422 and 253 basis points to 12.47%, 9.06% and 6.60% respectively.

Risk aversion, fuelled both by the situation in the euro area and the economic context in the United States, prompted market participants to turn to, as well as AAA-rated sovereign debt, safe-haven investments. The Swiss franc and the Japanese yen were the main beneficiaries. In 2010, in nominal effective terms, these two currencies appreciated by 14.21% and 13.44%, respectively. Similarly, the price of gold rose by 30% in 2010, from USD 1,091 to USD 1,420/oz, after hitting a high of USD 1,423/oz on 6 December. Furthermore, gold demand from emerging countries remained strong.

The strong performance of emerging markets came in stark contrast to the situation prevailing in industrialised countries, with the former thus attracting investments. The JP Morgan EMBI global index, which measures spreads between emerging market sovereign bonds and US government securities, narrowed by 35 basis points to stand at 265 basis points in 2010. Strong investor appetite also resulted in a marked appreciation of emerging market currencies, with the exception of a temporary period in May and June 2010, while the effective exchange rate of the euro reached a nadir. The interventions of a number of emerging market central banks on foreign exchange markets to check the appreciation of their currencies, in particular against the US dollar, and the tightening of capital controls were the most common responses to this market development. These measures did not prevent the Brazilian real from appreciating by 5% against the US dollar. Conversely, the euro was affected by the sovereign debt crisis, with its nominal effective exchange rate decreasing by 9.42% over the

year. Likewise, the nominal effective exchange rate of the US dollar fell by 3.82%, on the back of poor macroeconomic data and further monetary easing. Sterling remained almost stable, losing 1.95% in nominal effective terms.

The United States and the United Kingdom maintained or stepped up the use of non-standard monetary policy measures, leading market participants to seek investments with higher yields than government securities. The Federal Reserve explicitly stated that the aim of its securities purchase programme was to prompt investors to move into other instruments. This pushed equity markets significantly higher, with the S&P 500 gaining 11% and the FTSE putting on 12%. The MSCI Emerging Markets Index rose by 17%. In the euro area, equity market performance differed considerably across countries: the German DAX rose by 16%, while the CAC40 lost 3.3%, affected by the underperformance



Box 1

The European support mechanism for euro area countries

Faced with a sharp rise in interest rate premia demanded by markets for lending to certain euro area countries in early 2010, a European stabilisation mechanism was set up on 9 May 2010. This temporary facility supplements the support mechanism already in place for Member States that have not adopted the euro ("medium-term financial assistance for Member States' balances of payments").

The euro area stabilisation mechanism is two-pronged:

- the European Financial Stabilisation Mechanism (EFSM), which can be called upon at short notice by the European Commission, is authorised to raise up to EUR 60 billion on the financial markets, using the EU budget as collateral;
- the European Financial Stability Facility (EFSF) is a special purpose vehicle, in the form of a Luxembourg-registered company, authorised to issue bonds guaranteed by euro area Member States¹ for up to EUR 440 billion. It should nevertheless be noted that the different protections built into the mechanism limit lending to a country in difficulty to around EUR 250 billion.

European aid will be supplemented by the (usual) IMF facilities, of up to EUR 250 billion.

These mechanisms are separate from the Greek rescue package implemented on 2 May 2010 on an ad hoc basis totalling EUR 110 billion (EUR 80 billion in bilateral loans pledged by euro area countries and a loan of EUR 30 billion from the IMF).

The EUR 85 billion Irish rescue package was the first to be granted by the EFSM/EFSF. Ireland itself contributed EUR 17.5 billion to the package, via its National Pension Reserve Fund. The package includes 45 billion from the EU: 1) EUR 22.5 billion from the EFSM, 2) EUR 22.5 billion, shared between the EFSF (EUR 17.7 billion) and bilateral loans from the United Kingdom, Sweden and Denmark (EUR 4.8 billion). The IMF's contribution amounts to EUR 22.5 billion.

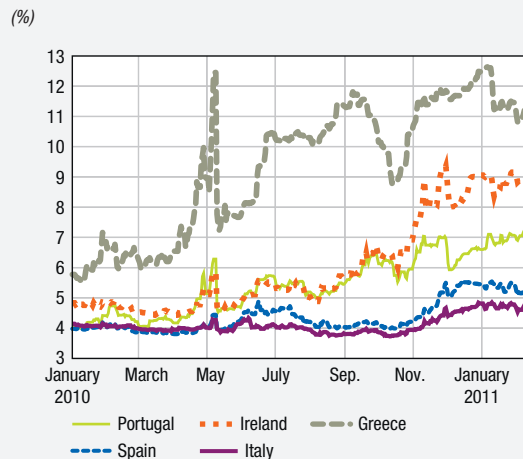
Consequently, the EFSM issued its first EUR 5 billion Euro AAA bond on 5 January 2011 at mid-swap plus 12 basis points (yield of 2.5%). This five-year issue was oversubscribed by almost four times.

The EFSF placed its inaugural issue on 25 January 2011, for an amount of EUR 5 billion. These 2.75% notes, due July 2016, met with even stronger demand, reaching almost EUR 45 billion. The issuance spread was fixed at mid-swap plus 6 basis points with a yield-to-maturity of 2.89%. The EFSF stated that it would lend EUR 3.3 billion to Ireland at a rate of 6%.

Since both these facilities (EFSF and EFSM) are temporary, a permanent crisis resolution mechanism, the "European Stability Mechanism" (ESM) will replace them in June 2013, as decided by the European Council of 16-17 December 2010. Private sector involvement may be required on a case-by-case basis, in line with current IMF principles. It will intervene on a contractual basis and its response will vary depending on whether it is a liquidity or a solvency crisis. In the case of a liquidity crisis, the Commission, the ECB and the IMF would conduct a debt sustainability analysis, on the basis of which private investors would be encouraged to maintain their exposure, on a voluntary basis, to the country in question. Conversely, in the case of a solvency crisis, a restructuring plan would be negotiated with the private creditors, and the ESM could provide liquidity assistance. To facilitate these negotiations, all new bonds issued in the euro area from July 2013 will carry collective action clauses (CACs) which would enable the creditors to pass a qualified majority decision agreeing a legally binding change to the terms of payment (standstill, extension of the maturity, interest-rate cut and/or haircut) in the event that the debtor is unable to pay. The Simplified Treaty amendment procedure should make it possible for national approval procedures to be established by end-2012 and the amended Treaty to come into force on 1 January 2013.

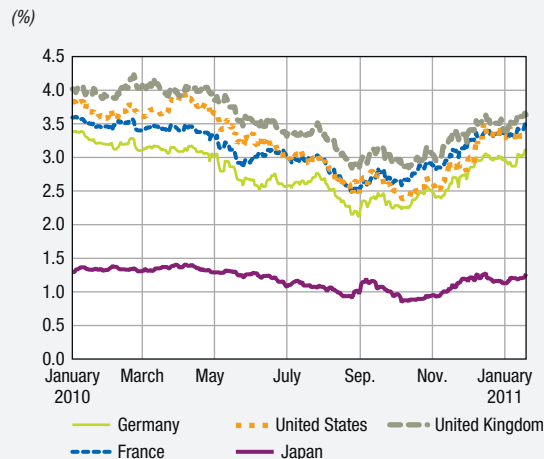
¹ The guarantee of each Member State, calculated on a pro rata basis, stands at 120% of the country's share in the capital of the ECB.

Chart 1
Peripheral 10-year yield spreads



Source: Bloomberg.

Chart 2
10-year yields



Source: Bloomberg.

of bank stocks. Sharp falls were recorded by Greek (36%), Spanish (17%), and Portuguese and Italian (11%) indices. In 2010, credit spreads, which had started to narrow in 2009, tightened further in the euro area and the United States: following a rebound in the second quarter, against the background of euro area sovereign pressures and downward revision of the growth forecast in the United States, credit spreads tightened in the second half of the year, due in particular to the second asset purchase programme by the Fed. The Eurosystem's covered bond purchase programme completed in June 2010 created the

conditions for issuance to recover: issuance volumes reached EUR 135 billion in 2010 in the euro area, i.e. close to the 2007 level, whereas in 2008 and 2009 they had only stood at EUR 80 and EUR 105 billion.

Commodity markets

Commodity prices ended 2010 at much higher levels on average than those observed in 2009. These price developments can chiefly be ascribed to supply pressures, strong demand from emerging countries and adverse weather conditions.

Chart 3
Brent crude oil prices

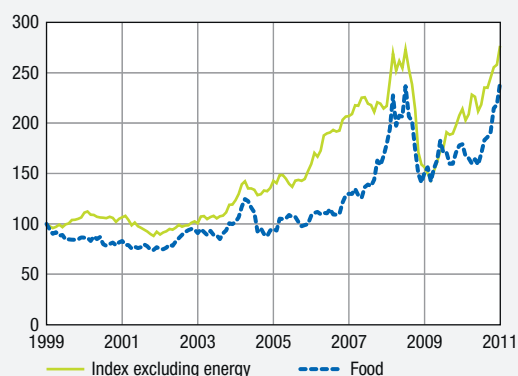


Note: Brent is a fairly light crude oil blended from the output of 19 oilfields in the North Sea and traded in London. Despite the small production volume, its price is a global benchmark.

Source: Datastream.

Chart 4
HWWA Commodity Price Index

(base 100 = January 1999)



NB: HWWA: Hamburgisches Welt-Wirtschafts-Archiv (Hamburg Institute of International Economics).

Source: Datastream.

On oil markets, oil prices finished the year up 23% on 2009, at USD 91.38. In 2010, the average oil price was USD 79.61. This sharp rise can mainly be attributed to short-term pressures on the physical market: supply

constraints owing to OPEC's decision to leave its production level unchanged and particularly strong demand from emerging countries, together with an especially cold winter in the Northern Hemisphere.

Box 2

The organisation of commodity markets

The structure and organisation of commodity markets have greatly evolved over the past ten years, due to the changing nature of market participants.

- New players, who consider commodities as a new asset class, have emerged (hedge funds, asset managers, etc.). Consequently, new investment products with commodities as underliers have been developed, such as exchange traded funds (ETFs).
- Banks have broadened their range of commodity-based financial products, by creating dedicated partnerships with companies in the energy sector.
- Lastly, public policies have been less pro-active: government intervention for price stabilisation and the build-up of stocks, especially for agricultural commodities, has greatly declined over the past decade.

Market infrastructures are rare, with most transactions conducted over-the-counter (OTC).

- With few exceptions (carbon, electricity and gas exchanges that exist alongside the major supply contracts between producers and consumers), physical transactions mainly take place OTC, in particular for agricultural commodities and oil.
- On derivatives markets, transactions are also mainly conducted OTC. For example, on the oil market, in 2006, OTC transactions reached twice the amount carried out on organised markets.

Regulation of these markets remains very limited.

- Some major players on commodity derivatives markets are unregulated. As opposed to other financial assets, there is no requirement for certification as an investment services provider (ISP status) to trade commodities on the spot and derivative markets.
- Regulation of the physical market is often piecemeal. Where it does exist, in particular for agricultural commodities, sector regulators only oversee the spot market and their remits vary greatly across Europe.
- Lastly, data transparency is manifestly lacking on all these markets.

To date, trading in commodities and associated derivatives has, at best, been framed by overly general regulations. It therefore appears highly appropriate to:

- shore up the safety of OTC derivatives markets, by imposing central counterparty clearing;
- enhance transparency, by implementing trade repositories specific to financial commodities markets;
- regulate all the major players on derivatives markets;
- define a regulatory framework for open interests on organised markets.

In order to ensure that these markets continue to fulfil their functions (price discovery, sharing of risks between producers and consumers, and ultimately helping to increase global commodities production), it appears necessary to create a more secure environment to support their development.

Non-energy commodity prices also rose sharply in 2010. Industrial raw materials prices, closely correlated to the global business cycle, were underpinned by emerging market economic activity, in particular in China and India.

The rise in food commodity prices is largely explained by supply pressures, caused by adverse weather conditions as well as the adoption of measures that penalise the exports of certain agricultural commodity producers such as Russia and China.

1|2 Non-euro area economic activity

In 2010, a recovery was seen in global economic growth. According to IMF estimates, global production rose by 5.0% as an annual average in 2010, after falling by 0.5% in 2009. The financial crisis is almost over but, in developed countries, economic activity is only recovering slowly with a massive increase in public debt. A two-speed recovery is thus underway: emerging countries have already returned to high growth rates, while advanced countries, which had experienced a sharper decline in activity, are growing at a more moderate pace.

Industrialised countries

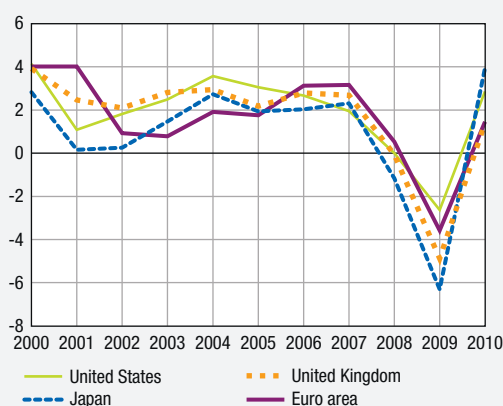
In the United States, the economy started to recover in the third quarter of 2009, with average

GDP growth of 2.9% in 2010, following a 2.6% fall in 2009. Net job creations stood at 909,000, after destructions of 5.1 million in 2009. However, unemployment rose to 9.6% in 2010, compared with 9.3% in 2009, with a considerable risk of hysteresis: long-term unemployed accounted for 44% of the jobless whereas they only represented 20% in 2007. Renewed confidence and further assistance from stimulus packages enabled household consumption to start to grow again after two years of falls: it was up 1.8% on average in 2010, compared with a decline of 1.2% in 2009. The housing market stabilised in 2010, thanks to the government's First-Time Home Buyers' Tax Credit Programme that ended in April 2010, but activity levels remained very low. Home prices, as measured by the S&P Case-Shiller index, rose by 1.2%, after sliding by 13.3% the previous year, but the housing sector remains fragile given in particular the large number of foreclosures.

After plummeting by 17.1% in 2009, corporate investment greatly contributed to growth in 2010, notably in the software sector. External trade made a negative contribution to GDP growth for three consecutive quarters in 2010. However, in the fourth quarter, thanks to slower imports and strong exports, trade added a record 3.4 percentage points to GDP growth (annualised); such a result had not been observed since 1947.

Chart 5
GDP growth of selected developed economies

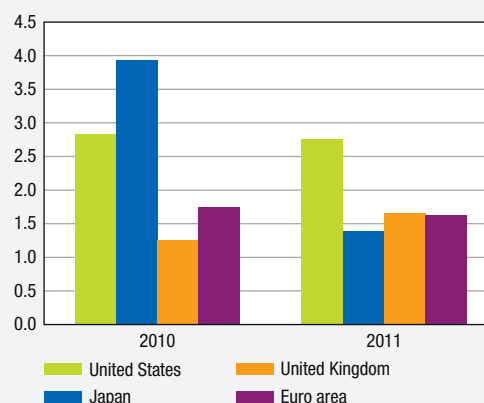
(annual average as a %)



Sources: National data.

Chart 6
GDP growth forecasts of selected developed economies

(annual average as a %)



Source: IMF World Economic Outlook, January 2011.



US prices, as measured by the consumer price index, increased by 1.6% in 2010, after inching down by 0.3% in 2009. This acceleration stems from the recovery in activity and the rise in energy prices (up 9.6% in 2010, after falling by 18.1% in 2009). Inflation, excluding energy and food prices, stood at 0.8% in 2010, which is its lowest level since 1958.

However, following a strong recovery (5.7% annualised quarter-on-quarter in Q4 2009 and 3.7% in Q1 2010), attributable in particular to the greater stability of the financial system, growth slowed in the spring (1.7% in Q2 2010) due to the lower contribution of the growth stimulus package. In July, the Senate passed the Dodd-Frank Act aimed at reforming the regulation of the US financial system and attempting to prevent further crises. In the second half of 2010, the recovery proved stronger than expected, with growth of 2.6% in Q3 and 3.1% in Q4, largely

thanks to robust consumer spending (up 4.0% in Q4). This item added 2.8 percentage points to growth in Q4, which was its stronger contribution in four years.

In 2010, the Federal Reserve stepped up its non-standard policy measures deployed when the crisis broke out to safeguard the US economy against further financial market failures, the risk of a fresh slump in activity and deflationary pressures. For instance, while interest rates were kept “very low for a prolonged period” (between 0% and 0.25%), in 2010 the Fed’s balance sheet, which had reached over double its level observed in 2008, expanded further at the end of the year (to USD 2,410 billion) in the wake of the implementation of the programme to purchase additional long-term Treasuries, dubbed “Quantitative Easing 2”.

In 2010, the federal government deficit reached USD 1,294 billion, representing 8.9% of GDP. This figure is lower than in 2009 (USD 1,415 billion, i.e. 10.0% of GDP), but according to the OECD the overall general government deficit, which includes local government and social security funds, should stand at 11% of GDP (after 12% in 2009). In parallel, outstanding federal government debt climbed steadily to 62% of GDP. The government proposed a reduction in federal government deficit from 10% of GDP in 2010 to 3% in 2015. In addition to the difficulties experienced by federal government, state governments also had problems, raising the risk on municipal bonds.

In the United Kingdom, average annual GDP growth came to 1.3% in 2010, after falling by 4.9% in 2009. Not only did the recovery kick in later than that of other major advanced economies but it also proved more fragile in 2010, benefiting mainly from the mechanical contribution from inventory rebuilding and slightly stronger domestic demand (up 1.0 percentage point in 2010 compared with an average of around 3.0 percentage points over the 2000-07 period). In 2010, import growth outstripped export growth, with external trade making a negative contribution to growth of 0.9 percentage point.

Inflation, as measured by the consumer price index, averaged 3.3% in 2010, after 2.2% in 2009. This increase was mainly due to the impact of sterling’s depreciation on imported goods prices, the rise in VAT

in January 2010 and higher oil and commodity prices towards the end of the year.

After lowering its base rate from 5% to 0.5% between October 2008 and March 2009, the Bank of England maintained an accommodative stance throughout 2010. In January 2010, it brought to an end its asset purchase programme totalling GBP 200 billion and mainly consisting of Gilts with a residual maturity of between 3 and 25 years. Since then, the Bank of England has undertaken to keep its bond holdings at GBP 200 billion, while allowing for a possible change to this programme if macroeconomic conditions so require.

Over the past few years, the UK general government deficit has widened significantly to stand at 10.2% of GDP in 2010, after 11.3% in 2009 (as defined in the Maastricht Treaty). Maastricht public debt stood at 76.1% of GDP in 2010 as against 68.1% in 2009.

The quarterly profile of growth was fairly volatile in 2010, peaking in Q2 at 1.1% before slowing in Q3 to 0.7% and becoming negative in Q4 (-0.5%). With an average growth rate of 1.3% in 2010, the recovery in the United Kingdom remains one of the most fragile among the major developed countries outside the euro area. Private consumption and corporate investment were lacklustre due, among other factors, to an erosion of purchasing power, with negative real wage growth in 2010, and to a further contraction in property prices and the weakness of credit to companies and households. The anticipated positive impact of the recovery in world trade in 2009 and the rise in UK price competitiveness associated with sterling depreciation (sterling's effective exchange rate fell in real terms by around 22% in December 2010 compared with its peak in July 2007) did not materialise in 2010. This can partly be explained by structural reasons, such as the geographical destination of exports, and by behavioural reasons, such as the sharp rise in exporters' profit margins.

In Japan, GDP growth declined by 10.0% overall between the start of the crisis in Q1 2008 and its trough in Q1 2009. In 2010, the Japanese economy made a strong recovery, with GDP rising by 3.9%, compared with negative growth of 6.3% in 2009. Net exports and private consumption were the main drivers of this strong growth.

In early 2010, net exports were the engine for Japanese growth. Subsequently, they were affected by a slowdown in global growth and a strong appreciation of the exchange rate. In order to maintain their market share, exporters continued to cut export prices (-2.5% in 2010). In September 2010, the Japanese authorities made their first intervention in the foreign exchange market since 2004 and eased monetary conditions, this move being bolstered by a further asset purchase programme. At the end of the year, the exchange rate stabilised at around the JPY/USD 83 level and exports showed signs of recovery.

As regards domestic demand, the phasing out of fiscal stimulus packages led to a slowdown in consumption in the last quarter. Labour market conditions did not foster a continued rebound in private consumption: the unemployment rate stood at 4.9% in December 2010 compared with 5.2% in December 2009, while wages recovered very slightly by 0.5% in 2010, after falling by 4.8% in 2009. The public authorities adopted two new fiscal stimulus packages to support the private sector, equivalent to 1.3% of GDP. The strong rebound in exports and consumption at the start of the year contributed to the stabilisation of non-residential investment, which grew by 2.4% after falling sharply by 16.7% in 2009.

With no formal commitment to implement a fiscal consolidation programme, Japan's fiscal position remains worrying. According to OECD estimates, government debt reached 196% of GDP at the end of the year. The recovery in economic activity in 2010 and the fall in the output gap helped to ease deflationary pressures. However, the CPI excluding fresh food lost 0.7% in 2010, following a 1.3% decline in 2009.

Emerging countries

While growth in emerging markets slowed significantly in 2009, 2010 saw a rapid recovery, except for Emerging Europe, with growth rates close to those observed before the global economic crisis. Emerging economies benefited from both the recovery in trade, in particular in countries whose growth is export-led (emerging Asia), and the rise in commodity prices (Brazil, Mexico, Russia, the Middle East).

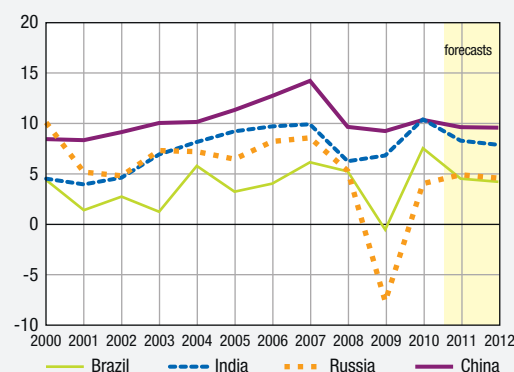
Emerging Asia, like China and India, saw a strong rebound in growth. In China, thanks to fiscal and above all monetary stimuli, growth hardly slowed in 2009 (9.2% as an annual average), and remained very robust in 2010 (10.3%), mainly driven by domestic demand. New loans have thus exceeded the target set by the Chinese government (CNY 7,950 billion, compared with a target of CNY 7,500 billion), even though they remain lower than the loans granted in 2009 in the framework of the stimulus package. GDP growth also increased significantly in India (10.4% as an annual average according to IMF estimates).

After undergoing a recession in 2009, Latin America experienced strong growth in 2010. Situations nevertheless varied across countries: GDP grew by 7.5% in Brazil and 5.2% in Mexico in 2010, whereas the recovery in Central America was weak and Venezuela suffered a recession for the second consecutive year. In most Latin American countries growth was driven by stronger private consumption and investment and higher commodity prices, which benefited the region's exporters (Brazil, Mexico, Chile, Argentina and Peru, in particular).

In Emerging Europe, the recovery gained momentum but once again there were marked differences across countries. Poland and the Czech Republic recorded growth rates of 3.5% and 2.4% respectively, whereas economic growth remained weak in Bulgaria at 0.2% and declined by 1.9% in Romania. In Turkey, growth reached 8.1% in 2010. The rise in commodity prices,

Chart 7
BRIC GDP growth rates

(annual average as a %)



NB: BRIC refers to the group of countries with rapidly growing economies consisting of Brazil, Russia, India and China.

Source: International Monetary Fund.

particularly oil prices, boosted the Russian economy, which grew by 4.0%.

In almost all emerging countries, economic growth, which is expected to remain strong in 2011, was accompanied by a resurgence of inflationary pressures. In 2010, the average annual inflation rate in emerging countries is expected to stand at 6.2%. In particular, according to IMF forecasts, inflation should reach 5.0% in Brazil and 13.2% in India. Faced with the risk of overheating, central banks initiated a cycle of monetary policy tightening, by raising key interest rates and reserve requirement ratios, notably in China and Brazil.

Table 1
Main economic indicators for the BRIC economies

(amounts in EUR billions, growth rates as a %)

	Brazil		Russia		India		China	
	2009	2010	2009	2010	2009	2010	2009	2010
Nominal GDP (USD billions)	1,601	2,090	1,222	1,465	1,269	1,538	4,991	5,878
GDP change (%)	-0.6	7.5	-7.8	4.0	6.8	10.4	9.2	10.3
Inflation (%)	4.9	5.0	11.7	6.9	10.9	13.2	-0.7	3.3
Fiscal balance (% of GDP)	-3.1	-2.6	-6.2	-4.2	-10.2	-9.8	-3.1	-3.1
Current account (% of GDP)	-1.5	-2.3	4.1	4.9	-2.8	-3.2	6.0	5.2
Foreign exchange reserves (USD billions)	239	289	439	479	275	287	2,399	2,847
Change in foreign exchange reserves (%)	23.1	21.0	3.1	9.1	8.1	4.5	23.3	18.7

NB: BRIC refers to the group of countries with rapidly growing economies consisting of Brazil, Russia, India and China.

Sources: GDP change: IMF World Economic Outlook (WEO) January 2011; fiscal balance: Fiscal Monitor Update (January 2011); foreign exchange reserves: domestic data; other data: WEO October 2010.

Furthermore, on the back of fiscal consolidation efforts, the recovery in economic activity limited the deterioration in public finances. CDS premia, which measure the risk of a country defaulting on its debt, declined. This shows that emerging countries are perceived as relatively less risky.

Current account imbalances nevertheless deteriorated. In an environment of ample global liquidity, emerging countries experienced strong capital inflows, benefiting from better growth prospects and higher interest rates than those of advanced countries. Overall, capital flows have returned to their pre-crisis levels, with pre-crisis peaks even having been exceeded in Latin America and especially Asia, but not in Eastern Europe. Some emerging countries have therefore returned to their reserve accumulation strategy that limited exchange rate appreciation.

2| THE ECONOMIC AND MONETARY SITUATION OF THE EURO AREA AND FRANCE

2|1 Economic recovery

In 2010 the economic recovery continued in spite of financial turbulence

2010 saw a consolidation of the recovery that began in the third quarter of 2009. Euro area GDP grew by 1.8% in 2010. After a rise of 0.4% in the first quarter, it accelerated to 1.0% in the second, driven largely by Germany (2.2%), before slowing to 0.4% in the third and 0.3% in the fourth quarter.

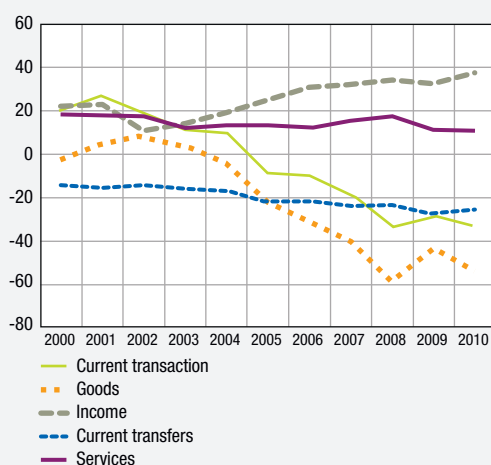
Box 3

The current account and financial account of France's balance of payments

In 2010, the current account balance stood at EUR -33.7 billion, after -28.4 billion in 2009. This resulted mainly from an increase in the trade deficit (EUR -53.7 billion after -43.1 billion) despite a fall in France's effective nominal exchange rate vis-à-vis its main trading partners¹ (-2.4% on average in 2010), which should have improved its competitiveness.

Chart A
Main components of the current account

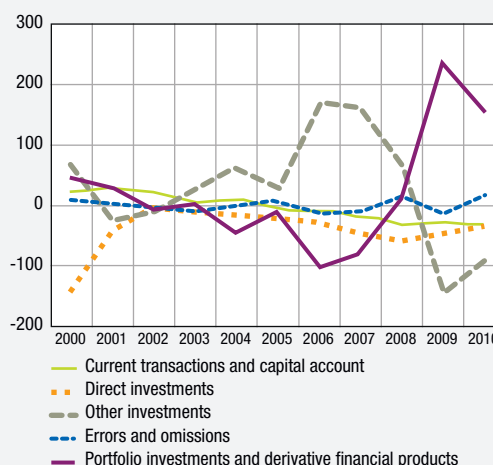
(EUR billions)



Source: Banque de France.

Chart B
Main components of the balance of payments

(EUR billions)



Source: Banque de France.

.../...

¹ 24 countries are taken into account: 22 OECD countries, plus Mexico and South Korea.

Having contracted sharply in 2009, France's trade in goods returned to a growth path in 2010, with exports rising by 13.6% and imports rising by 13.8% (fob-fob²), although it remained below the pre-crisis level. The growth in French exports was weaker than the growth in the value of global trade (around 21%), resulting in a contraction in France's share of global exports from 3.8% in 2009 to 3.7% in 2010. In this context, the customs data balance deteriorated by EUR 6.9 billion in fob-fob data,³ to EUR -51.1 billion, essentially due to higher energy costs. France's 2010 energy bill rose by EUR 8 billion due to the increase in volumes bought and the rise in the prices of energy commodities. The rise in the oil price in the second half of the year was accompanied by an appreciation of the euro against the dollar that effectively offset part of the price increase. However, that appreciation did not completely offset the euro's depreciation against the dollar in the first half of the year (-4.8% on average over the year). The balance of manufactured goods deteriorated by EUR 1.1 billion to EUR -21.7 billion.

The surplus in the trade in services shrank back to EUR 10 billion, primarily due to a contraction in the travel surplus. The income balance posted a surplus of EUR 36.5 billion due to the strong rise in income from direct investment earned by the principal French groups. Lastly, the deficit on current transfers⁴ was almost stable at EUR 26.5 billion (cf. Chart A).

The financial account shows capital inflows of EUR 18.2 billion in 2010, following inflows of 41.1 billion in 2009 and 18.3 billion in 2008.

Net outflows of capital in the form of direct investment diminished in 2010 to EUR 37.9 billion. Reflecting the expansion of French registered companies abroad (acquisitions or capital growth of their subsidiaries), French foreign direct investment abroad stood, after adjustment for intra-group operations, at EUR 50.7 billion, following 61.2 billion in 2009. Foreign direct investment in France remained at EUR 12.8 billion. Inflows and outflows of foreign direct investments were sustained in 2010 by the sharp increase of reinvested profits.

The capital outflows recorded up until 2007 in the form of portfolio investments have, since 2008 given way to inflows of capital that have counter-balanced French banks' deleveraging and outflows of direct investment. Representing a massive EUR 251.1 billion in 2009, these inflows contracted to EUR 119.9 billion in 2010 (cf. Chart B). Residents have been selling foreign financial assets, particularly public debt securities, while non-residents spent EUR 96.7 billion on French securities after EUR 328.5 billion in 2009. Acquisitions of French public securities by non-residents amounted to EUR 46.8 billion (EUR 149.9 billion in 2009), with the percentage of French government debt held by non-residents stabilising at 67.7% in 2010 after increasing steadily for many years.

Flows of international lending and borrowing from international monetary institutions have been negative since 2009, reflecting a reduction of the net borrowing position of French resident banks vis-à-vis non-residents. In 2010, this movement reflected an increase in international lending whereas in 2009 it reflected a strong movement in international debt reduction.

Main components of the balance of payments

(EUR billions)

	2008	2009	2010
Current account	-33.7	-28.4	-33.7
Goods	-59.4	-43.1	-53.7
<i>o/w customs data (a)</i>	-55.1	-42.9	-51.1
Services excl. travel	5.9	2.2	3.9
Travel	10.5	8.0	6.1
Income	33.4	31.6	36.5
Current transfers	-24.2	-27.1	-26.5
Capital account	0.7	0.3	0.0
Financial account	18.3	41.1	18.2
Direct investment	-62.0	-49.6	-37.9
Outward (b)	-78.3	-61.2	-50.7
Inward (b)	16.3	11.6	12.8
Portfolio investment	25.0	251.1	119.9
of residents. in securities issued by non-residents	-98.3	-77.4	23.2
<i>o/w public securities</i>	-79.2	-36.3	35.6
by non-residents in securities issued by residents	123.3	328.5	96.7
<i>o/w public securities</i>	98.7	149.9	46.8
Financial derivatives	-16.4	-16.9	34.3
Other investments (deposits-loans)	63.1	-147.4	-92.3
<i>o/w Financial Monetary Institutions</i>	-101.3	-75.8	-46.6
Reserve assets	8.5	3.9	-5.8
Errors and omissions	14.8	-13.0	15.4

(a) Due to technical difficulties, the customs data used to construct the balance of payments do not take into account the adjustments posted by the Directorate General of Customs and Excise for periods previous to 2010.

(b) After netting inward and outward lending between sister companies within the same group.

² Customs data differ from those relating to goods recognised for balance of payments purposes in that the latter include, as well as the adjusted customs data, transactions involving no transfer of property and no payment, goods procured in ports, goods for processing and repairs on goods.

³ i.e. excluding insurance and import freight costs.

⁴ Public administration transfers (tax, subsidies, social benefits, France's contribution to the European Budget), workers' remittances and other operations (mainly insurance premiums and compensations).

Box 4

The French property market in 2010

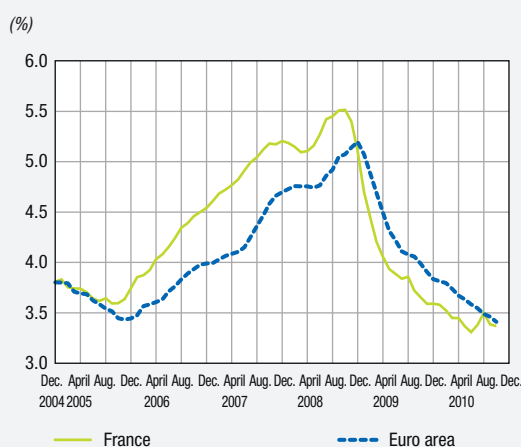
In France, residential property prices posted a significant rise in 2010, reaching a year-on-year Q4 increase of 9.5% in the existing property segment.¹ Starting in the third quarter of 2009, this rise began after four consecutive quarters of decline (-9.3% over 12 months in the second quarter of 2009 for the existing property segment).

Several factors explain the recovery of prices observed in 2010. Firstly, having contracted by approximately 15% over the previous two years, the supply of dwellings has remained at a low level, with new housing starts posting an increase of just 3.4%² during 2010, despite the strong recovery in applications for building permits (up by 15.1%). This gap is mostly due to the two to three years generally observed between the filing of a construction permit application and the commencement of works.

However, demand for dwellings remained strong throughout the year, sustained by extremely favourable financing conditions as long-term interest rates declined, leading to residential mortgage rates falling to historically low levels. The average interest rate on new residential mortgage loans reached 3.38% in December 2010, representing a fall of 45 basis points versus December 2009 (Chart A). Moreover, according to the quarterly survey conducted by the Banque de France on bank lending, lending institutions did not on the whole modify their credit standards in 2010, with some actually slightly relaxing them in the third quarter. At the same time, demand for residential property received an additional stimulus towards the end of the year from the prospect of the reform of several tax incentives (termination at the end of 2010 of the Pass-Foncier plan and of the income tax relief on mortgage interest payments,³ lowering of the tax reductions relating to the Scellier and Robien buy-to-let schemes). Lastly, although its impact is difficult to assess accurately, the acquisition of French properties by foreign buyers may also have stimulated the rise in property prices on certain segments of the market.

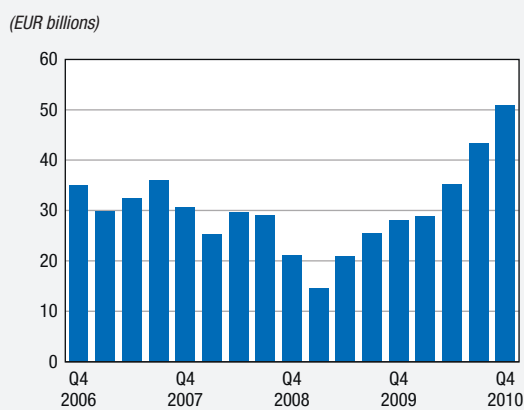
In this context, the banks' mortgage outstandings posted a strong rise during 2010: their annual growth rate reached 8.0% in December versus 3.9% at the end of 2009, while new residential loan production posted a sharp recovery (EUR 157.9 billion in 2010, after EUR 89.0 billion in 2009) (Chart B).

Chart A
Interest rates on new housing loans
France and the euro area



Sources: Banque de France, ECB.

Chart B
Production of new housing loans in France



Source: Banque de France.

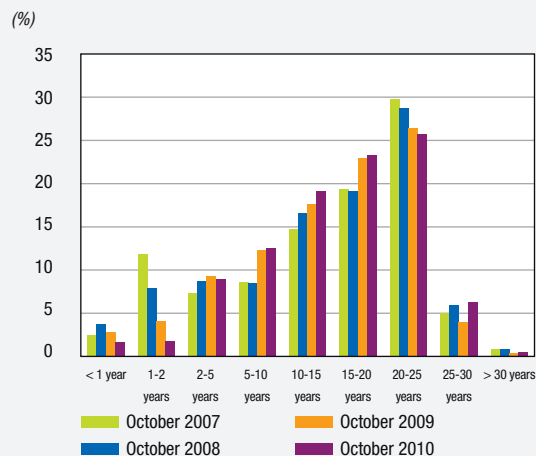
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¹ Notaires-INSEE existing property price index (provisional data).

² France's General Sustainable Development Commissariat – Observation and Statistics Department.

³ These two measures have been integrated into the new zero-interest loan scheme (prêt à taux zéro renforcée PTZ+). In effect, the overall impact of this PTZ+ scheme on the property market is uncertain since it will benefit more low income households buying small properties than other types of households.

Chart C
Breakdown of new loans by initial maturities



Source: Banque de France.

This was accompanied by a reduction of average loan maturities, notably reflecting the development of acquisitions by second-time buyers, but also the increase in mortgage-refinancing operations allowing borrowers access to the benefits of lower interest rates (Chart C).

Due to the exceptionally favourable lending conditions – and despite a slower increase in available income than the growth of property prices – the average surface area that households had the financial capacity to acquire has remained close to its average since 1990. However, their debt servicing burden (i.e. the ratio of repayment costs on total debts to income) that has grown steadily over the past decade, now stands at relatively high levels (31.8% on average in 2009⁴), close to the ceiling generally accepted by banks (33%).

4 Source: Autorité de Contrôle Prudentiel (ACP).

After contracting by 1.1% on average in 2009, household consumption in the euro area again made a positive contribution to GDP growth in 2010 (by 0.5 of a percentage point in each quarter). Although modest, this recovery in consumption was facilitated by a certain improvement in the purchasing power of income and a fall in the euro area's household savings rate to 13.8% in Q4 2010,¹ (i.e. 1.4 point below its peak in Q4 2009 and back to its pre-Lehman Brothers bankruptcy level of 13.8% at the beginning of 2008). This change reflected the improvement of the economic outlook during 2010, despite a context of persistently high unemployment and continuing uncertainty regarding the economic situation.

Foreign trade also made a positive contribution to euro area growth in the second half of the year (close to +0.6 of a GDP point in each quarter), essentially due to strong demand from the major emerging economies.

Employment in the euro area picked up in the second quarter, although it was still 0.4% below its 2009 level at end of the year; unemployment stabilised at 10.0%.

Within the euro area, economic growth was uneven: Greece, Spain and Ireland remained in recession (-4.5% [provisional figure], -0.1% and -1.0% respectively) while Portugal posted weak GDP growth of 1.3%. These differences result not only from the different ways countries have been affected by the crisis, but

also from the different economic policies, particularly fiscal policies, adopted during 2010.

In France, GDP rose by 1.4% in 2010², after a 2.6% contraction in 2009. At the end of 2010, French GDP was still 1.6 percentage point lower than its pre-crisis peak in Q1 2008 and its 2010 recovery offset roughly two-thirds of the contraction posted between that period and Q1 2009 (-3.9% compared to Q1 2008). Although the recovery during 2010 was only partial, it has nevertheless been steady since mid-2009. Likewise for employment: close to 125,000 non-agricultural salaried jobs were created in 2010 according to the French National Institute for Statistical and Economic Studies (INSEE). The unemployment rate is still 2 percentage points higher than its early 2008 level, but it nevertheless decreased during 2010 as labour market conditions improved. In the fourth quarter of 2010, mainland France posted an unemployment rate of 9.2%, compared with a peak of 9.5% a year earlier. French household consumption was more dynamic than the euro area average (+1.3% in 2010, after +0.2% in 2009) but remained slower than before the crisis (+2.2% per year on average between 2000 and 2009). At the same time, the savings rate of French households remained virtually stable at 15.6% in 2010. Household purchasing power rose at a slower pace than GDP (+0.8%).

¹ Eurostat, annual data over four rolling quarters.

² INSEE, average quarterly data

Germany experienced a robust recovery in 2010 after the strong recession recorded between the peak of Q1 2008 and the Q1 2009 trough (-6.6%). Germany's GDP recovered by 3.6% in 2010, the highest growth rate since its reunification and more than double the average euro area growth rate (1.8%). By end-2010, Germany's GDP had therefore recovered most of its pre-crisis level after recouping a total of 5.5 of the 6.6 percentage points lost during the Q1 2008 - Q1 2009 period. GDP acceleration was particularly strong in the second quarter of 2010, with a quarterly rise of 2.2% driven by renewed investment spending and a strong recovery in foreign trade, the traditional driver of German industry. Over the year, the respective contributions to GDP growth of these two variables were 1.1 and 1.2 point. In 2010, German exports – increasingly oriented towards emerging Asian countries – posted a 6.3% average increase, returning to their pre-crisis absolute level. The growth in German household consumption, although modest, was stronger than in 2009 (it contributed an average 0.2 percentage point to Germany's GDP growth). This favourable development was the result of an improvement in labour market conditions, with lower unemployment (down from 7.7% at end-2009 to 6.7% at the end of 2010) and a higher absolute level of employment (+0.6% in 2010). The improvement was also reflected in higher consumer confidence (the GfK indicator rose to 58.8 points in December 2010, up by more than 57 points versus January of the same year).

Italy, in contrast, posted only a modest recovery in economic activity during 2010 (GDP growth of 1.3%), with inventories providing the bulk of the momentum (contributing 0.8 percentage point) after a sharp contraction of GDP in 2009 (-5.1%). Most of the growth was recorded in the first half of the year, with the second half posting weak growth due essentially to depressed domestic demand. The fact that in 2010 Italy only managed to recover approximately 25% of the GDP lost since 2008 was due mainly to the lack of competitiveness of its exports and lacklustre domestic demand. Employment remained virtually stable in 2010 (-0.1%) whereas the unemployment rate, having risen by 2 percentage points during the crisis, stabilised at 8.4% (in Q4).

Spain did not experience any economic recovery in 2010, under the combined effect of an austere

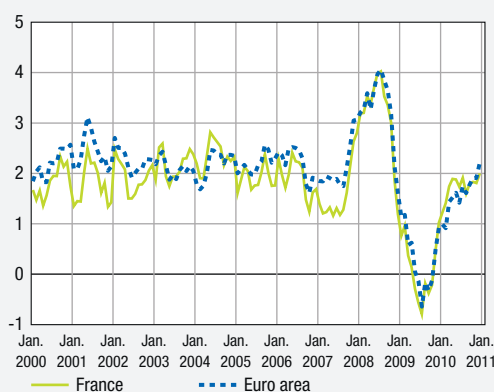
multi-year fiscal consolidation plan, the persistent fragility of its economy, and a real estate sector that has not yet completed its correction. Unemployment increased substantially in 2010, reaching a rate of 20.5% by the end of the year, driven mainly by the non-renewal of short-term contracts, particularly in the construction sector. The savings rate of households contracted to 13.1% at the end of 2010, after a historic rise in 2009 (17% on average). The rise in consumer prices and the negative wealth effect from the depressed property market probably accounted for the contraction of the savings rate in 2010.

Moderate inflation in 2010

After 2009, which was marked by several months of falling prices, inflation accelerated quite sharply in France and the euro area during 2010. The average growth of prices in 2010 was 1.7% in France and 1.6% in the euro area, versus 0.1% and 0.3% respectively in 2009. This uptick in inflation reflected above all the rising prices of the most volatile components of the consumer price index. Fuelled by strong demand from emerging countries, the oil price in euro increased almost without interruption from 2009 to 2010 (a 36% annual average increase over 2010). In this context, the energy price index rose strongly in France and the euro area (by 9.7% on average in 2010 versus -10.9% in 2009 for France, and by 7.4% versus -7.8% for the euro area).

Chart 8
Year-on-year total harmonised index of consumer prices (HICP) in France and the euro area

(as a %)



Source: Eurostat.



However, the inflation developments in France followed a different pattern to that of the euro area. In France, it rose sharply in the first quarter before stabilising at around 1.8% over the remaining three quarters of the year. The acceleration of French inflation observed during the first quarter of 2010 principally reflected the strong rise in energy prices. In the euro area, the rise of headline inflation was slower at the start of the year but continued throughout the year, with a gradual rise in both energy and food prices. Moreover, at the end of the year, the prices of processed foods in the euro area reacted to the particularly strong rise in agricultural commodity prices.

Despite the rise in headline inflation, underlying inflation (excluding energy and unprocessed food) slowed in 2010 compared with 2009 both in France and the euro area. Thus, in annual average terms, underlying inflation (i.e. excluding the volatile components of energy and unprocessed foods) in 2010 rose by 0.9% (after 1.3%) in France and 1.0% (after 1.3%) in the euro area. This general trend is reflected in the price indices for manufactured goods and for services in France and in the euro area.

2|2 Monetary and financial developments in 2010

Renewed money supply growth

Having experienced a phase of contraction in the second half of 2009, the euro area's broad monetary

aggregate M3 returned to a growth path in the first half of 2010. Thus from -0.4% year-on-year in December 2009, it moved back into positive territory in June 2010 and ended the year at +1.7% year-on-year in December. The net recovery in the contribution of French monetary and financial institutions to M3, from -4.8% at end-2009 to +6.6% at end-2010 was largely responsible for this shift (table 2).

Demand for money was fuelled by the gradual flattening of the yield curve that notably encouraged deposits included in the aggregate (M2-M1). In France, regulatory savings rose by 5.5% encouraged by the interest rates being at least equal to the inflation rate + 0.25%.

The different components of M3 showed the following developments:

- The annual growth rate of notes, coins and overnight deposits (M1) that was 12.3% in December 2009 gradually shrank back to 4.3% by December 2010.
- The contraction of other short-term deposits (M2-M1) slowed substantially during 2010 as the remuneration of term deposit accounts increased, particularly for less than 1 year deposits. The annual contraction of M2-M1, which amounted to -9.0% in December 2009, eased to -0.4% in December 2010.
- The erosion of the growth of outstanding marketable instruments (M3-M2) did however continue, although at a slower pace than in the previous year. Redemptions of money-market fund shares/units intensified as the income from such assets declined to very low levels. Nevertheless, the contraction of debt securities maturing in less than two years, which was particularly sharp at the end of 2009, decelerated in 2010 and repurchase agreements continued their progression. For 2010 as a whole, the decline in outstanding marketable instruments was -2.1%, versus -11.8% in 2009.

Renewed lending growth

Lending to the private sector returned to a growth path in 2010 in both the euro area and France. The slight decline observed in 2009 (-0.1% in the euro area and France) was followed by a gradual but significant

recovery during most of 2010, peaking at +1.9% (year-on-year) in the euro area and +4.7% (year-on-year) in France.

Housing loans to households were the main driver of this recovery. Indeed, housing lending growth intensified throughout 2010 on the back of

historically low long-term interest rates and a rush to take advantage of a number of French tax breaks to be reduced in January 2011. By December 2010, housing loans were up 8.0% (year-on-year) in France after 3.9% in December 2009 (see Chart 9). In the euro area, the rise was more modest, reaching 3.7% at end-2010 after 1.5% the previous year.

Box 5

Wage developments during and after the crisis

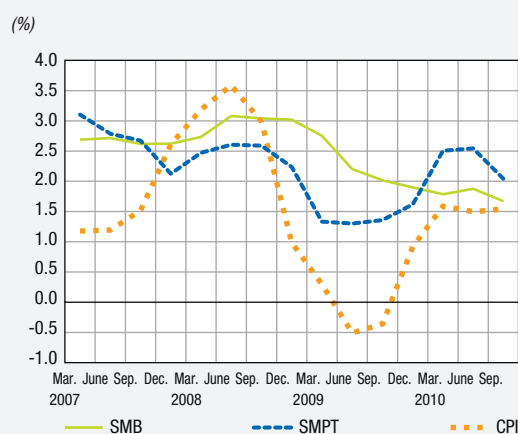
The available data indicate a sharp slowdown in the growth of nominal wages since 2008: the growth of the basic monthly wage (SMB) and of the monthly per capita wage (SMPT) shrank from an annual average of approximately 3% in mid-2008 to less than 2% at the start of 2010.¹

These trends are close to those observed during the 1993 recession despite the fact that the recent crisis was substantially worse. As the SMB does not include variable compensation, the stronger growth of the SMPT in 2009 reflected a “return to normal” of the variable element in wages after a reduction during the crisis. Thus, according to recent estimates,² the variable element of wages contracted by approximately 15% between 2008 and 2009, a substantial fall considering that the variable component of wages represents on average 13% of total private sector remuneration.³ Other components of remuneration also contracted. Incentive, profit-sharing and company savings plans are offered to 58% of the total workforce in France and represent 8% of the total wages received by their beneficiaries. Bonuses received at the end of 2008 contracted by 6.6% from EUR 2,272 on average per employee in 2007 to 2,131 in 2008.⁴ If we factor in the highly volatile evolution of prices over the period, the real year-on-year growth of the SMB fell from 1.5% in Q2 2007 to -0.5% in Q2 2008, and then recovered to 2.5% in Q2 2009 due to the substantial contraction of consumer prices (CPI) in 2009. However, with the CPI's rise after Q3 2009, the annual growth of real wages fell back to 0.13% in Q3 2010. In comparison, the annual growth of real wages contracted in the main European countries over the same period: by 1.6% in Germany, 2.5% in Italy, 2.7% in Spain and 2.3% in the UK.

At the same time, Employment Survey data indicate substantial differences in the developments of wages between different wage categories during the crisis. Between Q1 2008 and Q4 2009, wages (including bonuses) above the median line increased more rapidly than lower wages: 0.5% for the bottom decile versus 2% for the top decile on a like-for-like age and education basis.

Lastly, for the fifth time in a row, the increase in the minimum wage (SMIC) decided at end-2010 and effective as of 1 January 2011 was in line with the automatic appreciation mechanism, as recommended by the SMIC group of experts set up in 2009, rather than providing a genuine boost. In real terms, the SMIC therefore rose by 1.1% between July 2008 and July 2009 but only by 0.6% between January 2010 and January 2011.

SMB, SMPT and CPI, year-on year



Source : INSEE.

1 The SMB is calculated on the basis of a like-for-like qualification structure. It does not include bonuses, gratuities or overtime payments. The SMPT expresses the evolution of the total wage bill. Unlike the SMB, it takes into account very small enterprises and integrates structural effects such as the evolution of qualifications and the proportion of part-time jobs. It also integrates cyclical (overtime levels) and seasonal (bonuses) effects.

2 Towers Watson, “Crisis, confirmed impact on remunerations in 2009 in France”.

3 Dares Synthesis, November 2008, “The structure of remuneration in 2005”.

4 Dares Analyses, October 2010, “Incentive, profit-sharing and company savings plans in 2008: a 7% contraction in the amounts paid out”.

Table 2
Monetary aggregates in the euro area and in France

(outstanding amounts in EUR billions – % growth rates)

	Euro area (a)				France			
	Amount outstand- ing at end-2010	Annual growth rate (b)			Amount outstand- ing at end-2010	Annual growth rate (b)		
		December 2008	December 2009	December 2010		December 2008	December 2009	December 2010
Monetary aggregates or main monetary assets (seasonally adjusted) (c)								
Currency in circulation	794.0	13.4	6.2	4.8				
+ Overnight deposits	3,912.0	1.5	13.6	4.2	555	-3.8	6.8	7.6
= M1	4,706.0	3.5	12.3	4.3				
+ Other monetary deposits	3,694.0	13.8	-9.0	-0.4	652	18.7	-5.3	2.9
<i>o/w: + Deposits redeemable at notice up to 3 months</i>	<i>1,909.0</i>	<i>1.3</i>	<i>15.1</i>	<i>6.2</i>	<i>519</i>	<i>11.1</i>	<i>3.1</i>	<i>3.5</i>
<i>o/w: Term deposits up to 2 years</i>	<i>1,786.0</i>	<i>23.4</i>	<i>-24.2</i>	<i>-6.6</i>	<i>133</i>	<i>45.0</i>	<i>-27.4</i>	<i>0.5</i>
= M2	8,400.0	8.4	1.6	2.2				
+ Marketable instruments	1,124.0	3.3	-11.8	-2.1	482	5.5	-14.5	4.1
<i>o/w: Money market fund shares/units</i>	<i>570.0</i>	<i>4.6</i>	<i>-1.9</i>	<i>-14.9</i>	<i>325</i>	<i>11.0</i>	<i>-0.2</i>	<i>-11.7</i>
<i>o/w: Debt securities – up to 2 years</i>	<i>121.0</i>	<i>-10.7</i>	<i>-50.2</i>	<i>-13.7</i>	<i>105</i>	<i>-10.4</i>	<i>-56.6</i>	<i>98.7</i>
= M3	9,524.0	7.6	-0.4	1.7				
French contribution to M3 (d)					1,775	4.8	-4.8	6.6

(a) Transactions of euro-area MFIs with other euro-area residents.

(b) Changes adjusted for reclassifications and other valuations.

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

(d) French resident MFI liabilities, maturing in less than 2 years, (excl. currency in circulation) towards the money-holding sector of the euro area (euro-area residents excl. MFIs and central government) and, by extension, the deposits held by this sector with central government.

Source: Banque de France.

The contraction of loans to non-financial corporations, which led to a negative annual growth rate in both France and the euro area after September 2009, reversed in the third quarter of 2010. The decrease in cash loans gradually eased while the growth of investment loans continued at

a lively pace (+3.5%) as of the spring of 2010, taking the net growth of total loans to non-financial corporations in France to 1.2% in 2010 (see Chart 10). On the other hand, in the euro area, loans to non-financial companies continued to stagnate throughout the year.

Chart 9
Annual growth rate of loans to households, France

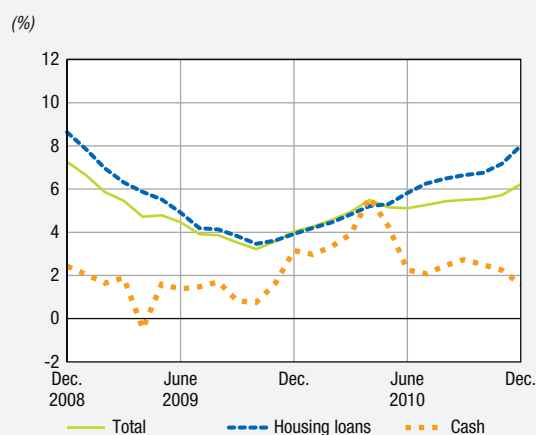
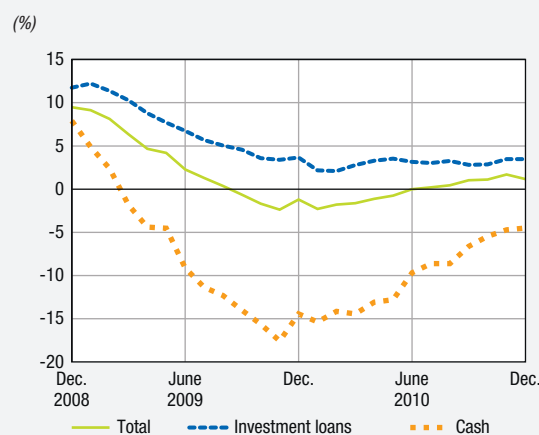


Chart 10
Annual growth rate of loans to NFCs, France



Box 6

Household savings in France in 2010

In 2010, household financial investment rose slightly less than household debt. Households' saving behaviour¹ remained fairly prudent in 2010 (see table), with savings flows posting almost no variation compared with 2009. Their savings rate (gross savings as a percentage of gross available income) very slightly contracted versus the previous year (15.6% compared with 16.0% in 2009). This level was still higher than the levels recorded in the mid-2000s. The household financial savings rate (corresponding to net lending, i.e. the difference between net acquisitions of financial assets and debt servicing payments as a percentage of gross disposable income) has also fallen (to 6.6% after 6.8% in 2009). Savers increased their total financial investments (EUR 116.8 billion, after EUR 100.1 billion in 2009), mainly in the form of deposits. At the same time, household debt levels increased, with net flows of loans rising to EUR 61.2 billion, after EUR 37.8 billion in 2009. This demand for loans was primarily focused on mortgage loans.

Preferring risk-free assets, savers topped up their deposits, reduced their direct acquisitions of bonds and continued to invest massively in euro-denominated life insurance contracts, which allow an indirect, but easier, access to the bond market. Households' payments into sight deposit accounts rose considerably as did their investments in regulated savings plans. The increase in overnight deposits (up by 5.8%) reflected notably the low yields on certain alternative investments, particularly money market funds. As far as "A" Passbook balances are concerned (up by 5.5%), they benefited from their strong remuneration (for a liquid asset) that does at least cover inflation. The banks have also offered relatively attractive interest rates on their contractual savings products, which posted a 9.1% collective increase in volumes. Lastly, the attractiveness of housing savings plans, paying 2.5% (excluding the State bonus) was enhanced and their collective assets, combined with the housing savings accounts, grew 3.8% over the year.

In 2010, net acquisitions of securities decreased compared with the previous year. Savers continued to reduce their portfolios of money market mutual funds by EUR 14.1 billion (after a reduction of EUR 15.5 billion in 2009). They also reduced, to a lesser extent, their holdings in non-money market mutual funds (down by EUR 5.9 billion). The overall balance of assets allocated to employee investment funds (FCPEs) nevertheless remained positive. This withdrawal from mutual funds was largely in anticipation of the tax framework adjustment applicable to holdings in investment funds as of 1 January 2011 (taxable as of the first euro of capital gains) and the low yield of money market mutual funds in 2010. With no major borrowing operations targeting households (such as the EDF bonds in 2009), acquisitions of debt securities substantially declined in 2010 (EUR 0.6 billion, after EUR 3.9 billion in 2009). Direct investment by households in listed shares also fell sharply (to EUR 0.0 billion, after EUR 2.8 billion in 2009) against the backdrop of a slight fall of stock market indices over the year.

The preponderant share of life insurance schemes in household savings increased during 2010 (rising to EUR 81.1 billion after EUR 79.4 billion in 2009). Euro-denominated contracts continued to attract the bulk of life insurance allocations (EUR 75.4 billion, after EUR 78.9 billion), but unit-linked contracts posted a recovery (EUR 5.7 billion, after EUR 0.5 billion in 2009).

All in all, households continued to favour financial assets with low market risk, which captured nearly 80% of their financial investments.

Households' savings, financial investments and debt

(annual flows in EUR billions)

	2008	2009	2010
Gross savings	198.2	211.9	212.2
Savings rate (%)	15.1	16.0	15.6
Financial savings rate (%)	4.7	6.8	6.6
Principal financial investments	117.3	100.1	116.8
Deposits and cash	47.9	20.2	43.0
o/w: Overnight deposits	-3.1	19.8	17.3
"A", "Blue", "LDD" passbooks	30.7	18.0	8.9
Ordinary passbooks	17.4	1.1	13.3
Housing savings plans	-23.1	5.0	8.1
Term deposits	18.4	-18.9	-1.4
Securities	6.1	0.5	-7.3
Debt securities	3.0	3.9	0.6
o/w: bonds	2.1	4.4	0.7
Equities	5.5	10.5	12.1
o/w: listed shares	-1.7	2.8	0.0
Mutual fund shares/units	-2.4	-13.9	-20.1
o/w: monetary	9.0	-15.5	-14.1
Life insurance	63.3	79.4	81.1
o/w: euro-denominated	69.4	78.9	75.4
Risk-free financial investments (deposits and cash, money market funds, life insurance invested in euro-denominated assets)	126.3	83.6	104.2
Risky financial investments	-9.0	16.5	12.5
Debt	63.8	37.8	61.2

Sources: National accounts at 31 March 2011, monetary statistics.

¹ Individuals, sole-traders and non-profit institutions serving households.

Box 7

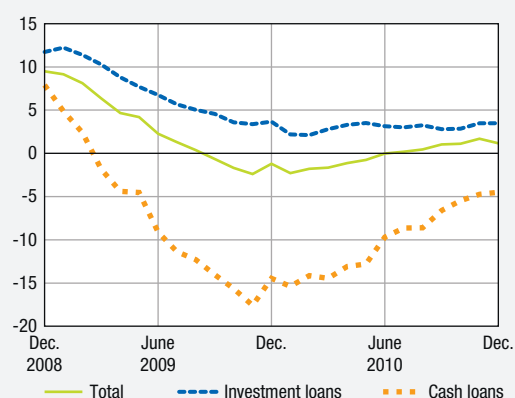
Companies financing in 2010

The volume of bank loans to non-financial corporations (NFCs) rose in 2010, with its year-on-year annual growth rate returning to a positive reading as of the third quarter. This recovery was essentially due to a marked attenuation of the contraction of cash loans (which posted -4.5% at end-2010 after -14.5% at end-2009) and an ongoing increase in investment loans that reached 3.5% year-on-year at the end of the year (Chart A).

Credit take-up during 2010 varied according to company size. Credits drawn by large enterprises continued to decline, although less rapidly than in 2009. The same was true for holding companies. Both categories of companies continued to draw on market finance at a fairly sustained level via the issue of debt securities. Conversely, very small enterprises and independent SMEs posted a net recovery of credit take-up in 2010 (Chart C). On the whole, the total outstanding credit of non-financial companies (non-financial corporations and sole traders) rose by 1.7% between end-2009 and end-2010, having contracting by 0.6% in 2009.

Chart A
Loans to non-financial corporations

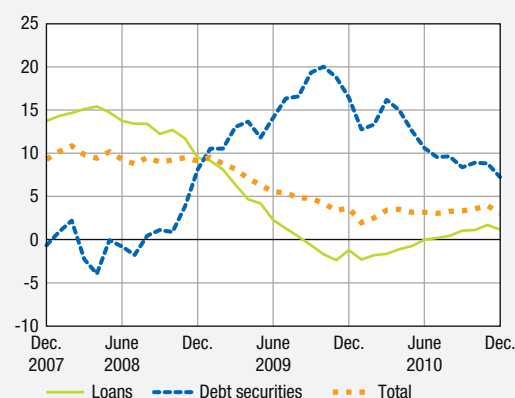
(gross annual growth rate, as a %)



Source: Banque de France.

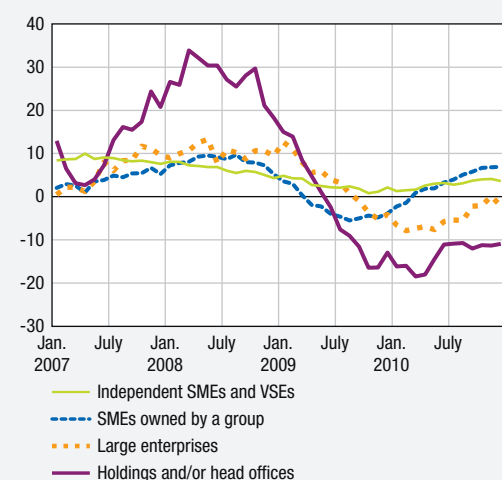
Chart B
Debt of non-financial corporations

(gross annual growth rate, as a %)



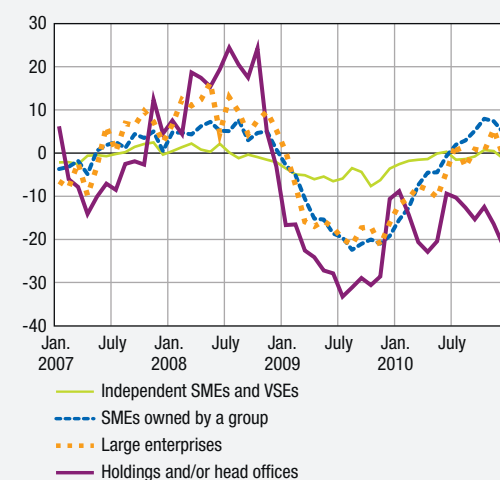
Source: Banque de France.

Chart C
Total drawn credits



Source: Banque de France.

Chart D
Short-term drawn credits



Source: Banque de France.

.../...

This renewed recourse to bank financing was largely due to the continuing favourable financing terms for non-financial corporations, with the average interest rate on new credit lines remaining at approximately 3% throughout the year (3.00% in December 2010, after 3.04% in December 2009). Moreover, according to the quarterly survey conducted by the Banque de France on bank lending, credit standards were relaxed in the third and fourth quarters of 2010, for both SMEs and large enterprises. The statistics gathered also show generally lower credit costs for SMEs in France than the euro area average. This prompted non-financial corporations to reduce their recourse to market financing which often constitutes – for those large enough – an alternative to bank financing. The annual growth rate of market financing via the issue of debt securities by non-financial corporations returned to 7.2% in December 2010, versus 16.4% a year earlier (Chart B). At the same time, the majority of SMEs appear to have maintained their financial structure. Their debt ratios again began to shrink and they strengthened their equity.

Undrawn credit lines increased at a sustained pace, reaching 10.5% in December 2010, taking the growth rate for drawn and undrawn credit to 3.7% in 2010 and this growth was positive for all categories of companies except holdings (down by 2.3%). However, undrawn credit lines granted to holdings expanded by 8.2% in 2010, pointing to the reconstitution of their access to bank finance, notably for the purposes of merger and acquisition operations.

3| THE EUROSISTEM'S MONETARY RESPONSE

3|1 The Eurosystem's monetary policy decisions

There was a moderate recovery in economic activity in the euro area in 2010, with GDP growing at an annual rate of 2% in the fourth quarter. Inflationary pressures remained limited as a result of substantial spare capacity and a high unemployment rate dampening wage dynamics. The increase in the harmonised index of consumer prices (HICP) stood at an annual average of 1.6%, compared with 0.3% in 2009, with the year-on-year rise amounting to 2.2% in December due to the combined effect of rising commodity prices and hikes in indirect taxes in several euro area countries.

By contrast, the situation remained tense on the financial markets, especially bond markets. The euro area was hit by several public debt crisis episodes, in Greece in the spring and in Ireland in the autumn. Tensions also appeared on the level and volatility of long-term interest rates in other euro area countries such as Portugal and, to a lesser extent, Spain and Italy. Against this backdrop, the Eurosystem maintained the rate of its main refinancing operations at 1% throughout 2010 and continued with the full allotment procedure adopted in October 2008.

This procedure, and in particular, the three refinancing operations with a maturity of one year carried out in June, September and December 2009, appear to have contributed to the fall in interest rates on the money market up to June 2010, the date of the repayment of the first of these three operations. The maturing of these refinancing operations was accompanied by a sharp fall in the excess reserves maintained with the Eurosystem (as detailed in section 3|2) and a gradual rise in money market rates. The three-month money market rate thus rose from 0.64% in May 2010 to 1.02% in December.

In May 2010, the onset of the Greek debt crisis led the Eurosystem to adopt a programme of securities purchases (the Securities Markets Programme – SMP) in order to maintain the smooth functioning of the monetary policy transmission mechanism in the euro area (as set out in section 3|2). In particular, this programme aimed to ensure the liquidity of bond markets, which were in danger of drying up. The volume of purchases amounted to just over EUR 70 billion in 2010, which was fully sterilised by liquidity-absorbing operations.

Overall, monetary policy therefore remained very accommodative in 2010, with key interest rates at their lowest historic level. These favourable monetary conditions made possible a recovery of loans to households for house purchases from the start of 2010 and a stabilisation of lending to enterprises in the second half of the year.

Box 8

**Introduction of a Securities Markets Programme
and completion of the Covered Bond Purchase Programme launched in June 2009**

On 10 May 2010, Governing Council of the European Central Bank (ECB) decided on several measures to address the severe tensions in certain market segments which were hampering the monetary policy transmission mechanism and thereby the effective conduct of monetary policy oriented towards price stability in the medium term. The measures do not affect the stance of monetary policy. In view of the exceptional circumstances prevailing in the market, the Governing Council decided to conduct interventions in the euro area public and private debt securities markets (the Securities Markets Programme) to ensure depth and liquidity in those market segments that were dysfunctional. The scope of the purchases was to be determined by the Governing Council. In making this decision it took note of the statement of the euro area governments that they “will take all measures needed to meet [their] fiscal targets this year and the years ahead in line with excessive deficit procedures” and of the precise additional commitments made by some euro area governments to accelerate fiscal consolidation and ensure the sustainability of their public finances.

This programme has no impact on bank liquidity: in technical terms, every week the Eurosystem sterilises the amount of securities purchased the previous week via one-week interest-bearing deposits that Eurosystem counterparties make with national central banks. These weekly liquidity-absorbing operations have made it possible to absorb all of the liquidity provided by the SMP, with the exception of those conducted on 30 June and 29 December, which both occurred in a context of scarcity and volatility of available liquidity.

At 31 December 2010, the amount of purchases under the SMP totalled EUR 73.5 billion. In June of that year, the Covered Bond Purchase Programme (CBPP) was completed at its targeted amount of EUR 60 billion. Put in place in June 2009 for a one-year period, the programme gave rise to the constitution by the Eurosystem of a covered bond portfolio that amounted to EUR 60 billion at end-December 2010. This purchase programme restored the confidence of private investors on this market segment that is crucial for the medium- and long-term refinancing of credit institutions and helped to restart activity on the primary and secondary markets.

3|2 Implementation of Eurosystem monetary policy decisions by the Banque de France

The Eurosystem continued its policy of fixed-rate tender procedures with full allotment in 2010

The conditions governing the Eurosystem's refinancing operations remained unchanged, with the Eurosystem continuing with its policy of fixed-rate tender procedures with full allotment adopted in October 2008 in order to ease the tensions on the interbank market in the wake of the failure of the US investment bank Lehman Brothers. From that date, the traditional system of competitive auctions was replaced by a policy whereby banks' requests for refinancing were fully met (provided, of course, that the banks participating in the refinancing operations have an adequate level of eligible collateral). Following the decision

of the Governing Council of 2 December 2010, this measure was extended into 2011, at least until 12 April. The interest rate on the Eurosystem's different refinancing operations, i.e. the minimum bid rate for main refinancing operations (or the key policy rate), remained unchanged at 1% in 2010, and the interest rates on the permanent facilities, i.e. the deposit facility and the marginal lending facility, remained at 0.25% and 1.75% respectively.

As of March 2010, the Governing Council nonetheless decided to discontinue the special six-month and 12-month refinancing operations. Only three types of operations were maintained: aside from the two standard operations, i.e. the main weekly operation and the three-month operation that are part of the traditional mechanism of monetary policy implementation, the supplementary special-term refinancing operation, with a maturity equal to the length of one maintenance period that was introduced during the crisis was continued.

The Eurosystem partially reactivated its exceptional facility providing refinancing in foreign currencies

On 10 May 2010, against a backdrop of severe tensions on some euro area sovereign debt markets, the Governing Council decided to reactivate operations providing liquidity in dollars within the framework of the Term Auction Facility (TAF), based on the foreign exchange swap put in place by the US Federal Reserve System and the Eurosystem; these operations had been discontinued on 28 January 2010. With weekly and quarterly maturities, these operations were the subject of low bids in 2010 (of around EUR 60 million per week). In addition, in December 2010, the European Central Bank and the Bank of England signed a temporary foreign currency swap agreement under which the Bank of England could provide, if necessary, up to GBP 10 billion in exchange for euro. This agreement was to expire at end-September 2011. It makes possible the provision of sterling to the Central Bank of Ireland as a precautionary measure, in order to meet any temporary need from the banking system for liquidity in this currency. By contrast, the last euro-Swiss franc foreign exchange swap operation, under the facility introduced as part of an agreement with the Swiss National Bank, took place on 27 January 2010.

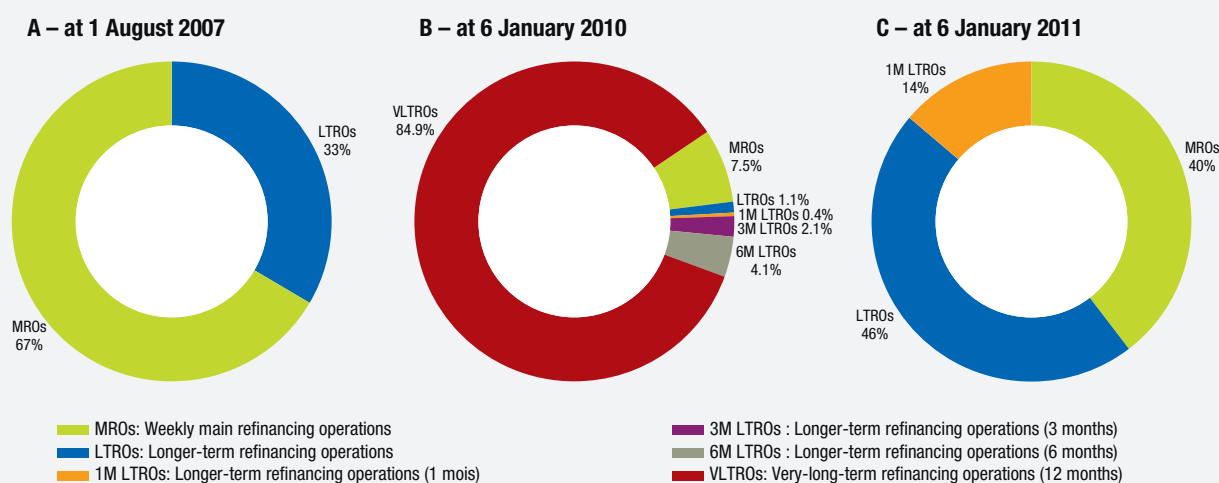
The total outstanding refinancing allotted by the Eurosystem declined and was accompanied by a fall in the average maturity of refinancing operations

Total outstanding refinancing declined, after an increase in the first part of the year linked in particular to the intensification of the strains on sovereign debt markets, in parallel with the maturing of the six-month operation (on 30 April) and the one-year operations (on 1 July, 30 September and 23 December). At year-end, outstanding refinancing dropped to a level closer to that prior to the crisis, amounting to EUR 621 billion, i.e. a fall of EUR 130 billion over 12 months. In the case of France, the trend was even more marked. While the annual average for outstanding refinancing totalled EUR 78 billion, it stood at EUR 35 billion at 31 December 2010.

This development, which was linked to the overall drop in bids by counterparties, points to an improvement in the functioning of the money market. It masks, however, the persistent dependence of some banking systems on the liquidity provided by the Eurosystem.

The fall in outstanding refinancing was accompanied by a very marked shift in its term structure. In parallel with the

Chart 11 Structure of outstanding refinancing in the euro area



discontinuation of six-month and one-year operations (VLTROs), the share of one-week operations (MROs) increased (from 7.5% to 40%) at the expense of long-term operations (LTROs). This trend was particularly marked from the start of the summer onwards, after the maturing of the first one-year operation (EUR 442 billion, which matured on 1 July 2012).

The liquidity surplus continued to subside

The substantial drop in outstanding refinancing during 2010 led to a marked fall in the liquidity surplus. This surplus, calculated in relation to a neutral allotment situation with respect to funding needs resulting from autonomous factors and minimum reserves, amounted to EUR 184 billion at the start of the year. It reached a peak of EUR 348 billion on 30 June, before dropping back down to EUR 57 billion on 28 December 2010 after the maturing of the last one-year operation (an amount of EUR 97 billion).

The decline of the liquidity surplus led to a concomitant fall in the use made of the deposit facility. This use decreased considerably between the start and the end of the year, falling from an average of EUR 149 billion during the period between 8 December 2009 and 19 January 2010 to EUR 67 billion for the period from 8 December 2010 to 18 January 2011. As was the case for the total surplus, it reached its maximum level at end-June 2010, i.e. over EUR 300 billion.

The Eurosystem remained highly vigilant regarding the quality of underlying assets

The collateral lodged with the Eurosystem remained in excess of EUR 2,000 billion in 2010. The amount of collateral deposited by French banks was stable in 2010, with an average monthly amount of EUR 330 billion lodged with the Banque de France. In terms of asset class, the volume of uncovered bank bonds declined while that of credit claims rose.

On 7 May 2009, the Eurosystem decided to extend into 2010 the easing of the eligibility criteria for securities put forward as collateral introduced in late 2008. These measures consisted principally in:

- lowering the minimum rating for eligible securities to the lowest investment grade (i.e. BBB-/Baa3/BBB-);

- accepting certain foreign currency denominated assets issued in the euro area;

- and, accepting negotiable debt securities issued by banks that are not listed on a regulated market recognised by the Eurosystem.

These measures came to an end on 31 December 2010, with the exception of the minimum BBB- rating. However, the eligibility of asset-backed securities (ABSs) was subjected to stricter rating requirements.

Moreover, against the backdrop of tensions on the market for the sovereign debt of some euro area countries, the Governing Council of the European Central Bank (ECB) decided to suspend the application of the minimum credit rating threshold in the collateral eligibility requirements for the purposes of the Eurosystem's credit operations in the case of marketable debt instruments issued or guaranteed by the Greek government. This suspension was to be maintained until further notice. It was based on the Greek Government's economic and financial adjustment programme that was negotiated with the European Commission in liaison with the ECB and the International Monetary Fund, which the Governing Council deemed appropriate.

4| CRISIS EXIT STRATEGIES

4|1 Actions to support financial stability

Alongside monetary stability, one of the core tasks of the Banque de France is to ensure financial stability. In order to fulfil this role, the Banque de France draws on the bodies that are charged with the supervision of financial players, infrastructures and markets.

A new supervisory framework in France

Established on 9 March 2010 by Christine Lagarde, the Minister for the Economy, Finance and Industry, in order to reform the financial supervision architecture in France, the Prudential Supervisory Authority (*Autorité de contrôle prudentiel* – ACP) has three objectives:

Box 9

The stress test coordinated by the CEBS

Following on from the exercise carried out in 2009, in early 2010 the Economic and Financial Committee (EFC) mandated the Committee of European Banking Supervisors (CEBS, which in early 2011 was replaced by the European Banking Authority – EBA) to conduct a second Europe-wide stress test.

The exercise was conducted in two phases and involved 91 banks in around 20 countries of the European Union (including four in France). In the first phase (February-May 2010), the exercise was similar to that carried out in 2009 and consisted in measuring the impact on the Tier 1 ratio of an adverse macroeconomic scenario over two years (2010-2011) and of specific shocks to certain market variables. In a second phase (June-July 2010), the assumptions used in the exercise were supplemented in order to simulate the effects of a further deterioration in the sovereign debt market, in the wake of the tensions observed on this market in the spring.

The definition of the macroeconomic assumptions used in this exercise (based on a so-called baseline scenario, which resembles a forecast, and an extremely adverse severe scenario) was the subject of extensive consultation between the European Commission, the European Central Bank and the supervisory authorities belonging to the CEBS. In France, the ACP's General Secretariat drew substantially on the expertise of economists in the Banque de France's Directorate General Economics and International Relations. The general methodology used in the exercise (the operational application of the scenarios, framework for the reporting of the data, etc.) was drawn up by supervisors within the framework of the CEBS.

The exercise was conducted at national level by each supervisor in close collaboration with the banks concerned. The exchanges between the ACP's General Secretariat and the banks related in particular to the consistency of the stress test results (calculated in some cases directly by the ACP's General Secretariat and in others by the banks themselves) before their being communicated to the CEBS, which produced a report that was published in July.

The results of the exercise demonstrated the resilience of French banks, whose average Tier 1 ratio, even faced with the shock of the most severe scenario (a 60 basis point increase), remained above 9%. At the European level, similar findings were observed for the banks that took part in the exercise, with the exception of a number of banks whose Tier 1 ratio fell below 6%, before recapitalisation measures that were announced at the same time as the publication of the results.

Overall, this exercise, which gave rise to close coordination Europe-wide, was conducted with complete transparency vis-à-vis the financial markets (in terms of methodology but also the results and data on exposure to sovereign risk that were published bank by bank).

- contributing to the strengthening of financial stability: even though France did not experience any failures of banks or insurance companies, it wished to learn from the lessons of the crisis by bringing the supervision of banks and insurers together within a new authority under the aegis of the Banque de France; this mode of organisation ensures optimum handling of emergency situations by combining sources of information and monetary and prudential powers;
- protecting consumers: the ACP now has broader responsibilities regarding the supervision of the marketing of financial products, ensuring compliance not only with the legal and regulatory provisions applicable but also the codes of conduct governing each profession;

- giving France a stronger voice in international and European negotiations on financial regulation: at a time when regulation in France is largely – and increasingly – derived from supranational standards, France's ability to defend its banking and insurance models, which demonstrated their resilience during the crisis, in the international arena is naturally important.

The ACP's organisational structure takes full account of these three objectives:

- in the area of financial stability, the ACP is capable of conducting supervision of banks and insurance undertakings that is just as rigorous and exacting as that performed by the *Commission bancaire* and the former insurance supervisory body, the *Autorité de contrôle des*



assurances et des mutuelles (ACAM), while also having an overview of the financial sector as a whole:

- first, at the level of the ACP's college: general issues relating to supervision and financial stability fall within the remit of the plenary college (19 members), while individual questions relating to regulated entities that belong to a financial conglomerate are dealt with by a reduced college (8 out of the 19 members, from both the banking and insurance sectors), and issues that are specific to the banking or insurance sectors come within the remit of two sectoral bodies made up of 8 members;
- within the ACP's General Secretariat, six “sectoral” directorates conduct on-site and off-site monitoring of banks and insurance undertakings, whose specific features are thus fully taken into account; this surveillance is complemented by the monitoring of issues common to both sectors by four cross-sectoral directorates.

- in the area of consumer protection, the ACP created a dedicated directorate and, together with the Financial Markets Authority (*Autorité des marchés financiers* – AMF), set up a joint unit to enable close cooperation between the two authorities. A common contact point was also set up to facilitate the processing of requests for information and complaints from customers (see Chapter 2, Section 4|1).

- in the area of international negotiations, the ACP faces two major challenges, i.e. the implementation of the new prudential frameworks for the banking and insurance industries (Basel III and Solvency II respectively). While international negotiations are mainly conducted by a dedicated directorate, a significant proportion of ACP staff is involved in these two projects.

Financial stability

The Banque de France is in charge of the oversight of market infrastructures, with the security and resilience of payment systems and instruments being an essential prerequisite for financial stability. In this regard, the Banque de France maintained a high level of vigilance in its supervision in 2010 and contributed actively to the discussions about clearing houses for financial derivative instruments.

Maintaining financial stability requires close monitoring of overall developments in vulnerabilities and proactive participation in the discussions on the reform of prudential regulation and international financial supervision:

- The Directorate General Operations coordinated within the Banque de France a cross-departmental assessment of the risks faced by the French financial system which focused on three main areas: detailed risk mapping, analyses relating to specific topics – such as the state of funding markets, tensions on certain sovereign issuers and the implications of a low interest rate environment – and the setting in place of risk monitoring indicators.
- Drawing on a dense network of contacts among market players (central banks, commercial banks, insurance companies, asset managers, rating agencies and financial information agencies), in 2010 Banque

Box 10

The European Systemic Risk Board – ESRB

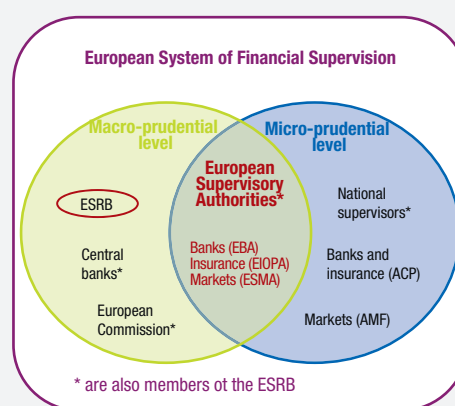
One of the main conclusions of the high-level group chaired by Jacques de Larosière in respect of improvements to financial supervision in Europe was the need to establish a body responsible for monitoring risks in the financial system of the European Union as a whole – “macro-prudential” supervision – to complement the “micro-prudential” supervision of individual financial institutions.

Established by a European regulation which came into force on 16 December 2010, the European Systemic Risk Board (ESRB) held its inaugural meeting on 20 January 2011. It forms the macro-prudential pillar of the European System of Financial Supervision (ESFS). The latter, which was established by the same regulation as the one which created the ESRB, is a grouping within a network of financial supervision players at national and European Union level.

The mandate of the ESRB is to assess and prevent systemic risks within the European Union which, in operational terms, means identifying, assessing and prioritising the risks and, if they materialise, issuing warnings and recommendations which can be public.

From a functional point of view, the ESRB, located in Frankfurt, comprises representatives from across the European Union, with more than 70 institutions (central banks, national and European financial supervisory authorities). This new structure includes a General Board and a Steering Committee. The technical work is conducted by an advisory scientific committee (independent academic experts) and an advisory technical committee (experts from member organisations). Work is also conducted in cooperation with members of the ESFS and international financial organisations.

The ESRB's position in the European System of Financial Supervision



Source: Banque de France

de France teams carried out several market intelligence assignments in France and abroad (London, New York). These interviews make it possible to gather market sentiment and concerns about developments in the economic environment at an early stage and to quickly feed back qualitative information within the Bank.

- The Banque de France contributes its expertise within European and international bodies charged with the improvement and implementation of regulation and financial stability. In particular, it took part in the discussions of the Financial Stability Board (FSB) and those relating to the setting-up of the European Systemic Risk Board (ESRB, see box). As well as preparing France's presidency of the G20, in 2010 the Banque de France was also actively involved in the discussions around the new banking regulation known as “Basel III” and in the European negotiations regarding the draft regulations on rating agencies,

restrictions on the naked short-selling of some financial instruments and the European market infrastructure (EMIR).

- The Banque de France is endeavouring to develop its research capacity and programmes in the area of financial stability in order to consolidate its audience in academic circles. To this end, in 2010 it participated regularly in seminars and conferences in France and abroad.
- Lastly, in 2010 the Banque de France pursued its information and communication activities regarding the major issues linked to financial stability, with the publication in March of a *Documents and Debates* devoted to the unfolding of the crisis, then in July of its *Financial Stability Review* (FSR), which was devoted to derivatives, financial innovation and financial stability. This issue of the FSR brought together contributions

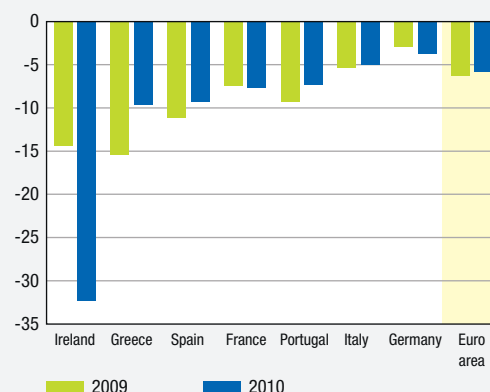


from academia (the London School of Economics and Columbia, Stanford and Toronto Universities), market players (investment banks, rating agency, insurance, etc.) and European and international institutions (the European Commission, Basel Committee, ECB and IMF, etc.).

In addition, in November 2010 the Banque de France coordinated a major operational crisis management test for the Paris financial centre. The major French banks, market infrastructures, and the regulatory and public authorities took part in this test, whose scenario was based on the assumption of a flooding of the river Seine of the same magnitude as in 1910. The Paris financial centre reacted successfully and confirmed, following on from the first test carried out in 2008, its ability to respond collectively to a major shock, thereby reinforcing its attractiveness within the European and international financial community.

Chart 12
Government deficits

(as a % of GDP)



Source: ECB.

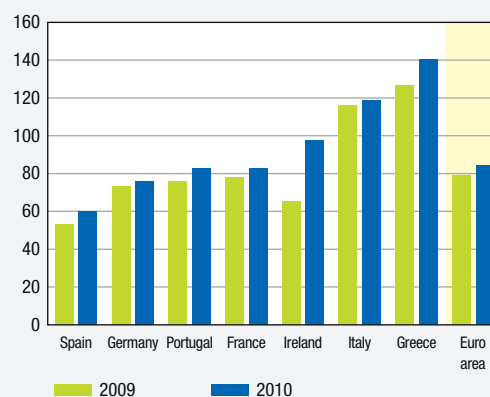
4|2 Keeping public finances under control

One of the consequences of the crisis has been a sharp increase in public debt in the advanced countries. As the sovereign debt crisis of some European countries in 2010 showed, control of public finances is key to exiting successfully from the crisis.

After a marked deterioration in the budgetary position in 2009 (an increase in the general government deficit of 4.3 percentage points compared with 2008), public

Chart 13
Public debt

(as a % of GDP)



Source: ECB.

Box 11

Strengthening the economic governance of the euro area

Strengthening the economic governance of the EU, especially of the euro area, quickly became a necessary corollary to actions during the crisis to ensure the stability of the euro area, with a view to improving the macroeconomic supervision of the area and remedy the imperfections of the Stability and Growth Pact. It consists of four parts. The first part of this reform, implemented early in 2011, is the “European semester”. It replaces the current ex post assessment by the European authorities of the stability and convergence programmes (SCP) and national reform programmes (NRP) with a mutual assessment and common guidelines adopted ex ante, at the highest executive level of the EU, in the first half of each year, before the adoption of national programmes. Two other parts of the reform of economic governance, the strengthening of the Stability and Growth Pact and a new framework for macroeconomic supervision, require the adoption of the Commission’s legislative proposals which were inspired by the final report of the working group chaired by Herman Van Rompuy, endorsed by the European Council of 28 and 29 October. Their adoption is envisaged for mid-2011.

Strengthening the Stability and Growth Pact

After the reform, more emphasis will be given to the evolution of public debt under the corrective arm of the Stability and Growth Pact. Thus, in principle, an excessive deficit procedure will be launched against Member States with public debt ratios above 60% of GDP if debt reduction is not fast enough, a sufficient rate of reduction being defined as 1/20th of the difference with the 60% threshold over a three-year period. Similarly, a new set of graduated financial sanctions for Member States of the euro area will be established, notably if a Member State deviates significantly from the adjustment path in terms of structural deficit. To ensure the implementation of these provisions, a reverse majority voting mechanism is envisaged: the proposed sanction by the Commission will be considered adopted unless the Council rejects it by a qualified majority. It is foreseen that the revenues consisting of interest earned on deposits and fines will be allocated to the EU’s crisis management mechanisms (EFSF/ESM from 2013).

A new framework for macroeconomic surveillance

A new procedure for excessive imbalances will be implemented. It provides for a regular assessment of the risks of macroeconomic imbalances, based on a scoreboard of external and internal economic indicators. On this basis, if the indicators exceed quantitative alert thresholds, the Commission may initiate in-depth analyses of the Member States at risk, so as to identify underlying problems. In the event of imbalances that are serious or threaten the smooth functioning of EMU, the Council will be able to launch an “excessive imbalance procedure”. A Member State subject to such proceedings must submit a corrective action plan to the Council, which will set deadlines for its implementation. If a Member State of the euro area persists in not following up the Council’s recommendations under the excessive imbalance procedure, it would become liable to sanctions. These sanctions will be applied by reverse majority voting, with only euro area countries participating in the vote.

The last part is a result of the decisions of the European Council of 16-17 December, which provided the impetus for the adoption of a permanent crisis management framework involving the euro area countries, this more complex mechanism requiring an amendment to the Treaty of Lisbon. From 2013, this framework will take the place of the current stability facility set up in 2010 for a three-year period (for more details, see Box 1 on the European support mechanism).

finances in the euro area have begun an adjustment which kept the area’s deficit to 6.0% of GDP in 2010.

Under the combined effects of the recovery of economic growth, the end of the stimulus measures and, in some countries, the implementation of fiscal consolidation measures (see box entitled “Consolidation plans and the range of fiscal policies in the euro area in 2010”), almost half the countries in the euro area recorded a decrease in the level of the government deficit between 2009 and 2010, as shown in Chart 12,

which shows the general government balances of the main euro area countries. Ireland is an exception, with an increase in its general government deficit of 18.1 percentage points of GDP in 2010 compared with 2009. This was due to the extraordinary measures to rescue the Irish financial sector, which represented 20.3% of GDP in 2010.

The ratio of public debt in the euro area is expected to continue to grow, rising from 79.3% of GDP in 2009 to 85.1% of GDP in 2010. The debt levels reached

Box 12

Consolidation plans and the range of fiscal policies in the euro area in 2010

Given the scale of the deficits reached in 2009, most countries in the euro area implemented fiscal adjustment measures to correct their deficit in 2010. This is particularly true of Greece, which submitted an adjustment plan approved on 6 May 2010, which represents a fiscal effort of EUR 30 billion (13% of GDP) by 2014. The composition of this plan is relatively balanced between revenue measures, including an increase in VAT, and spending, including a reduction in the wages of civil servants. Similar measures have been adopted in other countries such as Spain and Portugal.

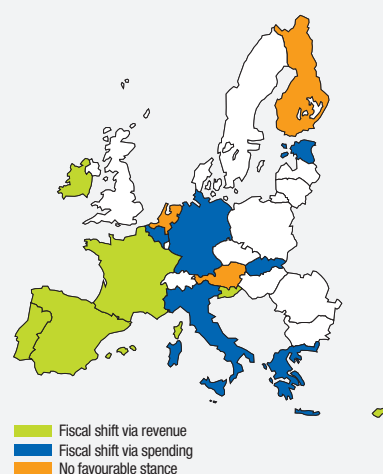
The implementation of consolidation measures is giving rise to differentiated shifts in fiscal policy in the euro area. Thus, when considering the variations in total public revenue and spending compared with the level reached in 2009, three groups of countries can be distinguished (see chart).

The first group includes countries where the two components of fiscal policy have not seen a favourable shift. This is the case for Austria, Finland, Luxembourg and the Netherlands. These countries are experiencing a worsening of their general government deficit which, in 2010, comes from both the revenue and spending side. However, general government deficit levels vary greatly, from 1.7% of GDP in Luxembourg to 5.4% in the Netherlands.

A second group comprises countries where the shift in fiscal policy is more focused on revenue (higher revenue growth than spending cuts). This is the case for Cyprus, France, Ireland, Malta, Portugal, Slovenia and Spain. This strategy, however, is leading these countries to different levels of government deficit. With the exception of Ireland, where the deficit amounted to 32.4% of GDP, general government deficits range from 3.6% of GDP in Malta to 9.2% of GDP in Spain. France's general government deficit amounted to 7.0% of GDP.¹

A third group comprises countries where the shift in fiscal policy is more focused on spending (lower spending than revenue growth). This is the case for Belgium, Estonia, Germany, Greece, Italy and Slovakia. Again, the deficit levels differ between these countries. They range from 0.1% of GDP in Estonia to 10.5% for Greece. The German general government deficit amounted to 3.3% of GDP.

Ex post fiscal policy stance in the euro area in 2010



Source: European Commission.

¹ After the recalculation of national accounts with 2005 as their base, the deficit has been revised to 7.1%. This adjustment is a consequence of the revised GDP growth rate and will be included in the autumn Eurostat publication.

in the main euro area countries (see Chart 13) are in some instances close to 100% of GDP (as in the case of Ireland, with 96.2% of GDP) or even higher (in the case of Greece and Italy, with 142.8% and 118.9% of GDP respectively). This situation calls for major corrections to ensure the sustainability of public finances.

Debt stabilisation is all the more important an issue as the consequences of the crisis on the growth potential of different countries in the euro area remain uncertain. Several scenarios are possible:

- The crisis may only cause a slowdown without having lasting effects on the GDP level and on growth. In this context, the deterioration of public finances would be only temporary. In this case, the fiscal consolidation effort would essentially focus on the withdrawal of discretionary measures to support growth.
- The crisis could also have a lasting effect on the GDP level and on growth. In both cases, the observed worsening of public finances may be protracted and call for a sustained consolidation effort over a long period.

This second hypothesis is more likely, especially since some pre-crisis challenges remain to be addressed, including that of the impact of population ageing on public finances. An additional uncertainty comes from the change in the composition of growth and the disappearance, in some countries, of tax revenues related to the pre-crisis increase in prices of financial assets and real estate.

4|3 Stimulating economic growth via structural reforms

The consolidation of public finances is a priority objective. It can, however, have a negative impact on growth and unemployment in a crisis exit environment, both in the short and the medium term. To improve the economic outlook and lay the groundwork for the restoration of sound public finances, it seems that ambitious structural reforms are needed. Recent research shows that constraints which restrict the flexibility of labour markets and competition on the markets represent a serious impediment to labour employment and productivity growth. The attenuation of these constraints is therefore a source of potentially substantial economic gains.

A lack of labour market flexibility can lead to high unemployment – particularly long-term unemployment – as well as slower growth of the most efficient companies and poorer matching between employees and productive jobs. Reforms that enhance flexibility in countries where the labour markets are rigid could therefore contribute to an economic recovery by, for example, introducing a policy of “flexicurity” (flexibility and security), substituting the protection of careers for the protection of jobs. Two elements could nevertheless justify delaying the implementation of certain labour market reforms: (i) the short-term costs borne by public finances and workers following certain reforms are more difficult to bear in periods of weak economic growth; and (ii) academic research suggests that it is strategically preferable to reduce market rigidities in goods and services markets beforehand. In fact, the contraction of economic rents reduces opposition to institutional reforms on the labour market.



Competition on the markets for goods and services is likely to influence the productivity of the production factors via a number of mechanisms. According to economic literature, restrictions on competition modify the allocation of resources to companies: if companies are not protected by anti-competitive regulations, the most productive grow rapidly in size whereas the least productive disappear, a phenomenon that contributes to raising the average productivity of the economy. Competition also appears as a solution to weak productive performance resulting from the “principal-agent” problem in companies where the shareholders have weak power over the managers. Indeed, managers and workers in a company can reduce their efforts without risking penalisation by the shareholders if the latter are inadequately informed. Competition between companies engenders a situation where markets sanction decisions and behaviour that are considered counter-productive or even non-conducive to the optimisation of productivity. A third and very important mechanism is the effect of the lack of competition in the markets for goods and services on incentives to adopt the most efficient and innovative technologies. If companies do not actually need productivity gains to generate high profits, then the incentives to make the necessary efforts to obtain these productivity gains are very weak.

Much research has focused on the effects of rigidities in a given sector on the productivity (or employment levels) in that sector. However, rigidities can also influence the dynamism of other sectors, via the production and consumption of intermediate goods. This kind of negative transversal impact should not be ignored because, in developed countries, the regulatory constraints primarily concern certain services sectors that are major producers of intermediate goods. Rigidities in an intermediate goods sector not only affect the productivity of the user sectors by restricting their access to intermediate goods, but also by conferring additional market power upon intermediate goods producers, who can thereby capture some of the rents generated by the users of these goods.

4|4 International coordination

The financial crisis has revealed the importance of international coordination in delivering rapid and synchronised responses to global shocks and in preventing their occurrence and organising crisis management mechanisms with global reach. The G20 has therefore been a key forum for the exchange of ideas and it has provided the impetus for the principal reforms of global governance. Representing the world's main advanced and emerging countries (65% of its population and 85% of global GDP), the G20 enjoys strong global legitimacy.

In 2010, under the presidency of South Korea, significant progress was made, such as the reform of the IMF's governance, progress on financial regulation, institutionalisation of the Framework for Strong, Balanced and Sustainable Growth and strengthening of financial safety nets providing international emergency liquidity in the event of crises.

The main changes to the IMF's governance, resources and facilities are:

- The reform of the IMF's governance agreed at the Seoul summit in November 2010 established a significant rebalancing of quotas and Executive Board seats in favour of emerging countries.

- The goal of trebling the IMF's resources was achieved in 2010: the institution's global resources now amount to over USD 800 billion.

- The reform of its lending instruments was pursued, with the strengthening of its preventive facilities with ex-ante conditionality (i.e. not conditional upon the beneficiary's acceptance of reform programmes): the Flexible Credit Line, set up in 2009 for countries with good fundamentals, was strengthened, and a similar facility was created for countries with less positive economic fundamentals (the Precautionary Credit Line).

As far as financial regulation is concerned, the major advance of the Seoul summit (November 2010) was the adoption of the new Basel III prudential standards: this new regulatory framework will allow better capture of the risks faced by banks, establish a more demanding and harmonised definition of capital adequacy and a significantly higher level of loss absorption capacity. In addition, the new standards will adjust certain risk-taking incentives, providing a better and stricter framework for trading activities, with the capital charge for higher-risk activities being substantially raised. Other projects tabled by the G20 in 2010 and operationally deployed by the Financial Stability Board included, notably, providing a regulatory framework for the OTC market, treatment of systemically important institutions, mechanisms for the resolution of cross-border crises and the creation of regulatory frameworks for ratings agencies and for compensation practices.

The crisis also revealed the extent of the economic interconnectedness that has developed with the acceleration of globalisation and of the corresponding need for international coordination. Indeed, such coordination proved to be very efficient in the implementation of policies in response to the crisis. At the Pittsburgh summit (September 2009), the G20 leaders decided to perpetuate this effort by committing to the collective pursuit of the common objective of strong, balanced and sustainable growth; a mutual assessment mechanism has been established within the G20 to assess the appropriateness of national economic policies in the light of this global objective.

At the Seoul summit in November 2010, these agreements led to the adoption of an action plan detailing the measures taken by member countries and their commitments towards reaching the common objective. The Heads of State and Government also tasked Ministers and Governors with defining indicative guidelines in order to provide an objective framework for the identification of macroeconomic imbalances.

In 2011, France took over the presidency of the G8 and the G20. In this role, France will endeavour to push forward the projects already embarked upon, in particular:

- concluding and monitoring the implementation of the reform of the financial regulatory framework (preparation for the implementation of Basel III; uncooperative jurisdictions, compensation policies, treatment of systemically important financial institutions, etc.).
- perpetuating the exercise of mutual assessment of the Framework for Strong, Sustainable and Balanced Growth and ensuring its efficacy for the resolution of global imbalances.

In addition, a number of new projects have been initiated by the French presidency:

- reforming the international monetary system. The aim of the reform is “to construct a more stable and more resilient international monetary system”. While the US dollar is, and is likely to remain, the main currency

for the IMS for many years to come, we are seeing the emergence of powerful new economic players, particularly in emerging countries. This development should lead to a growing international role for the currencies of these countries. However, the transition towards a more complex international monetary system could be a source of instability. In particular, current exchange rate fluctuations do not always allow resolution of the underlying imbalances. We therefore need to accompany this process and facilitate the necessary coordination in order to reduce the risks of instability. Increasing the role of Special Drawing Rights (SDRs) is, among others, one of the many ideas being explored in this framework.

- addressing commodity price volatility. At the Pittsburgh summit in September 2009, the Heads of State and Government decided “to improve the regulation, functioning and transparency of financial and commodity markets to address excessive commodity price volatility”. However, although this topic was little developed in 2010, over recent months the G20 countries have refocused their attention on this theme since, after a period of relative stability, commodity prices started to rise strongly again during the autumn of 2010, and in some cases (coffee, sugar, copper, cereals, etc.) actually returned to the record prices reached in 2008. These price developments have serious consequences for local populations (food riots) and economic stability (inflationary pressures, impacts on monetary policy decisions and on economic growth). In 2011, these topics will be on the agenda of the G20 meetings.

The Banque de France's business strategy and its implementation



Thanks to its strategic orientations over the past few years, the Banque de France was a key player in the management of the financial crisis. By working towards its own transformation, it was able to strengthen its capacity to decide and act with a view to meeting higher requirements:

- its statistical expertise and ability to carry out economic assessments enabled the Bank to take a proactive role vis-à-vis the public authorities;
- thanks to its analyses and proposals, the Bank played a key role within European organisations (Committee of European Banking Supervisors) and international fora (G20);
- the strong resilience of the French banking sector to the crisis has demonstrated the efficiency of having supervision under the aegis of the central bank, as well as the quality of prudential supervision for which it is fully responsible;
- against a backdrop of worsening economic conditions, household debt commission secretariats were able to cope with the strong rise in the number of cases submitted, by keeping to deadlines and ensuring a high-quality service;
- lastly, given its expertise in financial analysis and its knowledge of economic pools, the Bank was entrusted by the government with the operational aspects of credit mediation, which it handled with success.

1| THE BANK'S BUSINESS STRATEGY

The Treaty on European Union, the Statute of the European System of Central Banks (ESCB) and French national legislation provide a robust and lasting foundation for the tasks of the Banque de France. However, these tasks are conducted in an ever-changing environment: economic globalisation, changes in the financial sector, European integration, enlargement of the Eurosystem, etc. all have a profound impact on the exercise of these tasks.

In order to cope with these developments and enable the Banque de France to meet its responsibilities as

best as possible, the Executive Committee had defined six medium-term strategic priorities for 2008-2012. Halfway into this strategic cycle, it has appeared necessary to rethink the number of priorities in order to enable Bank staff to better adhere to these orientations, but also to facilitate the strategic steering process.

In the course of 2010, the Executive Committee thus validated the reformulation of the Bank's strategy around four medium-term priorities, in turn broken down into objectives. This exercise was conducted in the framework of a re-engineering of the Bank's steering and communication processes. It resulted in the drawing up of a strategic map which presents in a clear and concise manner the institution's overall strategy.

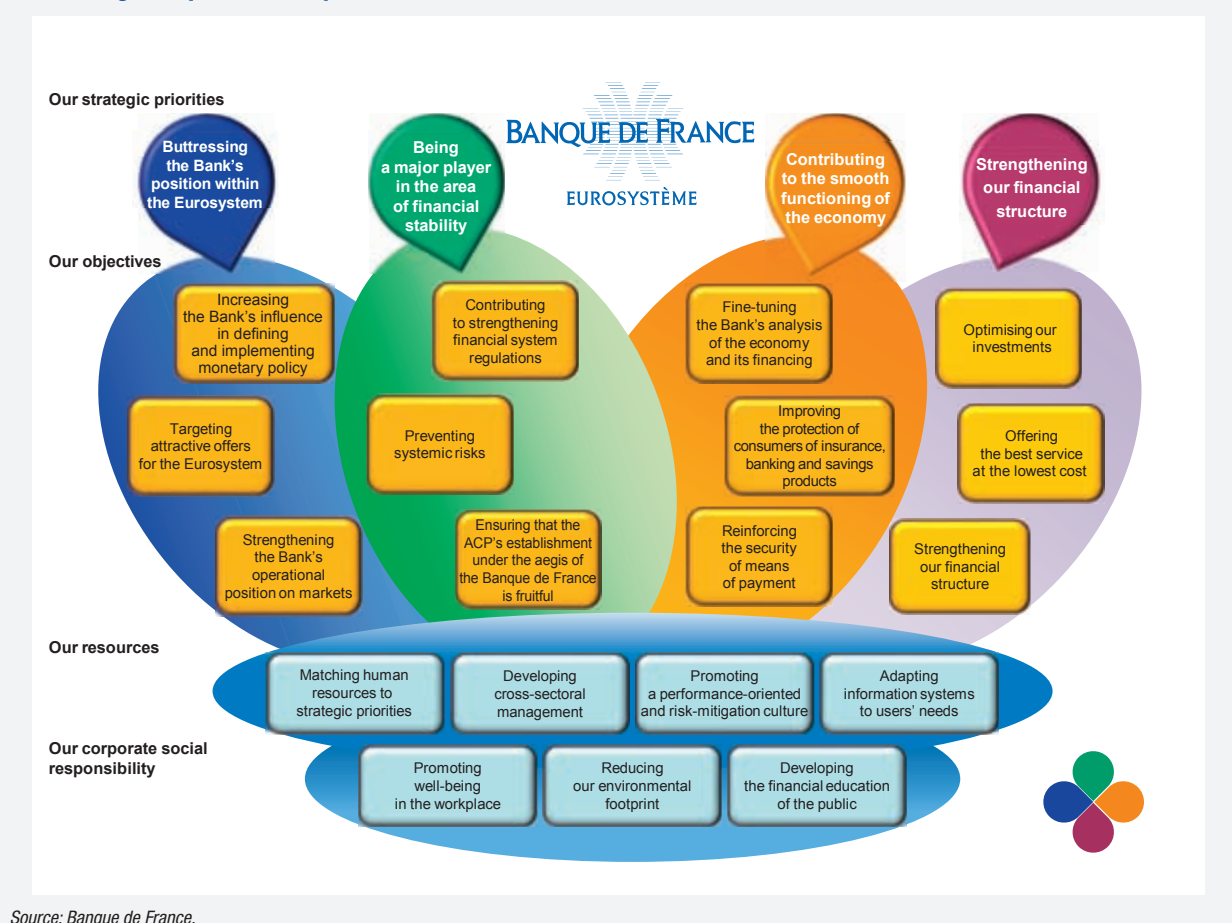
This strategic map shows, from top to bottom:

- the Bank's four strategic priorities, each one broken down into three strategic objectives:
 - buttressing the Bank's position within the Eurosystem,
 - being a major player in the area of financial stability,
 - contributing to the smooth functioning of the economy,
 - ensuring the Bank's financial independence;
- key factors for the success of this strategy, broken down into four strategic objectives;
- the three strategic objectives that the Bank has set itself with regard to corporate social responsibility.

2| BUTTRESSING THE BANK'S POSITION WITHIN THE EUROSISTEM

The need for an efficient management of the Eurosystem's resources, together with increasing European integration, raises the question of the position of national central banks. As the central bank of the second largest economy in the euro area, the Banque de France has chosen to be an influential central bank, capable of weighing on the decisions of the Eurosystem and involved in its achievements.

The strategic map of the Banque de France



This first strategic priority is broken down into three strategic objectives:

- increasing the Bank's influence in defining and implementing monetary policy;
- targeting attractive offers for the Eurosystem;
- strengthening the Bank's operational position on markets.

2|1 Increasing the Bank's influence in defining and implementing monetary policy

The Banque de France aims to be not only more influential in the monetary policy decision-making process thanks to its capacity for analysis, but also to have an operational role in implementing these decisions.

Research and publications

Within the Eurosystem, like in economic discussions at the national or international level, the position of the Banque de France with regard to monetary policy, structural reforms or international regulation, will be all the more robust if it is underpinned by in-depth statistical knowledge and internationally-recognised research work. Furthermore, this work is crucial for developing an autonomous capacity for analysis and effective assessment, analysis and forecasting tools.

Thanks to the development of research departments and the new organisation of the Directorate General Economics and International Relations into four thematic directorates, the Bank was able to increase the number of its publications: in 2010, 51 articles were published in journals listed by the *Journal of Economic Literature*, compared with 20 in 2006, of which 11 in journals rated A+ by the Evaluation Agency for Research

and Higher Education. According to the international ranking of research institutions drawn up by the University of Connecticut, the Banque de France is among the top five percent. Furthermore, Banque de France economists contributed to several official reports, including those on the liberation of French growth, on the constitutional rule for balanced public finances and several reports of the French Council of Economic Analysis (*Conseil d'analyse économique*). This research work covered monetary policy, structural policies, finance, the world economy but also business analysis and forecasting tools, in particular dynamic stochastic general equilibrium models. The analysis of developments in monetary aggregates conducted by the Directorate General Statistics for France and the euro area also contributed to consolidating the Bank's influence in the area of monetary policy.

This research work is conducted jointly with leading French universities. Indeed, the Banque de France

signed a series of partnerships in 2008 with the Toulouse School of Economics and in 2009 with the Paris School of Economics. These structuring partnerships contribute to promoting exchanges and cooperation between researchers and facilitate the organisation of international conferences.

Key data for 2010

- 41 working papers¹
- 51 publications in scientific journals classified in the Journal of Economic Literature²
- 5 conferences, seminars and workshops open to the public³

1 http://www.banque-france.fr/gb/publications/ner/ner_11.htm

2 http://www.banque-france.fr/gb/publications/research_newsletter/research_newsletter.htm

3 <http://www.banque-france.fr/gb/publications/seminaires/seminaires.htm>

Box 13

The Banque de France Foundation for monetary, financial and banking research

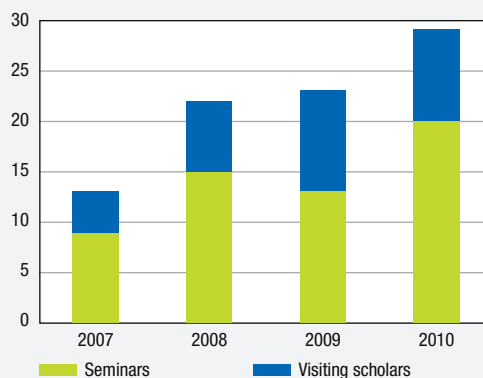
The Banque de France continued to develop its activities in 2010. It organised twenty research seminars (compared with thirteen in 2009) and received ten visiting scholars.

Leading academics were invited to come and present their work and join forces with Banque de France research teams. The Foundation organised its 8th “Journées” on 21 and 22 June 2010 on the theme “Macroeconomic policies in a crisis period”, during which research projects financed by the Foundation the previous years were presented. A panel discussion brought together a number of academics on the question of “post-crisis monetary policy strategies”.¹

In addition, the Banque de France awarded four research grants of EUR 30,000 each at the end of a highly competitive selection process. In order to promote interactions between high-level researchers, it was decided that, as from the call for proposals for 2011, researchers funded by the Foundation and affiliated to a foreign university would spend one week in a research centre in France.

Lastly, the Foundation continued to support young researchers from French universities. In 2010, it awarded three “Young researchers in economics” prizes, which mainly consist in the funding of the partial release from teaching obligations of promising young researchers. The first nine laureates of the prize since 2008 were honoured on the occasion of a special ceremony organised at the Banque de France on 7 February 2011. The Foundation also awarded the monetary, financial and banking thesis prize during the annual meeting of the *Association française de science économique*.

Activity of the Foundation



1 The summary of this panel discussion was published in the Banque de France Bulletin. See “Les stratégies de politique monétaire après la crise”, Banque de France Bulletin, No. 181, pp. 101-110, 3rd quarter 2010.



The operational implementation of monetary policy

The financial crisis has demonstrated the importance for the Eurosystem of having high-quality and properly valued collateral to back its lending operations to credit institutions. In 2010, the Banque de France launched two major initiatives to improve the security of monetary policy operations: the first one concerns the pricing of debt securities and the second the selection of non-marketable debt securities.

Obtaining a single price for marketable securities eligible for monetary policy operations is the objective of the CEPH project (Common Eurosystem Pricing Hub): drawing on their expertise with regard to the valuation of complex securities, the Banque de France and the Bundesbank, together with the Banca d'Italia and the Banco de España, presented this project of a common Eurosystem hub for the pricing of monetary policy collateral in 2009.

This CEPH platform aims at providing national central banks with a single price for assets eligible as collateral in monetary policy operations by selecting a benchmark market price or, in the absence of a reliable market price, by calculating a theoretical price. On 20 April 2011, the Governing Council approved the launch of the development phase. The platform should then be introduced in two stages: the functionalities of marketable securities in April 2012 and those of credit claims in April 2013.

The second project aims at enhancing the quality of non-marketable claims eligible as collateral in monetary policy operations by taking account of the Basel definition of default.

Within the Eurosystem, the In-house Credit Assessment System (ICAS) of four national central banks (Germany, Austria, Spain and France) has the capacity of selecting “eligible” companies whose bank claims may be used as collateral in monetary policy operations. The attribution of this status by the Eurosystem is based on the performance of rating systems, which is measured annually: the gauge is the proportion of failing businesses (initiation of receivership or liquidation proceedings) among the companies which had an eligible rating the previous year.³

In this rating system, the notion of default as defined in the Basel II agreement will replace that of failure as from January 2012. In this respect, the Eurosystem has started to identify the defaults to be taken into consideration. This new method for assessing performance will lead the Banque de France to collect from credit institutions cases of default according to Basel II as from early 2011. This exercise will first involve monitoring claims submitted as collateral in monetary policy operations, then, as from January 2012, increasing the centralisation of banking risks by monitoring harmonised default at the European level.

2|2 Targeting attractive offers for the Eurosystem

After eleven years of activity, the Eurosystem is entering a phase of maturity characterised by the pooling of resources and the development of specialisations. The Banque de France, as the central bank of the second largest economy of the euro area, intends to play a major role in the large spheres of activity that are emerging, in particular in the operational field.

³ The proportion tolerated is very small: one failing business out of a thousand among the companies with the best rating (companies with a rating of “3”, and four out of a thousand among the companies with a rating of “4+” temporarily eligible since October 2008.

After having successfully managed the Target2 project, the Banque de France is now playing the same role in the Target2 Securities (T2S) project.

Other European-wide projects are in the pipeline: for example, the Banque de France, together with the Banco de España, has submitted a proposal for developing and hosting in tandem the future Market Operations Platform.

Ambitious objectives have also been set in the industrial field, with the creation of the new ES2 banknote series.

The European securities settlement platform Target2 Securities

The purpose of TARGET2 Securities (T2S) is to facilitate the creation of a single and integrated financial market through the setting-up of a European platform for the settlement of securities transactions in central bank money. T2S is expected to become operational in September 2014.

In 2008, the Eurosystem entrusted the Banque de France, the Bundesbank, the Banca d'Italia and the Banco de España (the so-called 4CB), with the task of developing the future platform. In addition to managing the project, the Banque de France was put in charge of developing several major functionalities.

In 2010, the Eurosystem set about defining the contractual framework of the T2S platform. The Bank is in the process of negotiating a draft framework agreement with central securities depositories and a draft agreement with non-euro area central banks. Both agreements are expected to be signed in autumn 2011.

The Market Operations Platform (MOP)

The purpose of the Market Operations Platform is to process, within a joint platform, the market operations of ESCB central banks along the entire operational chain: front office, back office, risk control and accounting. The MOP is a new example of cooperation and exchange of expertise within the ESCB as this project, steered by the Banco de España and the Banque de France, has since autumn 2010 also included the European Central Bank, the Bundesbank

and the Banca d'Italia. The ECB Governing Council is expected to take a decision on this joint application in spring 2011.

The future platform should allow substantial economies of scale to be made. It should also enhance the quality of the information system for processing market operations and reinforce its robustness as it will be hosted alternately by the Banco de España and the Banque de France.

The new series of ES2 banknotes

In 2010, the Banque de France worked, together with the European Central Bank and the other Eurosystem central banks, on the creation of the future series of euro banknotes which is due to replace the series in circulation since 2002. They focused on the development of the future security features and the origination (i.e. technical and graphics development) of the first banknotes to be issued. At the same time, tests were conducted to validate the conditions of large-scale industrial printing.

The future series will be in keeping with the series currently in circulation as regards the major elements of the design, which will be reused and updated, and will include innovative security features. It will be produced by all the printing works and paper mills currently approved by the ECB, including the two industrial sites of the Banque de France (the Vic-le-Comte paper mill and the Chamalières printing works), which will play a key role in introducing the new series given their large production capacity. The future series will be issued over a period of several years, with the first denomination coming into circulation in the near future.

2|3 Strengthening the Bank's operational position on markets

Achieving an in-depth expertise in financial markets and a real-time understanding of their developments not only requires analytical and research capacities but also a strong operational experience. This is why the Banque de France has adopted a strong operational position on the markets by actively developing its range of reserve management services for non-euro area

central banks and international institutions, which represent its international institutional clientele.

It is in this context that the Banque de France opened a trading room in New York in October 2010. Less than a year went by between the launch of the project and the first transactions conducted on the market by traders assigned to this unit. Thanks to this presence abroad, the Banque de France will be able to extend the time frame during which it manages its North-American currency reserve portfolio. The CAD portfolio is now managed exclusively by the New York trading room, while the USD portfolio is managed jointly by the teams in Paris and New York and is transferred from one to the other on a daily basis.

Being present at the heart of one of the largest international financial markets should enable the Banque de France to further develop its expertise on financial markets.

3| BEING A MAJOR PLAYER IN THE AREA OF FINANCIAL STABILITY

The financial crisis has highlighted the need for central banks and supervisors to play a greater role in ensuring the stability of a global financial system. Thanks to the establishment of the new Prudential Supervisory Authority (*Autorité de contrôle prudentiel* – ACP) under the aegis of the central bank, France has a sound supervisory framework and a high visibility of the possible systemic risks that could weigh on financial systems.

Throughout the year, the Banque de France, alongside the government, adopted a proactive role both at the national level and within European and international fora. Because the French banking system was resilient and its mode of supervision proved to be effective, it was able to make itself heard and influence decisions.

The Banque de France aims to be an initiator of proposals in the area of regulation and seeks to ensure a proper balance between the security of financial systems and the financing of the economy. In this respect, the Bank has set itself three objectives: to contribute to strengthening financial system regulations, prevent systemic risks

and ensure that the Prudential Supervisory Authority's establishment under the aegis of the Bank is fruitful.

3|1 Contributing to strengthening financial system regulation

The Banque de France and the ACP have taken it on to play a key role in the new European architecture of supervision, which as from 2011 will be made up of three European supervisory authorities with greater powers and the European Systemic Risk Board (ESRB) under the authority of the President of the ECB.

In 2010, they took an active part in the international discussions on the strengthening of banking sector regulation, in particular in the framework of the Basel Committee and its governing body, the Group of Central Bank Governors and Heads of Supervision. These discussions, which meet the G20 commitments in this area, resulted in the publication of a set of new recommendations (Basel III), which amend the Basel II agreement. The Basel III rules started being transposed into European law in February 2011.

These different recommendations, which aim at strengthening the financial robustness of credit institutions, cover several complementary aspects, notably the quality and level of own funds, the introduction of quantitative standards for measuring liquidity and transformation risk and the setting in place of capital buffers in addition to the minimum requirements. These measures, which were preceded by several impact studies assessing both the consequences for credit institutions and the potential effects on the real economy, will be implemented gradually as from 2013.

In the insurance sector, following the adoption of the Solvency II Directive, which aims at strengthening risk assessment and control in insurance undertakings, the Banque de France and the ACP launched, together with the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS), a vast impact study the purpose of which is notably to calibrate the future regulations. The Bank takes an active part in the working groups of the European Insurance and Occupational Pensions Authority (EIOPA) which took over from the CEIOPS.

In 2010, the Banque de France was also involved in the preparatory work on "MiFID II". Within the financial market working groups and in close cooperation with the Ministry of the Economy, Finance and Industry and the French Financial Markets Authority (AMF), the Banque de France, driven by its desire, shared by the other participants, to enhance financial stability, focused on the reforms and orientations aimed at increasing financial market transparency, regulating derivatives markets, defining a framework for new trading technologies, introducing proper competition between the different trading platforms and enhancing investor protection. The first European Commission consultation on the draft directive, launched at the end of 2010, did not give rise to any objections on the Bank's part. The proposed directive is expected to be published in spring 2011.

3|2 Preventing systemic risks

Preventing systemic risks involves:

- Identifying and anticipating the threats that weigh on the financial system. To this end, the Banque de France can draw on its competencies in the area of banking and insurance supervision, its operational knowledge of markets and its micro and macroeconomic capacity for analysis. Several initiatives have been taken or launched at the national level, in particular further risk analysis based on stress testing exercises, which enables the Bank to assess banks' resilience to adverse economic developments, and the Bank's participation in the exercise coordinated by the Committee of European Banking Supervisors (CEBS), replaced in early 2011 by the European Banking Authority (EBA).
- Reinforcing the security of operations, in particular on the Paris financial market: the Banque de France ensures that the clearing infrastructures play a more important role given the development of over-the-counter trading, and that the Paris financial centre takes the leadership in these infrastructures.
- Actively contributing to the international discussions on risk prevention: at the Pittsburgh summit, the G20 entrusted the Financial Stability Board (FSB),



of which the Banque de France is a member, with the task of proposing for October 2010 a series of measures for reducing the risks posed by systemically important financial institutions. The Banque de France actively contributed to the technical work related to these different measures, including crisis resolution mechanisms.

Lastly, the Banque de France contributes to defining systemic risk prevention and monitoring policy through its participation in the ESRB, the EBA and the EIOPA. It is also a member of the Financial Regulation and Systemic Risk Board, set up by the Banking and Financial Regulation Act of 22 October 2010, whose task is notably to assess, from a macro-prudential point of view, the emergence of systemic risks within the sector and financial markets and to prepare the French positions within international and European meetings.

3|3 Ensuring that the ACP's establishment under the aegis of the Banque de France is fruitful

The merger of the banking and insurance supervisory authorities, which was one of the Bank's priorities for 2010, is now operational.

Thanks to its close links with the Banque de France, the ACP has a broad overview of financial system participants and benefits from the economic and financial expertise that the Banque de France has successfully provided over the past three years. This mode of organisation allows emergency situations to be dealt with in an optimal and coordinated manner, by institutionalising exchanges of information between

central bank players and prudential supervisors. These exchanges are a necessary condition for rapidly reaching the best possible assessment and guaranteeing responsiveness and efficiency.

Similarly, the assessment of the prudential situation of each financial institution or insurance company enables the Banque de France to better gauge the potential risks to financial stability. This new organisational structure also contributes to strengthening the Bank's position in Governing Council and ESRB discussions.

4| CONTRIBUTING TO THE SMOOTH FUNCTIONING OF THE ECONOMY

Credit mediation, the extended powers granted to household debt commissions, the increasing requests for Banque de France statistics made by economic players, observers and decision-makers to enhance their knowledge of economic developments, and the discussions on the setting-up of a positive credit database are tokens of confidence in the expertise of the Banque de France and in its ability to promptly carry out new tasks for the benefit of economic agents.

The Banque de France must make itself worthy of this confidence, by pursuing three strategic objectives: improving the protection of consumers of financial products and services, fine-tuning its analysis of the economy and its financing and reinforcing the security of means of payment.

4|1 Improving the protection of consumers of insurance, banking and savings products

The protection of consumers of financial products and services is at the heart of the Bank's activities. In addition to the Infobanque service, the processing of cases of overindebtedness and the management of payment incident databases, it has extended the scope of its interventions with regard to consumer protection by drawing on the competencies of the ACP.

Box 14

Being under the aegis of the Banque de France: Concrete advantages

In practice, the ACP's operating under the aegis of the Banque de France takes several forms:

- the Governor of the Banque de France is the President of the ACP. The Vice-President of the ACP is a member of the General Council of the Banque de France;
- the Banque de France is the employer of all ACP staff;
- the insurance supervisory body is at the Banque de France's disposal;
- the ACP adopts its budget, which is annexed to that of the Banque de France;
- the ACP benefits from the synergy of resources implemented by the Banque de France.

"Being under the aegis of the Banque de France, the ACP thus retains the supervisory framework which proved effective during the crisis and benefits from the economic and financial expertise of the Banque de France.

Having the supervisory authorities under the aegis of the central bank is progressively becoming the norm across Europe. The most spectacular development is that decided by the United Kingdom."

(Extract from the New Year wishes addressed to the ACP staff by Christian Noyer, President of the ACP on 17 January 2011)

The supervision of commercial practices and the joint ACP-AMF unit

In order to carry out this new task, the ACP has set up a Directorate for the Supervision of Commercial Practices. At end-2010, it employed 60 people but it is expected to eventually total over 75. The task of this cross-sectoral directorate is to check that the rules on customer protection are properly applied and to make sure that the appropriate measures and procedures are implemented by the institutions subject to its supervision in order to comply with these rules.

In order to promote the uniform application of the rules in this area, the ACP has taken initiatives with regard to both prevention and communication by issuing a recommendation on the marketing of unit-linked life insurance policies made up of complex financial instruments and by taking position on commission-based life insurance sales.

Box 15

Assurance Banque Épargne Info Service

As part of their task of protecting customers, the *Autorité de contrôle prudentiel* (ACP – Prudential Supervisory Authority) and the *Autorité des marchés financiers* (AMF – Financial Markets Authority) have set up, through their joint unit *Assurance Banque Épargne* (Insurance, Banking, Investments), the *Assurance Banque Epargne – ABE Info Service*. Launched on 28 June 2010, *ABE Info Service* is the common contact point for obtaining information and guidance on questions relating to insurance, banking, credit, the stock market and savings.

This service, which is mainly intended for private individuals, but also for individual professionals (liberal professions, self-employed, very small firms), offers the following:

- a website (abe-infoservice.fr): a modern and intuitive tool with entries by target or topic;
- a telephone hotline, accessible from Monday to Friday from 8 am to 6 pm via a single number (0 8011 901 801). It relies on the Banque de France network;
- a single postal address, for sending information or documents: 61 rue Taitbout, 75009 Paris (address of the ACP).

But, there is no public information centre.



The ACP has also been pro-active in the area of consumer protection at the international level, with the revision of the directive on insurance intermediaries, the work of the European Commission on Packaged Retail Investment Products (PRIPs) and the proposed directive on insurance guarantee schemes.

The ACP is able to identify questionable commercial practices and risks for clients by monitoring advertisements and new products, banking services or insurance policies, by having institutions subject to supervision report on the measures taken to comply with consumer protection rules and by analysing complaints received from bank customers and insurance holders. Thanks to its regular contacts with the other players in the field of consumer protection (Advisory Committee on the Financial Sector, Banking Mediation Committee, insurance and banking mediators, consumer associations, Directorate General

for Fair Trading, Consumer Affairs and Fraud Control, etc.), the ACP defines its supervisory strategy in a coordinated manner.

The ACP also carries out its supervisory task by performing on-site inspections, with regard not only to the tools and procedures put in place or the organisation of the complaints department, but also to the sale of policies or products, in particular to the quality of the advice and information provided, irrespective of the distribution channel (credit institution, insurance company, intermediary). These checks are carried out autonomously, together with other directorates or coordinated with the AMF within the joint unit.

Lastly, by setting up together with the AMF and the help of the Banque de France branch network, a single entry point for customer requests (*Assurance Banque Epargne – ABE Info Service*), the ACP also performs a

role in the prevention and guidance of consumers of financial services.

Developments in the management of databases concerning households

The Bank finalised the work it had been carrying out, together with the banking sector at the request of the Minister for the Economy, Industry and Employment, towards improving the functioning of the *Fichier national des incidents de remboursement des crédits aux particuliers* (FICP – National Register of Household Credit Repayment Incidents) in order to boost its role in preventing household overindebtedness. The changes made, which aimed at improving the updating of data recorded in the FICP, concern the supply of data, which is now done on an ongoing basis, and the consultation procedures, which enable credit institutions to be informed in real time of the situation of individuals who are encountering loan repayment difficulties.

In addition, in the framework of the Lagarde law on consumer credit, the Banque de France takes part in the work of the committee in charge of laying the foundations for a national register of household credit, which aims at preventing overindebtedness and better informing lenders about the solvency of borrowers. This committee has been



Box 16

The household payment incident databases managed by the Banque de France:

The *Fichier national des incidents de remboursement des crédits aux particuliers* (FICP – National Register of Household Credit Repayment Incidents) records clear-cut payment incidents related to credit granted to private individuals as well as measures for handling cases of household overindebtedness;

The *Fichier central des chèques* (FCC – Central Cheque Register) records clear-cut payment incidents related to the use of cheques and bank cards, with the aim of improving the security of payment instruments;

The *Fichier national des chèques irréguliers* (FNCI – National Register of Irregular Cheques) compiles and disseminates data, particularly on stolen or lost cheques, to retailers and service providers seeking to verify the validity of cheques.

Key data for 2010

- 63.8 million consultations of the FCC
- 2.5 million individuals recorded in the FICP
- 135.8 million consultations of the FNCI

charged with preparing a report, which will be submitted to the French Government and Parliament in July 2011.

Rationalising and speeding up the procedure for processing household debt cases

The purpose of household debt processing is to settle the substantial loan repayment difficulties encountered by individuals, in particular vis-à-vis credit institutions. In this respect, the aforementioned law on consumer credit includes a section on the reform of the way in which household debt cases are processed. This reform,

which came into force on 1 November 2010, aims at rationalising and speeding up the procedure. It has a very significant impact on the work of the household debt commissions, whose powers have overall been increased and more specifically have been extended as regards the processing of the personal recovery procedure. The Banque de France, which acts as the secretariat of the household debt commissions, was involved in drawing up the regulatory texts and contributed to the Cohen-Branche report on the relations between banks and their indebted clients.

At the same time, following the recommendations of the Court of Auditors and the wishes expressed by the public authorities and all parties involved, the Bank has set out to harmonise the rules of procedure adopted by household debt commissions and the way in which cases are processed.

Box 17

Other tasks carried out in respect of relations with private individuals

The Banque de France carries out a number of tasks, most of which have a legal foundation.

- The Bank 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 *Comité de la médiation bancaire* (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 performs secretarial duties for the *Comité consultatif du secteur financier* (CCSF – Advisory Committee on the Financial Sector), which is charged with studying issues associated with relations between credit institutions, insurance companies and investment firms and their respective clients, and with proposing appropriate measures in this area in the form of either opinions or general recommendations.
- It collects and processes data on behalf of the *Observatoire de l'épargne réglementée* (Observatory for Regulated Savings), which is chaired by the Governor, and contributes to the annual report of this body.
- It calculates the usury rates which limit the cost of consumer credit, including during the progressive implementation of the relevant provisions of the law of 1 July 2010.
- It takes part in the work of the *Conseil national de l'information statistique* (French National Council for Statistical Information), in particular on issues related to personal and professional microcredit.
- It helps to inform private individuals about 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) and the *Autorité de contrôle prudentiel* (ACP – Prudential Supervisory Authority).
- It monitors on behalf of the *Observatoire de la microfinance* (Microfinance Observatory), set up in September 2006, professional and social microcredit activity and contributes to the analysis and development of these practices.

Key data for 2010

- 218,100 cases submitted to the household debt commissions
- 35,700 applications for access to banking services

In 2010, the household debt commission secretariats processed a substantial number of cases, although their growth rate remained relatively stable (0.8%). Despite the large volume of cases, the average processing time of the out-of-court settlement phase stood at 3.8 months at end-2010, which is slightly less than the commitment set out in the Public Service Contract (4 months).

4|2 Fine-tuning the Bank's assessment of the economy and its financing

Thanks to its knowledge of the national and local economic fabric, the Banque de France is able to provide various services to the national community. These include publishing statistics on the economy and its financing, awarding company ratings and giving banks access to its FIBEN database and conducting sectoral assessments aimed at companies and economic pools (GEODE) or local and regional authorities (ACSEL). The convergence of these activities, the synergies that they present and the cross-spillover effects that they may generate lend weight to the Bank's assessment of the economy and its financing.

Progress report on the financing of the economy

Since early 2010, the Banque de France has published every month on its website two new "*Stat info*". One concerns business failures in France, broken down by company size and by sector of activity. The other concerns bank loans reported by credit institutions to the Central

Key data for 2010

- Over 5 million entities listed in FIBEN
- 2 million reports to the Central Credit Register
- 250,000 companies rated on the basis of tax or consolidated statements (4,000 groups)
- Around 45,000 meetings with company managers
- 70,000 daily queries in the databases

Credit Register of the Banque de France. The latter shows the monthly variations in bank loans, according to each loan category, with short-term loans clearly marked out. Like in the case of business failures, bank loans are broken down by company size and by sector.

In 2011, the Banque de France will publish a new *Stat info* exclusively on SMEs. This new publication will include a range of data drawn from Banque de France databases on the following three aspects:

- the financial situation of SMEs;
- the bank financing of SMEs, with a particular emphasis on the newest enterprises and the cost of credit;
- the assessment of the risk of SMEs.

According to the data analysed in 2010, in particular in a study published in the December issue of the Banque de France Bulletin, it appears that SMEs responded relatively well to the economic crisis of 2008-2009.

Macroeconomic forecasts

The Banque de France prepares the Eurosystem's monetary policy decisions by collecting statistics and data on the French economy and by drawing up forecasts and analyses. Collecting data on business conditions and forecasting economic activity are two closely linked activities, which enable the Banque de France to continually improve its assessment of the economy and its financing.

The Bank's monthly business analysis is first carried out at the sectoral and regional levels, then statistically aggregated at the national level in order to publish, on the basis of a macroeconomic model of these data, a GDP growth forecast with a 3-month horizon, the monthly index of business activity (MIBA). The Banque de France also takes part in the work of the Eurosystem's Monetary Policy Committee by carrying out activity and inflation forecasts for France with a 2-year horizon, in coordination with the other Eurosystem central banks. These forecasts are used to draw up the euro area forecasts.

The Banque de France is thus able to conduct its own economic assessments, by closely monitoring

the business environment and building on its expertise in the field of macroeconomic forecasts for France and the euro area. This proved particularly useful throughout the entire crisis, but also since the economy has started to emerge from the crisis. As a result, the Bank's capacity for action, put at the disposal of the Eurosystem, has been strengthened to find solutions for ensuring the financing of the economy in all circumstances.

Credit mediation

In support of the organisation set up in 2008 under the leadership of the national mediation, the Banque de France directors, the departmental credit mediators, continued their work of building bridges between financial institutions (bankers, credit insurers, factoring companies) and business managers.

Adjusting themselves to the developments in the crisis, the departmental units in charge of credit mediation, in conjunction with the national mediation analysts, had fewer cases to process (8,192 cases received, compared with 16,294 in 2009) but more complex ones: no scope for increasing margins, reduction of own funds and difficulties in obtaining external financing. In 2010, credit mediation focused on consolidating companies' financial structures, both in the sectors encountering difficulties and in those showing signs of recovery. In particular, it took an active part in monitoring the *Plan de soutien exceptionnel à l'agriculture* (Exceptional support package for agriculture), by processing close to 300 cases in the first quarter.

The departmental credit mediators continued to strengthen their relations with regional representatives of governmental services with a view to finding lasting solutions for supporting companies in difficulty.

Since November 2008, just over 27,000 cases have been submitted by companies in difficulty, of which 83% have been declared eligible. Thanks to credit mediation, over 12,000 companies were able to pursue and develop their activity. A total amount of EUR 3 billion in loans was granted, which made it possible to save or guarantee roughly 220,000 jobs.

Key data for 2010

- 8,192 cases received, of which 82% were eligible
- 7,872 cases processed during the year
- 6,663 cases closed, of which 62% with a positive outcome
- 63,132 jobs guaranteed

Riding on their success, and in order to help the most fragile companies exit the crisis, at the request of Christine Lagarde, Minister of the Economy, Finance and Industry, business and bank representatives agreed to prolong credit mediation for another two years.

4|3 Reinforcing the security of means of payment

The security of means of payment is key to the smooth functioning of the economy. In this respect, the Banque de France ensures the security of cash payments, i.e. the smooth circulation of banknotes and coins, which is one of the central bank's traditional tasks, but also the security of non-cash payments in a context of mature new technologies (remote, contactless, online payments, etc.). It also plays an active role in promoting the roll-out of SEPA means of payment.

Security of cash transactions

Given the growth of currency in circulation in the euro area and the need to ensure the quality of banknotes

Key data for 2010

Banknote production

- 2.451 billion banknotes delivered by the Directorate General Banknote Manufacturing, of which 1.738 billion in euro

Management of banknotes in circulation

- 7.3 billion banknotes sorted
- 7.6 billion banknotes distributed by the Banque de France
- 7.4 billion banknotes received at the Banque de France
- 1.02 billion coins put into circulation

in circulation, the Banque de France has mobilised significant resources to:

- reinforce its cash storage and processing capacities, by setting up new cash centres to ensure industrial processing and supply in all circumstances;
- strengthen the controls exerted over the players charged with cash recycling in the framework of agreements signed with the Banque de France;
- develop training sessions and information campaigns aimed at the general public, like those conducted at the *Cité des sciences*, during the *Journées du patrimoine* ("Heritage days") or via the professional communication media used by the 80,000 bakers across France.

The new cash centres project

The objective of the NCF project (new cash centres) is to establish cash centres that function on an industrial scale. By 2015, two cash centres should be operational, one in the Ile-de-France region, the other in the Nord-Pas de Calais region. These centres will constitute industrial platforms dedicated to the issuance of banknotes and coins (reception, delivery and storage) and their maintenance (banknote recycling).

The project is designed to:

- increase production capacities in order to absorb the projected increase in volumes to be processed by 2030;
- industrialise cash transactions by redefining and automating the process for transferring and storing cash to make it more efficient;
- enhance the robustness of the cash industry by resizing these centres to enable them to offer storage and sorting capacities that are more appropriate for meeting needs in times of crisis (in particular, massive withdrawals of one denomination and delivery of large volumes of new banknotes);
- improve the level of service provided to security carriers, the direct clients of cash centres.

Controlling and overseeing the cash industry

In addition to its tasks of producing banknotes, putting euro banknotes and coins into circulation and ensuring their maintenance, the Banque de France is responsible for controlling and overseeing the cash industry; in particular, it inspects the processing of coins that it receives and the recycling of banknotes for the replenishment of ATMs (Decree of 18 May 2005 codified in articles R121-3 et seq. and article R162-5 of the *Monetary and Financial Code*).

As regards the processing of coins, credit institutions that process and package coins for delivery to the Banque de France must conclude an agreement with the Bank regarding the processing of coins for delivery to the Banque de France or use the services of an operator that has concluded such an agreement. These agreements specify the measures to be implemented by operators (equipment, procedures, etc.) and provide for on-site and documentary inspections by the central bank.

As regards the distribution of banknotes, operators that replenish ATMs with banknotes that are not directly drawn from a Eurosystem central bank must conclude an agreement regarding the processing of euro banknotes with the Banque de France or the French overseas note-issuing bank (IEDOM) or use the services of an operator that has concluded such an agreement.

These agreements, approved by the Ministerial Order of 20 June 2005, stipulate the resources (in particular, the equipment) to be put in place by the operators. They require operators to draw up written operating and internal control procedures and to provide specific information to the Banque de France. They provide for on-site and documentary inspections by the central bank.

Reinforcing the security of the cash industry goes hand in hand with the modernisation of the procedures for exchanging information between the Banque de France and the cash industry via the MIDEF project launched in 2010.

The IT modernisation and cash exchanges development project - MIDEF

The IT modernisation and cash exchanges development project is the IT upgrade component within the

Box 18

The recycling of euro banknotes and coins in 2010¹

Agreements regarding the processing of coins to be delivered to the Banque de France; inspections carried out by the Banque de France

At end-2010, 39 processing agreements were in force, concluded between the Banque de France, credit institutions, cash-in-transit companies and companies operating vending machines. Overall, at 31 December 2010, there were 158 sites in France handling coins for delivery to the Banque de France.

In 2010, 53 workshops were the subject of on-site inspections by the Banque de France. The inspections carried out identified a number of malfunctions (inadequacy of equipment, operating and internal control procedures, etc.) that were rapidly rectified. Having identified several serious shortcomings, the Director General Cash Management and Branch Network Activities gave notice to two of these sites to bring their processing procedures into compliance with the requirements of the agreements. The problems were sorted out.

Agreements regarding the automatic distribution of banknotes not drawn from a central bank; inspections carried out by the Banque de France

At the end of 2010, 52 agreements concerning the "distribution by ATMs of banknotes not directly drawn from a Eurosystem central bank" had been signed between the Banque de France and credit institutions. 4,443 bank counters were distributing via ATMs banknotes not drawn from a central bank. These banknotes were generally processed by the credit institutions themselves and, more rarely, by service providers.

In 2010, the Banque de France carried out 140 on-site inspections in bank counters and workshops processing banknotes for the replenishment of ATMs. The shortcomings brought to light by the on-site inspections and off-site monitoring were sorted out. No serious situation of non-compliance with regulatory requirements was reported.

On 16 September 2010, the European Central Bank published a decision on the authenticity and fitness-checking and recirculation of euro banknotes. The French legal framework shall be adapted accordingly.

Training bank employees in the authentication of banknotes

In accordance with the provisions of Article R122-6 of the *Monetary and Financial Code*, the Banque de France continued to give support to banks that requested it in training staff charged with the manual distribution of banknotes in bank branches. In 2010, 1,423 credit institution staff members were trained along these lines by the Banque de France.

Implementation of the Decree in overseas departments

The Banque de France has charged the French overseas note-issuing bank (IEDOM) with the administration of the system regarding credit institutions whose headquarters are located in the overseas departments and in Mayotte. At end-2010, six agreements concerning the delivery by ATMs of recycled banknotes had been signed (Reunion, Martinique, Guadeloupe and French Guiana). Ten agreements covering the automatic processing of euro coins were in force in respect of ten production sites.

¹ Report produced pursuant to Articles R121-3 to R123-2 and R162-5 of the *Monetary and Financial Code* implementing Article 6 of Council Regulation (EC) 1338/2001 of 28 June 2001 (entered into force on 17 January 2006).

area of cash management in 2010. It will result, in particular, in the creation of an electronic portal for cash exchanges with the cash industry, "Interop". This portal should enable the Banque de France to start conducting secure electronic exchanges for managing cash transactions with banks and security carriers.

This interface, which will become operational at end-2011, will replace the current exchanges in paper form and will open new avenues for all parties involved.

The implementation of Interop constitutes a major step forward in the environment of cash transactions

conducted at the Banque de France, insofar as it draws on tried and tested technologies, reinforces the traceability of exchanges among all the players of the French cash industry and is based on standards applicable in several Eurosystem central banks. The use of the portal shall become widespread in 2012.

The security of non-cash means of payment

As regards reinforcing the security of non-cash means of payment, the Bank took action in several fields:

- the oversight of non-cash means of payment;
- the oversight of transfer systems;
- the monitoring and implementation of the SEPA project.

The oversight of non-cash means of payment

According to Article L141-4 of the *Monetary and Financial Code*, the Banque de France ensures the security of cashless means of payment. For the performance of its duties, the Banque de France conducts expert analyses and collects any useful information on these means of payment or the related technical set-ups.

In this framework, the Banque de France carried out an assessment, together with other Eurosystem central banks, of the international card payment systems used in France against the Oversight Framework for Card Payment Schemes – Standards.

The Banque de France continued its efforts to improve the security of online banking services and online card payments. At its request, French banks generalised the implementation of stringent client authentication procedures. It has also been encouraging retailers to have recourse to such procedures for payments made on their websites.

In May 2010, payment solutions based on contactless technology reached a new milestone, with the launch in Nice of a pilot project involving banks, mobile phone operators and retailers concerning the use of payment cards and mobile phones compatible with this type of payment.

The project should be extended to nine French towns in 2011. The Banque de France has worked since 2008 on the security of this type of payment, both within the Observatory for Payment Card Security and directly with market participants, to ensure that these new solutions are as secure as chip cards that function in contact mode.

The Banque de France will participate in the new European forum on the security of means of payment set up in 2010. This forum, which will convene for the first time in early 2011, aims at promoting a high and harmonised level of security for transactions and at combating fraud. It brings together ESCB central banks and the competent national supervisors and will involve market participants, as needed. Its role will be to issue recommendations with a view to coordinating the authorities' actions, on the basis of a technological watch and fraud-related data.

Lastly, like in previous years, the Banque de France analysed quantitative and qualitative data communicated by credit institutions and payment instrument operators, in order to assess their compliance with the security objectives it has defined.

The oversight of transfer systems

The financial crisis has highlighted the lack of transparency of OTC markets and the importance of central counterparty clearing for OTC products, in order to contribute to reducing counterparty risk.

According to the G20 commitments of September 2009, all standardised OTC derivatives should be cleared through central counterparties by end-2012 at the latest. In this context, the Banque de France took part in 2010 in the preparatory work and reacted to the public consultation initiated by the European Commission on the proposed European Market Infrastructure Regulation (EMIR). This regulation introduces rules relating to reporting and clearing obligations for eligible OTC derivatives, to supervision, to risk management and to the governance of clearing houses and trade repositories.

At the international level, the Banque de France takes part in adapting and strengthening the standards applicable to transfer systems and market infrastructures. This work, conducted jointly by the Committee on Payment

and Settlement Systems (CPSS)⁴ and the International Organisation of Securities Commissions (IOSCO), was initiated in 2009 to adapt the recommendations for central counterparty clearing houses of OTC products. In 2010, a comprehensive revision of the standards applicable to all market infrastructures (central counterparties, but also central depositories and securities settlement systems, payment systems, trade repositories) was carried out and should be completed in 2011. The Banque de France is also a member of the OTC Derivatives Regulators' Forum, set up in 2009, which brings together central banks, banking supervisors and market regulators from several countries. It aims at fostering cooperation and promoting the adoption of homogeneous approaches with regard to the oversight of clearing houses and trade repositories for OTC derivatives.

In 2010, in conjunction with the competent authorities belonging to the Coordination Committee on the Clearing of Euronext Markets, the Banque de France assessed the project of clearing European credit derivatives launched by LCH.Clearnet SA in March 2010 against the ESCB/CESR recommendations for central counterparties.

The Banque de France also took part in the assessment of ESES, the joint securities settlement platform shared by the central securities depositories Euroclear France, Euroclear Belgium and Euroclear Netherlands. This assessment was conducted against the ESCB/CESR recommendations for securities settlement systems and in conjunction with the Belgian and Dutch supervisory authorities.

The Single Euro Payments Area (SEPA)

In 2010, several initiatives contributed to the implementation of the Single Euro Payments Area (SEPA) project.

At end-2010, the European Commission published a draft regulation establishing cut-off dates after which payment instruments currently used in the countries concerned will have to be replaced by SEPA instruments.

In the framework of the National SEPA Committee,⁵ co-chaired by the Banque de France and the *Fédération bancaire française* (French Banking Federation), the use of SEPA instruments in France is monitored very closely. The SEPA direct debit was launched in France on 2 November 2010 and the SEPA credit transfer gained momentum in 2010 thanks to the migration of public administrations, with traffic on the French payment system CORE climbing from 1% in May 2010 to over 10% in December.

5| ENSURING THE FINANCIAL INDEPENDENCE OF THE BANQUE DE FRANCE

The strict management of its resources and particularly of its invested monetary income is the best guarantee of the Banque de France's independence. This strict management allows the Bank to:

- finance its development completely independently, while also paying a regular dividend to the French State;
- build up its own capital and continue to strengthen its pension liability provisions, even in a context of historically low policy rates: 1% at the end of 2010, versus 4% in 2007.

Efforts towards an optimal allocation of resources will continue via a focus on three primary objectives: to optimise investments, to offer the best service at the best price and to strengthen the Bank's financial structure.

5|1 Optimising investments

The optimisation of project management and governance tools is a key factor in the sound management of the Bank's investments, as these tools guarantee the relevance of the considered investments vis-a-vis the needs of the Bank and then ensure their smooth operation. In a context of growth in both the number and the scale of projects to which the Bank is committed, the management of major projects – whatever their nature (IT, real estate, organisational, etc.) – must be able to meet several major challenges.

⁴ The Committee on Payment and Settlement Systems (CPSS) brings together, under the aegis of the BIS, the central banks of G20 countries.

⁵ The National SEPA Committee co-ordinates the implementation of pan-European means of payment in France. The Committee is composed of representatives of all stakeholders in the project: banks, public administrations, companies, retailers and consumers, as well as members of Parliament, and representatives of the Economic, Social and Environmental Council and of the Association of Mayors of France.



These include:

- a strategic challenge, as major projects are often closely associated with the implementation of corporate strategies and/or are designed as factors of strategic transformation;
- a financial challenge insofar as these projects mobilise substantial resources;
- a risk challenge in terms of strategic risk (meeting or missing targets), operational risk, financial risk and reputational risk (especially when a project can impact management of relations with clients or partners).

To meet these challenges, the Bank's Executive Committee has decided to implement a governance scheme specifically dedicated to this type of project and based, on the one hand, on an internal management and steering structure emphasising the Bank's sponsorship

role as a dedicated project manager, and, on the other hand, on Committee meetings specifically focused on the major projects, during which decisions will be made regarding the major stages marking the execution of the projects, from beginning to end.

At the end of 2010, the Bank's major projects portfolio contained a total of nine projects, ranging from organisational projects such as the creation and organisation of the Prudential Supervisory Authority, to IT projects for the Bank's operations (Target2-Securities), industrial projects (new cash centres) and property management projects (the reorganisation of the Bank's head office and annexes).

5|2 Offering the best service at the lowest cost

Banque de France teams are mobilised at all levels to make the necessary efforts to provide the best service at the lowest cost in every activity domain. Reducing costs and optimising resources, whilst maintaining the same quality and commitment in their work, constitute primary objectives in the exercise of their daily missions.

Internal re-engineering measures

Over recent years, the Banque de France has conducted several re-engineering programmes in order to enhance efficacy and efficiency. In 2010, it completely overhauled its office supplies procurement system and its graphic creation and reprographics processes, leading to the closure in 2012 of its industrial site at Ivry-sur-Seine (printing, equipment, supplies and furniture division).

The efficiency drive – notably focused on internal support functions – should continue over the coming years, notably via the dematerialisation of the Human Resources administrative management systems launched at the end of 2010 and a number of other re-engineering initiatives targeting certain general services and accounting processes.

The public service contract

The Banque de France signed a first 3-year Public Service Contract (PSC) with the French State in June 2003.

This PSC has gradually become both an internal and an external reference for a large number of the activities performed by the network. After an initial extension to the end of 2006, the PSC was renewed for the period 2007-2009 and then extended in 2010 (ahead of legislative changes concerning overindebtedness).

The next PSC will have certain modifications compared with the preceding contracts:

- it places particular emphasis on providing facilities and education for the general public, drawing attention to the outlook offered by new technologies (internet, interactive terminals, etc.). It also provides for the conclusion of partnership agreements with other public bodies to which the Bank will contribute its support, notably in the area of training;
- it no longer contains indicators relating to the management of overindebtedness (such as for example "success rates" or the average level of cases handled). Henceforward, these indicators will be compiled under the management agreement concluded with the State in the framework of the compensation for services rendered;
- its validity has acquired a permanent character (tacit renewal) but, on the other hand, it introduces an annual update procedure for the monitoring indicators.

Reimbursement at full cost of the services provided to the State

According to the *Monetary and Financial Code* services provided to the State are charged for in order to cover the Bank's costs. Until 2007, the cost base used by the State for the calculation of the reimbursement of these services was the production cost, a figure that excluded most of the associated costs, apart from property charges, IT costs and training. However, since its application of the methodology common to the entire Eurosystem, production costs are no longer calculated by the Banque de France. In this methodology, there are only two calculation sequences, leading to direct costs and full costs, without any intermediate stage that would correspond to the old production cost.

Up until the calculation of costs for the year 2007, the Bank presented an assessment at production cost – i.e. EUR 152.4 million – to the commission

responsible for proposing the level of remuneration and this amount was automatically reiterated in 2008 and 2009 pending an agreement with the State on the terms of a reimbursement at full cost.

After conducting verifications of the calculation in 2009 to ensure the reliability of the banks analytical accounting, in 2010 the afore-mentioned commission proposed to the competent authorities of the State and of the Bank that the services should be remunerated at full cost as of 2011 against a commitment from the Bank regarding control of the associated costs and the quality of the services rendered. After the acceptance of this proposal, a reimbursement of EUR 317 million for each year between 2011 and 2013 has been programmed. This very substantial increase in the State's reimbursements to the Bank will allow it to pursue the reduction of its breakeven point and to strengthen the solidity of its balance sheet.

5/3 Strengthening the financial structure

Strengthening the financial structure of the Bank is vital to ensure its long-term profitability in all monetary policy environments and market conditions. This objective is achieved in three ways:

- reducing the Bank's breakeven point by a continued reduction of its expenses and a better reimbursement of the services provided to the local authorities;
- coverage of its employee-related liabilities, particularly pension liabilities. The financing agreement signed in the framework of the pension scheme reform has allowed annual coverage of the rights accumulated by current employees and a fraction of uncovered past rights;
- the gradual strengthening of the Bank's own funds in parallel with the growth of its balance sheet.

The pursuit of these initiatives goes hand in hand with efforts to stabilise the Bank's income at a high level and thereby ensure a substantial dividend for the French State. This greater income stability is obtained via a policy of longer-term investment designed to offset the sensitivity of its interest income to monetary policy rate cycles.

6| THE KEY SUCCESS FACTORS

The objectives defined in the Bank's four strategic priorities form an ambitious programme for the Banque de France. Achievement of these objectives is largely dependent on the institution's capacity to mobilise its teams at all levels of the organisation. For this reason our operational objectives are accompanied by initiatives aimed at changing the ways we work and live together in the company in order to make the achievement of these goals collectively easier and individually more satisfying. These initiatives are organised around four objectives: to match human resources to needs, to develop cross-sectoral management, to promote a performance-oriented and risk-mitigation culture and to adapt information systems to users' needs.



6|1 Enhancing the match between human resources and the strategic priorities

Like many other public institutions, the Banque de France will experience a very large number of staff retirements over the coming years. At the same time, as the experience of setting up the ACP and the evolution of the tasks with which it is entrusted shows, new needs are constantly appearing. The ability to meet all the challenges the Bank faces and achieve its objectives implies being able to adapt the quality and quantity of its human resources to the needs generated by its strategy.

This objective implies three further requirements:

- raising recruitment levels in order to ensure that the Bank can fulfil its strategic ambitions and policy challenges;
- continuous staff training so that the Bank's personnel can not only follow its technical, organisational and behavioural changes but also actively promote them;
- the organisation of knowledge transfers so that the professional skills and know-how of the Bank's senior staff can be transferred to the younger generation.

These are just some of the policies that the Bank has already embarked upon and which it plans to intensify over the coming years.

6|2 Developing cross-sectoral management

Cross-sectoral management is a mode of management that meets a crucial and concrete need: different domains of activity interact with one another; the problems faced are complex; and finding solutions implies broadening the vision to include different viewpoints.

The Bank's teams have experience with this method of working, as indeed the changeover to the euro proved and, more recently, the resolution of the crisis. The Bank combines its research, operational and prudential supervisory roles and ensures the coherence of the actions taken by the Bank's headquarters and by the branch network.



This cross-sectoral approach – amply demonstrated during the most illustrious periods of the Bank's history – should be adopted as a standard working methodology applied on a day-to-day basis. One of the key principles in this approach is the voluntary and systematic sharing of information, knowledge, skills and expertise. For this principle to become a reality we need to promote the emergence of a cross-sectoral management culture, allowing all staff to access and exchange information and to work more harmoniously together on a daily basis.

6|3 Promoting a culture of performance and risk control

The emergence of a veritable culture of performance and risk control throughout the organisation is the

best way to ensure the quality of the Bank's human resources management.

This objective must be assimilated by all members of staff, each at their own level of responsibility. The implementation of tools for the management and monitoring of targets and for a better recognition of the contributions of each staff member is just one of the ways that it can be achieved.

6|4 Orienting the information system towards the needs of the Bank's activities

In view of the nature of its activities, the Bank's information system is the backbone of its action. It contributes to and supports its actions on a daily basis and has a decisive impact on the organisation of its operational processes. It is therefore essential that it be placed as close as possible to the operational activities to allow them to successfully accomplish their strategic missions.

7| SOCIETAL RESPONSIBILITY

Beyond its strategic objectives regarding the development of the Bank's activities and of its associated key success factors, the Banque de France is an organisation that wishes to affirm its societal responsibility.

In this area, the Bank has three permanent concerns:

- to promote well-being in the workplace;
- to reduce our environmental footprint;
- to develop the financial education of the public.

These strategic objectives are described in detail in Chapter 3 "Sustainable Development: a corporate responsibility"

Sustainable development: a corporate responsibility



As an institution of the French Republic, and mindful of its duties as a corporate citizen, the Banque de France takes environmental concerns into account in its functioning and links its mission to society's sustainable development goals.

After a phase of analysis and planning conducted in 2009, formalised by the publication of the Sustainable Development Charter and the setting-up of the structure necessary for carrying out actions in this area, a new milestone was reached in 2010 with the effective roll-out of the Bank's societal responsibility policy as set out in its strategic map:

- putting human beings at the heart of the Bank's sustainable development strategy, by ensuring that all forms of diversity are respected, by combating discrimination, and by guaranteeing a work environment that protects the health and equal treatment of all employees;
- implementing the Environmental Footprint Reduction Master Plan (*Schéma directeur de réduction de l'empreinte environnementale* – SDREE), a real corporate project which aims at reducing greenhouse gas emissions and hence, global warming, and curbing the consumption of resources needed to preserve our planet;
- supporting public authorities in the implementation of initiatives regarding citizen's responsibility, in the areas of financial information and education of the public, credit mediation, household debt processing, and access to banking services.

In a stricter regulatory and normative framework, the approach adopted by the Banque de France enabled it to make significant progress towards supporting public authorities in the implementation of initiatives regarding citizen's responsibility, reducing its environmental footprint and involving all of its staff in designing a better way of living together.

Given the first results obtained by the Banque de France, sustainable development is now firmly grounded in its internal organisation as well as in the fulfilment of its tasks to meet society's expectations in the best possible manner.

1| SOCIETAL CONCERNS LIE AT THE HEART OF THE BANQUE DE FRANCE'S ACTIONS

1|1 The Banque de France takes part in the discussions on the significance of sustainable development and microfinance in the economy

ISO 26000 and economic regulation

After more than five years of negotiations and an unprecedented international mobilisation, involving a hundred countries and forty international organisations (International Labour Organisation, Global Compact, OECD, Global Reporting Initiative), the ISO 26000 was published in November 2010. This internationally-recognised reference standard enables companies to evaluate all the impacts of their decisions and their activities with respect to the three pillars of sustainable development. The Banque de France was not only involved in the drawing-up of this standard (in the framework of AFNOR), but also in the awareness-raising initiatives taken after its introduction. It took part in the 2nd *États généraux de la responsabilité sociétale*: ISO 26000 organised on 7 December 2010 and participated, on this occasion, in a round table on the subject "Economic regulation and the ISO 26000 – responsible approaches and sustainable growth".

Microfinance

Microfinance, which has three constituents, microcredit, microinsurance and solidarity-based savings, is part of the policies aimed at combating "bad indebtedness", poverty and financial exclusion.

The Banque de France, which set up an Observatory for Microfinance in 2006, published the Observatory's second report in September 2010, covering the year 2009 and highlighting the noteworthy developments over the recent period.

- The report stresses the growing interest in microfinance shown in France. Numerous studies and reports have been produced on this subject, and new legislation has been introduced in recent years to facilitate the financing of small businesses and the access of the poorest to credit. Other measures have also been taken to encourage households to move their savings into ethical and socially-responsible investments.
- The banking sector is also becoming more aware of the importance of promoting access to credit. The involvement of credit institutions, which have launched a number of initiatives (in particular on accompanied microcredit), is a necessary condition for the development of microcredit. This represents a new turn in banks' lending policy, which, if it produces tangible results, will contribute to making headway in terms of economic integration.



- In France, public authorities continue to play a key role in promoting microcredit, in particular through the Caisse des dépôts et consignations, which manages the Social Cohesion Fund. A relatively innovative incentive model designed to help the unemployed get back onto the job market is gradually emerging. Having thus become a public policy instrument, microcredit is both an economic and a social tool (report of the General Inspectorate of Finance published in January 2010). This twin role reinforces its usefulness and legitimacy.
- Another development concerns savings behaviour. Investors appear to be increasingly aware of the nature of the projects they fund. An expression of this trend is reflected in the emergence of players offering "labelled" products to savers who are now able to choose the use of their funds. A significant proportion of the funds collected in this way by developed countries is often used to finance microfinance institutions in emerging countries.

The expansion of microfinance in Europe and worldwide goes hand in hand with new risks inherent to this sector. Here, like elsewhere, stricter regulation is essential. In this respect, the recent publication by the Basel Committee of supervision principles tailored to the microfinance sector is a commendable initiative.

These developments nevertheless form a striking contrast with the still very modest volume of loans granted in France. The mobilisation capacity of supporting structures, which play a key role in setting-up both professional and personal microcredit and are thus a determining factor in its expansion, continues to be too often hampered by the sluggishness of cultural changes and the lack of funding of these structures.

1|2 The Banque de France plays an active role in favour of social workers and in the economic and financial education of the public

Initiatives in favour of social workers

As part of its responsibility in dealing with household debt, the Banque de France has been conducting an increasing number of training and information initiatives in favour of social workers.

Training of social workers

In 2010, the secretariats of the household debt commissions invited 390 social workers to present to them the procedures for processing household debt files.

Furthermore, the Banque de France conducted 384 training sessions aimed at social workers. Overall, close to 9,000 social workers received training on the subject in 2010.

Information of social workers

The Banque de France took part in 191 information campaigns aimed at associations that provide social assistance to overindebted households.

Economic and financial education of the public

Drawing on its experience in the field of financial communication and information, the Banque de France stepped up its economic and financial education initiatives geared towards teachers, school children and the general public.

Educational workshops at the Bank

The Press and Communication Directorate has designed an educational programme for the general public and regularly organises workshops and conferences for secondary school children, senior citizens and students from French and foreign universities. Media used

Box 19

Signing of a partnership agreement between the Banque de France and the education authority of Créteil – Hosting, training and supporting young people

A partnership agreement on youth training was signed on 13 April 2010 between the education authority of Créteil and the Banque de France.

This agreement reflects the Bank's strong commitment in terms of societal responsibility, in particular in the following areas:

- enhancing economic and financial education;
- ensuring equal opportunities and promoting diversity;
- developing civic responsibility initiatives for enhancing the employability of young people.

The following clauses of the agreement are particularly noteworthy:

- joint educational initiatives;
- distribution of Banque de France educational material;
- vocational internships or training sessions;
- provision of learner support to students in economics, accounting and management;
- individual patronage of students by Banque de France staff;
- further training for Ministry of Education staff.

This three-year agreement came into effect in the 2010/2011 school year, with the Bank hosting students and teachers from the secondary schools of Samuel de Champlain in Chennevières-sur-Marne and Jean Moulin in Torcy. Around ten workshops were organised at the Banque de France during the last quarter of the year. The patronage scheme also became operational. On 30 September, students from the secondary school Samuel de Champlain met their patrons, who volunteered to assist them in their studies. Students will also be able to serve their internships in the Banque de France branches and the administrative centre of Marne-la-Vallée.

for this purpose include brochures, multiple choice questionnaires and video programmes. With close to 3,800 visitors this year, the workshops, which are held mainly in the Banque de France's information centre in Paris, were met with increasing success.

Distribution of educational and reference documents

In the framework of its partnership with the French Ministry of Education, the Banque de France produced a film entitled *Leo & the euro*. This DVD, which was distributed free of charge to around 15,000 schools in France, is an educational tool on the history of money and banknotes aimed at schoolchildren aged 9-10.

The Banque de France distributed around 50,000 copies of a special issue of its publication *Documents and Debates* entitled "Financial crisis, Economic crisis" to economic players interested in financial issues.

The future "Cité de l'Économie et de la monnaie"

Located on the premises of the former Paris-Malesherbes branch, the future "Cité de l'Économie et de la monnaie" ⁶ will contribute to enhancing the general public's knowledge and understanding of economic issues, in particular that of young people. It will present, in an interactive form, the main concepts of economics and money. Part of the coins, banknotes, professional equipment and furniture of the Bank shall also be displayed. Opening is scheduled in 2014.

In 2010, the focus was mainly on drawing up the museographic and architectural programme. Following a European-wide call for tender in May 2010, six teams were selected among roughly 100 French and foreign applications. Their projects, submitted at the end of November 2010, were examined by a jury at the start of 2011.

2 | THE BANK'S SOCIETAL RESPONSIBILITY APPROACH TAKES FORM

After a first stage devoted to global strategic discussions, a new milestone was reached in 2010

with the completion of the setting-up of a Sustainable Development Division. This department is in charge of steering the strategy defined by the Strategic Committee for Sustainable Development chaired by the Governor or one of the Deputy Governors of the Bank, after having been examined by the external and internal consultative committees.

The approach of the Banque de France focuses on two strategic axes: reducing its carbon footprint in the framework of multi-annual objectives and designing a better way of living together, based on its commitment vis-à-vis society and its corporate social responsibility.

Box 20

The Bilan Carbone® of the Banque de France

As part of its environmental policy and in order to limit its impact on climatic changes by lowering its greenhouse gas emissions, the Banque de France launched a carbon footprint project (*Bilan Carbone®*) for five pilot sites (the Chamalières printing works, the Vic-le-Comte paper mill, the Marne-la-Vallée Administrative Centre, the head office in Paris and the Lille branch). The first results were released in 2009. The *Bilan Carbone®* project was extended to all Banque de France premises in 2010.

The Bank's greenhouse gas emissions, which have been estimated at roughly 118,000 metric tonnes of carbon dioxide equivalent (MtCO₂e), stem mainly from two sources: energy consumption and people travelling.

Energy consumption (46,050 MtCO₂e) alone accounts for more than one third of the Bank's total emissions. They are partly linked to the configuration of the premises (difficulty in optimizing the type of heating: glass roofs, high ceilings, etc.) and to the type of heating used (which produces more or less greenhouse gases).

Emissions generated by people travelling (24,546 MtCO₂e) account for approximately one fifth of the Bank's total emissions. Two thirds of the emissions are the result of commuting trips, 19% are due to business trips and 14% to trips (exclusively by plane) for training seminars organised by the International Banking and Finance Institute.

⁶ See www.citedeleconomie.fr

2|1 Reduction of the environmental footprint

Three-year objectives

The *Bilan Carbone*[®] project and the workplace travel plans enabled the Bank to measure its carbon footprint and define the objectives of the Environmental Footprint Reduction Master Plan (SDREE). These three-year objectives (2010-2012) concern four areas:

- reducing energy consumption;
- increasing the share of renewable energy in the energy mix;
- optimising employee travel;
- lowering water consumption.

The objectives of the Banque de France in terms of energy

In order to unite all of its staff around sustainable development values and challenges and anticipate the requirements of the Grenelle II law of 12 July 2010, the Banque de France included ambitious environmental objectives in its three-year profit-sharing agreement (2010-2012). These consist in lowering the Bank's consumption of electricity, gas and district heating. The consumption targets were drawn up on the basis of the annual consumption recorded at 31 December 2008. They were set at:

- – 20% at end 2012, with as intermediate stages – 6% in 2010 and – 13% in 2011 for the Bank's departments, excluding the Banknote Manufacturing Directorate General;
- – 4% at end 2012, with as intermediate stages – 2% in 2010 and – 3% in 2011 for the Banknote

Box 21

SDREE Objectives for 2012



Energy:

Consumption (in kWh)

- 20% compared with 2008 (Bank departments, excl. Banknote Manufacturing *)
- 4% compared with 2008 (Banknote Manufacturing)

Share of renewable energy

- 20% of the mix (Bank as a whole)
- 30% of the mix (Banknote Manufacturing)

Business trips (in CO₂ emissions)

- 15% compared with 2009 (Bank departments, excl. Banknote Manufacturing)
- 10% compared with 2009 (Banknote Manufacturing)

Drinking water (in m³)

- 15% compared with 2008 (Bank departments, excl. Banknote Manufacturing)
- 10% compared with 2008 (Banknote Manufacturing)

(*) In view of its industrial activity which has specific constraints (need to maintain a constant temperature and hygrometry for paper processing), the objectives of the Banknote Manufacturing Directorate General are different to those of service-based activities.

Manufacturing Directorate General, which has already been implementing for several years industrial solutions that take into account sustainable development requirements.

Several communication actions were taken during this phase.

- The Press and Communication Directorate posted up on the Bank's Intranet site, during one week, the four SDREE objectives (energy, travel, drinking water, renewable energy) to reaffirm the Bank's sustainable development policy targets.

- New communication tools were introduced:

- a monthly newsletter, Actions DD, sent by email to all Bank staff, to inform them about the environmental performance objective and explain the SDREE objectives;

- a monthly regulatory news and information bulletin, which presents the regulations, both recently published and to be published, that apply to the Bank's activities in the environment and sustainable development field.

The behavioural and structural initiatives implemented in 2010 have already produced encouraging results. Energy consumption was lowered by 6% compared with 2008 by monitoring consumption on a monthly basis (electricity, gas, district heating and cooling) and by carrying out maintenance work. The share of renewable energy in the Bank's energy mix increased significantly in 2010. Overall, the objective was achieved, with the share of renewable energy reaching 40% for the Banknote Manufacturing Directorate General.

Optimising employee travel

In order to reduce the greenhouse gas emissions generated by employee travel, the Banque de France set up a mobility policy on all of its premises. This policy, which is based on the measures put forward following the implementation of workplace travel plans on certain sites, consists in a selection of alternative commuting options and a supervision of business trips. It focuses on two main aspects: travel less and in a smarter way.

Travel less:

- offer, in certain conditions, the possibility of teleworking;

- organise audio or video-conferences.

Travel in a smarter way:

- encourage the use of environmentally-friendly transport and public transport.

- travel as much as possible by train and have recourse to the Bank's car-sharing services. The rules governing business travel were revised in mid-2010.

- as air transport is the mode of transport that generates the greatest amount of greenhouse gases, it is no longer authorised for journeys that can be made by train in less than three hours.

- provide eco-driving training courses to members of staff who drive a lot.

Reducing water consumption

As regards water management, the Bank has already, since 2008, been regularly monitoring its consumption in order to identify possible malfunctionings and prevent wasting. The consumption of drinking water at the Bank has been steadily declining and dropped by 20% in 2010 compared with 2008.

Improving the Bank's energy performance and preserving the environment

In 2009, the Banque de France formalised an environmental quality strategy based on six core areas for action: energy, water, waste, clean building sites, living environment, training-awareness.

Through this commitment, it confirms its intention to take an active part in reaching the European Union objectives, in particular the "triple 20" objective for 2020. In doing so, it sets itself in the framework of the Grenelle II law. This law defines objectives regarding the energy performance of buildings and requires, in particular, that energy audits be conducted in existing buildings in order to carry out the necessary

renovation work to reach the objective of cutting energy consumption by at least 38% and greenhouse gas emissions by 50% by 2020.

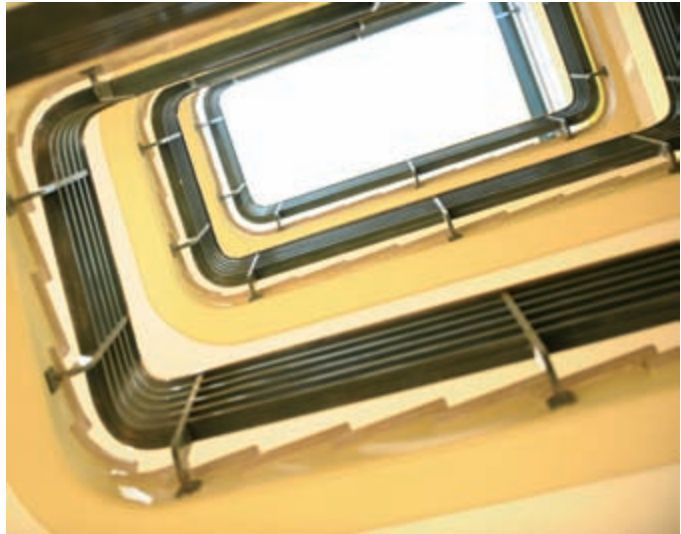
In order to optimise the management of its energy flows, the Banque de France has taken a number of different initiatives: recourse to district heating and cooling networks when they exist, centralised regulation of technical installations, introduction of energy-saving lighting.

In 2010, the Bank launched three major nationwide projects with a view to improving its energy efficiency:

- the drawing-up of an energy mapping of its premises (two administrative centres and 117 branch network units, i.e. a net total surface of close to 444,000 m²). This energy map will be used to draw up an energy optimisation strategy, which shall take the form of annual work programmes;
- the widespread installation, in 2010 and 2011, of thermostatic valves and variable-displacement pumps throughout the branch network. This should contribute to lowering heating consumption by 15%;
- the renovation, over eight years, of the boiler houses throughout the branch network so that no boiler is over 20 years old in 2019 (compared with 30 or more at present). On this occasion, an energy supply study has been carried out, for each boiler, in order to justify the most appropriate choice of energy for each unit (gas, district heating, heat pump, geothermal energy, etc.) and measure the expected savings in terms of consumption and greenhouse gas emissions.

The Bank also launched several energy-efficient renovation projects. The first consists in renovating one of the oldest wings of the Bank's headquarters, built in 1635 with a 19th century extension. For this project, the Bank opted for the following technical choices:

- insulation of the inside walls with a natural insulating material;
- replacement of the single glazed wooden frames by low emissivity double-glazed wooden frames;
- installation of a more energy-efficient lighting.



Two other projects are currently underway in the buildings of the La Rochelle and Strasbourg branches, which date back to 1918 and 1846 respectively. These programmes, which involve carrying out an exhaustive assessment of the pathology of the buildings and an in-depth energy audit of their energy performance, should enable the Banque de France to get closer to achieving the ambitious objectives defined by the Grenelle de l'environnement.

For the future premises of the Lyons branch, the Bank acquired a building bearing the "Minergie" label (Swiss equivalent of the BBC-Effinergie® label).

The Bank also launched the project of a new high energy performance data centre (see Box 22).

As regards waste, a Clean Building Site Charter was drawn up in 2009. It aims at optimizing the environmental quality of building sites by reducing to a minimum the nuisances both for the construction workers and for the neighbourhood and the natural environment. The recommendations of this charter were implemented in 2010 on two large-scale sites, one renovation site and one construction site. The Clean Building Site Charter will be applied to all Bank building sites in the course of 2011.

In order to draw up a mapping of local practices with regard to waste collection and treatment, a survey on the management and volume of waste was conducted

in 2010 across all of the branch units. Once the results have been analysed in the first half of 2011, action plans will be implemented to reduce the volume of waste and improve their treatment.

As part of its consideration for staff comfort and health, the Bank has also launched a study on the use of carcinogens, mutagens and reprotoxins in its building work. The objective is to collect health-related information on the products used by the Bank and its subcontractors in order to eliminate, limit or strictly control those that present a risk for the health of its staff.

As regards the preservation of the work environment, an assessment of the way in which green spaces at the Bank are managed was conducted in 2010. Once the results have been analysed, a strategic action plan will be carried out in order to contribute to reducing the environmental impact of this management, in particular regarding water resources and biodiversity. In the framework of the International Year of Biodiversity, the Bank takes part in the work of the Biodiversity group of the *Club développement durable*

des établissements publics et entreprises publiques, set up in autumn 2010. This group aims to publish, by end 2011, a guide for helping public institutions incorporate biodiversity into their strategy.

The Bank also contributes to spreading best practices with regard to environmental quality. To this end, it draws up technical documents in order to establish a common and coherent culture with regard to eco-responsible real-estate on all of its sites.

Towards greener IT

In 2010, the Bank's IT department, which has been working towards sustainable development for the past few years, pursued its efforts at several levels:

User IT: acting locally! The Banque de France, which is already equipped with work stations bearing the most widespread eco-labels, launched in 2010 two "virtualisation" projects of applications and work stations: the current, often oversized, fixed workstations will be replaced by "light" workstations,

Box 22

Construction of a high energy performance data centre

The Banque de France has decided to set the design and construction of its new Data Centre in the framework of its overall sustainable development policy. The Data Centre must therefore:

- be part of an overall HQE® approach for eco-construction and eco-management and anticipate the future *NF Bâtiments Tertiaires Démarche HQE* certification applicable to Data Centres, once a specific framework for IT centres has been defined;
- be eco-efficient and limit its energy consumption. It shall be monitored by Certivéa as an experimental project during the entire design and construction phase, to make sure that the common criteria necessary for any HQE® certification are met;
- comply with the recommendations set out in the Code of Conduct on Data Centers drawn up by the European Commission and with current standards.

The steering committee has therefore chosen to aim for the highest performance regarding:

- the relation of the building with its environment;
- a low environmental impact building site;
- energy management;
- waste management;
- lasting energy performances when in operation.

The construction of this 12,000 m² building (net total surface) should start in early 2012 and is expected to end in 2013.

which are simpler and therefore less energy-intensive. The technical infrastructures should be operational by 2012.

Reducing the financial and environmental cost of printing locally has been one of the Bank's targets since 2008, with a 30% cut in the budget line for printers. In practice, the printing stock has tended to decrease, largely due to the general reduction in the amount of printed material but also to pro-active approaches adopted locally. At end-2010, it was decided to entrust the Data Processing and Telecommunications Directorate with the task of optimising the printing function. An initial set of proposals was expected to be submitted to the steering committee in February 2011. The objective is to see how and according to what timetable a process for rationalising the printing stock can be implemented in order to, ultimately, have one printer for four employees.

The contract for e-waste collection was renewed and the Banque de France now relies on the services of the public procurement union UGAP. The terms are in compliance with the Waste Electrical and Electronic Equipment Directive, but waste recycling and recovery are now in the hands of social structures that promote the inclusion of disadvantaged people in the labour market.

Collaborative IT: acting together! In 2010, the Bank's videoconferencing equipment was further renewed and extended. The number of rooms equipped now stands at 38. In these rooms, between 300 and 450 video-conferences are organised each month between the sites of Paris, Marne-la-Vallée, Vincennes, Poitiers and abroad.

In addition, the person-to-person communication service, by instant messaging and by webcam, was widely opened up at the start of 2010 after an experimentation phase. It facilitates relations between people and therefore contributes to improving working conditions. The number of text messages sent has steadily increased (over 190,000 in November 2010). Almost all equipped users use this service, which reduces the number of emails sent and therefore stored.

Central IT: acting globally! The virtualisation of Windows and Unix servers hosted in IT centres

continued in 2010 to reach 46% at end-2010. Thanks to this technology, better use can be made of the resources of the physical servers by sharing them between virtual servers, which contributes to reducing the environmental footprint.

The Bank also continued to cut back on centralised printing by two means: first, by interrupting unnecessary publications and/or dematerialising them (consultation of results on screen), second, by transferring printers close to the user in a non-air conditioned room in order to reduce the environmental cost of transportation from the IT centre to the user. The volume of documents printed centrally has bottomed out to stand at two million pages printed per half year.



In order to further reduce the amount of printed material, the Bank now needs to re-design certain paper-intensive applications.

For example, a new service for collecting balance sheets by teletransmission, BilanDirect FIBEN, was set up in early 2010 with companies and chartered accountants. It represents a major step forward in the modernisation of the Bank's information system by avoiding manual data entries and helps to cut back very significantly on paper consumption in this area.

Indeed, up until then, balance sheets (in practice, the 2050 to 2059 tax forms) were exclusively collected by post and manually. From the first letters requesting the balance sheets sent at the start of the campaign to the reminders sent to companies and accountants, then to banks and in some cases to commercial court registries, roughly 650,000 mails circulated every year. Tax returns, received in paper form to be entered manually into the FIBEN database, amounted to around three million sheets addressed specifically to the Banque de France.

By end-2010, 35,000 balance sheets had been received by teletransmission, i.e. 13% of the expected total; in 2011, this figure should rise at least threefold thanks to the close cooperation between the Order of Chartered Accountants and the Banque de France. This progressive gearing-up of BilanDirect Fiben should make it possible to make substantial paper savings over the next three to four years by increasing the number of electronic exchanges.

IT accessible to disabled workers: acting differently! The Banque de France has embarked on a drive to make its information system more accessible to physically or mentally disabled workers or users. A first step was taken in 2010 with the integration of tools for checking the compatibility of all or part of a web IT application with the accessibility standards of the *Référentiel général d'accessibilité pour les administrations* (RGAA) defined for online governmental services and due to be implemented by May 2012. The operational implementation at the Bank is scheduled for 2011 in the framework of new projects or of the maintenance of the main applications being developed.

As regards mentally disabled workers, steps have been taken in 2010, jointly with researchers from

the University of Bordeaux, to identify best practices to be carried out to take account of intellectual disabilities or cognitive impairment when designing an application. It is an experimental field, no work having been conducted on the subject up until now. For the moment, two applications have been studied for their most commonly used functions and a first version of a guide of best practices has been drawn up. The operational feasibility of these best practices which tend towards universal accessibility (according to the principle of access to everything for all) will be tested before they are implemented on all or part of the information system.

2/2 A recognised societal commitment

Developing certifications

Over the past ten years, the Bank has embarked on a drive to obtain the strictest certifications, both with respect to quality and to social and environmental standards. This continued in 2010. It is in this framework that the ISO 9001 (Quality management), ISO 14001 (Environmental management) and OHSAS 18001 (occupational health and safety) certifications were developed, as part of the Bank's approach aimed at continuous improvement, adaptation and constant innovation.

The end of 2010 was also marked by the release of the ISO 26000 certification, which has already become an international reference in the area of societal responsibility and sustainable development. While examining ways of taking account of this standard in its activities, the Bank undertook a series of concrete actions. The Directorate General Banknote Manufacturing adopted an approach covering the three pillars of sustainable development with a view to obtaining the AFAQ 1000 NR label (which is now the AFAQ 26000) awarded by AFNOR and based on the recommendations of the ISO 26000. AFNOR Certification awarded the whole Directorate General Banknote Manufacturing a rating of 558 points, which corresponds to the "Maturity" rating, i.e. the third performance level on a scale of four. Several action plans have been implemented to reach the "Benchmark" rating in the medium term. The Directorate General

Box 23

New certifications obtained in 2010

Business areas	Certifications
Cash management	ISO 9001: management system of the "banknote and coin maintenance business line" – extension of the scope of certification to 10 processing centres ISO 9001: control and supervision of the cash industry – new certification
Operations	ISO 9001: Banking Services Directorate – extension of the scope of certification
Financial, legal and administrative management	ISO 9001 : Administrative Centre of Marne-la-Vallée – extension of the scope of certification

Banknote Manufacturing joined the association Plate-forme 21 to work on sustainable development issues in the Auvergne region. A *Bilan Carbone®* steering indicator has been defined and sustainable development criteria have been set up to select and assess suppliers.

An eco-responsible procurement policy

The Bank formulates its needs, notably through detailed specifications, and the procurement units communicate them to suppliers in the framework of formal procedures, in particular in the case of European calls for tender.

Sustainable development and societal responsibility requirements are now among the criteria used for selecting suppliers. Their weight is more or less important depending on the area concerned (IT, real-estate, general services and miscellaneous intellectual services): for example, they range from 40% for the collection of banknote waste to a few percentage points for intellectual services.

The socio-environmental approach of bidding companies is also always taken into account to assess their commitment.

Purchases made in the framework of centralised procedures at the European level or through centralised procurement organisations such as UGAP are also subject to such criteria.

The objective of the Procurement Directorate, which was set up in January 2011, is to further improve this framework, by extending its application to the markets it will cover in the coming years and by assessing its effectiveness using performance indicators. Lastly, the dematerialisation of procedures, which has been underway for several years, in particular for the diffusion of documents for consultation, will be stepped up in the coming months in order to increase the share of electronic services.

2|3 External social actions and corporate social responsibility

Internships for secondary school students from priority education areas

For the 2009-2010 school year, the Banque de France decided to extend its initiatives in favour of high school students from priority education areas (*Zones d'éducation prioritaire* – ZEP).

An observation week in the workplace was organised for around 600 students in regional Bank branches and 30 at the head office. The latter, from six different Parisian secondary schools were given a presentation of the Bank's activities, shown a film on the production of banknotes and taken on a visit of the Galerie dorée before returning to their host department and finding out about the corporate world by carrying out

operational tasks (search for economic and financial information on a financial information terminal or Internet, inventory of IT equipment, etc.)

This very positive and mutually enriching initiative will be pursued and enhanced next year by conducting an individual end-of-internship assessment between the student and his tutor.

Gender equality in the workplace

The implementation of the company agreement on gender equality in the workplace, signed on 4 May 2009, resulted in a number of concrete actions in 2010, in particular the possibility for managers to work part time on the basis of a fixed number of days and the compensation paid to women on maternity leave to make up for the loss in salary, in the diffusion of best practices with regard to time management (holiday management, meeting planning) and in a vast awareness raising and training programme on equality and non-discrimination.

In addition, the Banque de France having been awarded the Equality Label by AFNOR in December 2009 for a period of three years, it is now important to make sure that the Bank's commitments in the area of equality in the workplace and work-home life balance are properly implemented and to monitor the developments in the indicators in order, if need be, to take corrective measures.

Access to employment for disabled workers

The success of the integration of disabled workers depends largely on the extent to which Bank staff are made aware of the issue. According to the last company agreement on the employment and integration of workers with disabilities signed on 4 May 2009, targeted awareness-raising initiatives were taken in the departments employing disabled persons. Training sessions were also organised in the Mission handicap antennas in the Bank's branch network with a view to dispelling any reticence, prejudices or apprehensions and promoting group cohesion. Disability issues have also been incorporated into the anti-discrimination and pro-diversity training programmes for managers and human resource staff.

In the framework of the initiatives aimed at improving working conditions and preserving jobs, the Banque de France is progressively developing its use of communication platforms between the hearing and the deaf or hard of hearing.

Teleworking

The company agreement on teleworking, which was signed on 23 December 2009, aims in particular at allowing staff to achieve a better work-home life balance and contributes to sustainable development by reducing the number of journeys between home and the workplace.

This new form of work organisation was introduced progressively, with the identification by the participating Directorates General and the pilot region of the positions that are compatible with teleworking. 470 positions were identified for periods ranging from one to three days per week. After consultation of employee representatives, requests from staff at eligible positions were examined by their hierarchy in the light of the criteria set in the agreement (working time, autonomy, responsibility, etc.). 80 teleworking agreements had been signed at 31 December 2010.

Given the impact of teleworking on organisations, individual rhythms and team cohesion, an assessment of experiences shall be carried out in 2011 before extending the access to teleworking.



Training

In 2010, training programmes continued to be geared towards professionalisation and skills development and accompanied all Bank staff in the implementation of corporate social responsibility.

Taking into account the most recent company agreements (on workplace equality, disabled workers) and the recommendations of the *Observatoire paritaire de prévention des risques de santé au travail* (Joint observatory for the prevention of occupational health risks), a series of training sessions on workplace equality and the promotion of diversity were organised. The Bank continued to roll out its pluri-annual training programme on the detection and prevention of psychosocial risks. This programme concerned over 1,000 members of staff and shall be conducted at the same pace in 2011.

In order to enhance staff professionalism, professional development paths have been incorporated into the framework for the development of competencies and occupational mobility. They give employees a better overview of the other fields of activity that they might transfer to at a later stage. These paths, which numbered 73 in 2010, cover all fields of activity. Furthermore, the development of managerial professionalism is achieved through a diversification of training courses and personalised coaching.

Another of the Bank's objectives has been to valorise acquired skills by securing certifications: a partnership has been established with the chambers of commerce and industry in order to promote certificates of professional competence. A dedicated study programme aimed at market auditors has also been set up jointly with Sciences-po Paris.

In order to promote career advancement, special training courses have been designed to help employees develop their interpersonal and communication skills and their ability to deal with change. In the framework of a corporate strategy that takes account of the European dimension, the Bank has introduced new English teaching facilities. The Bank also offers training courses to employees who wish to advance through internal promotion as well as specific training programmes (skills assessments) aimed at promoting vocational adjustment.

Assessment reform

The reform of staff assessment is based on the proposals made by the Joint observatory for the prevention of occupational health risks relative to management development and employee recognition. This reform, which is one of the objectives of the 2010-2012 profit-sharing agreement, concerned the assessment of senior managers in 2010, and will be extended to other staff categories in 2011.

The two main objectives of this reform are:

- to give a more active role to the assessee, who carries out a self-assessment prior to the assessment interview, like what is done in many other large companies;
- to simplify and streamline the assessment process to enable the assessors to devote most of their time to the interviews, which are unique opportunities for exchanging views with team members.

Prevention of psychosocial risks

In the framework of its corporate social responsibility, the Banque de France aims to promote well-being in the workplace for all of its employees. The Governor made the integration of the human factor into the Bank's strategy implementation a key priority for 2011.

In consultation with trade unions, a wide range of initiatives have been taken to prevent and deal with psychosocial risks in the broadest sense of the term. The presentation of the approach adopted was put online by the French Ministry of Labour on its website dedicated to well-being in the workplace.

In 2010, under the aegis of the Joint observatory for the prevention of occupational health risks, four working groups worked on the following issues: management, employee recognition, professional burnout (physical and mental) and emergency management. In 2011, the Bank will start conducting negotiations over a company agreement on the prevention of psychosocial risks, on the basis of the proposals made by the working groups.

In addition, the Bank has set up ambitious training programmes for all employees, starting with executive

managers and senior managers. These training courses have given rise, in some cases, to local action plans in the Directorates General at the head office and in the branch network. In 2011, they will be made available to representatives from the health, security and work conditions committees, occupational health doctors and social workers.

Implementation of the OHSAS certifications: intensification of the certification approach in the field of occupational health and safety

As regards banknote and coin maintenance, whose modernisation goes hand in hand with growing industrialisation, the Bank has clearly affirmed its intention to strengthen risk prevention and improve the staff's knowledge of and involvement with respect to occupational health and safety.

In this framework, after obtaining the OHSAS 18001 certification for the head office cash centre – which

handles roughly 15% of national bank flows – at the start of 2010, the Bank decided to progressively extend this approach to the entire branch network, on the basis of the ISO 9001 quality management system already in place. It will pursue its awareness-raising campaign and progressively roll out its priority action plans, both with respect to workstation safety and the prevention of repetitive strain injuries, in the framework of the extension of this approach to all cash centres.

At the same time, in the continuity of the quality approach adopted, the Poitiers administrative centre was audited by AFNOR, which concluded that the Bank could obtain an OHSAS 18001 certification in 2011. The preparation of this audit was an opportunity to carry out a consultation with all players concerned aimed at better assessing occupational risks and defining action plans with regard to, in particular, staff awareness of risks, the analysis of occupational injuries and emergency management.



Governance, human resources and financial management

MEMBERS OF THE EXECUTIVE COMMITTEE,

From left to right:

Nicolas de Sèze, *Director General of the IEDOM and the IEOM*
Pierre Jaillet, *Director General Economics and International Relations*
George Peiffer, *Director General Banknote Manufacturing*
Jacques Fournier, *Director General Statistics*
Frédéric Peyret, *Director General Human Resources*
Henri Jullien, *Director General Cash Management and Branch Network Activities*
Hervé Le Guen, *Director Legal Affairs*
Jean-Pierre Landau, *Second Deputy Governor*
Jean-Paul Redouin, *First Deputy Governor*
Danièle Nouy, *Secretary General of the Prudential Supervisory Authority*
Christian Noyer, *Governor*
Armand Pujal, *Secretary General*
Robert Ophèle, *Director General Operations*
Alain Armand, *Comptroller General*
Nathalie Aufauvre, *Deputy Secretary General, Committee Secretary*

1| GOVERNANCE

1|1 Executive bodies

The Governor and Deputy Governors

The Banque de France is managed by its Governor, Christian Noyer, and by two Deputy Governors. The Governor chairs the General Council and prepares and implements its decisions. The Governor and the Deputy Governors are appointed by decree by the Council of Ministers for a six-year term, which may be renewed once. At the Council of Ministers meeting of 28 October 2009, Christian Noyer was reappointed as Governor of the Banque de France upon a proposal by the Prime Minister for a second six-year term starting on 1 November 2009.

The Banque de France's independence is reflected in the independence of its Governor (also a member of Governing Council of the European Central Bank – ECB)



and of its Deputy Governors. In accordance with Article L 141-1 of the Monetary and Financial Code, the Banque de France, represented by its Governor and Deputy Governors, shall neither seek nor accept instructions from the Government nor any other body in the performance of the tasks arising from its participation in the European System of Central Banks (ESCB).

The Governor is responsible for the executive management of the Banque de France. He chairs the Executive Committee, which is composed of the heads of the different business areas.

The Governor is also Chairman of the *Autorité de contrôle prudentiel* (ACP – the Prudential Supervisory Authority), the Banking Mediation Committee and the Observatory for Payment Card Security. In 2008, under the Modernisation of the Economy Act, he was entrusted with the position of Chair of the Observatory for Regulated Savings.

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 all subjects of common interest in order to facilitate the collegial decision-making process. The Executive Committee, chaired by the Governor, is made up of the Deputy Governors, the Directors General, the Deputy Secretary General for Strategy and the Legal Affairs Director. With a view to increasing integration with the Bank, the Director General of the French overseas departments note-issuing bank (*Institut d'émission des départements d'outre-mer* – IEDOM) and of the French overseas note-issuing bank (*Institut d'émission d'outre-mer* – IEOM) is also a member of the Executive Committee.

The Executive Committee examines issues relating to the Bank's strategy and internal management.



The meetings of the Executive Committee may be prepared, if necessary, by smaller committees involving the managerial staff directly concerned. It may also meet as a Careers Committee to express an opinion on the appointment of the Bank's senior executives.

Operational management bodies

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, which is chaired by the Governor, advises him on the Bank's portfolio investment strategy (for both euro- and foreign currency denominated portfolios). In particular, it examines the volume of investments, their allocation by asset class and their investment horizons.

The Risk Committee, chaired by a Deputy Governor, lays down the risk framework under which market operations should be conducted for the Bank's portfolios as a whole. In this regard, it maintains 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 are also managed on a collegial basis, through two committees placed under the aegis of the Secretary General: the IT Strategy Group, which is responsible for defining the Bank's short and medium-term policy with respect to IT investment, and the Real Estate Investment Committee, which is in charge of managing the Bank's property assets.

The College of regional managers and the branch network

The Banque de France network currently has 96 departmental branches (including 22 regional head offices), linked to which are 21 economic centres and 7 household debt centres. The activities related to currency in circulation are carried out at 67 of these sites and 4 specialised centres.

In order to meet demand for the public services provided by the Bank (household debt management,

access to payment incident databases and the right to basic banking services) and in accordance with the Public Service Contract concluded with the State, the Banque de France has set up 85 customer service and information offices in towns where the Banque de France, after closing its branches during 2004-2006, retains neither an economic centre nor a centre for processing applications to the household debt commission. These non-permanent offices are located on the premises of other administrative bodies, such as town halls or sub-prefectures.

The Banque de France's branch network now has two organisational levels:

- the regional level with a regional manager (i.e. the manager of the branch in the region's administrative capital) co-ordinating and supervising the activities of the various branches throughout the region, and ensuring the consistency and quality of the work carried out;
- the *département* level – with an operational *département* branch and, in some cases, other associated specialised units – responsible for implementing the objectives assigned to the branch network in close contact with the Banque de France's usual partners (banks, companies, private individuals, local authorities and administrative bodies).

Regional managers are responsible for fostering initiatives and promoting good practices across all operational fields. They are also in charge of managing budget resources within the branch network, using financial control instruments and carrying out activities relating to risk monitoring and control. Regional managers are assisted by centres of expertise and a specific unit in charge of supervising operations and procedures, the Regional Risk Monitoring and Control Division.

In view of their responsibilities, the regional managers are the primary contacts for the Governors and Head Office managers of the Banque de France regarding questions relating to the branch network. The College of regional managers, chaired by the Director General Cash Management and Branch Network Activities and his Deputy, holds meetings every two months, which are also attended by the five regional inspectors.

Box 24

The Banque de France branch network at 31 December 2010



1|2 Decision-making and control bodies

The General Council

Pursuant to Article L 142.3 of the Monetary and Financial Code, the General Council comprises the Governor and the two Deputy Governors, two members appointed by the President of the Senate, two members appointed by the President of the National Assembly, two members appointed in the Council of Ministers upon a proposal by the Minister of the Economy, the Vice-Chairman of the Prudential Supervisory Authority and a representative elected by Banque de France staff.

A Censor, or his/her alternate, appointed by the Minister of the Economy, represents the French State. The Censor participates in the General Council's meetings and may submit proposals and block any decisions.

The General Council performs the main functions of a Board of Directors at the Banque de France. It deals with issues relating to the management of activities that are not within the remit of the ESCB. It defines the terms of employment of the Bank's staff, which are subsequently submitted for approval to the relevant ministers, and it determines the rules applicable to the Bank's staff in areas where the provisions of the French Labour Code are incompatible with the Bank's statutes



Members of the General Council, from left to right:

1st row: Marie-Paule Georgel ; Jean-Paul Redouin ; Christian Noyer ; Jean-Pierre Landau ; Élisabeth Ducottet

2nd row: Monique Millot-Pernin ; Serge Lepeltier ; François Calvarin ; Jean-Philippe Thierry ; Philippe Auberger ; Hervé de Villeroché ; Henri de Richemont

or the public service tasks for which it is responsible. The General Council decides on the use of the Bank's own funds. It also draws up the Bank's expenditure estimates and annual accounts and makes proposals for the allocation of profits and the State's share of the dividends.

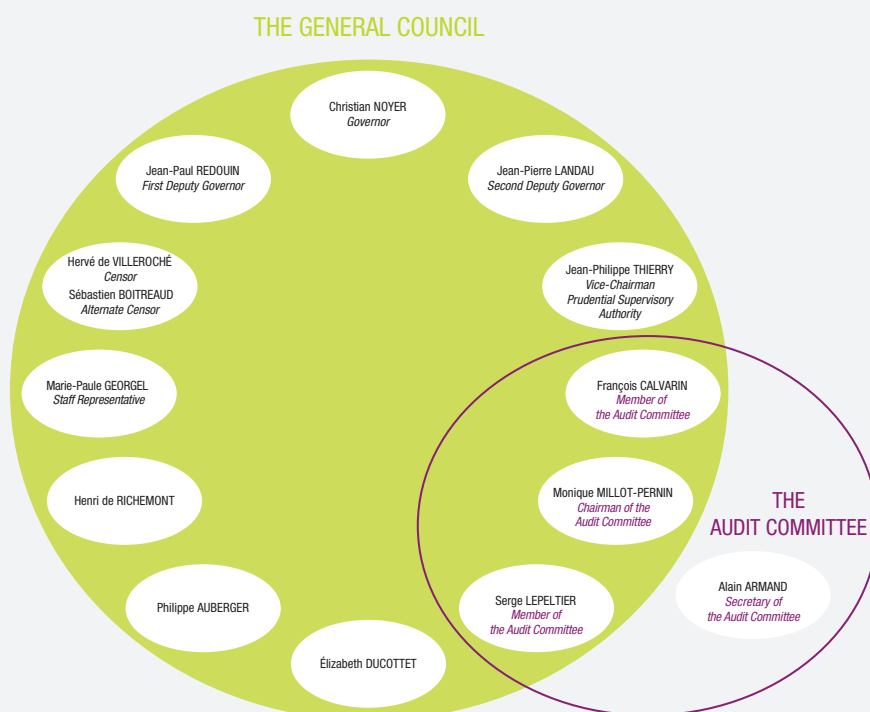
In accordance with the above-mentioned principles, the General Council is notably responsible for discussing the Banque de France's short and medium-term strategy. Each year, it examines the business plan for the following year and reviews the progress of the major projects underway. It also examines the draft report on the implementation of the Public Service Contract. It ensures that the Banque de France has the resources it needs to perform the tasks with which it has been entrusted in the framework of its participation in the ESCB.

As is the case for the Bank's Governor and Deputy Governors, the other members of the General Council are also independent: Article L 142.3 stipulates that the General Council shall ensure that the professional activities performed by its members are consistent with the Banque de France's independence principle.

The Audit Committee

The Banque de France's Audit Committee was created by a decision taken on 22 October 2004. Its Chairman is appointed by the General Council upon a proposal of the Governor and its Secretariat is provided by the Comptroller General. As a result of the Acts of 20 February 2007 and 4 August 2008 that modified the Bank's governing bodies, the composition of the Committee was revised at the start of 2009. Its responsibilities and operating rules – specified in a

The General Council and the Audit Committee



charter appended to the General Council Decision – were also revised.

In accordance with Directive 2006/43/EC of 17 May 2006, the Audit Committee is charged with informing the General Council about issues relating to financial reporting, external and internal auditing, internal control and risk management. In all these fields, the Audit Committee may interview any Banque de France manager or the Bank's auditors.

In 2010, the Audit Committee met on four occasions. It focused most of its attention on the following three areas:

- financial disclosure: the Audit Committee examined the auditors' report on the 2009 annual accounts;

- internal auditing: the Audit Committee took note of the main conclusions of the internal audit and the progress report on the action plans drawn up by the audited units. It also examined and approved the audit programme for 2011;

- internal control and risk management: the Audit Committee took note of the main findings of the procedure for the identification of operational risks and examined the risk management system implemented for several activities or processes (operations, human resources information system, prevention of psychosocial risks at the Bank, property management).

Compensation Committee

Created by a General Council decision dated 12 March 2010, the Compensation Committee is composed of two members of the General Council appointed by the Bank's Governor. Its task is to examine the remuneration received by the Bank's senior management.

1|3 Internal Audit and risk management

Internal Audit

The Internal Audit has competence for all of the Bank's units, processes and activities. It conducts its missions at the Bank's head office, at the regional administrative centres and throughout the branch network, and its organisation is structured accordingly. The Internal Audit establishes its annual work programme on the basis of risk priorities. Its primary mission, in accordance with the terms of its charter, is to ensure the quality of management, risk control and internal control processes. It also oversees the implementation of corporate social responsibility within the Bank. By helping the Bank to attain its objectives, the internal audit contributes to enhancing its corporate governance. Both with regard to the organisation and the conduct of audit missions, the Banque de France's Internal Audit complies with the international standards for the professional practice of internal auditing as defined by the Institute of Internal Auditors (IIA).



The work of the Internal Audit is also conducted within the framework of the ESCB. The Comptroller General, the Director of the Head Office Audit and her Deputy are permanent members of the ESCB Internal Auditors Committee (IAC) that meets several times a year at the ECB. Together with their peers at the national central banks and the European Central Bank, the Internal Audit draws up the ESCB's audit programme and oversees the conduct of the audit missions. The Banque de France chairs the working group responsible for defining the risk control framework applied to the Eurosystem's activities. The conclusions of the IAC task forces are submitted to the Audit Committee and to the ECB Governing Council.

Representatives of the Internal Audit take part in the methodological work conducted in the framework of the conferences and working groups organised for the heads of the Internal Audit departments from about ten advanced countries by the Bank for International Settlements (BIS). They also participate in benchmarking exercises aimed at identifying best professional practices. Furthermore, a large number of delegations of internal auditors from central banks in developing countries attend training sessions in Paris, while Banque de France inspectors conduct technical assistance missions abroad.

The Banque de France's Comptroller General plays an key role in coordinating the network of internal audit managers of the central banks of French-speaking countries. After a conference in Paris in 2008, and another in Rabat in 2009, this network held its third conference in Beirut in 2010, at the invitation of the Central Bank of Lebanon.

Risk management

For several years the Banque de France has been using a system for the control of operational risk (the AMARIS method) that satisfies a twin objective:

- to strengthen internal controls via the implementation of a common framework for operational risk management;
- to adopt the best practices recommended by the Basel Committee in this area.



The risk management organisation is therefore structured as follows:

- in each Directorate General, risk managers are in charge of updating the mapping of operational risks and assisting in the implementation of risk-reduction action plans; in addition, in each regional branch, a risk management and control unit is responsible for ensuring that the control mechanisms are properly implemented in the branch network;
- within the Risk Prevention Directorate, which is attached to the Comptroller General, a special unit is in charge of providing assessments, co-ordinating and reporting to the Bank's authorities, while another unit is responsible for information security;
- the Internal Control Co-ordination Committee (ICCC) chaired by the Comptroller General brings together the Directors General, the Legal Affairs and Audit Directors and risk managers twice a year. It is responsible for supervising work aimed at improving operational risk control throughout the Banque de France's fields of activity;
- every year, the Bank's Executive Committee receives a risk analysis report, a record of all significant incidents and an action plan based on an updated general risk mapping.

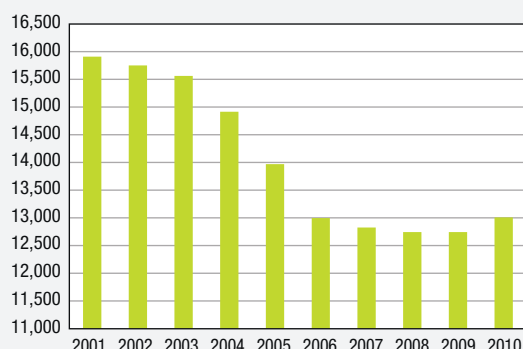
2| HUMAN RESOURCES MANAGEMENT

2|1 Total staff

At 31 December 2010, the Banque de France employed a total of 13,009 full-time equivalent remunerated staff, up 2.1% versus end-2009. This increase contrasts with a diminishing headcount over previous years and resulted from the Banque de France's integration of the *Autorité de contrôle prudentiel* (ACP – Prudential Supervisory Authority) created in March 2010 by the merger of the supervisory bodies for the banking sector and the insurance sector (the *Commission bancaire* and the *Autorité de contrôle des assurances et des mutuelles* – ACAM – the insurance supervisory authority).

Chart 14
Total staff numbers

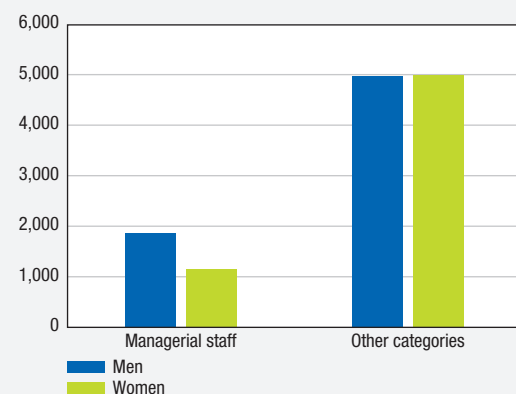
(Full-time equivalent remunerated staff at 31 December 2010)



Source: Banque de France.

Chart 15
Male/female breakdown of total staff

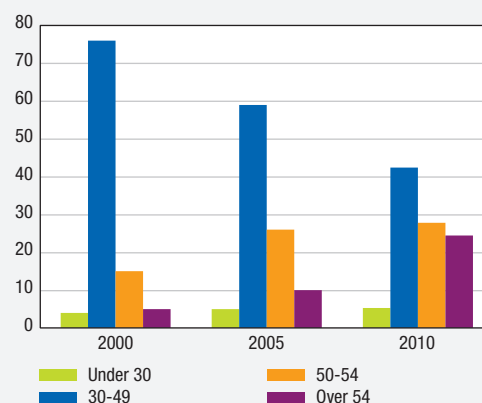
(Full-time equivalent remunerated staff at 31 December 2010)



Source: Banque de France.

Chart 16
Breakdown of total staff by age bracket

(Full-time equivalent remunerated staff at 31 December)



Source: Banque de France.

Although the overall male/female breakdown at the Banque de France is relatively balanced, particularly in the non-managerial staff category, the proportion of women among managerial staff stands at only 38.4%.

In terms of age, the bulk of the Bank's employees are in the 30 - 49 age bracket, with the average age standing at 47.5 in 2010.

Some 44.9% of staff members work at the central offices (the head office in Paris and the administrative centres in Marne-la-Vallée and Poitiers), 47.9% in the branch network and 7.2% in banknote manufacturing.

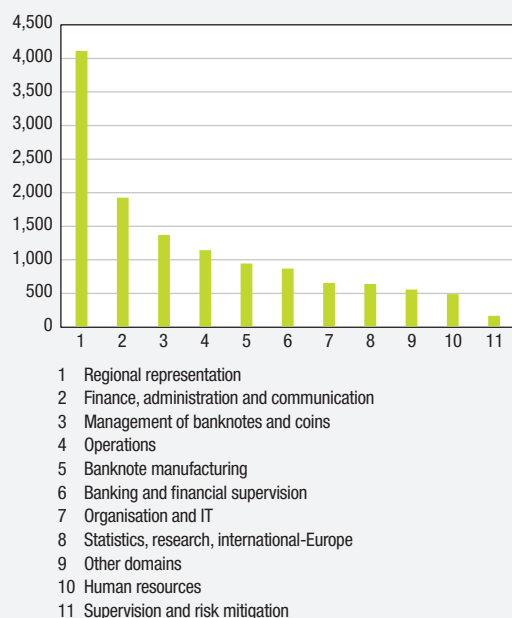
Table 3
Breakdown of total staff per category

(Full-time equivalent remunerated staff at 31 December)

	2009	2010
ALL CATEGORIES	12,746	13,009
Managerial staff	2,749	3,024
Other categories	9,997	9,985
TENURED STAFF	11,404	11,399
Managerial staff	2,385	2,433
Other categories	9,019	8,966
CONTRACT STAFF (under public and private law)	1,342	1,511
Managerial staff	364	514
Other categories	978	997
CIVIL SERVANTS (assigned and on secondment)	0	99
Managerial staff	0	77
Other categories	0	22

Chart 17
Average staff by activity domain in 2010

(Full-time equivalent remunerated staff)



Source: Banque de France.

2|2 Secondments and temporary assignments of Banque de France staff with external organisations

In 2010, the Bank pursued its policy of seconding and assigning staff to external organisations. At end-2010, its staff secondments and assignments were as follows:

- 63 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;
- 96 members of the Bank's staff were on secondment to European institutions, international organisations and embassies, in particular the European Central Bank (40 staff members), the International Monetary Fund (IMF) and the Bank for International Settlements (BIS).

3| FINANCIAL MANAGEMENT: STABLE NET PROFIT

Net profit for the year ended 31 December 2010 totalled EUR 2,559 million, up EUR 86 million on 2009.

The Banque de France earns the bulk of its revenue from the investment of resources backing the issuance of banknotes. These investments may take the form of loans to credit institutions granted within the framework of the implementation of monetary policy or investments in securities portfolios. It also receives dividends from the IEDOM (French overseas departments note-issuing bank) and the European Central Bank, which, like the Banque de France, also generate the bulk of their income from the investment of the resources resulting from their share of banknote issuance in accordance with the Eurosystem's "banknote allocation key".

Despite a context of historically low interest rates in the major industrialised countries, leading to a fall in the Bank's overall interest income, net profit remained substantially unchanged from one year to the next.

Several factors contributed to this positive result:

- on the income side, the volume of banknotes circulating in the euro area increased by 5.8% in 2010, leading to an additional increase in investable resources for the Bank; moreover, the income from long-term investments made in 2007 and 2008 (when interest rates were substantially higher) considerably offset in 2010 (as in 2009) the impact on the Bank's profits of the extremely low policy rates;
- on the expenses side, the Banque de France has continued to reduce its operating costs within the context of structural reforms that have been underway for many years and a very strict cost control policy. In addition, the establishment of the ACP under the aegis of the Banque de France in March 2010 has been

Chart 18
Rates of main monetary policy operations

(as a %)

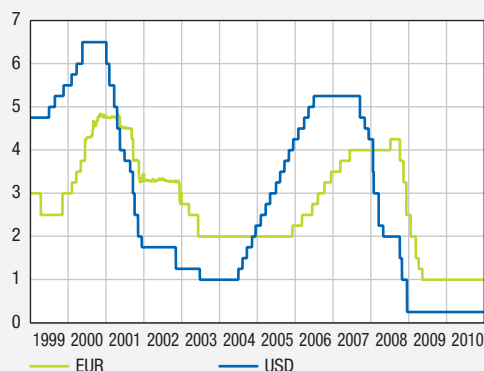


Chart 19
Total euro banknotes in circulation

(outstanding amounts in EUR billions)



accompanied by a reduction in the Bank's net costs after the collection by the Bank, for the first time in 2010, of the contributions paid by the credit institutions subject to the ACP's supervision.

3|1 A year marked by exceptional monetary policy operations

The bulk of the increasing resources that the Bank receives from banknote issuance is invested in monetary policy operations. In 2010, these operations again included exceptional measures.

Continued growth of banknote circulation

After the sharp acceleration of euro banknote circulation observed in the fourth quarter of 2008, in response to concerns raised by several bank failures, the total volume of banknotes issued by the Eurosystem continued to grow in 2010, although at a slower pace than in 2009 (up by 5.8% after 11.3% in 2009).

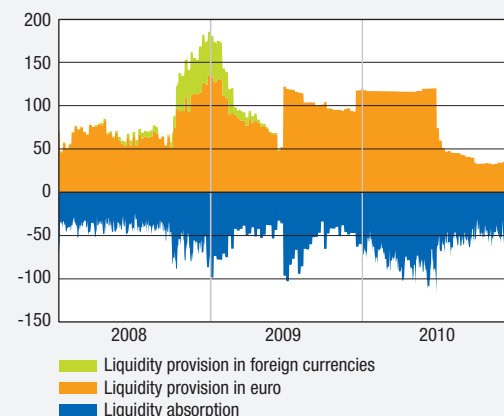
In accordance with the allocation mechanism defined within the Eurosystem, the Banque de France books as a liability its share in the total value of banknotes in circulation corresponding to its share in the ECB's capital key. This share amounted to EUR 157 billion at end-2010 – up EUR 6 billion compared with end-2009 – generating additional resources to invest of more than EUR 9.1 billion (in annual average terms).

Exceptional measures to support market liquidity

The refinancing operations carried out in 2009 with a maturity of 12 months and involving very substantial volumes constituted the bulk of the refinancing provided to the banking system throughout the first half of 2010. These operations allowed credit institutions access to large amounts of liquidity, as shown by size of the end-of-day liquidity absorption through the Eurosystem deposit facility. After the functioning of the money market improved, these operations were not renewed and the amount of liquidity injected into the banking system gradually began to normalise as of mid-2010.

Chart 20
Liquidity provision and absorption by the Banque de France

(outstanding amounts in EUR billions)



Thus, the outstanding euro-denominated loans extended by the Banque de France to French banks, after averaging EUR 115 billion through the first half of the year, fell sharply in the second half of 2010, to reach EUR 35 billion by the end of the year.

Non-standard operations involving the purchase of securities

The Covered Bond Purchase Programme (CBPP), announced in July 2009 in order to reanimate this market and restore banks' access to this financing channel, continued until it reached its scheduled target in June 2010. The total value of the securities purchased by the Banque de France in the framework of this programme amounted to EUR 11.5 billion at the end of 2010.

In addition, disturbances in the functioning of the sovereign debt market following concerns about the deteriorated financial situation of certain euro area Member States led the central banks of the Eurosystem to intervene on this market as of May 2010. These purchases of securities, not aimed at providing greater liquidity to banks, but rather at re-establishing the monetary policy transmission mechanism by restoring more normal market conditions, were neutralised by specific liquidity-absorbing operations.

These non-standard operations gave rise to the constitution of securities portfolios involving significant amounts: in 2010, the Banque de France acquired close to EUR 10 billion worth of securities in the framework of this programme. The yield from this portfolio is substantially higher than that generated by bank loans and it contributed to a high level of interest income for the Bank.

Lastly, notwithstanding the acquisition of securities in the framework of monetary policy, the Banque de France holds proprietary portfolios of long-term securities denominated in euro and foreign currencies that also contribute to its earnings and help to reduce the sensitivity of its annual profits to policy rates.



3|2 A limited contraction of financial income

Drop in monetary income

The bulk of the Bank's financial income is composed of so-called monetary income, i.e. it is derived from the investment of assets backing the issuance of banknotes in the form of operations with banks or the purchase of securities. This income amounted to EUR 5,209 million in 2010, down by EUR 277 million compared with 2009.

This reduction of monetary income mainly resulted from the maintenance of interest rates at a historically low level, reducing the financial income in foreign currencies and euro.

- The income derived from holding foreign exchange reserves amounted to EUR 925 million in 2010, down by EUR 70 million versus 2009; however the drop in foreign currency interest income was limited by their conversion into euro, although, on average, foreign currencies appreciated against the euro in 2010 compared with the rates observed in 2009.

- The contraction of euro-denominated monetary income was greater, at EUR 207 million, due to the lower level of interest income on loans to credit institutions.

As in 2009, an exceptional financial income was recognised in 2010 for the partial release of a provision established in 2008 to cover operational risk on monetary policy operations with the Eurosystem's counterparties that defaulted during the financial crisis.⁷ This provision release, recognised simultaneously by the Eurosystem NCBs in proportion to their ECB capital key, resulted from the divestment and upward revaluation of securities and debt instruments lodged as collateral for their operations by failing counterparties and still held by the Eurosystem.

In addition, the 2009 dividends received from the IEDOM and the ECB in 2010 – originating mainly from seigniorage income – rose by EUR 38 million compared with the previous year.

Growth of non-monetary income

In addition to its monetary income, the Banque de France is also remunerated for services provided to different institutional bodies. The bulk of this income originates from foreign central banks that use the Banque de France's services to invest their foreign exchange reserves or for the production of banknotes. The Banque de France also provides services to the French State (notably the management of the secretariats of the household debt commissions) for which it is remunerated.

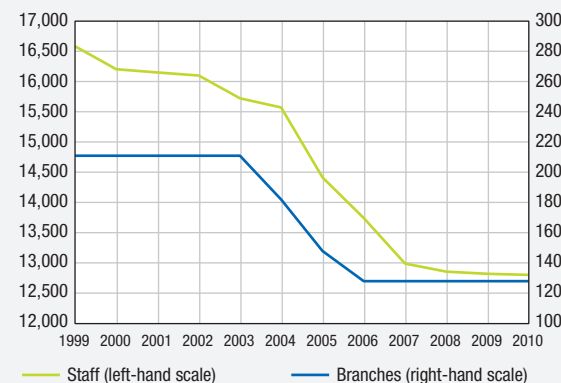
Net profit from non-monetary activities totalled EUR 922 million, an increase of EUR 66 million compared with 2009.

3|3 Controlled operating expenses in a context of robust activity

The improvement in the Banque de France's net profit is also attributable to lower operating expenses reflecting the structural reforms that have been

Chart 21
Change in number of Banque de France staff and branches

(average number of staff – full-time equivalent)



Source: Banque de France.

implemented over the past few years within the Bank. Notably, the reform of the Banque de France's regional branch network and improvements in the industrial processes used in banknote production have contributed to lower operating expenses. The number of full-time equivalent remunerated staff has been cut by around 3,300 since 2002, a reduction of 20%.

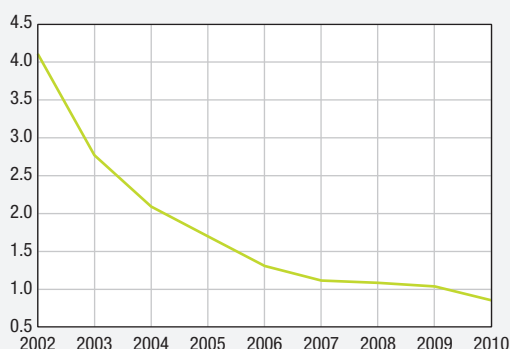
In the context of a substantial increase in the workload during 2010 in response to the consequences of the financial crisis at local, national and European levels, the Bank's 2010 operating expenses fell by EUR 69 million compared with 2009, amounting EUR 1,907 million.

Cost control has allowed a continuation of the reduction of the Bank's break-even point, which corresponds to the average minimum return on assets necessary to cover expenses, which stood at 0.85% in 2010, dropping below the 1% threshold for the first time ever.

⁷ Five counterparties of three Eurosystem central banks defaulted in 2008 whilst undergoing refinancing operations. The depreciation risk associated with securities lodged as collateral by defaulting counterparties (mainly illiquid structured securities) led the Eurosystem's central banks to make an appropriate provision, in proportion to their share in the ECB's capital key, pursuant to Article 32.4 of the Statute of the ESCB. The value of the total provision amounted to EUR 5.7 billion and was recognised as an expense of EUR 1,184 million in the Bank's 2008 accounts. In 2009, EUR 356 million of this provision was released. In 2010, the Bank recognised a release of EUR 372 million.

Chart 22
Evolution of break-even point

(as a %)



3|4 Strengthening of the financial structure and maintenance of a high level of payments to the State

The Bank's financial structure continued to be strengthened:

- its capital was increased to EUR 1 billion via the incorporation of reserves, thereby allowing it to resume its annual appropriation to the general reserve fund of 5% of net profit, after the latter had reached its statutory ceiling; moreover, the ceiling was raised to twice the amount of the Bank's capital, i.e. EUR 2 billion;
- a provision was allocated to its fund for general banking risks in order to cover the increase in financial risks to which the Bank is exposed;

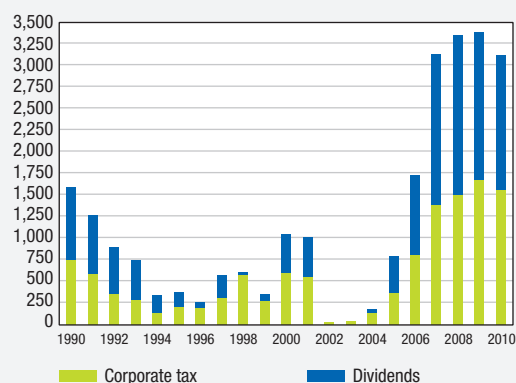
- additional provisions were allocated to cover the Bank's pension liabilities towards active and retired staff, taking the pension liabilities coverage rate to more than 50%.

During its session on 4 April 2011, the General Council agreed to pay a dividend of EUR 1,555 million to the State. Taking into account the corporate income tax charge amounting to EUR 1,563 million, payments to the State during 2010 totalled EUR 3,118 million. For the fourth year running, the Banque de France has made a contribution to the State budget of over EUR 3 billion.

Comprehensive information on the Bank's annual accounts is provided in Chapter 5, preceded by the report on the Bank's assets, liabilities and results.

Chart 23
Payments to the State

(EUR millions)



The accounts of the Banque de France



1 | REPORT ON ASSETS, LIABILITIES AND RESULTS

The accounts for the year ending 31 December 2010 were approved by the General Council at its meeting of 4 April 2011. The Bank's net profit stood at EUR 2,559 million, an increase of EUR 86 million compared with 2009. Against the backdrop of the significant demands placed on the Bank in response to the economic crisis, this increase resulted from the fall in operating expenses and from maintaining net income from the Bank's activities at a high level in spite of persistently low interest rates.

For the purposes of clarity, line items appearing in the published accounts have been grouped together in the presentation below. Details of the accounting principles applied by the Banque de France are provided in the Notes to the annual accounts.

1|1 Assets and liabilities

The Bank's net resources were up from the previous year, totalling EUR 211.5 billion in 2010, compared with EUR 186.1 billion in 2009.

This rise resulted from the continued expansion of banknotes in circulation and the growth in the net borrowing position of the Bank in relation to bank refinancing operations as part of monetary policy.

Financial position

(year-end amounts and change, EUR millions)

	2010	2009	Change 2010/2009
NET ASSETS	211,521	186,124	25,397
Net sources of funds from banknote operations	154,268	148,235	6,033
Net banking refinancing	38,022	2,162	35,860
Net position with customers	10,404	27,417	-17,013
Other	8,827	8,310	517
NET LIABILITIES	211,521	186,124	25,397
Gold and net foreign exchange position	27,887	26,423	1,464
Euro-denominated portfolios	98,698	76,446	22,252
Position with Eurosystem	84,936	83,255	1,681

This reflects the fact that at the accounts closing date, deposits by banks into Banque de France accounts exceeded loans that had been granted to them. In contrast, the decline in the net position vis-à-vis customers stemmed from the absence, at the end of 2010, of significant deposits in the Treasury account.

As far as resources are concerned, the increase in portfolios denominated in euro corresponds to the acquisitions undertaken by the Eurosystem in certain securities markets, as part of the non-standard measures put in place in response to the economic crisis.

Net resources from banknote operations

Net resources from banknote operations

(year-end amounts and change, EUR millions)

	2010	2009	Change 2010/2009
Euro banknotes	153,667	147,609	6,057
Banknotes put into circulation by the Banque de France	81,099	76,548	4,551
Adjustment of banknotes allocated by the Eurosystem	76,316	74,626	1,690
Advance to the IEDOM	-3,748	-3,565	-184
French franc banknotes	602	627	-,25
NET SOURCES OF FUNDS FROM BANKNOTE OPERATIONS	154,268	148,236	6,032

Euro banknotes

The value of banknotes put into circulation by the Banque de France rose in the context of the weak recovery in economic activity.

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 their subscription to the capital of the European Central Bank (ECB). The remaining 8% are allocated to the ECB. The difference between the share of euro banknotes allocated to the Banque de France and net issues of euro banknotes carried out by the Bank generates, on the assets side, a claim on the Eurosystem (balance sheet item A8.3). This claim bears interest at the marginal rate applied to the Eurosystem's main refinancing operations.

The IEDOM acts on behalf of the Banque de France in managing banknote circulation in the overseas departments and in the departmental unit of Mayotte and the territorial unit of St Pierre and Miquelon. It receives a non-interest-bearing advance in return for the notes it distributes. The amount of this advance corresponds to a percentage of France's euro banknote allocation, which since 1 July 2007 has been calculated according to the allocation mechanism in force within the Eurosystem. This advance is eliminated in the Banque de France/IEDOM combined accounts.

French franc banknotes

French franc legacy banknotes may still be exchanged at Banque de France branches during a period of 10 years. French franc banknotes that remain in circulation constitute a purely domestic source of funds, classified as a miscellaneous liability (balance sheet item P11). At end-December, French franc banknotes represented a liability of EUR 602 million, a fall of EUR 25 million compared with end-2009.

Bank refinancing operations

This aggregate item groups together operations with credit institutions conducted in the context of monetary policy; operations carried out with banks

Bank refinancing (year-end amounts and change, EUR millions)			
	2010	2009	Change 2010/2009
Assets	34,984	120,984	-86,000
Euro-denominated loans in the framework of monetary policy operations	34,984	120,984	-86,000
Foreign currency loans in the framework of monetary policy operations	–	–	–
Liabilities	73,006	123,146	-50,140
Current account of banks subject to minimum reserves	44,643	61,076	-16,433
Net position of French credit institutions with the euro area	28,363	62,071	-33,708
Counterpart of foreign exchange lending (non-interest bearing debt with the ECB)	–	–	–
NET BANK REFINANCING	38,022	2,162	35,859

as part of the Banque de France's activities with institutional customers are not included in it.

Data at the accounts closure show a significant decrease in the recourse to refinancing compared with 31 December 2009, reflecting the gradual recovery in the operation of the interbank money market.

Holdings by French credit institutions in the accounts of the Banque de France at year-end decreased by around a quarter (from EUR 61 billion to EUR 45 billion) while the net lending position vis-à-vis the euro area decreased by more than half. This reflected the improvement in the functioning of the money market compared with one year earlier.

Operations with institutional customers

Operations with institutional customers (year-end amounts and change, EUR millions)			
	2010	2009	Change 2010/2009
Assets	111,225	104,194	7,031
Lending to the French Treasury (advance in respect of coins)	–	–	–
Back-to-back investment of customer deposits (other than the French Treasury)	111,225	104,194	7,031
Liabilities	121,630	131,611	-9,981
Liabilities vis-à-vis the State	1,488	19,005	-17,518
Customer deposits	120,142	112,605	7,537
NET POSITION WITH CUSTOMERS	10,404	27,417	-17,012

Operations with the French Treasury

Outstanding liabilities vis-à-vis the French Treasury decreased significantly from one year-end to another from EUR 19 billion in 2009 to EUR 1.5 billion at the end of 2010.

Other operations with institutional customers

The Banque de France provides non-euro area central banks with a range of services that, in particular, allow them to invest a proportion of their foreign reserves and to carry out foreign exchange transactions. Institutional customers' deposits and the back-to-back operations are recorded in dedicated accounts.⁸

⁸ See Note 27 of the Notes to the annual accounts.

The volume of business conducted with institutional customers remained stable overall for the year on average even if from one year-end to another outstanding deposits increased by 7% (EUR 120 billion at end-2010).

Gold and foreign exchange transactions

The exchange value in euro of net gold and foreign exchange reserves increased significantly, by EUR 30 billion from one year-end to the next, primarily as a result of exchange rate fluctuations.

Gold and Foreign exchange transactions

(year-end amounts and change, EUR millions)

	2010	2009	Change 2010/2009
Assets	140,920	110,912	30,007
Gold	82,640	60,006	22,634
Foreign exchange assets and investments	43,548	37,771	5,777
Relations with the IMF	14,732	13,136	1,596
Liabilities	113,032	84,489	28,543
Foreign exchange liabilities	12,264	9,801	2,464
Counterpart to SDR allocations	11,734	11,037	698
Revaluation accounts (gold, foreign currency and securities denominated in foreign currencies)	67,211	42,090	25,121
Revaluation reserve of State gold reserves	18,499	18,499	–
Revaluation reserve of State foreign exchange reserves	3,323	3,062	260
TOTAL GOLD AND FOREIGN EXCHANGE	-27,887	-26,423	-1,464

Note: Foreign exchange assets have been recalculated to neutralise foreign exchange liquidity loans, which have no effect on the Bank's profit and loss account. This provision of foreign exchange liquidity to euro area credit institutions by Eurosystem central banks is included in the bank refinancing aggregate item.

Gold reserves

The Banque de France's gold reserves were maintained at 2,435 tonnes at year-end. With the very significant rise in the price of gold (up by 37.5%), the euro value of gold assets increased by EUR 22.6 billion from one year-end to the next.

⁹ From an accounting standpoint, this aggregate item comprises balance sheet item A7 "Euro-denominated securities" and the portion of A4 "Euro-denominated claims on non-euro area residents" consisting of securities issued by non-euro area entities. Available-for-sale portfolios are stated net of revaluation amounts, which are shown on the liability side of the balance sheet item P13.2.

In 2010, the Banque de France continued its gold coin trading activity, which allowed it to realise gains on sales of EUR 9.1 million. Following the entry into force of the second rider to the agreement between the State and the Bank of 29 December 2007, these realised gains were assigned to the revaluation reserve of State foreign exchange reserves. The gold revaluation account opened on 1 January 1999, which books unrealised capital gains from that date, stood at EUR 63.3 billion at year-end.

Foreign exchange assets and operations with the International Monetary Fund

Foreign exchange assets net of liabilities increased by EUR 5.8 billion from one year-end to the next, owing to exchange rate fluctuations and arbitrage transactions involving foreign exchange assets. These arbitrage operations yielded net foreign exchange gains totalling EUR 220 million, which were assigned to the revaluation reserve of State foreign exchange reserves.

The claim on the IMF stood at EUR 14.7 billion, representing a small increase of EUR 1.6 billion as a result of the additional financing granted to the IMF by France in the context of the continued international efforts following on from the financial crisis. Reimbursements of SDRs generated additional foreign exchange income of EUR 31.3 million which was assigned to the revaluation reserve of State foreign exchange reserves.

The Banque de France's euro-denominated portfolios

These comprise monetary portfolios and own resources portfolios (own funds and provisions).

Euro-denominated monetary portfolios⁹

The Banque de France has portfolio holdings for the use of its monetary resources (i) within the framework adopted by the Eurosystem in 2003, which allows NCBs to build up their portfolios within annually-reviewed limits and (ii) as part of the monetary policy programmes decided upon in 2009, and again in 2010.

All in all, 2010 was marked by a significant rise in the held-to-maturity securities corresponding mainly to

Euro-denominated portfolios

(year-end amounts and change, EUR millions)

	2010	2009	Change 2010/2009
Euro-denominated monetary portfolios	92,876	71,417	21,459
Available-for-sale	13,680	19,454	-5,774
Held-to-maturity	79,196	51,962	27,233
Own funds investment portfolio	5,823	5,029	793
Available-for-sale	3,526	2,927	599
Held-to-maturity	830	873	-43
Participating interests	1,467	1,230	237
<i>o/w ECB capital</i>	<i>1,062</i>	<i>825</i>	<i>237</i>
EURO-DENOMINATED SECURITIES	98,698	76,446	22,253

operations decided on in the context of the monetary policy, and to a lesser extent, the reinvestment of securities that matured in 2009 and 2010.

In contrast, the size of the available-for-sale securities portfolio was reduced since the level of the remuneration of securities issued for the short term remained particularly low.

Own funds investment portfolios

These portfolios, which stood at EUR 5.8 billion at end-December, increased due to the expansion of own funds resulting from decisions regarding the appropriation of 2009 profits.

At the end of 2010, the national central banks of the Eurosystem contributed to an increase in the capital of the European Central Bank (ECB). The share subscribed by the Banque de France thus increased by EUR 237 million.

Net position with the eurosystem

The Bank has several claims on the Eurosystem, notably:

- the claim reflecting the share of banknotes put into circulation by the rest of the Eurosystem that is allocated to the Banque de France under the allocation mechanism defined within the Eurosystem;

Net position with the Eurosystem

(year-end amounts and change, EUR millions)

	2010	2009	Change 2010/2009
Claim on the Eurosystem for banknotes in circulation	76,506	74,812	1,694
Claim on the ECB for gold and foreign exchange assets transferred	8,263	8,283	-20
Other claims on the Eurosystem	167	161	6
NET POSITION WITH THE EUROSISTEM	-84,936	-83,255	-1,681

- the claim arising from gold (15%) and foreign exchange assets (85%) transferred to the ECB; it is denominated in euro and 85% of this claim bears interest, with the remaining non-interest-bearing 15% corresponding to the gold transfer. These claims are remunerated at the marginal rate applied to the Eurosystem's main refinancing operations.

The other claims on the Eurosystem consist of income receivable from the ECB in respect of the net pooling of monetary income (EUR 167 million in 2010, compared with EUR 0.6 million in 2009). This account includes adjustments in relation to the 2008 and 2009 financial years amounting to EUR 15.6 million. No seigniorage income was distributed by the ECB in 2010.

Other transactions

The net balance of other line items has risen slightly (EUR 517 million) since the end of 2009, mainly due to the increase in reserves

Other items

(year-end amounts and change, EUR millions)

	2010	2009	Change 2010/2009
Capital, reserves and retained earnings	4,953	4,309	644
Provisions for liabilities and charges	1,221	1,663	-442
Fund for general risks	1,745	1,345	400
Fixed assets	-865	-867	2
Other liabilities	-784	-613	-171
Net profit for the year	2,557	2,473	84
TOTAL	8,827	8,310	517



The reduction in provisions for liabilities and charges is principally attributable to the partial release from the provision for monetary policy operations established in 2008 pursuant to Article 32.4 of the Statute of the ESCB. The total amount of the provision, initially set at EUR 5.7 billion for the whole of the Eurosystem, was revised downwards to EUR 4.0 billion at 31 December 2009, then to EUR 2.2 billion at end-2010, as a result of disposals realised and the improvement in the market valuations of securities delivered as collateral for these operations. As a result, for the second year running, a release of the provision was recorded in the Bank's accounts for an amount of EUR 372 million, compared with EUR 356 million in 2009, thus reducing the initial amount of the provision from EUR 1,184 million to EUR 456 million.

Moreover, the fund for general risks was credited by EUR 400 million in order to take into account the

overall increase in risks to which the Banque de France is exposed in the course of the operations that it carries out in the discharge of its remit.

1|2 Breakdown of profit

Net profit for 2010 amounted to EUR 2,559 million, up by EUR 86 million on 2009.

Net income from activities

Despite a market environment of low interest rates, net income from Banque de France activities remained at a high level: EUR 6,434 million in 2010, compared with EUR 6,607 million in 2009 (a fall of 2.6%).

The fall in monetary income in euro and foreign currencies was partially offset by the increase in dividends and net income from non-monetary operations, which increased for the first time in 2010 with the income from contributions paid by banks subject to supervision by the Prudential Supervisory Authority created at the beginning of the year.

Net income from activities

(year-end amounts and change, EUR millions)

	2010	2009	Change 2010/2009
NET INCOME ON ACTIVITIES	6,435	6,607	-172
Euro monetary income	4,284	4,491	-207
Income from refinancing of the banking system	359	599	-241
Pooling of monetary income	924	945	-22
Provision for risk on monetary policy operations	372	356	16
Income from available-for-sale and held-to-maturity portfolios	3,031	3,078	-48
Interest on claims arising on transfer of reserve assets to the ECB	71	90	-20
Interest paid on minimum reserves	-406	-508	102
Other interest-bearing accounts	-66	-71	5
Foreign currency monetary income	925	995	-70
ECB and IEDOM dividends	304	265	38
Net profit from non-monetary activities	922	856	66

Net monetary income from euro transactions

Net monetary income from euro transactions is the largest component of income for the Banque de France. It represents the excess of income derived from euro monetary transactions (refinancing of the banking system, securities portfolios, allocation of Eurosystem monetary income) over the interest paid on deposits from credit institutions (minimum reserves, deposit facilities, and collection of fixed-term deposits). This income includes the net result of the pooling of the Eurosystem's monetary income¹⁰, including the funding/release of the provision for monetary policy operations and the interest on intra-ESCB balances corresponding to adjustments to banknotes in circulation.

With official interest rates remaining at a historically low level throughout 2010, all interest income streams were significantly down. The interest rate on the main refinancing operations reached its lowest level since the creation of the euro, at 1% for the whole of the year ending 31 December 2010, compared to an average of 1.26% in 2009. This fall in interest rates resulted in lower interest revenues but also in the lower remuneration charge on minimum reserves deposited by credit institutions in the accounts of the Bank.

Net monetary income from foreign exchange transactions

Foreign currency portfolios financed by monetary liabilities generated, in 2010, a profit of EUR 925 million, down EUR 70 million on the previous year. The maintenance of low interest rates in Europe and the United States reduced the return on assets in foreign currencies, this change being slightly offset by the appreciation of the euro equivalent of interest paid in foreign currencies resulting from the decline in the euro exchange rate against the major currencies in 2010.

ECB and IEDOM dividends

The ECB paid a dividend of EUR 299 million to the Banque de France in respect of income generated in 2009. It kept all of its seigniorage income for 2010 in order to increase its provision for foreign exchange,

interest-rate and credit risks. It therefore did not pay an interim dividend for 2010 to the national central banks.

Moreover, the dividend paid by the IEDOM in 2010 in respect of the year ended 31 December 2009 was EUR 5 million, down by EUR 76 million on the previous year.

Net profit from non-monetary activities

Non-monetary activities posted total net income of EUR 922 million in 2010, an increase of EUR 66 million compared with 2009.

While business with institutional customers remained sustained in 2010 after the very significant increase recorded following the financial crisis, the fall in intermediation margins in 2010 resulted in a contraction in income. This was more than offset by the growth in sales of assets to other central banks (exports of banknotes other than euro banknotes) and the provision of services to commercial banks (management of payment media and databases), which showed a 5.9% increase from one year-end to another. Payments relating to services provided to, on behalf of or requested by the State remained stable compared with 2009.

The setting up of the new Prudential Supervisory Authority under the aegis of the Banque de France generated new operating expenses in the 2010 profit and loss account, but these were entirely financed from the contribution levied, for the first time in 2010, from the banks that are subject to the new authority.

Lastly, income from the portfolios in which the Bank's own funds and the Employee Reserve Fund are invested amounted to EUR 206 million, a decrease of EUR 15 million on the previous year.

¹⁰ The net result of the pooling of monetary income corresponds to the year-end adjustment for the difference between income originating from the Eurosystem for a national central bank and the income from operations that it has realised itself and pooled. In the case of the Banque de France, the pooling of monetary income generated additional income of EUR 167.5 million in 2010 compared with EUR 0.6 million in 2009 (excluding the release of provisions).

Operating expenses

Operating expenses stood at EUR 1,907 million in 2010, down by EUR 69 million on 2009.

Operating expenses			
<i>(year-end amounts and change, EUR millions)</i>			
	2010	2009	Change 2010/2009
OPERATING EXPENSES	-1,907	-1,976	69
Staff costs and pension expenses	-1,398	-1,387	-11
Taxes other than income tax	-45	-57	12
Depreciation charges on fixed assets	-136	-140	4
Capitalised production	31	35	-4
Other operating expenses	-360	-428	68

Staff costs rose moderately (by 0.8%), with their increase being offset by the decrease in taxes due to the abolition of the professional tax, which was replaced by the territorial economic contribution.

Other net operating expenses fell by EUR 68 million, which corresponds notably to a release of provisions for risks, charged in previous periods in relation to disputes with the fiscal authorities and with the competition authority, which were resolved in 2010.

Profit for the year

Main profit and loss account balances			
<i>(year-end amounts and change, EUR millions)</i>			
	2010	2009	Change 2010/2009
Net income on activities of the Banque de France	6,435	6,607	-172
Operating expenses	-1,907	-1,976	69
Profit before tax and exceptional items	4,527	4,631	-103
Net transfer to fund for general risks and accelerated tax depreciation	-405	-482	77
Exceptional items	—	—	—
Corporate income tax	-1,563	-1,676	112
PROFIT FOR THE YEAR	2,559	2,473	86

After the additional contribution made to the fund for general risks, an incremental provision of EUR 5 million to accelerated tax depreciation and a corporate income tax charge of EUR 1,563 million, net profit for the Bank for the year ended 31 December 2010 was up by EUR 86 million to EUR 2,559 million.

At its meeting of 4 April 2011, the General Council of the Banque de France approved the audited accounts of the Bank for the 2010 financial year and discussed the appropriation of the Bank's profits.

Decree 2011-256 of 9 March 2011 raised the Bank's capital to EUR 1 billion through the capitalisation of all of the reserve provided for in Article R144-4 of the Monetary and Financial Code, thus making it possible to resume appropriation to this general reserve, which had reached its ceiling in 2009. Moreover, this ceiling has been raised to twice the amount of the Bank's capital.

Having taken account of retained earnings of EUR 154.6 million, the General Council decided on the following appropriation of profits (EUR 2,713.4 million):

- a regulatory appropriation to the general reserve amounting to EUR 127.9 million, i.e. 5% of net profit;
- a dividend paid to the State amounting to EUR 1,555 million;
- an appropriation to the unrestricted reserve fund amounting to EUR 550 million;
- an appropriation to the employee reserve fund of EUR 125 million in respect of entitlements acquired during 2010;
- an appropriation to the special pension reserve amounting to EUR 228 million;
- an appropriation to the provision for investment amounting to EUR 1.3 million;

The balance of EUR 126.2 million was carried forward as retained earnings.

2| THE BANQUE DE FRANCE INDIVIDUAL ACCOUNTS

2|1 Balance sheet and profit and loss account

Balance sheet at 31 December 2010				
<i>(EUR millions)</i>				
Notes to annual accounts	Item	Description	2010	2009
Assets				
1	A1	Gold	82,640	60,006
2	A2	Foreign exchange assets (excl. relations with the IMF)	43,548	37,771
		<i>2.1 Foreign exchange assets held with non-euro area residents</i>	<i>31,608</i>	<i>23,817</i>
		<i>2.2 Foreign exchange assets held with euro area residents</i>	<i>11,940</i>	<i>13,954</i>
3	A3	Relations with the IMF	14,732	13,136
		<i>3.1 Financing provided to the IMF</i>	<i>3,453</i>	<i>2,553</i>
		<i>3.2 Acquisitions of Special Drawing Rights</i>	<i>11,279</i>	<i>10,583</i>
5	A4	Euro-denominated claims on non-euro area residents	6,901	2,940
4	A5	Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations	34,984	120,984
5	A6	Other euro-denominated loans to euro area credit institutions	24,716	11,668
6	A7	Euro-denominated securities issued by euro area residents	90,415	68,717
		<i>7.1 Securities held for monetary policy purposes</i>	<i>21,336</i>	<i>4,201</i>
		<i>7.2 Other securities</i>	<i>69,079</i>	<i>64,516</i>
	A8	Relations within the Eurosystem	85,998	84,087
13		<i>8.1 Participating interest in the ECB</i>	<i>1,062</i>	<i>825</i>
7		<i>8.2 Claims arising on the transfer of reserve assets to the ECB</i>	<i>8,263</i>	<i>8,283</i>
8		<i>8.3 Claims on the Eurosystem for euro banknotes in circulation</i>	<i>76,506</i>	<i>74,811</i>
9		<i>8.4 Other claims on the Eurosystem</i>	<i>167</i>	<i>168</i>
10	A9	Advance to the IEDOM	3,748	3,565
	A10	Claims on the French Treasury	0	0
11	A11	Other euro and foreign currency denominated financial assets	88,480	97,483
12	A12	Miscellaneous	4,194	4,422
13	A13	Fixed assets	1,270	1,273
		<i>13.1 Tangible and intangible assets</i>	<i>865</i>	<i>868</i>
		<i>13.2 Participating interests (other than interest in the ECB)</i>	<i>405</i>	<i>405</i>
TOTAL ASSETS			481,626	506,050
Liabilities				
14	P1	Banknotes in circulation	157,415	151,174
4	P2	Euro-denominated liabilities to euro area credit institutions in the framework of monetary policy operations	44,643	61,076
		<i>2.1 Current accounts</i>	<i>32,911</i>	<i>34,314</i>
		<i>2.2 Other liabilities</i>	<i>11,732</i>	<i>26,762</i>
	P3	Other euro-denominated liabilities to euro area credit institutions	1,688	62
15	P4	Euro-denominated liabilities to non-euro area residents	20,042	22,375
2	P5	Foreign exchange liabilities	12,264	9,801
3	P6	Counterpart to SDR allocations	11,734	11,037
16	P7	Relations within the Eurosystem	28,363	62,077
17	P8	Euro-denominated liabilities to other euro area residents	5,504	25,083
		<i>8.1 Treasury's account</i>	<i>1,487</i>	<i>19,005</i>
		<i>8.2 Other liabilities</i>	<i>4,017</i>	<i>6,078</i>
18	P9	Items in course of settlement	213	258
19	P10	Banking transactions	91,818	84,091
20	P11	Miscellaneous	7,590	4,688
21	P12	Provisions for liabilities and charges	1,221	1,663
22	P13	Revaluation accounts	67,961	42,892
	P14	Fund for general risks and accelerated tax depreciation	1,835	1,430
23	P15	Revaluation reserve of State gold reserves	18,499	18,499
23	P16	Revaluation reserve of State foreign exchange reserves	3,323	3,062
24	P17	Capital, reserves and retained earnings	4,954	4,309
	P18	Profit for the year	2,559	2,473
TOTAL LIABILITIES			481,626	506,050

2010 profit and loss Account

(EUR millions)

Notes to annual accounts	Item	Description	2010	2009
	1.	Net income on activities of the Banque de France	6,434	6,607
30	1.1	Net interest income	4,901	5,283
		1.1.1 Interest and related income	6,749	8,506
		1.1.2 Interest and related expenses	-1,848	-3,223
31	1.2	Net income/loss on financial transactions	30	219
		1.2.1 Net of realised gains/losses and unrealised losses on foreign exchange	260	1,066
		1.2.2 Net of charges to/releases from the revaluation reserve of State foreign exchange reserves	-260	-1,066
		1.2.3 Net of other income and expenses on financial transactions	30	219
	1.3	Commission	15	14
		1.3.1 Commission (income)	44	44
		1.3.2 Commission (expense)	-29	-30
32	1.4	Income from equity securities and participating interests	361	310
33	1.5	Net result of pooling of monetary income	540	357
34	1.6	Net of other income and expenses	587	424
	2.	Operating expenses	-1,907	-1,976
35	2.1	Personnel and related expenses	-1,398	-1,387
	2.2	Taxes other than income tax	-45	-56
	2.3	Provisions, depreciation and amortisation	-136	-140
	2.4	Net of other operating income and expenses	-328	-393
		PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS (1 + 2)	4,527	4,631
	3.	Net charge to the fund for general risks and accelerated tax depreciation	-405	-482
	4.	Extraordinary items	-	-
	4.1	Extraordinary income	-	-
	4.2	Extraordinary charges	-	-
36	5.	Corporate income tax	-1,563	-1,676
		PROFIT FOR THE YEAR (1 + 2 + 3 + 4 +5)	2,559	2,473

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 millions of euro.

The accounting and valuation methods applied by the Banque de France are defined in Article R144-6 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 10 November 2006 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, securities, foreign currency transactions carried out in the course of foreign exchange reserve management, and the issue of banknotes;

- the accounting rules established by the *Comité de la réglementation comptable* (CRC - Accounting Regulations Committee) apply to all the other activities of the Bank. However, the Bank's General Council may also decide to apply the accounting and valuation rules recommended by the ECB to its other 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 (since replaced by the Guideline of 10 November 2006).

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 revaluation accounts (item P14).

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 reserve 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.

Furthermore, with effect from 31 December 2007, pursuant to the rider of 27 December 2007, net foreign exchange gains realised from sales of gold are allocated to the revaluation reserve of State foreign exchange reserves. This rider also stipulates that foreign exchange gains realised from sales of gold during the 2004-2006 period be transferred from the revaluation reserve of State gold reserves to the revaluation reserve of State foreign exchange reserves. Pursuant to the rider of 2 February 2011, the revaluation reserves for State gold and the revaluation reserves for State foreign exchange are to be merged from 1 January 2011.

Other foreign exchange gains/losses

The Banque de France applies Regulation 89-01 of the Banking and Financial Regulation Committee (*Comité de la réglementation bancaire et financière* – CRBF) 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 converted 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 –see Note 29 - and securities held for monetary policy purposes)

Fixed income and variable yield securities are recorded in asset item A2, when they are denominated in foreign currencies, or in asset items A4 or A7, when they are denominated in euro, and depending on whether they are issued by residents or non-residents. However, euro-denominated securities earmarked against the Bank's own funds, provisions and customer deposits recorded in liability items P4 or P10, are recorded in asset item A11. Securities held in the pension reserve fund of Banque de France employees are recorded in asset item A12 (see Note 29).

Fixed income securities that the Banque de France has decided to hold to maturity are recognised in the accounts at amortised cost but may be subject to impairment in the event of the risk of non-recovery.

The other fixed income securities that may be sold before their maturity, and variable yield securities, are revalued line by line at their market price on the last business day of the year. Unrealised gains are recorded as liabilities in revaluation accounts (item P14). Unrealised losses are booked as expenses on financial transactions (profit and loss account item 1.2.3). Unrealised gains and losses are not netted. Gains and losses arising from sales realised during the year are calculated on the basis of the weighted average price of each line of securities; they are booked in the item 1.2.3 "profits or losses on financial transactions" of the profit and loss account.

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.

Securities held for monetary policy purposes

Following the decisions of the ECB Governing Council of 7 May and 4 June, the ECB and the national central banks acquired covered bonds denominated in euro and issued in the euro area for the purposes of monetary policy.

¹¹ <http://www.ecb.europa.eu/press/pr/date/2010/html/pr100510.en.html>



On 9 May 2010 the Governing Council decided to put in place a Securities Markets Programme (SMP).¹¹ Under this programme, the ECB and the NCBs may purchase securities from public –or private– sector debt issuers in the euro area for the purpose of addressing the malfunctioning of certain segments of the debt securities market in the euro area and to restore an appropriate monetary policy transmission mechanism.

These fixed income securities are normally bought to be held until maturity and are recognised at amortised cost and are subject to impairment tests. They are recorded in asset item A7 (See Note 6)

Financial futures instruments

Interest rate financial futures traded on organised markets are recorded off-balance sheet at the notional amount, while daily margin calls paid or received are recognised in item 1.2.3 of the profit and loss account.

Interest rate swaps, denominated in foreign currencies and in euro, are revalued at market value at 31 December. Unrealised gains are recorded as liabilities in revaluation accounts (item P14) and unrealised losses are booked as expenses on financial transactions (item 1.2.3 of the profit and loss account). Unrealised gains and losses are not netted. Unrealised losses are amortised over the remaining life of the contract. The interest is recorded in item 1.1 of the profit and loss account on an accruals basis.

Currency option premiums are recorded on the asset side of the balance sheet if they relate to currency purchases and on the liabilities side if they relate to currency sales. In the event that the option is exercised, the premium is included in the price of the currency purchased. If the option is not exercised, at its expiry date the premium is recorded in item 1.2.1 of the profit and loss account “Net balance of foreign exchange realised gains and losses and unrealised losses”. At the end of the year, the premium amounts booked to the profit and loss account during the year are transferred to the revaluation reserve of State foreign exchange reserves in the same way as realised foreign exchange gains and losses.

Open positions on currency options at the balance sheet date are valued at their market price. Unrealised gains are recorded as liabilities in revaluation accounts (item P14). Unrealised losses are booked in item 1.2.3 of the profit and loss account. Unrealised gains and losses are not netted.

Synthetic instruments

A synthetic instrument is a financial instrument created artificially by combining two or more instruments with the aim of replicating the cash flows and valuation patterns of another instrument.

At the end of the year a synthetic instrument, that replicates a fixed income security that is not intended to be held to maturity, is marked to market using

the market prices of the instruments that make it up. The unrealised gain or loss of the synthetic instrument is calculated for the net amount of the unrealised gains and losses of the instruments that make it up.

Unrealised gains are recorded as liabilities in revaluation accounts (item P14). Unrealised losses are booked as expenses on financial transactions (profit and loss account item 1.2.3). Unrealised gains and losses between different synthetic instruments are not netted. Gains and losses arising from sales realised during the year are booked, if need be, in item 1.2.3 “profits or losses on financial transactions” of the profit and loss account.

Tangible and intangible fixed assets

Tangible and intangible fixed assets are accounted for and valued in accordance with CRC regulations.

Land is valued at acquisition 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 periods ranging from 2 to 10 years, and most other equipment over periods ranging from 3 to 12 years. Purchased software is amortised over 3 or 6 years. All fixed assets are depreciated using the straight line method. In accordance with CRC regulation No. 2002-10, the useful lives of long-term assets are reviewed regularly and modified as required.

Accelerated tax depreciation is applied for assets that can be depreciated more rapidly for tax purposes than for accounting purposes.

Banknotes in circulation

See Note 14.

Fund for general risks

A fund for general risks was established in 1998 to cover any general risks inherent in the activities of a central bank. This fund is booked as a liability in item P14; with counterparty entries for charges and releases from this fund through item 3 of the profit and loss account.

Pension scheme

See Note 29.

Subsequent events

Decree 2011-256 of 9 March 2011 raised the capital of the Banque de France to EUR 1 billion through the capitalisation of reserves of EUR 457,347,051.71 drawn on the specific reserve and EUR 85,305,896.58 drawn on the unrestricted reserve fund.

A new agreement between the Government and the Banque de France on the management and accounting of State foreign exchange reserves took effect from 2 February 2011 and replaces the agreement of 31 March 1999 mentioned in the paragraph titled "Revaluation reserve of State gold reserves and revaluation reserve of State foreign exchange reserves". The changes introduced by the new agreement are as follows:

- the revaluation reserve of State gold reserves and the revaluation reserve of State foreign exchange reserves are merged to constitute a single and same reserve titled "Revaluation reserve for State gold and foreign exchange reserves";
- the amount of the revaluation reserve should in future be equal to at least 12% of the gold and foreign exchange assets; it should also, as under the former agreement, allow for the hedging of losses that would result from a return of gold prices and exchange rates to their most unfavourable levels of the last ten years;

- if the revaluation reserve is lower than its minimum amount as defined above, it is replenished by allocating up to 20% of the profit for the year.

Pursuant to the Council Decision 2010/416/EU of 13 July 2010 taken in accordance with Article 140(2) of the treaty on the functioning of the European Union, Estonia adopted the euro on 1 January 2011. As a result there was a change in the share of the Banque de France in the capital key of the ECB, determined solely by taking into account the weightings of participating NCBs. This key is used, notably, for the allocation of monetary income and the distribution of dividends of the ECB. From 1 January 2011 this share for the Banque de France fell to 20.3246% (compared to 20.3767% previously).

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 and pursuant to Article R144-6 of the Monetary and Financial Code.

Balance sheet

NOTE 1: GOLD

In 2009, 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 2009, annual sales by the 19 central banks may not exceed 400 tonnes.

The gold stock of the Banque de France remained unchanged in 2010 at 2,435 tonnes.

NOTE 2: FOREIGN EXCHANGE ASSETS AND LIABILITIES

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

**Foreign exchange assets and liabilities
(excl. relations with the IMF)**

Asset item A2 and Liability item P5

(EUR millions)

	2010	2009
ASSETS		
Foreign currency assets		
Overnight deposits	28	147
Fixed-term deposits	15,486	12,233
Securities received under repurchase agreements	836	1,186
Fixed-income securities	26,918	23,919
Accrued interest receivable	280	285
TOTAL	43,548	37,771
LIABILITIES		
Foreign exchange liabilities		
Securities delivered under repurchase agreements	12,262	9,799
Accrued interest payable	2	1
TOTAL	12,264	9,801

Fixed-income securities denominated in foreign currencies comprise securities that the Bank has the intention of holding to maturity and securities that may be sold. These two portfolio categories are subject to different valuation rules that are described in the section above on accounting principles and valuation methods. Securities intended to be held to maturity totalled EUR 10,570 million at 31 December 2010 compared to EUR 9,015 million at 31 December 2009.

NOTE 3: RELATIONS WITH THE IMF

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

- the drawing rights under the reserve tranche that corresponds to the fraction of France's share in the capital of the IMF settled in gold and other foreign currency assets, uplifted for net euro usage by the IMF, notably, for euro-denominated drawings and repayments by member countries vis-à-vis France;
- the loans granted to the IMF as part of the agreement that came into effect on 2 December 2009 (see below).

The item "Acquisitions of SDRs" (Special Drawing Rights) includes the euro equivalent of the SDRs held by France and purchases of SDRs made within the framework of voluntary exchange agreements.

The amount of acquisitions of special drawing rights should be taken together with that recorded in liability item P6 "Counterpart to SDR allocations" to determine France's net SDR position.

Variations in IMF financing arise:

- from the drawing of 523 million SDRs (equivalent to EUR 606 million) in 2010 under the loan agreement granted by the Banque de France to the IMF as part of the ad hoc agreement of December 2009 (for a maximum amount of EUR 11,060 million);
- from a net utilisation in euro for EUR 133 million (excess of drawings over repayments);
- from the impact of the variation in the price of SDRs from end-2009 to end-2010.

The variation in asset item A3.2 "Acquisitions of SDRs" arises from the payment of interest relating to receivables and liabilities in SDRs as well as the acquisitions of SDRs under voluntary exchange agreements with other central banks and the impact of the variation in the price of SDRs from one year to another.

The liability item P6 "Counterpart to SDR allocations" was last changed in 2009 when there was a general allocation and a special allocation of SDRs by the IMF for a total of 9 billion SDRs. No allocation was made in 2010; the variation in the item results from movements in the SDR exchange rate compared to the euro.

Relations with the IMF

Asset item A3 and Liability item P6

(EUR millions)

	2010	2009
ASSETS		
Financing provided to the IMF	3,453	2,553
Acquisitions of Special Drawing Rights	11,271	10,578
Accrued interest receivable	8	5
TOTAL	14,732	13,136
LIABILITIES		
Counterpart to SDR allocations	11,727	11,032
Accrued interest payable	7	5
TOTAL	11,734	11,037

NOTE 4: MONETARY POLICY OPERATIONS

The total receivables held by the Eurosystem in relation to monetary policy operations totalled EUR 516,307 million of which the Banque de France held EUR 32,176 million. In accordance with Article 32.4 of the ESCB Statute, any risks from monetary policy operations, if they were to materialise, shall eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

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.

Main refinancing operations were the most important open market operations until 2008; they play a key role in steering interest rates, bank liquidity management and signaling the stance of monetary policy. They are conducted through weekly tenders in the form of temporary sales of assets (repurchase agreements) for a one-week maturity.

Longer-term refinancing operations (LTROs) are carried out through monthly tenders for loans of one month or more.

Since October 2008 these two types of financing of credit institutions have been carried out at fixed rates.

Marginal lending facilities are overnight facilities granted in the form of repurchase agreements to Banque de France counterparties at their request. Interest is paid on these facilities at a rate fixed by the Eurosystem.

Fine-tuning operations are undertaken on a selective basis with a view to managing liquidity and to ensure the steering of interest rates. Fine-tuning operations take the form of reverse transactions, foreign exchange swaps or the collection of fixed-term deposits. These operations are generally undertaken through quick tender or bilateral procedures.

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. 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.

Euro-denominated loans to euro area credit institutions within the framework of monetary policy operations Asset item A5

(EUR millions)

	2010	2009
Main refinancing operations	11,955	1,980
Longer-term refinancing operations	20,221	117,275
Fine-tuning operations	2,800	–
Structural operations	–	–
Marginal lending facility	–	1,244
Margin calls paid	–	–
Accrued interest receivable	8	485
TOTAL	34,984	120,984

Deposit facilities enable Banque de France counterparties to make overnight deposits. There was a significant increase in these operations in 2009. The interest rate on the deposit facility is set by the Eurosystem and provides a floor for the market rate.

Euro-denominated liabilities to euro area credit institutions within the framework of monetary policy operations Liability item P2

(EUR millions)

	2010	2009
Current accounts	32,878	34,285
Remaining liabilities	11,709	26,749
Deposit facilities	10,959	26,749
Fixed-term deposits	750	–
Repurchase agreements	–	–
Margin calls received	–	–
Accrued interest payable	56	42
TOTAL	44,643	61,076

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 earmarked against euro-denominated deposits recorded in liability item P4 (see Note 15). These claims and loans, which do not relate to monetary policy operations, are split between these two asset items A4 and A6 according to whether the counterparty is located within or outside the euro area.

Claims in euro issued by non-euro area residents

Asset item A4

(EUR millions)

	2010	2009
Securities held until maturity	2,524	2,866
Other claims	4,318	6
Accrued interest receivable	59	68
TOTAL	6,901	2,940

NOTE 6: ASSET ITEM A7 “EURO-DENOMINATED SECURITIES ISSUED BY EURO AREA RESIDENTS”

A7.1 Securities held for monetary policy purposes

Item 7.1 contains:

- securities acquired within the scope of the purchase programme for covered bonds announced by the ECB Governing Council on 7 May 2009. Purchases realised under this programme had been completed by end-2010;
- debt securities acquired under the Securities Markets Programme (SMP) decided by the Governing Council on 9 May 2010.¹²

These securities are usually held until their maturity and are valued at their amortised cost.

These securities are subjected to impairment tests. At 31 December 2010, no impairment provision had been recorded on these portfolios following these tests.

The total amount of securities held by NCBs of the Eurosystem under the SMP increased to EUR 60,873 million, of which EUR 9,353 million are

held by the Banque de France and are shown under asset item A7.1 in its balance sheet. Pursuant to Article 32.4 of the ESCB statute, any risks from the holding of securities under the Securities Markets Programme, if they were to materialise, should eventually be shared in full by the NCBs of the Eurosystem in proportion to the prevailing ECB capital key shares.

A7.2 Other securities

Item 7.2 includes euro-denominated securities issued by residents of the euro area, other than those that are specifically earmarked against the Bank's own funds, to the Employee Reserve Fund and to customer deposits that are recorded in asset item A12 (see Notes 11 and 27). In addition to fixed income securities this item includes a UCITS bond fund.

Euro-denominated securities issued by euro area residents

Asset item A7

(EUR millions)

	2010	2009
A7.1 Securities held for monetary policy purposes	21,336	4,201
Securities of the securities markets programme (SMP)	9,353	0
Covered bonds	11,505	4,166
Accrued interest receivable	478	35
A7.2 Other securities	69,079	64,516
Securities held until maturity	54,260	47,953
Other securities	13,632	15,302
Accrued interest receivable	1,187	1,261
TOTAL	90,415	68,717

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 reserve assets 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 the main refinancing operations, adjusted to reflect a zero return on the gold component.

¹² Decision of the ECB of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ/EUL 124, p. 8, 20.5.2010.

Claims arising on the transfer of reserve assets to the ECB

Asset item A8.2

(EUR millions)

	2010	2009
Claims arising on the transfer of reserve assets to the ECB	8,192	8,192
Accrued interest receivable	71	91
TOTAL	8,263	8,283

NOTE 8: CLAIM ON THE EUROSISTEM 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 is 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 2010. The remuneration of this net claim is shown in profit and loss item 1.1.1 “Interest and related income” (see Note 14 on banknotes in circulation).

NOTE 9: OTHER CLAIMS ON THE EUROSISTEM

This item includes any income receivable from the ECB in respect of the distribution of the balance of monetary income (see Note 33 of the profit and loss account) as well as the ECB’s interim distribution of profit (see Note 14 on banknotes in circulation.)

In 2010, the Governing Council of the ECB decided to retain all seigniorage income arising from its 8% share of euro banknotes in circulation as well as all income derived from securities held under the Securities Markets Programme (see Note 32). Therefore, no interim dividend was paid in 2010.

Other claims on the Eurosystem

Asset item A 8.4

(EUR millions)

	2010	2009
Other claims on the Eurosystem	167	8
ECB interim dividends	0	160
TOTAL	167	168



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 French overseas departments note-issuing bank (*Institut d’émission des départements d’outre-mer* – IEDOM) 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: OTHER EURO AND FOREIGN CURRENCY
DENOMINATED FINANCIAL ASSETS**

**Other euro and foreign currency denominated
financial assets**

Asset item A11

(EUR millions)

	2010	2009
Fixed income securities held until maturity (a) (b)	59,706	66,304
Other fixed-income securities and variable-yield securities	4,427	3,670
Other operations	24,218	27,398
Accrued interest receivable	129	111
TOTAL OF OTHER EURO- AND FOREIGN CURRENCY-DENOMINATED FINANCIAL ASSETS	88,480	97,483

(a) In 2009, none of these securities were transferred to another portfolio and none of these securities were sold before maturity.

(b) Of which foreign currency denominated securities: EUR 60,422 million, of which EUR 60,423 million in collateralised securities (see Note 28).

Asset item A11 includes, notably, securities linked to customer deposits, recorded in liability items P4 and P10, the Bank's own funds and provisions.

Securities portfolios
Extract from Asset item A11

(EUR millions)

	2010		2009	
	Fixed income securities held until maturity	Other securities	Total	Total
Fixed-income securities				
Government securities	59,483		59,483	65,931
Securities issued by public bodies	180		180	137
Other issuers	317		317	413
Accrued interest receivable	121		121	108
NET BALANCE SHEET VALUE	60,101		60,101	66,589
Equities and other variable-yield securities				
French and foreign mutual funds	1,368		1,368	1,115
Capitalisation mutual funds	2,698		2,698	2,309
Other variable-yield securities	87		87	70
NET BALANCE SHEET VALUE	4,153		4,153	3,494

NOTE 12: MISCELLANEOUS

Miscellaneous
Asset item A12

(EUR millions)

	2010	2009
Deferred income, accrued expenses, etc.	363	2,077
Accrued income	339	329
Prepaid expenses	24	15
Other items	–	1,733
Miscellaneous	3,831	2,345
TOTAL	4,194	4,422

In 2009, the other accruals accounts included notably the impact of the revaluation of off-balance sheet foreign exchange positions held in relation to the temporary reciprocal currency arrangement (swap line). No operation of this type appears in the 2010 accounts.

The other accrual accounts include the revaluation impact of off-balance sheet foreign exchange positions held in relation to retail banking operations (see Note 19). Their impact on the profit and loss account is cancelled out by the revaluation of foreign exchange positions in the balance sheet, the overall foreign exchange position from these activities being close to zero.

NOTE 13: FIXED ASSETS

Participating interest in the ECB

Pursuant to 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 most recent adjustment took effect on 1 January 2009.

In 2010, the ECB increased its subscribed capital by EUR 5,000 million to EUR 10,760,652,402.58. The NCBs of the Eurosystem should pay this increase in capital through three annual instalments of an equal amount. The first payment was made on 29 December 2010, and the two subsequent payments will be made at end-2011 and end-2012. As a result

Fixed assets

Asset item A8.1 and A13

(EUR millions)

	2010	Increase	Decrease	2009
Participating interest in the ECB (gross value)	1,056	237	–	819
FX translation difference on participating interest in the ECB	6			6
Participating interest in the ECB (balance sheet value)	1,062			825
Non-ECB participating interest (gross value)	405			405
Intangible fixed assets (gross value)	448	73	69	444
Amortisation	251	51	37	237
Net value of intangible fixed assets	197	22	32	207
Tangible fixed assets (gross value)	2,130	262	242	2,110
Depreciation and provisions	1,462	89	76	1,449
Net value of tangible fixed assets	668	173	166	661
Total tangible and intangible fixed assets (net value)	865	195	198	868

Note: Increases and decreases also include transfers between fixed asset accounts.

Information relating to subsidiaries and participating interests at 31 December 2010

Asset item A8.1 and A13.2

(EUR millions, part in %)

	Asset item	Listed	share capital held	2010 Share-holders' equity	2010 profit/loss equity	2010 book value
Bank for International Settlements	A 13.2	No	9.16	17,860	2,157	405
European Central Bank	A 8.1	No	20.38	30,149	171	1,057
La Prévoyance immobilière	A 13.2	No	98.20	na	na	ns
Banque de France Gestion	A 13.2	No	99.99	3	5	ns

ns: not significant

na: not available

Note: the interest in the capital is the BdF's share in all of the NCBs that are members of the euro area. It is this key that is used for the allocation of dividends.

the subscribed capital and the paid-up capital of the Banque de France in the ECB has changed as follows:

Subscribed capital and paid-up capital

(in EUR)

Subscribed capital up to 28 December 2010	819,233,899.48
Paid-up capital up to 28 December 2010	819,233,899.48
Subscribed capital from 29 December 2010	1,530,293,899.48
Paid-up capital from 29 December 2010	1,056,253,899.48

The Banque de France will therefore contribute up to EUR 711 million to the increase in subscribed and paid-up capital of the ECB. At the end of 2010 the Banque de France made the first of three payments

for an amount of EUR 237,020,000. The share in the capital of the ECB appearing as an asset in the balance sheet corresponds to the net amount of the subscribed and paid-up share (subscription minus the unpaid capital subscription).

Share of the Banque de France in the capital of the ECB

(%)

To December 2003	16.8337
From 1 January 2004 to 30 April 2004	16.5175
From 1 May 2004 to 31 December 2006	14.8712
From 1 January 2007 to 31 December 2008	14.3875
Since 1 January 2009	14.2212

NOTE 14: BANKNOTES IN CIRCULATION

The ECB and the 16 euro area NCBs, which together make up the Eurosystem, issue euro banknotes. 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.¹³

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 actually put into circulation also gives rise to remunerated intra-Eurosystem balances (see asset item A8.3).

For a five-year period from the year of adoption of the euro,¹⁴ intra-Eurosystem balances resulting from euro banknote allocation are being adjusted in order to avoid significant changes in the NCBs' income positions compared to previous years. These 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 reference period¹⁵ 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. These adjustment amounts will be reduced each year until the first day of the sixth year following euro adoption, after which income on banknotes will be allocated fully between the NCBs in proportion to their paid-up share in the ECB's capital. The adjustment period for Cyprus and Malta will end on 1 January 2013 and for Slovakia on 1 January 2014.

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 is due to the NCBs in the same year it accrues and distributed to them on the second working day of the following year in the form of an interim distribution of profit.¹⁶ This income is distributed in full unless the ECB's net profit is less than the income earned on euro banknotes in circulation or unless the Governing Council decides to reduce the redistribution by the amount of the costs incurred by the ECB on the issuance and storage of euro banknotes. The Governing Council may also decide to transfer all or part of the ECB's seigniorage income to a provision for foreign exchange rate, interest rate and gold price risks (see Note 32).

French franc banknotes, which ceased to be legal tender on 17 February 2002, may still 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" (see Note 20).

¹³ ECB decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15).

¹⁴ The year of adoption of the euro corresponds to the year in which euro banknotes became legal tender in the member country concerned; this was in 2008 for the central banks of Cyprus and Malta and in 2009 for Slovakia.

¹⁵ The reference period is the 24 months that commence 30 months before the date on which euro banknotes have legal tender in the member states concerned.

¹⁶ ECB decision of 17 November 2005 (ECB/2005/11) on the distribution of the income of the ECB on euro banknotes in circulation to the NCBs of participating Member States.

NOTE 15: 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 11), depending on whether they are invested in the same currency or are covered by cross-currency swaps (see Note 27).

Euro-denominated liabilities to non-euro area residents

Liability item P4

(EUR millions)

	2010	2009
Euro-denominated liabilities to non-euro area residents	20,017	22,344
Accrued interest payable	25	30
TOTAL	20,042	22,375

NOTE 16: EURO-DENOMINATED LIABILITIES TO THE EUROSISTEM

Euro-denominated liabilities to the Eurosystem comprise France's net debt arising on cross-border transfers via TARGET 2 with other NCBs in the ESCB.

Euro-denominated liabilities to the Eurosystem

Liability item P7

(EUR millions)

	2010	2009
Euro-denominated liabilities to the Eurosystem	28,349	62,008
Accrued interest payable	14	62
Accrued expenses relating to monetary income	–	7
TOTAL	28,363	62,077

NOTE 17: LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

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. The balance of the Treasury's account was less than EUR 300 million at 31 December 2010;

- the account of other Government agencies.

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). The decrease in liability item P8.2 results mainly from new investment rules for the IEDOM, which up to now has held all advances in its current account, and which from now on will invest a share of these in other instruments.

Euro-denominated liabilities to other euro area residents

Liability item P8

(EUR millions)

	2010	2009
Liabilities vis-à-vis the State	1,487	19,004
Other liabilities	4,014	6,075
Accrued interest payable	3	4
TOTAL	5,504	25,083

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 items A11 (see Note 11) or in item A4 or A6 (see Note 5), depending on whether they are invested in a foreign currency or in euro.

Banking transactions

Liability item P10

(EUR millions)

	2010	2009
Overnight deposits	14,241	13,496
Other banking transactions	77,279	70,320
Accrued interest payable	298	275
TOTAL	91,818	84,091

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

NOTE 20: MISCELLANEOUS

In 2010, this item includes mainly:

- the capital of the Banque de France Employee Reserve Fund (see Note 29);
- French franc banknotes still in circulation (see Note 14).

In 2010, this item incorporated the revaluation impact of off-balance sheet foreign exchange positions held in relation to transactions with customers and the management of foreign exchange reserves. Their impact on the profit and loss account is cancelled out by the revaluation of foreign exchange positions in the balance sheet, the overall foreign exchange position from these activities being close to zero.

Miscellaneous

Liability item P11

(EUR millions)

	2010	2009
Deferred income, accrued expenses, etc.	735	306
Accrued expenses	351	305
Deferred income, etc.	384	1
French franc banknotes in circulation	602	627
Miscellaneous	6,253	3,755
TOTAL	7,590	4,688

NOTE 21: PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges mainly comprise:

- provisions for restructuring, relating to the “cash activities” and “banknote manufacturing” plans, the

plan to adapt the Banque de France’s branch network, and the plan to discontinue retail banking activities;

- provisions for changing the age pyramid, relating to the early retirement incentive scheme for employees reaching the end of their working life;
- provisions for retirement benefits;
- provisions for various social liabilities in relation to current employees (death benefits, long-service medals, extended sick leave, pensions for industrial injuries, unemployment);
- provisions for various social liabilities in relation to retirees (death benefits, etc.) that are not funded by the pension scheme;
- other provisions, notably a provision for tax disputes and provisions for major repairs.

The variation in other provisions arises mainly:

- from the decrease in the provision for the tax dispute following the settlement with the tax authorities. The amount of the assessment appears in profit and loss account item 5 “corporate income taxes”;
- from the decrease in the provision in relation to the dispute relating to the processing of cheques for clearing following the decision by the Competition Authority of 20 September 2010; this decrease in provision and the penalty imposed on the Bank appear under profit and loss account item 2.4.

Pursuant to article 32.4 of the ESCB statutes, the provision for counterparty risk in connection with monetary policy operations is allocated between the NCBs of the Eurosystem prorata to their capital key in the capital of the ECB applicable at the date on which the default occurred. Pursuant to the general accounting principle of conservatism, the Governing Council reassessed the appropriateness of the amount of this provision, constituted initially in 2008, and decided to reduce it from EUR 4,011 million to EUR 2,207 million. The Banque de France share in this provision at 31 December 2010 totalled EUR 456 million. This has led to a decrease in the total amount of the provision of EUR 372 million

that impacts the profit and loss account item 1.5 “net result of pooling of monetary income” (see Note 33).

Provisions for liabilities and charges

Liability item P12

(EUR millions)

	2010	Increase	Decrease	2009
Provisions for restructuring	123		28	151
Provisions for changing the age pyramid	23		1	24
Provisions for retirement benefits	157	11		146
Provisions for the complementary health plan	212	32		180
Other miscellaneous provisions in relation to current employees	83	15	1	69
Other miscellaneous provisions in relation to retired employees	159		1	160
Provisions relative to monetary policy operations	456		372	828
Other	8	1	97	104
TOTAL	1,221	59	501	1,663

NOTE 22: REVALUATION ACCOUNTS

Gold and foreign exchange assets and liabilities are revalued at the reference prices indicated by the ECB on 31 December 2010. The unrealised gain on gold was calculated using a price of EUR 32,932 per kilogram of fine gold (compared to EUR 24,639 at end-2009).

The revaluation rates used at 31 December 2010 for the main currencies held were the following:

Revaluation accounts

Liability item P13

(EUR millions)

	2010	2009
Revaluation account – gold	63 296	40 620
Revaluation account – foreign exchange	3 871	1 388
Revaluation account – securities	787	865
Revaluation account – forward financial instruments	7	19
TOTAL	67 961	42 892

- 1 euro = 1.3362 USD (compared with 1.4406 at end-2009);

- 1 euro = 0.8641 SDR (compared with 0.9186 at end-2009).

NOTE 23: REVALUATION RESERVE OF STATE GOLD RESERVES AND REVALUATION RESERVE OF STATE FOREIGN EXCHANGE RESERVES

In accordance with the rider of 27 December 2007 to the agreement of 31 March 1999 between the State and the Banque de France on the management of and accounting for State foreign exchange reserves:

- foreign exchange gains realised from sales of gold in 2010 were transferred to the revaluation reserve of State foreign exchange reserves (see Note 31);
- the revaluation reserve of State gold reserves remained unchanged at EUR 18,499 million.



NOTE 24: CAPITAL, RESERVES AND RETAINED EARNINGS

Capital, reserves and retained earnings

Liability item P17

(EUR millions)

	2010	2009
Capital	457	457
Reserves	4,342	3,852
Statutory reserves	457	457
Long-term capital gains	100	100
Special pension reserve fund (see Note 29)	1,244	886
Other reserves (a)	2,540	2,408
Retained earnings	155	–
TOTAL	4,954	4,309

(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 damages to this property by third parties. The "Other reserves" item chiefly comprises these two types of reserves.

Off-balance sheet items

NOTE 25: SECURITIES COMMITMENTS

Securities commitments

(EUR millions)

	2010	2009
Securities to be received	543	2 016
Securities to be delivered	–	29

NOTE 26: FINANCIAL FUTURES CONTRACTS

Notional amount of financial futures contracts

(EUR millions)

	2010	2009
Outright transactions organised markets		
Interest rate contracts denominated in foreign currency		
Purchases	16,087	–
Sales	31,029	15,196
Interest rate contracts denominated in euro		
Purchases	10,895	401
Sales	20,425	8,299
Over-the-counter markets		
Interest rate swaps denominated in foreign currency	3,037	659
Interest rate swaps denominated in euro	–	20

NOTE 27: FORWARD FOREIGN EXCHANGE TRANSACTIONS WITH CUSTOMERS AND THE ECB

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 (euro-denominated investments are recorded in asset items A4 or A6 depending on the area of residence of the counterparty, while foreign currency investments are recorded in item A11); where necessary, 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 "Accounting principles and valuation methods", and note 20).

The table below shows amounts of foreign currency receivable and deliverable in respect of transactions carried out with customers.

Amounts of foreign currency receivable and deliverable in respect of transactions carried out with customers

(EUR millions)

	2010	2009
Euro to be received against foreign currency to be delivered		
Foreign currency to be delivered	4,879	9,915
Euro to be received	5,011	9,814
Foreign currency to be received against euro to be delivered		
Foreign currency to be received	37,270	20,370
Euro to be delivered	36,763	20,013
Foreign currency to be received against foreign currency to be delivered	62,802	62,931
Foreign currency to be delivered against foreign currency to be received	65,144	61,089

**NOTE 28: COLLATERAL RECEIVED FROM THE STATE IN
RELATION TO BANQUE DE FRANCE OPERATIONS WITH THE IMF**

In the amended finance act for 2008, the State has extended its guarantee to the loan which will be granted by the Banque de France to the International Monetary Fund's "Poverty Reduction and Growth Facility and the Exogenous Shocks Facility (PRGF-ESF)" account. This loan corresponds to a commitment taken by France at the annual general meeting of the IMF held in Istanbul on 4 October 2009 to grant a special drawing right (SDR) loan for an amount equivalent to USD 2 billion. When the loan is drawn down, this amount is converted into SDRs at the dollar rate for the day which should represent slightly less than 1.328 billion SDRs and the repayment schedule will also be denominated in SDRs.

No financing had been put in place by the Banque de France in relation to this at 31 December 2010.

The Banque de France has a financing commitment for bilateral loans up to EUR 11.060 billion. At 31 December 2010, total loans granted amounted to 800 million SDRs (EUR 904 million), the balance of the financing commitment totalling EUR 10.156 billion.

NOTE 29: PENSION OBLIGATIONS

Banque de France employees benefit from a pension scheme set up by an Imperial Decree of 16 January 1808. This scheme is currently governed by Decree 2007-262 of 27 February 2007, which entered into force on 1 April 2007 and aligned the Banque de France pension scheme with that of the civil service.

The Employee Reserve Fund (CRE)

The Banque de France has a pension fund known as the Caisse de réserve des employés de la Banque de France (CRE – Banque de France Employee Reserve Fund), which is designed to service the pensions of the Bank's statutory employees. The CRE does not have a legal personality distinct from that of the Bank; it constitutes, as the Conseil d'État set out in its decisions of 5 November 1965 and 28 April 1975, "a means for the Bank to manage itself assets that are assigned to a special purpose and whose separate financial identity has been recognised with the sole purpose of showing the results of this management in a special account."

As a consequence, the CRE is subject to separate accounting treatment. However, its assets, liabilities, income and expenses are an integral part of the Bank's accounts.

The pensions provided by the CRE to retirees are partly funded by the income on a securities portfolio, which has been set up over time and is specifically devoted to this purpose. The securities acquired by the CRE appear in balance sheet item A12 "Miscellaneous". The CRE's capital is shown in liability item P11 "Miscellaneous".

Securities purchased by the CRE are recorded, in accordance with CRBF Regulation 90-01, as available-for-sale and held-to-maturity securities. Differences between the acquisition and redemption price are spread over the remaining life of the securities according to the internal rate of return method. Unrealised losses on available-for-sale securities are provided for on a line-by-line basis. However, under the CRE's rules, realised gains and losses and unrealised losses recognised in the profit and loss account require a matching charge to or withdrawal from the CRE's capital.

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

Other sources of financing for pensions

In order to ensure the progressive financing, by 2014-2016, of the unfunded portion of liabilities in respect of pension rights acquired before the entry into force of Decree 2007-262 of 27 February 2007, in 2007 the General Council set up a **Special Reserve Fund**, in accordance with the third indent of Article R144-4 of the French Monetary and Financial Code. This reserve fund will be regularly replenished, within the limits permitted by the gross income of the Banque de France and the payment to the State of the predominant share incumbent on it. The **special reserve fund** for pensions appears in liability item P17 "Capital, reserves and retained earnings".

In addition, as part of the restructuring programmes implemented since 1999 ("cash activities" and

A12 Pension liabilities and funding

(EUR millions)

Liabilities			Funding		
	2010	2009		2010	2009
Liabilities in respect of the special retirement scheme	9,845	9,755	Funding	4,886	4,364
<i>o/w to current workforce</i>	4,284	4,351	<i>o/w Employee Reserve Fund</i>	3,642	3,478
<i>o/w to retirees</i>	5,561	5,404	<i>o/w Special Reserve Fund</i>	1,244	886
Liabilities in respect of the additional seniority granted as part of restructuring plans	121	122	Provisions	121	122
Total gross liabilities	9,966	9,877	Total funding	5,007	4,486
NET LIABILITIES	4,959	5,391			

“banknote manufacturing” plans, the plan to adapt the Banque de France’s branch network and the plan to discontinue retail banking activities), early retirement schemes were set up, with additional seniority granted to retirees. This additional seniority, including that resulting from the neutralisation of the effects of the pension scheme’s reform on employees benefiting from the early retirement scheme at the date of the reform’s entry into force have been entirely provisioned. The corresponding provisions appear in liability item P12 “Provisions for liabilities and charges”.

The resources constituted by this reserve fund and these provisions have been invested in a securities portfolio that appears in asset item A12. This portfolio is recorded in accordance with the rules set out in the section on the valuation methods used for securities portfolios. The income from this portfolio is shown, depending on the case, in items 1.1 “Net interest income”, 1.2.3 “Net of other income and expenses on financial transactions” or 1.4 “Income from equity securities and participating interests” of the profit and loss account.

Actuarial assumptions

The amount of pension liabilities has been calculated in accordance with actuarial standards (using the projected unit credit method), taking into account all current employees, retirees and their dependants. The amount of obligations vis-à-vis current employees was determined using a prospective method with career-end salaries.

For the calculation of pension liabilities as at 31 December 2010, the same mortality tables as in 2009 have been used; these were mortality experience tables by sex based on the TGH-TGF 2005 statutory tables.

Since the reform of the pension system with effect from 1 April 2007, pension entitlements may be accessed between 60 and 65. The increase in the number of quarters required to obtain a full pension will take place gradually at the rate of one quarter per half-year to reach 164 quarters in the second half of 2013 (as against 150 until 2006). The pensionable age is being raised in parallel (from 60 to 65) to allow employees to acquire the requisite number of quarters to obtain a full pension. In addition, a system of supplements/reductions will progressively be put in place from 1 January 2009 and will apply to employees who start drawing their pension with a greater/smaller number of quarters than that required to obtain a full pension.

The level of pensions is adjusted at the beginning of every year with reference to projected developments in the household consumer price index excluding tobacco.

Calculations of pension liabilities and the underlying assumptions used are validated and monitored by the Bank’s actuary. In 2010, as in previous years, a discount rate of 4.5% was applied.

Profit and loss account

NOTE 30: NET INTEREST INCOME

Net interest income

Profit and loss item 1.1

(EUR millions)

	2010	2009
Interest on foreign exchange assets	964	1,085
<i>o/w: Interest on held-to-maturity securities</i>	460	450
Interest on claims on the IMF	40	18
Interest on euro-denominated claims on non-residents	–	–
Interest on lending to credit institutions	802	1,637
Interest on euro-denominated securities	3,037	2,967
<i>o/w: Interest on held-to-maturity securities</i>	2,471	2,372
<i>o/w: Interest on securities held for monetary policy purposes</i>	566	33
Interest on claims arising on the transfer of reserve assets to the ECB	70	90
Interest on net claims on the Eurosystem (1)	–	–
Interest on the net euro banknote position	756	945
Total of other euro- and foreign currency denominated financial assets	1,080	1,764
<i>o/w: Interest on available-for-sale securities</i>	–	1
<i>Interest on held-to-maturity securities</i>	282	314
<i>Other interest</i>	798	1,449
Total interest and related income (A)	6,749	8,506
Interest on euro-denominated liabilities to monetary financial institutions in the euro area	-532	-685
<i>o/w: Interest paid on minimum reserves</i>	-406	-508
Interest on euro-denominated liabilities to non-euro area residents	-719	-242
Interest on foreign exchange liabilities	-41	-163
Interest on counterpart to SDR allocations	-34	-13
Interest on net claims on the Eurosystem (1)	-363	-915
Interest paid on the Treasury account	-16	-12
Other interest	-143	-1,193
Total interest and related expenses (B)	-1,848	-3,223
NET INTEREST INCOME (C = A + B)	4,901	5,283

(1) Interest on the Banque de France's net position within the TARGET system (see Notes 9 and 16).

NOTE 31: NET INCOME/LOSS ON FINANCIAL TRANSACTIONS

In 2010, the net balance of realised gold and foreign exchange gains and losses and unrealised foreign exchange losses was a gain of EUR 260 million.

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 riders dated 26 November 2002 and 27 December 2007, the realised gains on gold and foreign exchange amounting to EUR 260 million were allocated to the revaluation reserve of State foreign exchange reserves (*réserve de réévaluation des réserves en devises de l'État – RRRDE*), with the matching entry taken to the profit and loss account (item 1.2.2).

Net of other income and expenses on financial transactions

Extract from profit and loss item P1.2.3

(EUR millions)

	2010	2009
Net gain/loss on foreign currency denominated securities (a) (b) (c)	-2	70
Net gain/loss on euro-denominated securities included in item A7 (b) (c)	14	136
Net gain/loss on available-for-sale securities included in item A11	–	–
Net foreign exchange gain/loss (excluding foreign exchange reserve management)	18	13
TOTAL	30	219

(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 profits and losses on synthetic instruments.

**NOTE 32: INCOME FROM EQUITY SECURITIES
AND PARTICIPATING INTERESTS**

In 2009 all income of the ECB arising from banknotes in circulation was allocated between the national central banks (NCBs) in the form of an interim dividend. The Banque de France therefore recognised income in 2009 of EUR 160 million. For 2010, the Governing Council decided to retain all seigniorage income of the ECB as well as income derived from securities under the Securities Markets Programme and not to distribute it in the form of an interim dividend with a view to consolidating the amount of the provision for foreign exchange, interest rate, credit and gold price risks. In 2010, the Banque de France received a dividend of EUR 299 million from the ECB.

**Income from equity shares
and participating interests**
Profit and loss item 1.4

(EUR millions)

	2010	2009
ECB dividend	299	184
Dividends from other participating interests	50	99
Dividends from available-for-sale securities	12	19
Other income	0	8
TOTAL	361	310

NOTE 33: NET RESULT OF POOLING OF MONETARY INCOME

This item includes the pooling of monetary income for 2010, totalling EUR 167 million compared with an income of EUR 0.6 million in 2009, and the Banque de France's share of the decrease in provision for counterparty risk in relation to Eurosystem monetary policy operations of EUR 372 million compared to a decrease of EUR 356 million in 2009 (see Note 21).

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 in connection with euro-denominated monetary policy operations; intra-Eurosystem liabilities arising from TARGET transactions; and net intra-Eurosystem liabilities arising 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 loans 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 marginal rate of the main refinancing operations.

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 1,964 million) and that reallocated to the Bank (EUR 2,132 million) constitutes the net result arising from the calculation of monetary income recorded in profit and loss item 1.5.

NOTE 34: NET OF OTHER INCOME AND EXPENSES

Income and expenses of the Prudential Supervisory Authority (ACP)

The levies for supervisory expenses received by the Prudential Supervisory Authority (l'Autorité de contrôle prudentiel – ACP) are recognised under item 1.6 "Net of other income and expenses". In fact, the ACP, instituted by Order 2010-76 of 21 January 2010 and formed through the merger of the licensing and supervision authorities for banking and insurance, is an independent administrative authority without legal personality and financially independent. It is chaired by the Governor of the Banque de France and its budget is a sub-budget of the Banque de France. The expenses and income of the ACP are therefore recognised in the accounts of the Banque de France. Expenses appear under operating expenses according to their nature and income consists of levies raised from the organisations under the supervision of the ACP. In 2010, levies for supervisory expenses generated income of EUR 162 million.

Net of other income and expenses

Profit and loss item 1.6

(EUR millions)

	2010	2009
Remuneration for services rendered to the State	152	152
Payments for ACP's supervisory expenses	162	–
Other income (a)	283	279
Total other income (A)	597	431
Total other expenses (B)	-10	-7
NET OF OTHER INCOME AND EXPENSES (C = A + B)	587	424

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

Pursuant to Article L612-18 of the Monetary and Financial Code, if the funds allocated to the specific allocation of the ACP exceed its expenses, an amount equivalent to this excess is allocated, by debiting income, to a balance sheet account “carried-over contributions of the Prudential Supervisory Authority” that appears under liability item P12 “miscellaneous” in the balance sheet. This balance sheet account may be used in future fiscal years to cover an excess of expenses over income of the ACP. In 2010 the excess of income over expenses of the ACP, allocated to the balance sheet account, was EUR 2.7 million.

NOTE 35: PERSONNEL AND RELATED EXPENSES

Personnel and related expenses

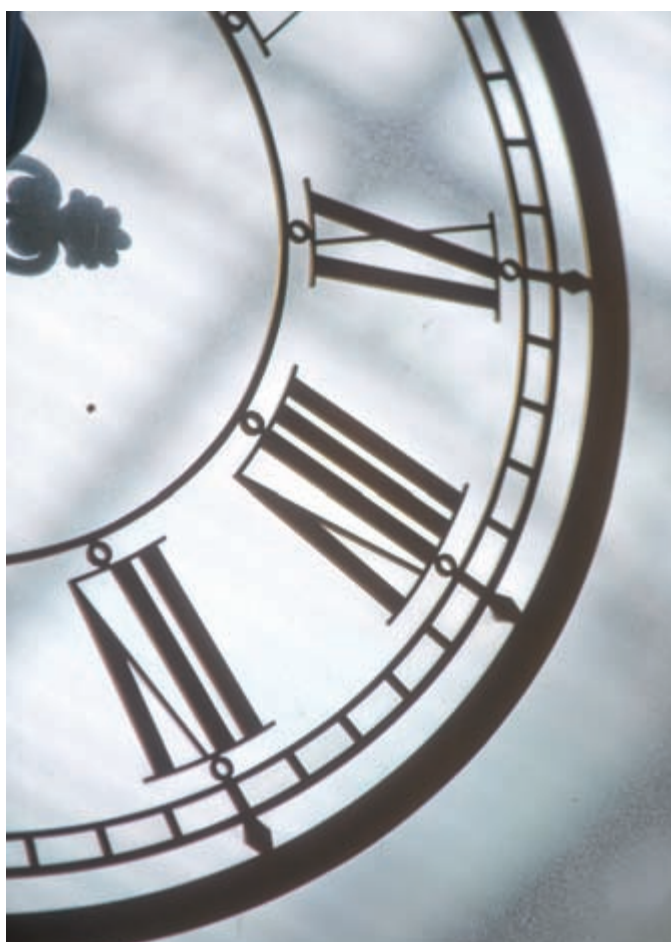
Profit and loss item 2.1

(EUR millions)

	2010	2009
Salaries, wages and related taxes	-771	-758
Social security expenses	-183	-176
Retirement expenses	-411	-415
Profit-sharing and incentive plans	-33	-38
TOTAL PERSONNEL EXPENSES	-1 398	-1 387

NOTE 36: CORPORATE INCOME TAX

Under Article 8 of Act 2007-212 of 20 February 2007 on various measures concerning the Banque de France, the taxable profit or loss of the Banque de France is calculated using accounting rules defined in accordance with Article L144-4 of the Monetary and Financial Code and the agreement in Article L141-2 of the same Code.



These new provisions have been in force since 1 January 2007.

Corporate income tax

Profit and loss item 5

(EUR millions)

	2010	2009
Income taxes for the year	1 563	1 676
on recurring income	1 563	1 676
on exceptional items	–	–

Other information

Remuneration of management bodies

(EUR millions)

	2010	2009
Total remuneration paid to management bodies	2,7	2,9

Notes : The members of the General Council and the Executive Committee constitute the Bank's management bodies.

Remuneration comprises gross remuneration plus payment in kind, where relevant. The Staff Representative and the Censor are not remunerated for positions they hold in the General Council.

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

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AUDITORS' REPORT ON THE ANNUAL ACCOUNTS

Year ended 31 December 2010

In accordance with the assignment entrusted to us by the Banque de France's General Council, we hereby report to you for the year ended 31 December 2010 on:

- the audit of the accompanying annual accounts of the Banque de France;
- the basis for our assessments;
- the specific procedures required by Article R144-8 of the Monetary and Financial Code.

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

1| Opinion on the annual accounts

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

In our opinion, the annual accounts give a true and fair view of the results of the Banque de France's operations for the year to 31 December 2010, and of the Bank's financial position and assets and liabilities at that date, in compliance with the accounting rules and principles set out by the European System of Central Banks (ESCB) for central banking activities and securities portfolios (other than those of the Banque de France 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 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.

.../...

2| Basis for our assessments

As required by Article L823-9 of the Commercial Code relating to the basis for our assessments, we draw your attention to the following:

- the Banque de France books provisions for risks and charges to cover risks such as those detailed in Note 21 of the Notes to the annual accounts. Our work consisted in evaluating the data and assumptions on which these estimates are based, reviewing the documentation concerning calculations and controls carried out by the Banque de France and the ESCB, comparing the accounting estimates in previous periods with the corresponding actual figures, and examining the procedures in place for the validation of these estimates by the Bank's management. We used these elements to carry out an assessment of the reasonableness of these estimates;
- note 29 to the annual accounts sets out the method for assessing pension obligations and other related liabilities. These obligations have been assessed by actuaries. Our work consisted in examining the data used, evaluating the assumptions utilised, checking the calculations and verifying that Note 29 provides appropriate information. We carried out an assessment of the reasonableness of these estimates.

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.

3| Specific procedures and information

We also carried out specific procedures as required by law.

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.

Courbevoie and Neuilly-sur-Seine, 4 April 2011
The Auditors

Mazars
Patrick de Cambourg
Max Dongar

Deloitte & associés
José-Luis Garcia

3| COMBINED ACCOUNTS

3|1 Combined balance sheet and profit and loss account

Combined balance sheet at 31 décembre 2010				
(EUR millions)				
Notes to combined annual accounts	Item	Description	2010	2009
ASSETS				
	A1	Gold	82,640	60,006
	A2	Foreign exchange assets (excl. relations with the IMF)	43,548	37,771
		2.1 Foreign exchange assets held with non-euro area residents	31,608	23,817
		2.2 Foreign exchange assets held with euro area residents	11,940	13,954
	A3	Relations with the IMF	14,732	13,136
		3.1 Financing provided to the IMF	3,453	2,553
		3.2 Acquisitions of Special Drawing Rights	11,278	10,583
	A4	Euro-denominated claims on non-euro area residents	6,901	2,940
	A5	Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations	34,984	120,984
	A6	Other euro-denominated loans to euro area credit institutions	24,716	11,668
	A7	Euro-denominated securities issued by euro area credit institutions	90,415	68,717
		7.1 Securities held for monetary policy purposes	21,336	4,201
		7.2 Other securities	69,079	64,516
	A8	Relations within the Eurosystem	85,998	84,087
		8.1 Participating interest in the ECB	1,062	825
		8.2 Claims arising on the transfer of reserve assets to the ECB	8,263	8,283
		8.3 Claim on the Eurosystem for euro banknotes in circulation	76,506	74,811
		8.4 Other claims on the Eurosystem	167	168
2	A9	Claims on the French Treasury in respect of coins	—	—
	A10	Other euro and foreign currency denominated financial assets	88,482	97,485
1	A11	Miscellaneous	5,606	4,851
	A12	Fixed assets	1,307	1,308
		11.2.1 Tangible and intangible assets	893	894
		12.2 Participating interests (other than interest in the ECB)	414	414
		TOTAL ASSETS	479,329	502,952
LIABILITIES				
	P1	Banknotes in circulation	157,415	151,174
	P2	Euro-denominated liabilities to euro area credit institutions in the framework of monetary policy operations	44,643	61,076
		2.1 Current accounts	32,911	34,314
		2.2 Other liabilities	11,732	26,762
	P3	Other euro-denominated liabilities to euro area credit institutions	1,688	62
	P4	Euro-denominated liabilities to non-euro area residents	20,042	22,375
	P5	Foreign exchange liabilities	12,264	9,801
	P6	Counterpart to SDR allocations	11,734	11,037
	P7	Relations within the Eurosystem	28,363	62,077
	P8	Euro-denominated liabilities to other euro area residents	2,609	21,382
		8.1 Treasury's account	1,590	19,138
2		8.2 Other liabilities	1,018	2,244
	P9	Items in course of settlement	240	264
	P10	Banking transactions	91,818	84,091
	P11	Miscellaneous	7,599	4,699
	P12	Provisions for liabilities and charges	1,237	1,677
	P13	Revaluation accounts	67,961	42,892
	P14	Fund for general risks	1,745	1,345
	P15	Revaluation reserve of State gold reserves	18,499	18,499
	P16	Revaluation reserve of State foreign exchange reserves	3,323	3,062
1	P17	Capital, reserves and retained earnings	5,611	4,942
		17.1. IEDOM capital grant, reserves and retained earnings	151	147
		17.2. Capital, reserves and retained earnings of the Banque de France	5,460	4,795
	P18	Profit for the year	2,538	2,498
		TOTAL LIABILITIES	479,329	502,952

2010 Combined profit and loss account

(EUR millions)

Notes to combined annual accounts	Item	Description	2010	2009
	1.	Net income on the activities of the Banque de France	6 492	6 585
	1.1	Net interest income	4 945	5 330
		1.1.1 Interest and related income	6 758	8 506
2		1.1.2 Interest and related expenses	- 1 813	- 3 176
	1.2	Net income/loss on financial transactions	30	219
		1.2.1 Net balance of realised gains/losses and unrealised losses on foreign exchange	260	- 1 066
		1.2.2 Net of charges to/releases from foreign exchange revaluation reserves	- 260	1 066
		1.2.3 Net of other income and expenses on financial transactions	30	219
	1.3	Commission	15	14
		1.3.1 Commission (income)	44	44
		1.3.2 Commission (expense)	- 29	- 30
2	1.4	Income from equity securities and participating interests	356	229
	1.5	Net result of pooling of monetary income	540	357
	1.6	Net of other income and expenses	606	436
	2.	Operating expenses	- 1 958	- 2 025
	2.1	Personnel and related expenses	- 1 415	- 1 403
	2.2	Taxes other than income tax	- 46	- 57
	2.3	Provisions, depreciation and amortisation	- 140	- 143
	2.4	Other operating expenses	- 357	- 421
		PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS (1 + 2)	4 534	4 560
	3.	Net charge to the fund for general risks	- 400	- 475
	4.	Extraordinary items	-	-
	4.1	Extraordinary income	-	-
	4.2	Extraordinary charges	-	-
1	5.	Corporate income tax	- 1 596	- 1 587
		PROFIT FOR THE YEAR (1 + 2 + 3 + 4 + 5)	2 538	2 498

3|2 Notes to the combined annual accounts

Scope of consolidation

Undertakings excluded from the consolidation

At 31 December 2010, the Banque de France held a participating interest in four undertakings (see Note 13 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 seventeen members in 2010, on the basis of the “one member, 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 of 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

NOTE 1: DEFERRED TAXES

A net deferred tax asset of EUR 388 million 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

(EUR millions)

	Deferred tax assets	Deferred tax liabilities
Income temporarily exempted from taxation		20
Tax on unrealised gains and losses on mutual funds	166	
Other deferred tax relating to securities	1	
Provisions not deductible for tax purposes	262	
Charges deducted for tax purposes but not yet recognised in the accounts	10	
Other recurring timing differences		31
TOTAL	439	51

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

- the tax charge for the year, which is EUR 32 million higher than in the individual annual accounts for fiscal 2010;
- item P17 "Capital, reserves and retained earnings", which includes the balance of EUR 420 million, representing the net deferred tax asset at the start of fiscal 2010.

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 from the balance sheet and of charges to/releases from the profit and loss account.

**NOTE 2: ELIMINATION OF INTER-INSTITUTIONAL
TRANSACTIONS**

Elimination of inter-institutional 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) and the related ongoing management expenses and income.



3|3 Auditors' report on the combined annual accounts

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AUDITOR'S REPORT ON THE COMBINED ANNUAL ACCOUNTS

Year ended 31 December 2010

In accordance with the assignment entrusted to us 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) for the year ended 31 December 2010.

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

1| Opinion on the combined annual accounts

We conducted our audit in accordance with the professional standards applicable in France; these standards require that we plan and perform the audit to obtain reasonable assurance as to whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis or via other selection methods, evidence supporting the amounts and disclosures in the annual accounts. It also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the information we have collected 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 results of the operations of the Banque de France and the IEDOM combined for the year to 31 December 2009, and of their financial position and assets and liabilities at that date, in compliance with the accounting rules and principles set out by the European System of Central Banks (ESCB) for central banking activities and securities portfolios (other than those of the Banque de France 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:

a) 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.

b) 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 ESCB.

c) 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.

d) For reasons set out in paragraph a) above, the combined annual accounts are not specifically commented on in the Report on the Bank's assets, liabilities and results.

.../...

2| Basis for our assessments

As required by Article L823-9 of the Commercial Code relating to the basis for our assessments, we draw your attention to the following:

- The Banque de France books provisions for risks and charges to cover risks such as those detailed in Note 21 of the Notes to the annual accounts. Our work consisted in evaluating the data and assumptions on which these estimates are based, reviewing the documentation concerning calculations and controls carried out by the Banque de France and the ESCB, comparing the accounting estimates in previous periods with the corresponding actual figures, and examining the procedures in place for the validation of these estimates by the Bank's management. We used these elements to carry out an assessment of the reasonableness of these estimates.
- Note 29 to the annual accounts sets out the method for assessing pension obligations and other related liabilities. These obligations have been assessed by actuaries. Our work consisted in examining the data used, evaluating the assumptions utilised, checking the calculations and verifying that Note 29 provides appropriate information. We carried out an assessment of the reasonableness of these estimates.
- As indicated in Note 1 to the combined accounts, the Banque de France shows a net deferred tax asset of EUR 388 million as at 31 December 2010. 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 Banque de France in support of these positions, and satisfied ourselves as to its reasonableness.

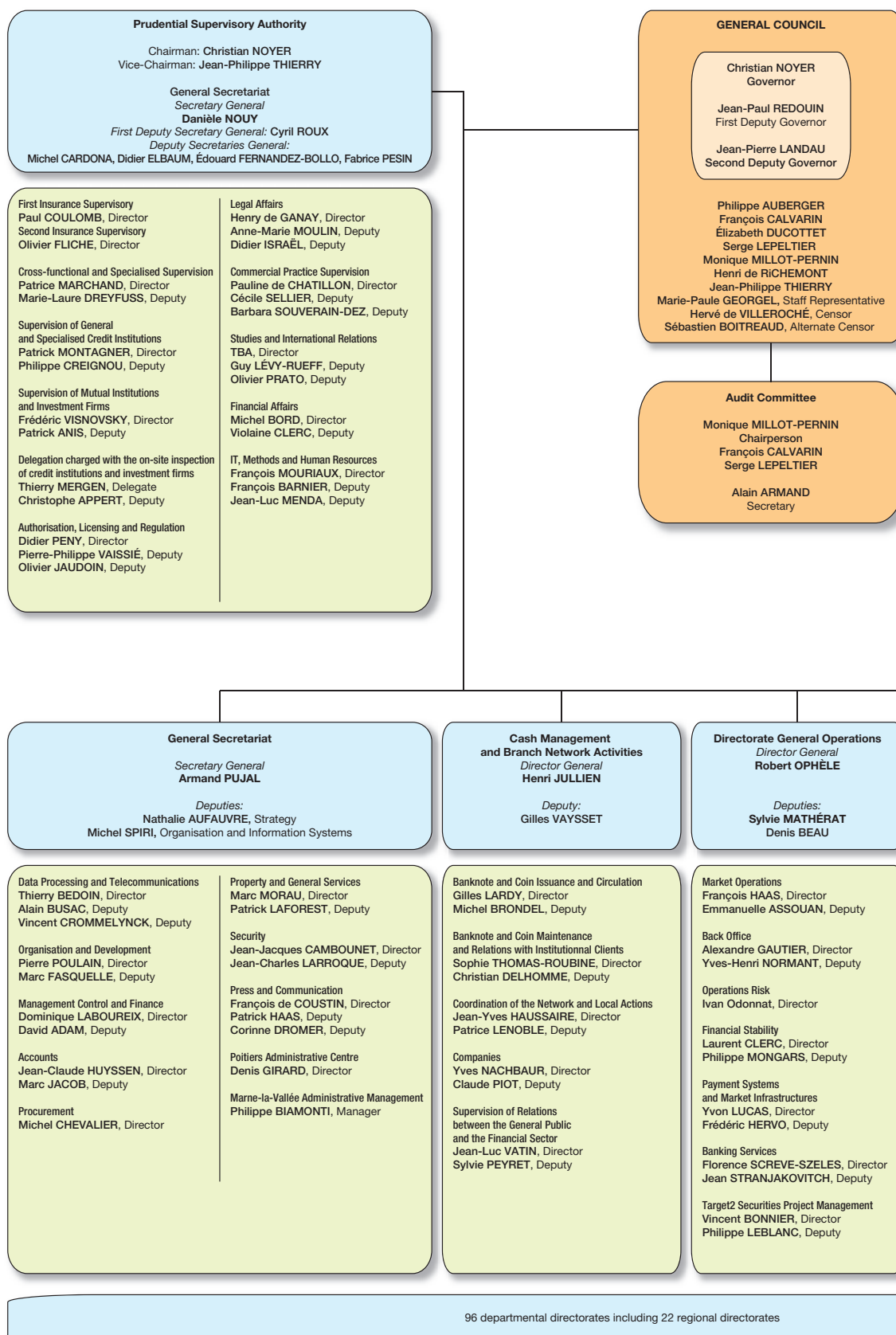
Our assessment of these issues was made within the context of our audit approach to the combined accounts taken as a whole, and contributed to our opinion as expressed in the first part of this report.

Courbevoie and Neuilly-sur-Seine, 4 April 2011
The Auditors

Mazars
Patrick de Cambourg
Max Dongar

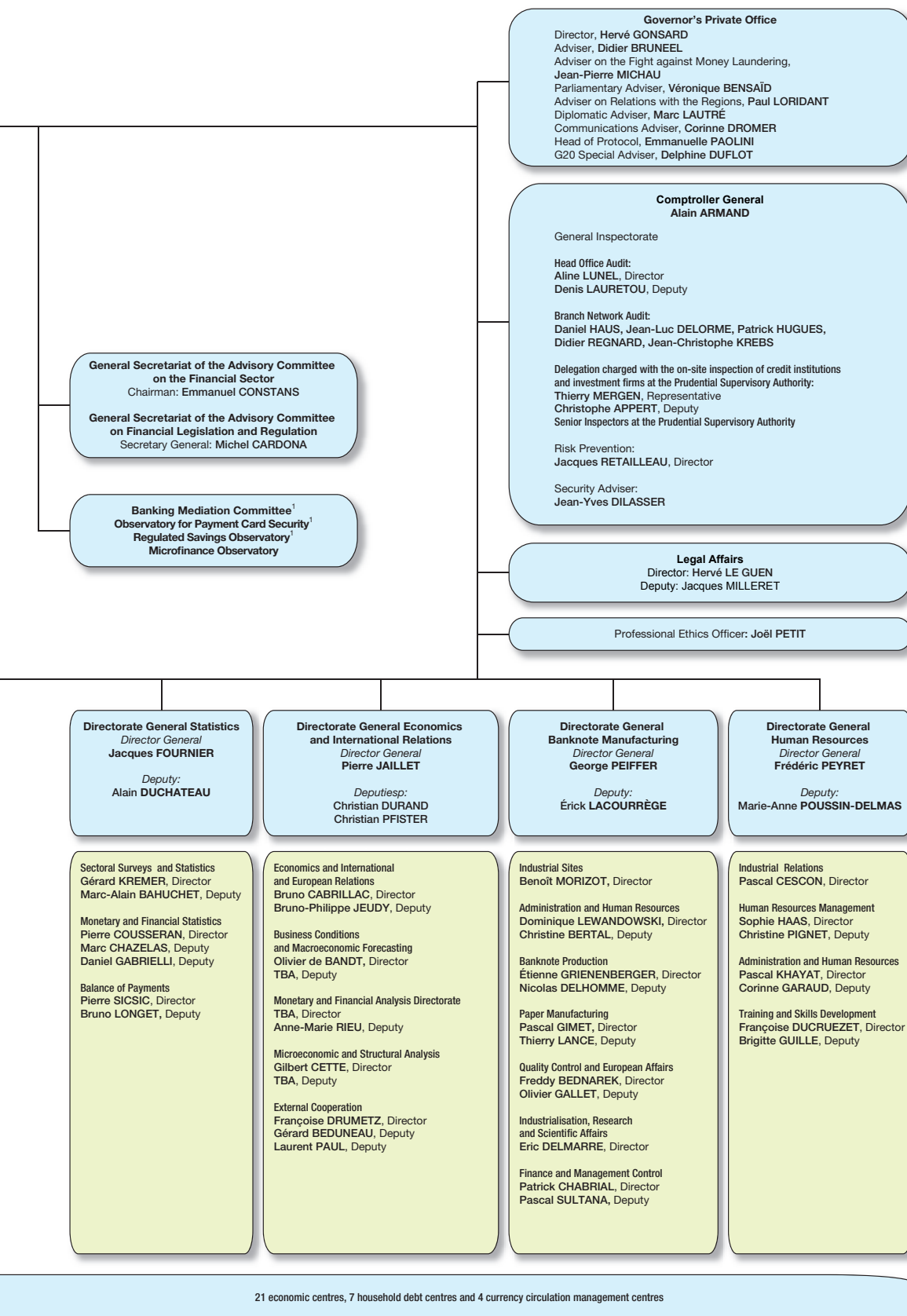
Deloitte & associés
José-Luis Garcia

ORGANISATION OF THE BANQUE DE FRANCE



¹ The Governor chairs the Banking Mediation Committee, the Observatory for Payment Card Security and the Regulated Savings Observatory.

AT 22 MARCH 2011



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