

2011 | 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

2011





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 on the challenges facing our economy, in a difficult European context.

Europe is moving forward in response to the crisis that, for over two years, has called into question its functioning, its image, its identity and its integrity. The deep roots of this crisis are now well known: weak individual and collective fiscal discipline, growing competitiveness gaps and an incomplete economic and monetary union. Credible and lasting solutions must be found if we wish to emerge stronger from our difficulties. In this context, it is necessary for France in particular to pursue its fiscal consolidation efforts, paying close attention to social expenditure, improve its competitiveness, notably through comprehensive reforms of goods and services and labour markets, and further reinforce the robustness and efficiency of its financial system.

Since the crisis erupted in 2007, the Eurosystem has proved highly responsive and we have managed, I believe, to provide solutions tailored to all the new situations, often going well beyond the usual scope of central bank action. The Eurosystem contributes to defining and monitoring adjustment programmes; it will offer advice and support to other European authorities in implementing crisis management mechanisms. Lastly, since our economy relies mainly on bank financing, we intervened to meet banks' liquidity needs in the framework of large-scale operations, by radically adjusting our framework for refinancing operations. These measures included in particular two exceptional three-year longer-term refinancing operations. Thanks to all these actions, we have managed to avoid, a number of times over the past few years, a seizing-up of the banking system, which would have badly affected the economy. No other central bank in the world has delivered such sustained efforts to support, in this way, bank liquidity and the supply of credit.

Are further steps required? Some believe so and would like to see the European Central Bank (ECB) play the role of lender of last resort to governments. And yet, if the euro's founding treaty prohibits the direct financing

of governments through monetary creation – in the same way as the founding texts of the main central banks of the world –, there are good reasons for it. This provision, which may appear simplistic, actually protects its citizens and the economy against any possibility of monetary manipulation, which history shows us to be a permanent temptation. It constitutes an essential complement to our primary objective of price stability that ensures the protection of the purchasing power of euro area citizens. It is naturally the responsibility of governments to monitor and control sovereign risks, in accordance with the agreed procedures and using the instruments at their disposal. This should be done without expecting the monetary authorities to stand in for the government and the fiscal authorities in the exercise of their responsibilities.

As has been the case for the past five years, the Eurosystem stands ready to act, within the framework of its mandate and its competencies. But, in the current circumstances, the effectiveness of its action greatly depends on the decisions concerning the future of the euro area, its governance and its functioning as well as their actual implementation.

Three areas of action are required.

First, the fiscal consolidation drive underway in all countries must be pursued. The new “legislative package” and the fiscal compact are powerful and appropriate tools. They guarantee structurally balanced budgets, the surveillance of macroeconomic imbalances and compliance with rules thanks to quasi-automatic sanctions. It is crucial to introduce credible economic governance in the euro area, because the crisis has shown that a monetary union must go hand in hand with shared and effective discipline in the management of public finances, and with a convergence of competitiveness in the economic union as a whole.

Second, in line with commitments by euro area leaders at the summit of 29 June, the crisis management mechanisms formally created between Member States must urgently be made fully operational. It is vital to avoid any further deterioration in sovereign debt market conditions. The credibility of the Economic and Monetary Union's decision-making and management processes is at stake.

Lastly, the future must be clarified by plainly setting out a long-term vision. The citizens expect it and investors require it. In particular, the creation of a financial union, whose need has been highlighted by the crisis, deserves particular attention.

In an integrated financial area such as the euro area, the mechanisms for supervising, supporting and managing the banking system must also be unified in order to break the negative feedback loop between banks and sovereigns and ensure the efficiency of the single monetary policy. This has not been the case to date and the euro area has paid a high price for this shortcoming. Work on this financial union is now underway. It has numerous components and not all of them have the same implications. Some (the resolution fund, the deposit guarantee scheme, etc.) would require the pooling of resources, others (resolution and supervision mechanisms) would require an extensive harmonisation of national laws. In both cases, in-depth technical and legislative work is needed and the financial union should gradually take shape in the coming years. Some progress can nevertheless be made right away. It is possible to rapidly bring together the banking supervision systems of Member States within a single framework, striking the same balance between centralisation and decentralisation as is case for the Eurosystem, where this model has already proved its worth. Naturally, the experience of the past few years shows that such an integration of supervision is only logical if it is applied to the whole banking sector, since the accumulation of risks in small or medium-sized entities is one of the major risk factors. The Eurosystem itself is clearly in the best position to take on this task. Indeed, the crisis has shown the advantages of placing banking supervision under the aegis of the central bank. Countries that have moved away from this model are now coming back to it. France, for its part, has always applied this model.

The crisis has resulted in a decline in our potential growth due to the rise in long-term unemployment, the non-renewal of ageing production facilities and the retirement of capital goods. These negative effects of the crisis increase the need for sustained fiscal consolidation and they could only be offset by the implementation of ambitious structural reforms.

### **Fiscal consolidation and economic growth**

Given the unprecedented debt and public finance dynamics in most advanced countries, governments face a hitherto unknown trade-off between necessary long-term consolidation and immediate fears about growth. Fiscal strategy is therefore naturally the subject of much debate.

A number of observations can be made.

First, the structurally balanced budget objective fits the needs of the French economy. Over the long-term, it ensures a gradual reduction of debt while allowing the positive and negative temporary shocks to the economy to be absorbed.

In 2011, the government deficit stood at 5.2% of GDP. But purely in terms of government spending, the budget financing gap is even more significant: in fact, 9.2% of general public spending was financed by debt and 21% of central government spending. The social security, which is made up of current transfer expenditure, should be balanced by definition. However, it has recorded an almost continuous deficit since the mid-1980s. These elements raise questions as to both the sustainability of this model and the effectiveness of public spending. They also result in an unfair transfer of expenditure to future generations who will have to work for longer than their predecessors and will be subject to higher tax and social security contributions in order to pay the debts they inherit. The reforms undertaken, which have resulted in curbing government spending, and in areas such as health insurance, must be pursued; ensuring a balanced financial position for pension schemes is also a major part of this process.

Second, the benefits of fiscal rules are now recognised. If they are credible, they help to restore the confidence of economic agents who in turn revive their consumption and investment projects, which ultimately boosts growth.

Lastly, the current very low interest rate environment is a major asset for our public finances and must absolutely be preserved. Of course, it wholly depends on the credibility of the strategy for returning to a balanced budget.

## **The French economy, competitiveness and employment**

Competitiveness is the key to growth. Observers from France and abroad are concerned about the French economy's competitiveness whose future path is difficult to assess.

France has weathered the crisis relatively favourably, with a less pronounced contraction in activity and employment than that observed for many of our neighbours. This comparatively good performance is mainly due to the stabilising role of the social security systems that mitigate the impact of economic shocks on employment and incomes. But this role of a buffer against shocks requires resources and can only function if, at the top of the cycle, reserves are built up. But, we know that with the current outlook for economic growth, these systems will remain structurally in deficit unless corrective action is taken. This anomaly must be resolved as soon as possible.

However, beyond this short-term resilience effect, it is indisputable that, of all advanced countries, France has registered, since 2000, the sharpest decline in its market share in global exports.

This deterioration can partly be ascribed to the unfavourable developments in the cost of labour in France compared to our main competitor on world markets, Germany. Whereas German companies benefited from exceptional wage moderation in the 2000s, France experienced a rise in both wages and unit labour costs over the same period. This has led to a deterioration of nearly 25% in our unit costs compared to Germany over the past ten years. To maintain their price competitiveness, French exporters have had to squeeze their margins considerably, thereby reducing their profitability and probably compromising their investment and research capacities. This has meant that France's initial advantage when joining the euro – and which played a role in the growth it recorded in the early 2000s – has now been entirely reversed. In order to reduce these cost differentials and to foster job creation for young and/or low-skilled workers, it is crucial that wage developments are in line with productivity and take account of the demands of competitiveness.

However, measured against the euro area average, France's relative position has hardly changed over the past ten years so that the cost factor does not explain everything. We need therefore to look for the other reasons for France falling behind, which have yet to be fully elucidated. The fall in the number of hours worked and rigidities in working time arrangements have probably played a role. But, more fundamentally, the scale and steady nature of the slide in market shares suggest a veritable break in the drivers and dynamism of the French economy and its ability to produce competitively goods that can be traded on the global market. Companies' choices of location for their production, which have been unfavourable for France, have contributed to the decline in French exports. These choices may have been dictated by a comparison of costs, but they often reflect the desire of major industrial groups to produce their goods close to the new markets in emerging economies and to thus benefit from the recognised competitive advantages. These overall strategies generate investment revenues that only partly offset the low level of export revenue. The expansion of foreign direct investment rather than of exports is, moreover, often unfavourable with regard to jobs.

In the deindustrialisation of the French economy, supply constraints appear therefore to be dominant. Reviving the dynamism that made our country one of the world's leading exporters thus means tackling rigidities of all kinds that hamper productive activities. Keeping competitive industrial production in France means restoring companies' investment capacity, above all that of SMEs. Efforts should be focused particularly on the development of new products and associated services. The opening-up of closed professions and support for innovation by businesses would also help to increase our economy's potential growth.

The housing sector also warrants special attention. It is undoubtedly an area where the rigidities that exist have extremely serious economic and social consequences. An active and fluid housing market is a powerful vector for social mobility and equilibrium. The current situation, however, fuels social vulnerability and hampers adjustments. The constraint is not a financial one: credit conditions for housing loans are satisfactory and the numerous measures that encourage the financing of house purchases and first-time home

ownership stimulate demand. The brake on the market comes therefore from inadequate supply, in particular the supply of serviced land and building permits. This has resulted in a rise in prices that is dangerous for financial stability, and whose redistributive effects – which benefit existing homeowners – do not contribute to greater social justice. This issue must therefore be addressed without taboos, including with respect to the regimes and conditions governing the granting of planning permission.

On its way to becoming Europe's number one demographic power in the next two decades and endowed with first-rate technological and entrepreneurial capacity, France remains largely incapable of creating jobs, particularly for young people, whose unemployment rate has for several years stood at around 25%. This unhappy *exception française* can largely be ascribed to a segmentation of the labour market between, on the one hand, employees who enjoy a higher degree of job security thanks to very protective legislation, and on the other, workers who are trapped in job insecurity. This two-tier labour market is the source of profound social inequalities and economic inefficiency. In this area too, changes in mentalities and the rules in place are a prerequisite for progress. Labour market reform that would make the different types of employment contract more similar in order to give greater flexibility to businesses – and therefore greater incentives for French employers to hire staff on permanent contracts – while reducing the insecurity linked to fixed-term contracts, is therefore a priority. It should lead to greater importance being given to industry- and company-level agreements and to refocus regulation on areas pertaining to public policy and gaps in the coverage of labour agreements.

Other structural reforms would make it possible to rapidly raise the growth rate and increase employment. We need to reform our goods and services markets in all of those sectors where the rules and protection of existing players prevent the emergence or development of productive supply that is conducive to wealth and job creation. We should rethink our education system so that it better meets the needs of the economy and therefore helps young people to integrate into the labour market, and continue with the reform of higher education. We should keep our production costs in check, making sure that the taxes and social security

contributions that weigh on our businesses in respect of their production in France are curbed as far as possible. Efforts to increase purchasing power should be based not on a generalised rise in wages that does not reflect productivity and therefore fuels unemployment, but on shifting the focus of professional training towards the least-skilled and an increase in full-time jobs.

### **A financial system at the service of the economy**

Our financial system – banks and insurance companies – has also been a factor of resilience in the crisis. The support that was given to it during the most turbulent episodes, apart from the difficult case of the Franco-Belgian banking group Dexia, has cost nothing to the State, and it has continued to finance the economy in a generally appropriate manner. That said, given the problems identified in the development of our SMEs, the future *Banque publique d'investissement* (Public Investment Bank) may prove to be useful if it focuses its action on financing that is difficult to obtain via market mechanisms – primarily capital contributions. Similarly, the need for the development of a major new player in the financing of local government is now urgent in order to make up for the withdrawal of Dexia.

The financial sector is currently adjusting to the numerous regulatory and market developments. Many discussions are now taking place – mainly in the countries that have experienced major financial disasters – about the merits of separating, one way or another, banks' market activities and retail activities. There is no doubt that those activities that are truly disconnected from the real needs of the economy, that are purely speculative, should be sidelined and, ideally, even completely prohibited. But there is also no doubt that the vast majority of French banks' financing and investment activities do not fall into this category and are in fact very useful for the real economy: market-making for government and corporate debt securities, management of the risks taken by banks to ensure longer-term financing of the economy than from deposits, and the production of market products needed to manage savings in investment funds and life insurance are examples of these. I would also like to draw attention to one of the characteristics of the savings circuit in France: due to the growth in life insurance, investment funds and regulated



savings products, payments into which are largely centralised by the *Caisse des dépôts et consignations*, in France, it is not deposits that finance market activities, but the latter which are needed to refinance loans. The Banque de France and the *Autorité de contrôle prudentiel* (Prudential Supervisory Authority) are ready to take part in the exercise of distinguishing different banking activities, an exercise which should be carried out in-depth prior to any reform.

The French economy has unquestionable strengths that are often envied in other countries. Its demographics are more dynamic than those of most of its neighbours; the innovative capacity of its entrepreneurs is well recognised; its network of businesses is diversified and counts many global leaders; its financial system is robust and efficient; its labour force is of a high calibre; and its capacity to produce highly skilled individuals, particularly in the scientific field, is indisputable.

But France has allowed serious weaknesses to develop over the past few decades, which accounts for the slow deterioration in its economic position in Europe and the world. Its inability to keep its public finances under control has weakened the economy. Having paid insufficient attention to developments in its competitiveness, France has let its capacity to produce and export slowly slide, resulting in rising unemployment particularly among young people and the least skilled. While proclaiming its attachment to its social model, our country has allowed a deficit to persist that will spell its demise if it is not addressed without delay.

The crisis in the euro area has highlighted the dangers of the members of Economic and Monetary Union lowering their guard regarding the sound management of public finances as well as competitiveness and employment: dangers for themselves and dangers for the euro area as a whole.

It is time for our economies to become more competitive, more coherent among one another and better integrated into the global economy. As for the euro area as a whole, the main elements of the reforms that need to be carried out in France are clear: keeping rigorously to our fiscal consolidation plan in order to ensure confidence among investors,

businesses and households; reforming our labour market, our education policy and professional training; and more generally carrying out structural reforms conducive to maximising the creation and development of productive activities and jobs so as to raise the potential growth rate.

Paris, 9 July 2012



Christian NOYER

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The photos that illustrate this Annual Report were taken by Pascal Assailly and Jean Derennes during the different stages of refurbishment of the Grand Hall of the Banque de France's headquarters. This area, which had previously been open to visitors, is now dedicated to the organisation of conferences.

The photos of the General Council and the members of the Executive Committee were taken by Marthe Lemelle.

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Monetary policy,  
actions to safeguard  
financial stability and  
economic recovery





After the rebound in the first half of 2011, the second half was marked by a slowdown which was accentuated by the tensions on sovereign debt. The euro area has been at the epicentre of this new phase of the financial crisis while its fiscal position compares favourably with that of other major advanced economies. At the end of the year, the announcement of fiscal consolidation plans and the monetary policy measures taken in the euro area helped ease the tensions on financial markets and bolster business confidence. In order to ensure a definitive

exit from the crisis, these measures will nevertheless need to be extended by conducting a credible strategy for reducing government debt, strengthening the euro area's potential growth through structural reforms and completing the reform of European governance.

In 2011, the French presidency of the G20 set out to strengthen international coordination of economic policies, to pursue the reform of financial regulation and to make headway with reforming the international monetary and financial system.



## 1| INTERNATIONAL ENVIRONMENT

### 1|1 Capital and commodity markets

#### Capital markets

The year 2011 was marked by the intensification of the sovereign debt crisis in the euro area. Financial market tensions and uncertainties were exacerbated, in particular in the second quarter, while world growth posted a sharp slowdown.

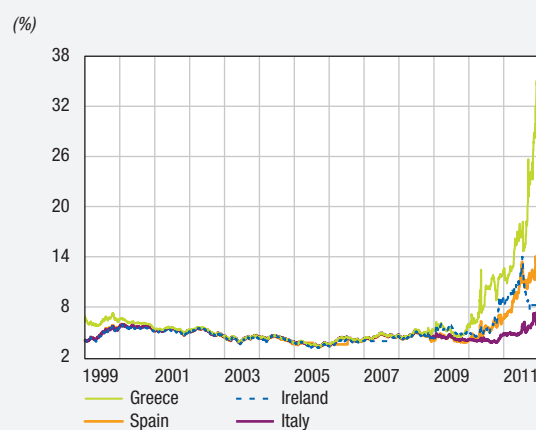
In the main economic areas, the strengthening of non-standard monetary policies accentuated the liquidity surplus. In the United States, Japan and the United Kingdom, short-term interest rates remained at low levels throughout 2011. In the euro area, the Eurosystem adapted its interest rate policy and its liquidity-providing operations (notably an extension of the duration of refinancing operations) to the changes in the macroeconomic environment and to the impact of the growing tensions on sovereign debt markets on the euro area banking system. In this context, the segmentation of the euro money market continued – with an increased dispersion of lending rates by counterparty. The dollar funding conditions of euro area banks also tightened significantly. Dollar liquidity-providing operations by the Eurosystem, backed by a foreign exchange swap agreement with the Fed, nevertheless helped to ease tensions at year-end, as shown by the significant fall in euro-dollar basis swaps:<sup>1</sup> the 3-month euro-dollar basis swap slid from -157 basis points on 29 November – on the eve of the announcement by the Eurosystem of a cut in dollar lending rates – to -114 basis points on 30 December.

The euro area experienced new episodes of the sovereign debt crisis with heightened tensions on “peripheral” markets, reflecting investors’ wariness vis-à-vis macroeconomic weaknesses and their doubts about the sustainability of public finances in certain countries (see Chart 1). As a result of these pressures, Portugal agreed on a USD 78 billion bailout deal financed by the European Union and the IMF in May and a plan for private sector participation in reducing the Greek debt was announced in July. The downgrading by Standard & Poor’s of Greece’s

long-term debt rating to the lowest possible level before default (CCC) increased investor concerns and mistrust vis-à-vis peripheral countries’ sovereign debt. Tensions also affected Ireland, then Italy and Spain from July. Against a backdrop of a strong liquidity dry-up on bond markets, government bond rates in these countries and spreads, in particular compared to equivalent German rates, reached unprecedented levels since the creation of the euro.

A telling sign of concern is that government bond yield curves in Portugal, Italy and Spain flattened significantly, with a substantial rise in short-term rates. In the second half, tensions also affected “core” euro area countries. Thus, the spread with German 10-year bonds reached a record high since the creation of the euro for French bonds (190 bp), Austrian bonds (184 bp), Finnish bonds (77 bp) and Dutch bonds (63 bp), although the government securities of these four countries continued to be relatively sought after by investors in a context of flight to quality and liquidity. Following the agreement reached at the European Summit on the fiscal compact and the strengthening of economic policy coordination, on 9 December, and the ECB announcements on liquidity management (in particular 3-year refinancing operations),

**Chart 1**  
Peripheral 10-year yield spreads since 1999



Source: Bloomberg.

<sup>1</sup> For a given maturity (e.g. 3 months) the euro-dollar basis swap represents the cost difference between a loan on the US money (at the Libor rate) and a synthetic loan operation on the euro area money market (at the Euribor rate) followed by a foreign currency swap between the euro and the dollar.



on 8 December, euro area bond markets eased, in particular at the shorter end of the yield curves of peripheral countries.

In the United States, as a result of the maintenance of an accommodative monetary policy, disappointing macroeconomic data and the escalating tensions in the euro area, US bond rates dropped to record lows: 0.15% on 2-year bonds and 1.72% on 10-year bonds in September (down from record highs of 0.85% and 3.74% in February). Rates fell to these very low levels despite the downgrading of the US sovereign debt rating by Standard & Poor's (from AAA to AA + with a continued negative outlook) on 5 August, a decision that followed the difficulties encountered by the House of Representatives with a Republican majority and the Obama administration to agree on raising the federal debt ceiling.

UK sovereign bond yields, bolstered by purchases of investors seeking safe havens, followed a similar path to that of US yields. Non-residents were, in the United Kingdom as in the United States, net buyers of sovereign bonds. Furthermore, the Bank of England having added GBP 75 billion to its asset purchase programme (the quantitative easing target thus rose from GBP 200 to 275 billion), UK rates fell to record lows.

The movement of Japanese bond yields was practically the same as in the United States and the United Kingdom: the 2-year yield stood at 0.136% on 30 December (compared to a yearly high point of 0.254% in February) and the 10-year yield at 0.998% (against a yearly high point of 1.355% in February).

On foreign exchange markets, as the European sovereign crisis worsened, demand for the Swiss franc and Japanese yen as safe haven currencies increased (see Chart 2). Following the strong appreciation of its currency during the summer, the Swiss National Bank decided to introduce a floor rate of 1.20 to the euro-Swiss franc parity. This was successful since the effective exchange rate of the Swiss franc appreciated by less than 2% between January and December. The effective exchange rate of the Japanese yen gained more than 7% over the year despite the coordinated intervention of the G7 in March to counter the yen's

appreciation after the earthquake and nuclear disaster in Japan and the unilateral interventions of the Bank of Japan in August and October. The US dollar also acted as a safe-haven currency, being the most liquid currency in the world, while the euro proved resilient throughout the year despite the intensifying sovereign debt crisis (a 1% decrease in the nominal effective exchange rate).

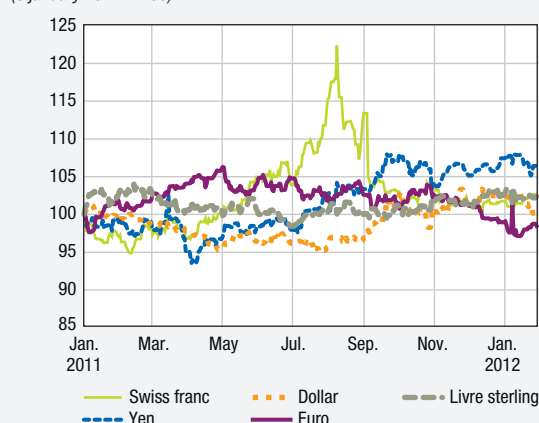
The price of gold rose significantly in 2011, bolstered by investor risk aversion and demand from central banks in emerging countries. It reached a record high of USD 1,920 per ounce in September and rose by more than 11% over the year.

In emerging markets, slower growth and diminishing inflationary pressures in the second half of 2011 prompted central banks to initiate monetary easing cycles. Against a backdrop of increased uncertainty, emerging markets were penalized by portfolio reallocations towards developed countries and asset havens. As a result, emerging currencies depreciated against the US dollar while the EMBI global index calculated by JP Morgan, which measures the bond yield spread between emerging countries and the United States, rose from 288 basis points to 426 bp over the year.

World stock markets first rose, before falling sharply in the summer. Overall, while world stock markets lost considerable ground (-8.2% for the MSCI World Index), US stock markets remained stable

**Chart 2**  
**Effective nominal exchange rates**

(3 January 2011 = 100)



Source: Bloomberg.

(for the S&P 500) or registered gains (+4.7% for the Dow Jones), whereas Japan, Europe and emerging markets dropped significantly (-20% for the MSCI Emerging Markets Index, -17.3% for the Nikkei, -18.1% for the Eurostoxx, -19% for the CAC40). Bank stocks were particularly affected by the sovereign debt crisis, including in the United States, as a result notably of banks' exposure to sovereign debt: the bank components of Eurostoxx and S&P 500 thus dropped by 39% and 44% respectively.

### Commodity markets

Commodity prices were high at the start of 2011. They continued to rise during the first quarter, then started to decline from the spring, while remaining at historically high levels.

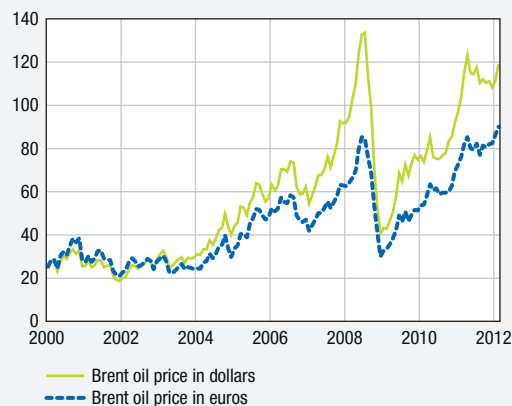
For the first time, the annual average price of Brent crude oil exceeded USD 100 (USD 111 in 2011). This high level is due to the substantial pressures on production in the Middle East and North Africa, with in particular supply disruptions in Libya: total production in Libya, Syria and Yemen fell by 450 million barrels in 2011, representing approximately 1.5% of world production. As a result of these pressures, the members of the International Energy Agency were led to use their strategic reserves and Saudi Arabia to increase its production, but these measures did not completely offset the fall in output. These pressures appeared against the backdrop of a trend decline in non-OPEC production, in particular in the North Sea (Norway and United Kingdom), where it has been at 3 million barrels/day below its level of 10 years ago.

The drop in oil prices as from April reflects a succession of downward shocks that weighed on global economic activity, such as the deterioration in EU economies at the end of the year and the slowdown in emerging countries.

At the very end of the year, the geopolitical tensions in Iran accentuated the uncertainty on the oil market, leading to sharp price increases at the start of 2012.

The year 2011 was also marked by a very large price differential between the two main oil indices, the Brent

**Chart 3**  
**Brent oil price**



Source: Bloomberg.

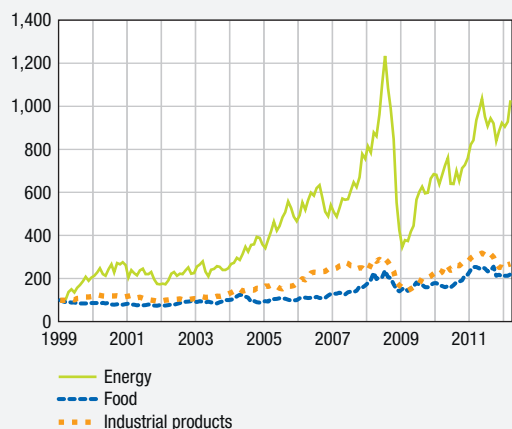
North Sea Crude and the West Texas Intermediate (WTI) traded at Cushing (Oklahoma) in the United States, which reached up to USD 29 in September. The substantial oil production in the US Midwest and the lack of transportation infrastructures for delivering that oil to the Gulf of Mexico resulted in strong pressures to increase the WTI discount.

Prices of agricultural products declined over the year on account of good harvests, in particular wheat, but also sugar (India) and soybean (Latin America).

Lastly, prices of non-precious metals also decreased during the year due to the global economic slowdown.

**Chart 4**  
**Commodity prices HWWA indices**

(january 1999 = 100)



Source: Hamburg Economic Research Institute.

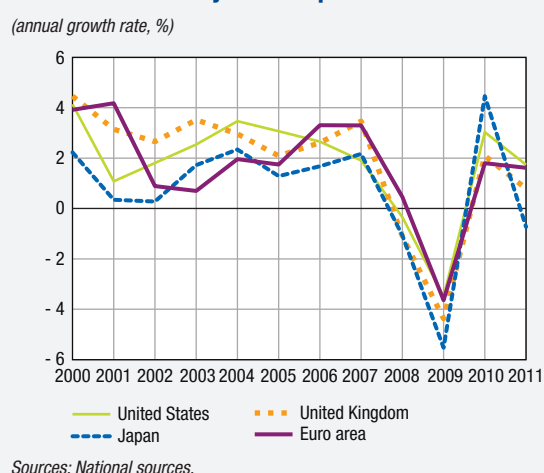
## 1|2 Activity outside the euro area

According to estimates from the International Monetary Fund, after a strong rebound in 2010 upon exiting recession, world economic activity slowed in 2011, from 5.2% to 3.9%. This global slowdown can partly be attributed to a succession of downward shocks that hit the world economy throughout the year, such as the sharp rise in commodity prices in the first quarter, the natural disaster in Japan on 11 March, which by contagion led to a breakdown in the global supply chains, and the rise in uncertainties linked to the growth in public debt in most industrialized countries, which have shaken economic agents' confidence. This slowdown has not spared emerging economies which, with a 6.2% growth rate in 2011 after 7.2% in 2010, continue nevertheless to fuel the engine of global economic growth.

### Industrialised countries

In the United States, the multiannual revision of national accounts of July 2011 revised upwards both the recessionary impact of the financial crisis on the growth of gross domestic product (GDP) for 2008 (-0.3%) and 2009 (-3.5%) and the strength of the recovery in 2010 (+3.0%). In 2011, the pace of recovery slowed markedly (+1.7%), US economic activity having been impacted by a series of downward shocks, both exogenous and endogenous. In particular, the long parliamentary debate on the raising of the debt ceiling at mid-year accentuated the uncertainty surrounding economic policy, but ultimately speeded up the fiscal consolidation process. Overall, the US economy proved rather resilient to this succession of shocks, as evidenced by the improvement in labour market conditions and the beginning of a stabilisation in the housing market. In 2011, the US labour market created 1.8 million net jobs. The unemployment rate slipped down to 9.0%, from 9.6% in 2010 and the participation rate fell to a historically low level (64.0% in 2011). The housing market showed tentative signs of stabilizing in 2011, even though it remains deeply depressed. Home prices as measured by the FHFA index dropped by 3.5%, after posting a 3.7% fall the previous year. Housing stocks declined and housing starts and building permits rose again, even though they are still at very low

**Chart 5**  
**Growth rates of major developed economies**



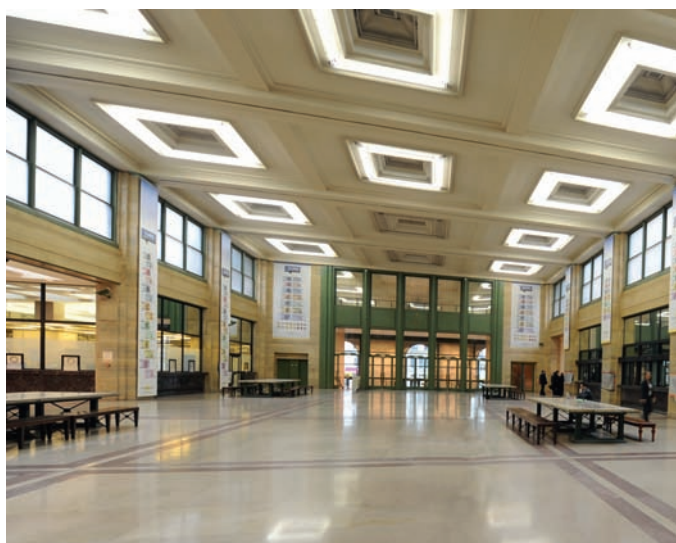
levels. The housing sector remains fragile given the still high number of foreclosures.

In 2011, the deficit in goods and services widened to USD 560 billion (i.e. 3.9% of GDP) from USD 500 billion in 2010 (3.4% of GDP). This deterioration was only partially due to higher import prices, since the non-oil deficit rose from USD 369.7 billion in 2010 to USD 399.9 billion in 2011. The consumer prices index rose by 3.1% in 2011, after rising by 1.6% in 2010, mainly because of higher energy prices which increased by 15.2% in 2011 after rising by 9.5% the previous year. Excluding food and energy, inflation stood at 1.7% in 2011, after reaching in 2010 its lowest level since 1958.

In the course of 2011, the Federal Reserve stepped up the exceptional measures it had already started carrying out during the crisis to guard the US economic recovery against the risk of a new pronounced slowdown in activity. In 2011, the target fed funds rate was kept at between 0% and 0.25% and the additional Treasury bond purchase program decided on in November 2010 (quantitative easing 2) came to an end in June 2011. In addition, a new maturity extension program (operation Twist) was set up in September 2011 with the objective of putting downward pressure on long-term interest rates. This involved buying USD 400 billion of Treasury longer-term securities while selling an

equal amount of short-term securities. Lastly, the Fed announced the reinvestment of amounts made available by the maturing mortgage securities it holds in securities of the same nature. In fact, the balance sheet of the Federal Reserve, which in 2011 was over twice its level of 2008, totalled USD 2,980 billion at year-end, representing 18.5% of GDP. The federal deficit narrowed slightly in fiscal 2011 (which runs from 1 October 2010 to 30 September 2011) to -8.7%, after -9.0% in 2010 and -10.2% in 2009. However, the outstanding federal debt continued to rise, reaching 67.7% of GDP at end-2011, and the absence of a political consensus on fiscal consolidation led the rating agency Standard and Poor's to downgrade the US public debt rating by one notch on 5 August.

In the United Kingdom, average annual GDP growth dropped to 0.7% in 2011, from 2.1% in 2010. This decline is mainly due to the restrictive effect on domestic demand of fiscal consolidation on the one hand, and of high inflation on the other. GDP growth benefited from the positive contribution of foreign trade (+1.0 percentage point), mainly on account of the very sharp slowdown in imports (+1.2% after +8.6% in 2010) in a context of moderate increase in exports (+4.6% after +7.4% in 2010). Domestic demand excluding inventories made a negative contribution to growth in 2011 (-0.9 percentage points compared with an average contribution of +3.3 percentage points during the 15 years before the crisis); this was the first time since 1977 that this occurred during a year of growth.



Inflation, as measured by the year-on-year increase in the consumer price index, rose on average to 4.5% in 2011 from 3.3% in 2010; this acceleration can largely be attributed to the VAT increase in January 2011 and to higher oil and commodity prices in the first half of the year.

The Bank of England continued with its policy of monetary easing throughout 2011, leaving its key rate unchanged at 0.5%. In October 2011, it increased its bond purchase programme (treasury bills, i.e. gilts) by GBP 75 billion to GBP 275 billion at end-2011. The balance sheet total of the Bank of England amounted to about 19% of GDP at end-2011.

The government deficit decreased thanks to fiscal consolidation efforts and amounted to 8.3% of GDP at end-2011 after 10.1% in 2010. Public debt (as defined in the Maastricht Treaty) reached 78.8% of GDP in 2011 after 75.7% in 2010.<sup>2</sup>

After registering a strong recovery in 2010 with an annual growth rate of 4.5%, Japan experienced an atypical year in 2011, directly and indirectly hit by natural disasters. The earthquake of 11 March 2011, the nuclear accident that followed, and the floods in Thailand at year-end disrupted production chains and affected industry's ability to meet demand. In addition, Japan suffered the consequences of the global economic slowdown and struggled to find growth opportunities in foreign markets. Japan posted negative growth for three quarters in 2011 and, over the year, Japan's GDP growth fell to -0.7%. Net exports made a negative contribution to growth in 2011 (-0.7 points) and Japan recorded its first annual trade deficit in 2011 since 1980. However, after the earthquake, recovery was rapid, driven by government emergency measures and the restoring of production capacities. Government measures voted in favour of public investment (three supplementary budgets in 2011, for a total amount of

<sup>2</sup> However in the UK, the public debt measure used for the forecasts by the Office for Budget Responsibility and by the Treasury for fiscal policy purposes is a measure of net debt. In particular, the Office for National Statistics publishes two measures of net public debt, making the distinction between a measure that excludes and one that includes the cost of financial interventions set up to support the banking system during the crisis (nationalisations, recapitalisations etc.). In 2011, the net public debt excluding these financial transactions rose to 65.5% of GDP from 59.4% in 2010, while the measure that includes the interventions reached 145% of GDP in 2011 after 151.8 % in 2010.



about 3.3 GDP points) should start to have an effect in 2012.

As regards its fiscal position, Japan posted a public debt of 212% of GDP at end-2011 according to OECD estimates. Within the G20 framework adopted in Cannes, the Japanese authorities have committed to fiscal consolidation aimed at reducing both local and central government deficits and debts. The consumption tax rate is scheduled to be raised from 5% to 10% in 2014-2015 to finance social security spending. Finally, while the negative supply shock caused by the earthquake pushed prices up for a few months, deflationary pressures returned in autumn, the growth rate of the general consumer price index having dropped by 0.3% over the year.

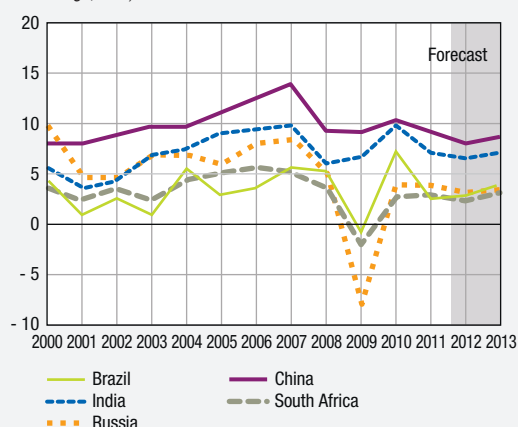
## Emerging economies

In the first half of 2011, emerging countries, which had become attractive thanks to higher growth prospects and interest rates than those of advanced countries, continued to record large capital inflows. However, these flows dried up in the summer, following the intensification of the debt crisis in the euro area which led to an increase in risk aversion and prompted banks, particularly in Europe, to lower their exposures to these economies.

In addition, the resurgence of inflationary fears, triggered mainly by the rise in commodity prices (in particular oil), led almost all of these countries to

**Chart 6**  
**BRICS GDP growth**

(annual average, in %)



Source: IMF, World Economic Outlook (January 2012).

tighten their monetary policy at the start of 2011. As a large number of emerging economies managed to lower inflationary pressures during the year, they embarked from the second half of 2011 on a cycle of monetary easing by lowering policy rates and reserve requirement ratios, as was the case in Brazil, China and Russia.

Lastly, although the dynamic growth recorded in 2010 was conducive to fiscal consolidation in emerging economies, external account imbalances remained, particularly in Latin America. In China, the trade balance was lower in 2011 than in the previous year.

**Table 1**  
**Main economic indicators for BRICS**

	Brazil		Russia		India		China		South Africa	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Nominal gross domestic product (GDP) (USD billions)	2,090.0	2,518.0	1,485.0	1,885.0	1,632.0	1,843.0	5,878.0	6,988.0	364.0	422.0
GDP growth (%)	7.5	2.9	4.3	4.3	10.6	7.2	10.4	9.2	2.9	3.1
Inflation growth (%)	5.0	6.6	6.9	8.4	12.0	10.6	3.3	5.4	4.3	5.0
Fiscal balance (% of GDP)	-2.8	-2.6	-3.5	1.6	-9.2	-8.7	-2.3	-1.2	-4.8	-4.6
Current account (% of GDP)	-2.2	-2.1	4.7	5.3	-3.3	-2.8	4.0	2.8	-2.5	-3.7
Public debt (% of GDP)	65.2	66.2	11.7	9.6	69.4	68.1	33.5	25.8	35.3	38.8
Official foreign exchange reserves (USD billions)	288.6	352.0	479.0	499.0	279.0	263.7	2,847.3	3 181.2	39.0	43.0
Change in foreign exchange reserves (%)	21.0	22.0	9.1	4.0	- 0.5	16.7	18.7	11.7	0.1	36.9

Note: The term BRICS is used to refer to a group of fast-growing countries made up of Brazil, Russia, India, China and South Africa.

Sources: GDP growth: World Economic Outlook Update; fiscal balance and gross public debt: Fiscal Monitor Update; reserves: national sources. Other data: World Economic Outlook.

The majority of emerging economies registered an economic slowdown over the year. Growth rates stood at 9.2% in China, 7.2% in India and 4.5% in the ASEAN-5 countries in 2011, against 10.4%, 10.6% and 7.0 % respectively in 2010. The nuclear disaster in Japan and the floods in Thailand, which also had an impact on the rest of the world, significantly contributed to the decline in GDP growth in Asia.

In Latin America and the Caribbean, after a year of buoyant economic activity in 2010, the regional growth rate dropped from an estimate of 6.2% to 4.5% in 2011: GDP growth in Brazil fell from 7.5% in 2010 to 2.7% in 2011 and in Mexico from 5.5% to 4%. However, a few economies recorded greater economic performances than in 2010. This is the case of Bolivia, Chile, Colombia and Venezuela, the latter emerging from a 2-year recession.

The recovery in emerging Europe was disrupted by signs of weakening economic activity at end-2011, which led to a decline in GDP growth in the Czech Republic (1.7% in 2011 after 2.7 % in 2010) and Turkey (8.5% in 2011 after 9.2% in 2010) which continued to show large external account imbalances. In contrast, GDP growth increased in Poland (4.3% in 2011 after 3.9% in 2010), Hungary (1.7% in 2011 against 1.3% in 2010) and Bulgaria (1.7% in 2011 against 0.4% in 2010). Romania came out of recession with a growth rate of 2.5% (after -1.7% in 2010). Rising commodity prices, in particular oil, helped to boost the economy of Russia, whose growth rate stood at 4.3% in 2011.

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

### 2|1 Slowdown in economic growth as sovereign debt crisis continues

A mid-cycle slowdown in 2011  
exacerbated by the sovereign debt crisis

Euro area GDP growth slowed to 1.5% in 2011 in 2011 after the rebound in activity seen in 2010 (1.9%).

The first quarter saw a 0.7% expansion of the euro area economy (quarter on quarter annualised) which was followed by a sharp drop in momentum (to 0.1% in the second and third quarters) that turned into negative growth in the fourth quarter (-0.3%). At the end of 2011, euro area GDP growth had progressed 3.7% against the Q2 2009 level but still remained two points beneath the level at the start of 2008.

In 2011, household consumption represented a less buoyant support for the euro area's economy than in 2010, contributing just 0.1 of a point to annual growth versus half a point in 2010. Government consumption remained virtually stable compared with the previous year (-0.1 of a point). The contribution of investment to GDP growth diminished as the year progressed and passed into negative territory in the third and fourth quarters (-0.1 of a point respectively) under the combined effect of stricter lending conditions and uncertainty resulting from the continuing sovereign debt crisis. This trend was accompanied by a slowdown in the accumulation of inventories in the second half of the year. In sum, for the euro area as a whole, 2011 GDP growth was essentially driven by external trade which contributed 1.0 percentage point to its annual growth rate. In fact, the slowdown in exports (6.3% in 2011 after 11.1% in 2010) was more pronounced than the decrease in imports (4.1% in 2011 after 9.4% in 2010).

France's GDP growth rate for the year 2011 was 1.7%, the same as in 2010. The French economy was therefore relatively buoyant in 2011, in line with the performances posted since the recovery that have generated an average annual growth rate of 1.5% since mid-2009. In volume terms, France's 2011 GDP was just above its 2007 level. At the same time, total employment was up 0.5%, with 84,000 new jobs created in 2011. Nevertheless, after a strong first quarter (Q1 2011 vs. Q4 2010: +0.9%) in France and in most euro area countries driven mainly by the replenishment of corporate inventories, the growth momentum began to decelerate. Household spending was affected by the repeal of the vehicle scrapping scheme at the start of the year, falling sharply in Q2 and recovering only marginally thereafter. Over the 2011 as a whole, household spending the main driver of French growth in recent years contributed little to overall GDP growth (0.1 of a point). At the

Box 1

### The sovereign debt crisis, its origins and developments

Since mid-2007, the global financial system has been subject to a crisis of unprecedented proportions. Since it began, the crisis has mutated through several different stages: initially financial, it became an economic crisis and then a sovereign debt crisis.<sup>1</sup> The latter phase of the crisis saw various developments in 2011, particularly in the euro area, resulting in increased tensions on financial markets (equities, bonds, CDS and Forex notably).

The sovereign debt crisis is the consequence of numerous structural imbalances that have accumulated over recent years.

Firstly, debt levels in the industrialised countries were globally very high when the crisis began. Subsequently, the economic slowdown, the operation of automatic stabilisers and then the measures taken to support the economy and the banking sector contributed to deepening deficits and raising public debt levels in numerous countries.

These policies were at origins of a transfer of risk from the banking sector to States, gradually contributing to the emergence of “sovereign risk”. The rise in this risk led to the first ratings downgrades of European sovereigns (notably Greece, Portugal and Spain), which in turn fuelled uncertainties regarding the banking sector. The respective situations of States and of banks were in fact perceived by the markets as being closely linked, with States in financial difficulties considered unable to fulfil their roles as the banks’ financial guarantors.

The growing uncertainties vis-à-vis the banks and their exposure to sovereign risks, particularly that of the so-called peripheral countries, seriously disrupted the functioning of the interbank market which is essential for financing the economy. Moreover, this uncertainty negatively impacted the confidence of investors, the most volatile of which abruptly withdrew their funds – like the American money market funds – contributing to a sharp increase of tensions on bank funding, particularly in dollars, during the summer of 2011.

This crisis has in all likelihood durably modified investors’ perception of sovereign debt, which is no longer considered as a risk-free financial asset.

<sup>1</sup> See also on the website of the Banque de France (only in French): <http://www.banque-france.fr/publications/documents-economiques/documents-et-debats/documents-et-debats-n-4.html>.

same time, the replenishment of inventories, despite a slight dip in Q2, represented the strongest support for the economic recovery generating nearly half of France’s 2011 GDP growth (0.8 of a point).

In Germany, the recovery that started mid-2009 continued over the first three quarters of 2011. The first quarter posted a dynamic level of domestic demand across the board while the second saw strong gross fixed capital formation and the third was driven by buoyant household spending. As a result Germany’s GDP growth rate exceeded its first quarter 2008 level in the second quarter of 2011 and closed the year with an annual growth rate 0.5% higher. In the fourth quarter, Germany’s GDP nevertheless contracted slightly (-0.2% versus the previous quarter) mainly due to a negative contribution from foreign trade, with imports increasing more rapidly than exports. In total, Germany posted an annual GDP growth rate

of 3.1% in 2011. Employment levels markedly increased (total employment was up 1.3% in 2011) and unemployment fell to a historically low level (a harmonised unemployment rate of 5.6%).

Italy’s 2011 GDP growth was low (0.5%) and weakened as the year progressed (from 0.1% quarter-on-quarter in Q1 to -0.7% in the Q4) with a persistent external imbalance (-3.3% of GDP in Q4). At the end of 2011, Italy’s GDP remained 5.2% below its early 2008 level. While foreign trade made a positive contribution to Italy’s annual GDP (1.4 points), domestic demand contracted under the restrictive effect of several successive fiscal consolidation plans. Whereas they all contributed positively to GDP during Q1, the different components of domestic demand all made negative contributions in the last quarter of the year (-1.4 points, including changes in inventories), particularly investment.

## Box 2

### Evolution of structural unemployment in the euro zone

Since the exit from recession, the euro area's unemployment rate remained persistently high despite the recovery in economic activity, albeit modest. In effect, while euro area GDP grew 3.6% between the trough of Q2 2009 and Q4 2011, the unemployment rate increased by approximately one percentage point over the same period to 10.4% of the labour force, the same level as in 1998. The subdued post-crisis labour market dynamic suggests a possible increase in the level of structural unemployment in the euro area.

Among the numerous factors underlying structural unemployment, labour market efficiency (the matching of labour supply and demand) can be studied through an analysis of the evolution of the Beveridge curve, a graphic representation of the negative empirical relationship between the unemployment rate and the job vacancies rate. Here, the graphical representation of this curve has been constructed for the period 1995-2011.<sup>1</sup>

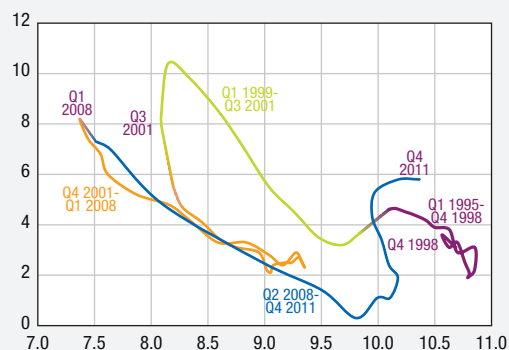
#### Chart

#### Euro area Beveridge curves

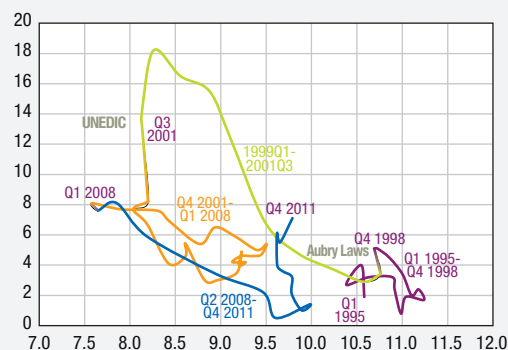
Q1 1995-Q4 2011

(x: unemployment rate; y: job vacancies rate)

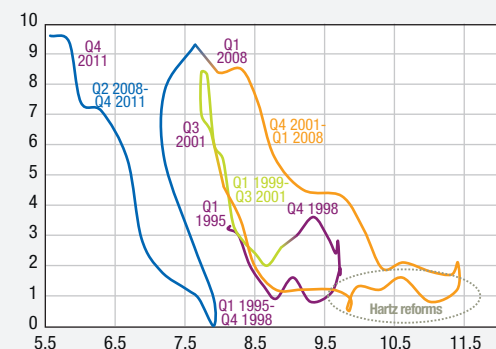
#### Euro area



#### France

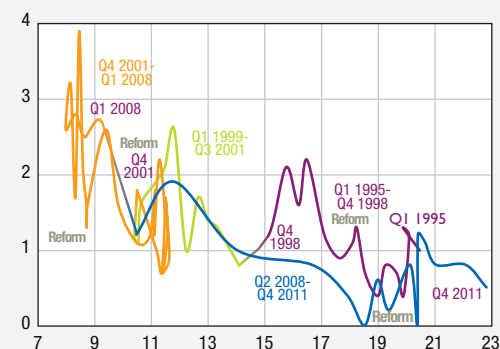


#### Germany



Source: European Commission, Eurostat.

#### Spain



<sup>1</sup> The graphical representation of the Beveridge curve shown here crosses the unemployment rate (in %) not with a direct measure of the vacancy rate but with an approximation of labour market tensions derived from the frequency with which the labour was cited as a constraint in the response to the European Commission's survey question to manufacturing industries concerning factors limiting production (in %). It should be noted that the statistical limits of this approach may affect the interpretation of the results: for example, the survey responses used concerned uniquely companies in the manufacturing sector and not the economy as a whole, whereas the 2008-2009 recession particularly affected the property sector and, albeit to a lesser extent, services (financial).

.../...



The Beveridge curve for the euro area as a whole shows a recent break in the empirical relationship between unemployment and job vacancies. In fact, since the end of 2009, the Beveridge curve has shifted outwards, moving towards the position it occupied during the period 1995-1998, signalling the emergence of labour market matching difficulties since the end of the recession. At the same time, the curve has shifted into an almost vertical position, with the unemployment rate only showing minimal reaction to variations in labour market frictions. The progression, albeit marginal, of labour market participation between Q3 2009 and Q2 2011 is one explanation for the downward stickiness of the unemployment rate, while the stagnation of employment since 2009 is another one. Indeed, the stagnation of employment in a context of increasing job vacancies is indicative of labour market difficulties that could be linked to a deterioration of matching efficiency and of the risk of a rise in structural unemployment.

With the euro area labour market still characterised by very substantial national differences, a look at the evolution of the Beveridge curves of the area's main countries (Germany, France and Spain)<sup>2</sup> is useful to analyse the sources of the rise in structural unemployment in the euro area. Since the end of 2009, the Beveridge curve has signalled an improvement in labour market efficiency in Germany, but a deterioration in France and above all in Spain, where the labour market situation is of particular concern, with an unemployment rate continuing to rise despite the modest rise in job vacancies. These labour market matching difficulties could signal a rise in structural unemployment. One of the factors at the root of the rise in structural unemployment in Spain, where the recession has manifest above all in the construction sector, is a lack of sectoral and regional labour mobility.

<sup>2</sup> Italy's labour market situation is not presented here because its Beveridge curve showed little change over the period under review.

### Box 3

#### France's balance of payments

In 2011, France posted a current account balance of EUR -38.9 billion after -30.2 billion in 2010. This deterioration was caused by a deepening of the deficit on goods (EUR -73.5 billion, versus -52.9 billion in 2010). At the same time, the income account (EUR 46.9 billion) posted another improvement. Likewise, the balance of services posted a sharp increase to EUR 24.2 billion (after 15.9 billion in 2010). Lastly, the balance of current transfers<sup>1</sup> reached EUR -36.6 billion in 2011, showing a slightly larger deficit than for 2010 (-33.8 billion).

The deepening of the deficit on goods was substantially amplified by a deterioration in the balance of energy products. Excluding energy products, the balance of goods deficit has also been rising regularly since 2004 and reached EUR -7.8 billion in 2011 versus -3.7 billion in 2010 according to figures compiled by the Customs and Excise General Directorate.<sup>2</sup> All sectors combined, the French economy posted growth of 8.4% in goods exports in 2011 against 11.5% in goods imports.

The agri-food, chemicals (excl. perfumes) and metal products sectors made the strongest positive contributions to the growth of French exports in 2011, while the chemicals, metal products and industrial/agricultural machinery sectors contributed the most to the growth of goods imports (excluding energy). From a geographical point of view, France's largest trade deficits were with the euro area (EUR -37.1 billion in total, of which just under half, i.e. -16.7 billion euro, with Germany) and Asia (EUR -23.5 billion, particularly with China including Hong Kong).

The significant improvement in the balance of trade in services was generated by a higher increase in the level of exports than in the level of imports. The balance on travel services provided a very positive contribution. Aside from travel

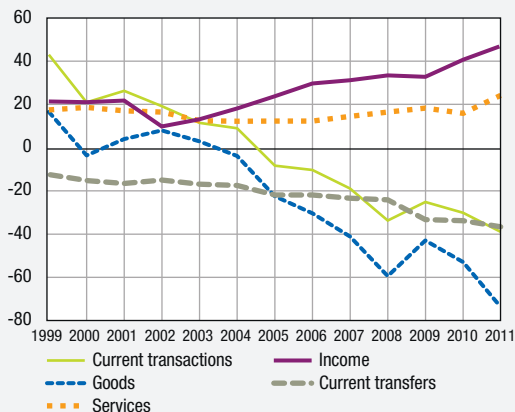
<sup>1</sup> General government transfers (tax, subsidies, social benefits, France's contribution to the European Budget), workers' remittances and other operations (mainly insurance premiums and compensations).

<sup>2</sup> In 2011, the average price of Brent was USD 111.5, equivalent to approximately 80 euro per barrel. Customs data differ from that 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.

.../...

**Chart A**  
**Principal current account balances**

(EUR billions)



Source: Banque de France, Directorate General Statistics.

services, the recovery in services concerned the majority of sectors, excluding transport, which posted a negative balance of EUR 2.1 billion, and to a lesser extent IT services.

Apart from the capital outflows generated by the current account deficit, France's balance of payments showed very substantial volumes of financial flows.

In 2011, France's direct investment balance was positive at EUR 35.4 billion, a similar level to 2010. France's foreign direct investment abroad amounted, after adjustment for intra-company loans, to EUR 61.9 billion (after 50.1 billion in 2010) reflecting the expansion of French groups (acquisitions or capital increase of their subsidiaries) while it received a total of EUR 26.5 billion in FDI from abroad. In 2010 and 2011, reinvested earnings returned to pre-crisis levels and contributed to the direct investment dynamics both as inflows and outflows.

Due to these elements, capital outflows resulting from the current account deficit and direct investment amounted to EUR 74.3 billion in 2011 (versus 65.1 billion in 2010).

The capital outflows recorded up to 2007 in the form of portfolio investments have, since 2008, given way to inflows of capital that have counter-balanced French banks' deleveraging and the overall outflows of direct investment. In 2011 these inflows exceeded their high 2009 level (see chart) with French residents selling their foreign securities (EUR 177.5 billion), while non-residents acquired French securities for 74.1 billion. Non-residents invested a total of EUR 44.5 billion in French government bonds alone in 2011.

Flows of international loans and deposits (Other investments) from monetary financial institutions have been negative since 2008, reflecting a decrease in the net borrowing position of French resident banks vis-à-vis non-residents. In 2011, this movement reflected both a reduction in international loans to France and a simultaneous increase in French loans to non-residents.

**Main components of the balance of payments**

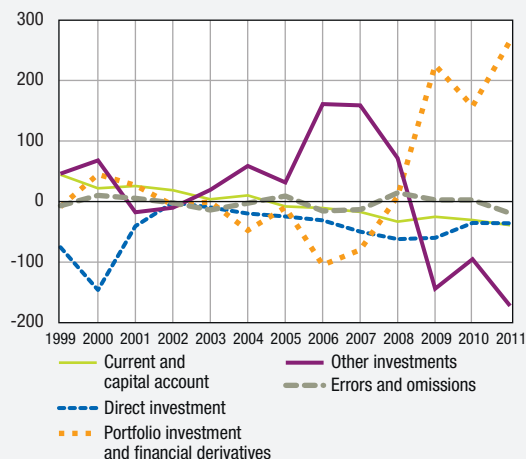
(EUR billions)

	2009	2010	2011
<b>Current account</b>	<b>-25.1</b>	<b>-30.2</b>	<b>-38.9</b>
Goods	-43.0	-52.9	-73.5
<i>o/w customs data</i>	<i>-45.1</i>	<i>-51.8</i>	<i>-70.1</i>
Services excl. travel	10.3	9.9	16.8
Travel	8.0	5.9	7.5
Income	32.8	40.7	46.9
Current transfers	-33.3	-33.8	-36.6
<b>Capital account</b>	<b>0.3</b>	<b>0.0</b>	<b>-0.1</b>
<b>Financial account</b>	<b>22.0</b>	<b>27.5</b>	<b>58.2</b>
Direct investment	-59.7	-34.9	-35.4
<i>Outward<sup>a)</sup></i>	<i>-63.9</i>	<i>-50.1</i>	<i>-61.9</i>
<i>Inward<sup>a)</sup></i>	<i>4.2</i>	<i>15.2</i>	<i>26.5</i>
Portfolio investment	242.2	123.2	251.6
• Assets	-72.2	26.2	177.5
<i>o/w public debt securities</i>	<i>-41.3</i>	<i>34.1</i>	<i>54.4</i>
• Liabilities	314.4	96.9	74.1
<i>o/w public debt securities</i>	<i>153.9</i>	<i>47.9</i>	<i>44.5</i>
Financial derivatives	-16.9	34.3	13.8
Other investment	-147.5	-89.3	-177.3
<i>o/w Monetary financial</i>	<i>-75.8</i>	<i>-46.6</i>	<i>230.2</i>
Institutions	3.9	-5.8	5.5

a) after netting inward and outward lending between sister companies within the same group.

**Chart B**  
**Developments in the main items of the balance of payments**

(EUR billions)



Source: Banque de France, Directorate General Statistics.

In Spain, uncertainty concerning the economic situation remained strong with the downward adjustment of the property market and the deleveraging of the financial sector still incomplete. The implementation of restrictive public spending measures negatively impacted all components of domestic demand, which posted a particularly sharp deterioration in the fourth quarter (-1.7 points of GDP quarter-on-quarter), in a quarter that posted an overall contraction of activity of -0.3%. At the end of 2011, Spain's GDP posted a -4.0% shortfall compared with its early 2008 level, despite having grown 0.7% versus 2010 (year-on-year). Unemployment, which rose throughout the year, was the highest in the euro area (22.9% in Q4). On the positive side, the country's external deficit reduced in 2011 (the current account contracted by -3.7% of GDP in Q4) and the contribution of foreign trade to GDP was markedly positive, with an acceleration in the last quarter, caused by the drop of imports in a context of weaker domestic demand.

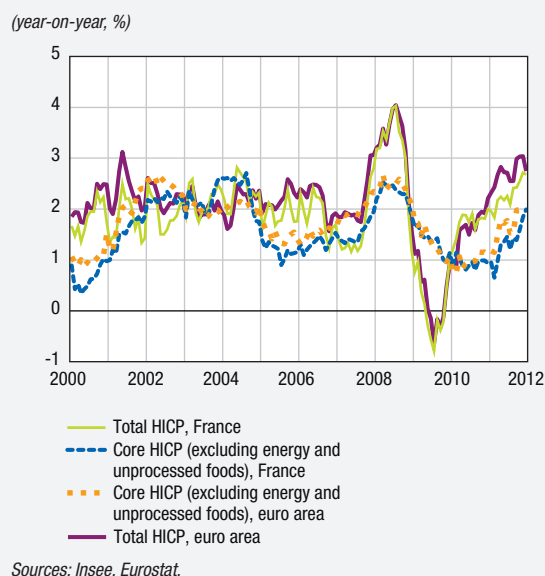
### Rise in inflation in 2011 due to the increase of oil prices

Euro area inflation continued the rise initiated in 2010: in annual variation terms, harmonised index of consumer prices (HICP) rose 2.7% in 2011, after 1.6% in 2010 and 0.3% in 2009. This average annual rate of change for 2011 reflects an ascending trend throughout the year, with the year-on-year growth rate rising from 2.3% in January 2011 to 2.7% in December after a spike of 3.0% in September, October and November. Core euro area inflation (excluding energy and unprocessed food prices) also showed an ascending trend through the year 2011, rising from 1.2% in January to 2.0% from September to December.

French inflation more or less followed the euro area trend in 2011 although at a weaker pace. France's HICP rose 2.3% in 2011, after 1.7% in 2010 and 0.1% in 2009. The profile was also ascending through 2011, rising from 2.0% in January to 2.7% in December. Lastly, core French inflation also grew from a decade low of 1% in January 2011 to 2.0% in December.

As in 2010, the evolution of the international prices of petroleum products was largely responsible for the rise in overall inflation for the year 2011. The euro price of Brent crude oil continued on the upward trend that

**Chart 7**  
**Harmonised Index of Consumer Prices**



began three years earlier. In average annual terms, it achieved a historical record of EUR 80 in 2011, against EUR 60 in 2010, and EUR 44 in 2009. In addition, depreciation of the euro against the US dollar during the second half of 2011 raised the euro area's oil bill, offsetting the effects of the slight fall in the dollar price over the same period. These oil price changes translated into higher pump prices: The energy HICP rose, in France and in the euro area as a whole, by 12% on average over 2011, contributing 1.2 percentage points to overall inflation.



Box 4

### Competitiveness gaps within the euro area

Between 1999 and 2007, current account imbalances within the euro area grew substantially with a deepening of the Spanish, Greek, and Portuguese deficits and, to a lesser extent, the Italian and French deficits, contrasting with growth of the German and Dutch surpluses over the same period. This trend has partially reversed since 2007 with a simultaneous reduction of the German surplus and of the Greek, Spanish and Irish deficits. While these divergent paths within the euro area are correlated to the evolution of competitiveness as measured by unit labour costs (ULCs), they do not necessarily reflect however the real performance differential on export markets.

Naturally, the countries that have posted the strongest improvements in their current account balances are those whose ULCs have remained stable over the period (Germany, Austria) while the countries that posted the largest deficit expansions (Greece, Spain, Ireland) experienced average annual increases in their ULCs of over 3% until 2007. However, export performances do not appear to be the principal vector between a country's ULCs and its current account. Paradoxically, over the 1999-2007 period, Germany on the one hand, and Spain and Greece (on goods exports) on the other hand, posted similar export performances despite the divergent evolutions of their unit labour costs. France, whose unit labour costs are close to average for the euro area, posted a sharp contraction of its share of the global export market over the same period.<sup>1</sup>

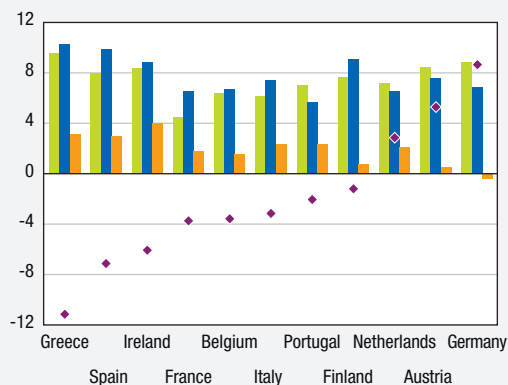
Based on this observation, we may advance several hypotheses to explain, on the one hand the co-existence of good export performances with unfavourable cost competitiveness (ULC dynamics) and, on the other hand, deteriorating current accounts despite good export performances.

#### Charts

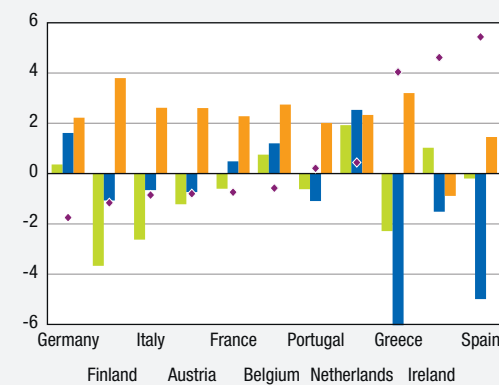
##### Current account, exports, imports and unit labour costs

(change in percentage points of GDP, exports/imports and unit labour costs, average annual growth rate)

From 1999 to 2007



From 2007 to 2010



Exports  
Imports  
Unit labour costs  
Current account (percentage points)

Sources: Eurostat, Banque de France calculations. Greece and Portugal: 2000-2007.

<sup>1</sup> France's share of the global export market shrank from 4.7% in 2000 to 3.3% in 2011 (estimate), compared with respectively 28.7% and 24.9% for the euro area (including intra-euro area trade) and 8.6% at both dates for the German economy.

.../...

Regarding the first of these points, specialisation has been an advantage for certain countries (geographical specialisation has been favourable for Greece). In addition, ULCs have evolved with contrasting growth rates in the tradable sectors. So-called non-cost competitiveness (R&D expenditure, innovation, quality) has also contributed to the buoyancy of exports.

On this second point, it is the import dynamic and slowdown of certain flows (migrant transfers, EU transfers) which are most often at the origin of the current account deficits of the euro area's "peripheral" countries. Domestic demand in these countries has in particular been supported by the fall in real interest rates. Over the longer term, this situation has become problematic to the extent that the bulk of investments made in deficit countries have been focused on the low-exporting sectors of the economy which therefore have not generated additional productive capacities that could have contributed to a re-balancing of their current accounts.

Since 2007, the dynamic of the euro area's current account imbalances has reversed with Spain, Ireland and Greece improving their balance by over 4 percentage points of GDP between 2007 and 2010 (chart 2). This adjustment mainly reflects a significant reduction in their imports of goods and services rather than an improvement in their export performances.

In addition the rise in international prices of food products in 2010 translated into higher euro area processed food prices in 2011, which accelerated from 1.8% in January to 4.1% in December over the year. In France, processed foods posted an even

higher inflation rate, rising from 0.8% to 4.3% over the same period. This, together with a more favourable macro-economic context, contributed to both the growth of core inflation in 2011 and the higher level of wage inflation in France than the euro area average.

## Box 5

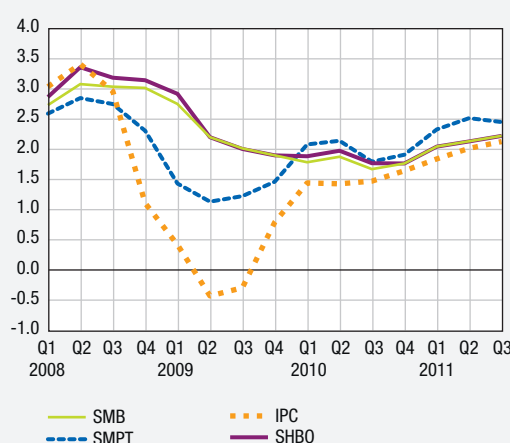
### Wage developments during and after the crisis

In 2009, a year marked by a sharp entry into recession and a drop in inflation, wage growth decelerated very abruptly. Recent data indicate a moderate recovery in the growth of nominal wages since the end of 2010. The annual growth rate of the basic monthly wage and of the blue collar basic hourly wage between Q4 2010 and Q3 2011 was approximately 1.8% to 2.2%.<sup>1</sup>

The sharp fall in the average wage per capita (SMPT) during the 2009 recession illustrates the substantial decorrelation observed during the crisis between the basic monthly wage (SMB) and the average wage per capita (SMPT). As the basic monthly wage (SMB) and the blue collar basic hourly wage (SBHO) do not include the variable element of salaries and wages, the sharp fall in the growth of the SMPT in 2009 partly reflects the increased utilisation of variable remuneration by employers in order to adjust their labour costs to the unfavourable context and low inflation during the year. And as the average wage (SMPT) is also the most sensitive to any modifications in the structure of salaried employment, it was also affected by the destruction of

#### Chart

Basic monthly wage (SMB) – Average wage per capita (SMPT) – Blue collar basic hourly wage (SBHO) and CPI (IPC), year-on-year



Source: Ministry of Employment, Dares.

<sup>1</sup> The basic monthly wage is calculated on the basis of a like-for-like qualification structure. It does not include bonuses, gratuities or overtime payments. The workers hourly wage expresses the evolution of wages for the total working population. 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.

.../...



numerous unskilled jobs during the crisis. The structural effects and the rise in the proportion of variable remuneration most likely explain the rapid rise of the average wage (SMPT) compared to the basic monthly wage (SMB) and the blue collar basic hourly wage (SBHO) in 2011.

If we take into account the evolution of prices, the return of inflation in 2010 implies relatively weak growth of real wages and salaries: thus, between Q1 and Q4 2010, on a year-on-year basis, the growth rate of the real basic monthly wage (SMB) actually diminished from 0.34% to 0.12%. The continued rise in the CPI in 2011 had the effect of reducing the annual growth of real wages and salaries to 0.09% in the third quarter of the year.

Compared with the other principal European countries, France is one of the rare countries where the average labour cost rose in real terms after 2009. Over the period Q4 2009 to Q3 2011, the average labour cost contracted by 1.65% in Italy, by 1.50% in Spain and by 4.60% in the UK whereas it increased by 0.20% in Germany and by 1.17% in France. These differences are partly the result of the varying depths of the recession in these countries.

The faster pace of wage growth in France is also related to the fact that its statutory minimum wage is inflation-indexed. The rise of the CPI having exceeded the 2% threshold between November 2010 and October 2011, France's statutory minimum wage was raised earlier than anticipated by 2.11% in December 2011 and then by 0.33% in January 2012. For the sixth consecutive time, the increase of France's statutory minimum wage in late 2011 was strictly in line with the automatic guarantee provided for by French law and did not contain any discretionary increase. As the blue collar hourly wage grew at a relatively weak pace, the statutory minimum wage only rose in real terms by only 0.2% between January 2011 and January 2012.

## 2|2 Monetary and financial developments in 2011

### Moderate growth of the money supply

After rebounding in the second half of 2010 and the first half of 2011, the annual growth rate of the euro area's M3 monetary aggregate (see Table 1) fell back to 1.5% at end-2011, just below its end-2010 level (1.7%). The French contribution to M3 increased by 3.1% in 2011, a considerably slower growth rate than that recorded for 2010 (6.6%). After deducting the assets held by other financial intermediaries (OFIs), the slowdown is less pronounced, the French contribution to euro area M3 progressing by 4.6% in December 2011, compared with 5.6% in 2010.

Changes in the relative returns on the main asset classes have influenced the respective developments of the different components of M3 in both the euro area and France. Compared with the lows reached in 2010, the slight increase in short-term interest rates raised the opportunity cost of holding the most liquid assets bearing little or no interest, i.e. currency and overnight deposits. This resulted in a sharp slowdown of the growth of M1 in the euro area (1.6% in 2011, after 4.3% in 2010) and a significant deceleration of overnight deposits in France, which increased by 4.4% in 2011, after 7.6% in 2010.

In the euro area, the non-financial corporations (NFCs) reduced their holdings of overnight investments while households favoured certain liquid investments with higher yields. The increase of the yields on short-term deposits included in M2 – M1 rekindled their growth (1.9% in 2011 after -0.4 % in 2010). In France, outstanding amounts of passbook savings accounts expanded at a strong pace following the two hikes in the "A" passbook savings rate in February and August which were then replicated to ordinary passbook accounts.

In the euro area, after strong fluctuations during the year, the outstanding amounts of deposits included in M3-M2 slightly declined at end-2011 compared to their end-2010 level (-0.7% over the year). In the second half of 2011, the growth of marketable instruments was affected by financial turbulence. The assets of other financial intermediaries were inflated until November by the euro area banks heavy use of repos. Confronted with difficulties in obtaining unsecured financing, the banks notably contracted collateralised loans through central clearing counterparties,<sup>3</sup> in order to acquire

<sup>3</sup> Clearing houses are entities that do not necessarily have the credit institution status – but in France LCH CLEARNET SA is a bank – and their main activity is clearing interbank transactions. In monetary statistics, the clearing houses are classified as "Other financial intermediaries".

**Table 2**  
**Evolution of the monetary aggregates for the euro area and France**

(outstanding amounts in EUR billions, growth rates in %)

	Euro area <sup>a)</sup>				France			
	Seasonally adjusted outstanding amounts at end-2011	Annual growth rate <sup>b)</sup>			Unadjusted outstanding amounts at end-2011	Annual growth rate <sup>b)</sup>		
		December 2009	December 2010	December 2011		December 2009	December 2010	December 2011
<b>Monetary aggregates or main monetary assets <sup>c)</sup></b>								
Currency in circulation	843.0	6.3	4.8	6.2				
+ Overnight deposits	3 943.0	13.5	4.3	0.7	580.0	6.8	7.6	4.4
= M1	4 786.0	12.2	4.4	1.6				
+ Other short term deposits	3 805.0	-8.9	-0.3	2.1	715.0	-5.3	2.9	8.8
o/w: Deposits redeemable at notice of up to 3 months	1 958.0	15.1	6.2	1.9	559.0	3.1	3.5	7.3
Deposits with an agreed maturity of up to 2 years	1 846.0	-24.0	-6.4	2.2	156.0	-27.4	0.5	14.7
= M2	8 591.0	1.6	2.3	1.8				
+ Marketable instruments	1 150.0	-11.7	-2.1	-0.7	437.0	-14.5	4.1	-7.5
o/w: Money market fund shares/units	535.0	-2.0	-15.2	-5.2	290.0	-0.2	-11.7	-9.5
Debt securities issued with a maturity of up to 2 years	207.0	-50.0	-13.6	24.0	112.0	-56.6	98.7	-4.2
= M3	9 740.0	-0.4	1.7	1.5				
French contribution to euro area M3 <sup>d)</sup>					1 811.0	-4.8	6.6	3.1

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

b) Changes adjusted for the effects of reclassifications and revaluations.

c) Transactions of French MFIs with other French residents.

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

Source: Banque de France.

protection from counterparty risk. Lastly, money market funds continued to experience net withdrawals in the euro area and France due to their low levels of remuneration.

### In France, sustained growth of loans to the non-financial private sector

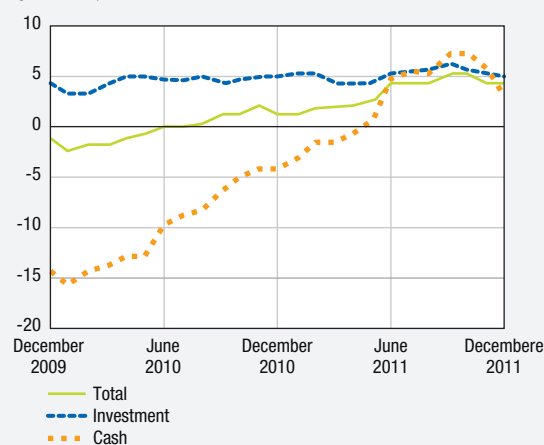
In France, annual growth in loans to NFCs, which returned to positive territory in mid-2010, strengthened considerably in year-on-year terms from 1.2% in 2010 to 4.4% in 2011 (see Chart 8). Despite a slight slowdown in the fourth quarter, the growth of loans to NFCs in France was substantially higher in 2011 than in the rest of euro area (0.4% in 2011 after -0.3% in 2010).

Until May 2011, the annual growth in the volume of mortgage loans continued to accelerate in France and then gradually slowed in the second half of the year, to stand at 6.3% at year-end after 8.0% in 2010.

The growth of mortgage loans was therefore much stronger in France than the euro area average growth rate for this type of loans.

**Chart 8**  
**Loans to NFCs, France**

(% growth rate)



Source: Banque de France.

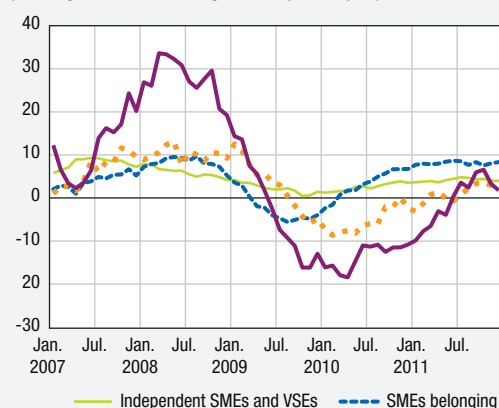
Box 6

## Corporate financing in 2011

In the second half of 2011, the sovereign debt crisis and the slowdown in economic activity weighed on bank lending conditions but, according to data available at end-2011, did not lead to a rationing of credit to businesses.

**Chart A**  
**All maturities**

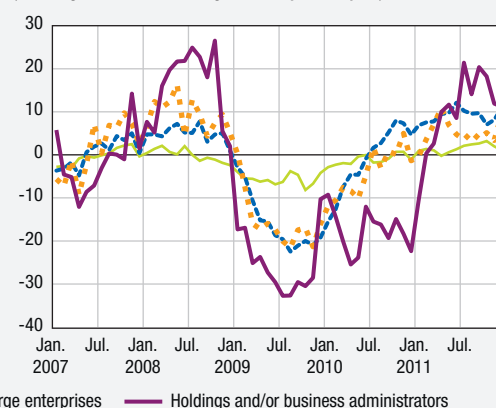
(% change in loan outstanding amounts year-on-year)



Source: Banque de France.

**Chart B**  
**Loans maturing in less than 1 year**

(% change in loan outstanding amounts year-on-year)



Source: Banque de France.

Despite the rise in interest rates on loans to non-financial corporations, by about half a percentage point over the whole year, irrespective of the size of the enterprise, loan stocks reported to the Central Credit Register grew by 5.0% in 2011 for all businesses, versus 1.7% in 2010. This recovery in corporate lending was fairly general across the spectrum of company categories and was even accompanied by a trend reversal, first in lending to holdings which increased by 1.8% after a contraction of 10.8% in 2010, and second for large enterprises which enjoyed a 4.1% growth in 2011 after -2.4% in 2010. The change in loans outstanding amount to SMEs was in line with the overall average rate (5.0%) compared with 4.3% in 2010. Although the gap shrank between the two over the full range of maturities, the loans outstanding amount to SMEs, either independent or belonging to a group, grew faster than the loans outstanding amount to large enterprises (see Chart A).

At the same time, the total volume of undrawn credit lines slightly contracted (-0.4% by December 2011), reflecting the utilisation in 2011 of resources negotiated in 2010. As in 2010 the total volume of drawn and undrawn credit rose by 3.7% in 2011.

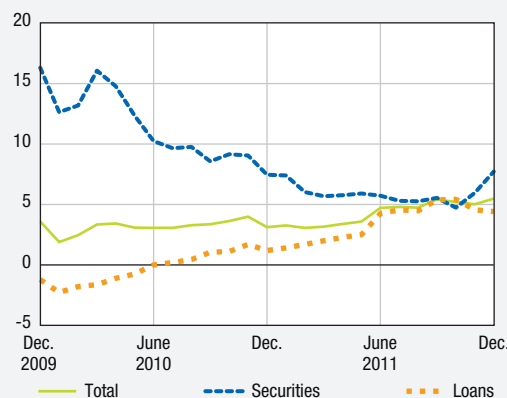
However, loans to NFCs grew at a weaker pace in the second half of 2011 due partly to a reduction in companies' working capital requirement. In addition to this weaker demand, according to the quarterly bank lending survey conducted by the Banque de France, some banks also tightened somewhat their credit standards on corporate loans.

This weaker loan growth was accompanied in the fourth quarter of 2011 by a significant increase in the volume of debt securities issued by NFCs in a context of more favourable market conditions for this source of financing.

Overall, the debt level of NFCs rose by 5.5% in 2011, after increasing 3.1% in 2010 (see Chart C).

**Chart C**  
**NFC debts, France**

(annual % growth rate)



Source: Banque de France.



Consumption loans also increased in France, but at a much more moderate pace of roughly 2% year-on-year throughout the year, whereas their volume contracted by 2% for the euro area as a whole. Within the latter, the

growth of loans to households accelerated over the first half of 2011, reaching a peak of 3.4% by the middle of the year and then decelerating over the second half, giving a full year progression of 1.6% versus 2.9% the previous year.

## Box 7

### Financial investments and indebtedness of French households

#### In 2011, households redirected their financial investments towards passbook savings accounts

Since mid-2010, net subscriptions in life-insurance policies by French households have posted regular decreases. In total, including the drop in capitalised yields, the annual volume of investments fell from EUR 81.2 billion in 2010 to 32.2 billion in 2011 (see table).

Households redirected their savings towards banking products which captured a total of EUR 53 billion in 2011 against 32 billion in 2010. This shift in preferences was mainly directed towards the “A” passbook savings accounts and the taxable passbooks which respectively received EUR 17.0 and 20.6 billion in 2011. Nevertheless, the erosion the volume of net new money placed in People’s Passbooks (LEP) continued, albeit at a milder rate (EUR -2 billion after -3.9 billion in 2010).

At the same time, French households sharply reduced the volume of cash deposited in the form of overnight deposits. They also continued to show a limited appetite for investments in the form of shares in mutual funds, debt securities and equities, these products being more exposed to risk and, in some cases, yielding less than the Passbooks.

The attractiveness of the “A” passbook, a fully liquid, guaranteed and well remunerated savings instrument, was substantially enhanced by two successive yield increases: from 1.75% to 2.0% in February then to 2.25% in August. Taxable passbooks also benefited, in turn, from a progressive yield increase, with the average remuneration rising from 1.6% in 2010 to 2.0% in 2011.

In 2011, the savings ratio of French households rose slightly to 16.1% after 15.9% in 2010, with the growth in their final consumption expenditure (2.3%, after 2.5% in 2010) being lower than the growth of their gross disposable income (2.6% after 2.0% in 2010). In sum, the behaviour of French consumer-savers was particularly cautious in 2011.

#### Household borrowing levels did not diminish in 2011

Net flows of household borrowing, principally in the form of mortgage loans, remained at a high level comparable with 2010 (EUR 59.1 billion after EUR 61.6 billion in 2010). This sustained dynamism was accompanied by an increase in the household property investment rate from 8.7% of gross disposable income in 2010 to 9.1% in 2011 and an equally high level<sup>1</sup> of transactions involving existing housing.

#### Financial investments of French households

(annual flows in EUR billions)

	2009	2010	2011
<b>Financial investments</b>	<b>107.2</b>	<b>116.8</b>	<b>100.9</b>
Currency and overnight deposits	22.3	18.6	9.7
<b>Bank investments</b>	<b>-6.2</b>	<b>16.6</b>	<b>49.3</b>
o/w passbook savings accounts	12.7	16.1	36.9
<b>Non-bank investments</b>	<b>91.1</b>	<b>81.6</b>	<b>41.9</b>
o/w life insurance policies	76.9	77.4	33.3
mutual fund shares/units	-8.8	-15.3	-13.1
debt securities and listed shares	5.8	4.2	6.1
non-listed shares	17.2	15.3	15.6
<b>Debt</b>	<b>38.4</b>	<b>61.6</b>	<b>60.9</b>

Source: Financial accounts, Banque de France.

<sup>1</sup> In September 2011, the number of year-on-year sales involving existing property rose to 828,000 versus 739,000 a year earlier (Source: Conseil général de l’environnement et du développement durable – CGEDD – according to the Public Finances Directorate General (DGFIP) (MEDOC) and conveyancing databases).

### 3| THE EUROSISTEM'S MONETARY POLICY RESPONSE

#### 3|1 Standard monetary policy decisions

As regards standard monetary policy measures, the Governing Council changed the ECB key rates on four occasions in 2011 (Chart 1). On 13 April 2011, it decided to raise the interest rates on its main refinancing operations, on the marginal lending facility and on the deposit facility by 25 basis points to 1.25%, 2% and 0.5% respectively. A further 25 basis point increase of all rates took place on 13 July. Both increases were driven by almost unanimous forecasts pointing to a strong economic recovery by 2012-2013, which justified a gradual normalisation of highly accommodative monetary conditions.

The resurgence in the summer of 2011 of market tensions and the downward revision of the economic outlook led the Governing Council to bring key rates down to their pre-July level (9 November) and then to lower them by a further 25 basis points on 14 December, bringing them back to their levels at the start of the year (i.e. 1.00%, 1.75% and 0.25% respectively). The width of the interest rate corridor was

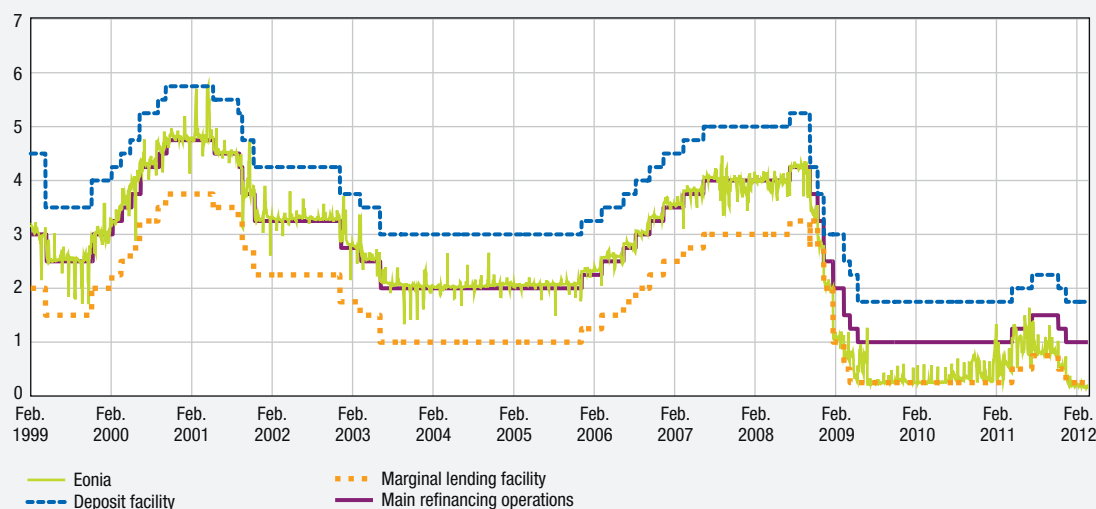
kept at 150 basis points (75 basis points either side of the rate of the MROs).

#### 3|2 Non-standard monetary policy decisions

The improvement in market conditions in the first half of 2011 facilitated monetary policy transmission

The monetary policy environment improved significantly during the first six months of 2011. On the sovereign debt market, sovereign rates remained stable or actually declined except in peripheral countries (Greece, Ireland and Portugal). This upturn contributed to the reanimation of the secured segment of the interbank market, where trade volumes were close to their record high. As a result, the outstanding refinancing granted by Eurosystem central banks shrunk to below EUR 500 billion in early February 2011 and remained below this level until the end of July 2011. The low point was reached in May 2011, at EUR 447 billion. However, even though the volume of outstanding refinancing then climbed back to pre-crisis levels, the term structure still showed a predominance of long-term operations.

Chart 9  
Key rates and Eonia



As a result of the restoration of these transmission mechanisms, the Eonia rate returned to levels close to the key policy rate (see chart 9).

These improved liquidity conditions went hand in hand with a normalization of the eligibility criteria of assets accepted as collateral in refinancing operations. In late 2010, the Eurosystem announced that as from January 2011 it would put an end to the so-called “collateral expansion” measures taken in October 2008, and in particular those concerning foreign currency denominated securities and certain unsecured bank bonds. In addition, the monetary policy operational framework approved the lowering of the minimum rating threshold to credit quality step 3, i.e. the equivalent of a “BBB” rating, subject to more stringent haircuts on less liquid classes. The conditions of acceptance of asset-backed securities (ABS) were also tightened on 1 March, notably with the introduction of the double-rating requirement. However, in a context of persistent tensions on Irish and Portuguese sovereign debts, the Eurosystem decided to suspend application of the minimum credit rating threshold on securities issued or guaranteed by these governments (on 31 March and 7 July 2011 respectively) presented as collateral in monetary policy operations.

### The Eurosystem strengthened its monetary policy operational framework in response to growing tensions on the sovereign debt market in the second half of 2011

From the summer of 2011, pressures on sovereign debts increased and spread to new countries. Meanwhile, lending standards on the interbank market tightened significantly. In order to counter the risk of a credit crunch vis-à-vis households and the real economy and to ensure an efficient transmission of monetary policy, the Eurosystem decided not only to pursue its fixed rate full allotment procedure but also to introduce new non-standard measures (see Box 8 “Effects of non-standard measures”).

The Eurosystem thus decided to ease banks’ liquidity constraints by conducting a series of longer-term refinancing operations (LRTOs) with an extended maturity: a 6-month operation on 10 August 2011 (EUR 50 billion), then a 1-year operation on 27 October 2011 (EUR 57 billion) and



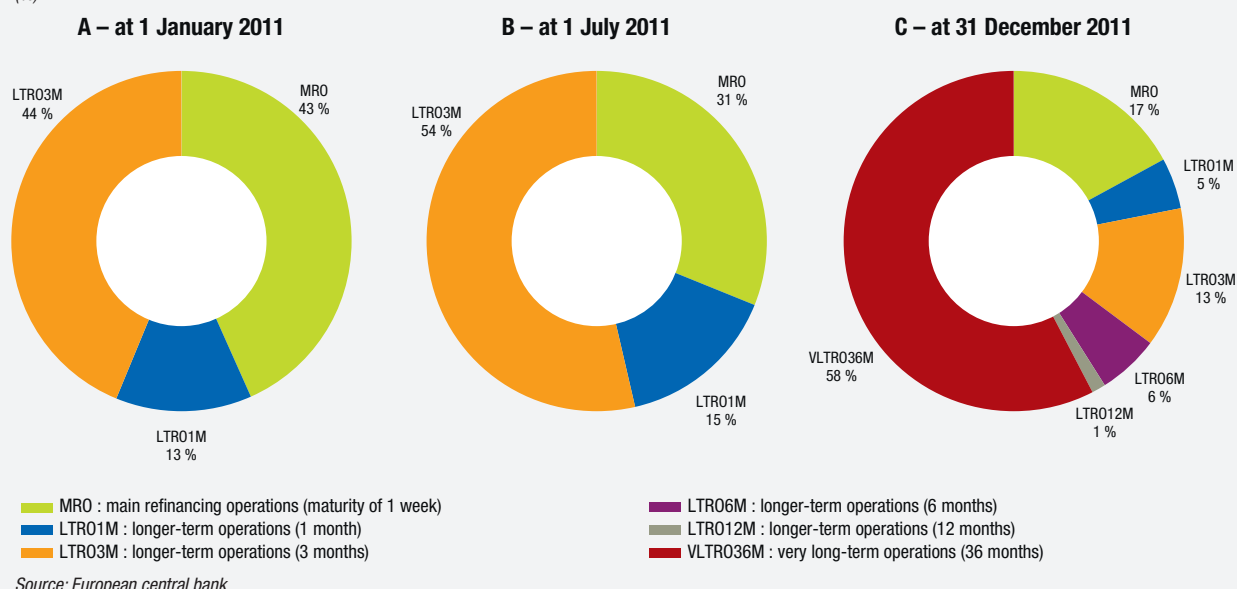
a 3-year operation on 22 December 2011. The latter encountered very strong demand with EUR 489 billion allotted (including EUR 47 billion transferred from the 1-year operation). On 29 February 2012 a second 3-year operation was conducted for an amount of EUR 529 billion. These last two operations, of an unprecedented scale, enabled banks to strengthen their liquidity positions and meet part of their medium-term refinancing needs linked to the maturities of their bond debt. As a result, yield spreads narrowed both on the interbank market and the credit protection markets (see Box 8, Chart B). The net injection of the two 3-year operations amounted to EUR 234 and 284 billion respectively, given the maturities of the other refinancing operations. As a result of the lengthening of maturities, loans with a maturity of 6 months and over accounted for almost two-thirds of outstanding refinancing at 31 December 2011 (see Chart 10).

Euro area banks also experienced greater difficulties in obtaining refinancing on the currency market (US dollar), to which access became increasingly difficult from the summer of 2011. The Eurosystem therefore maintained its weekly liquidity-providing operations in US dollars and then, in November 2011, reactivated those with a maturity of three months. This measure was accompanied by a decrease in the rate applied to all of these operations. The spread over the Overnight Index Swap (OIS) rate was halved, from 100 to 50 basis points. The amount allotted during these US dollar operations increased significantly since

**Chart 10**

**Term structure of the outstanding refinancing offered by Eurosystem central banks**

(%)



the outstanding amount reached USD 85 billion at end-2011, while it was almost nil at the start of the year.

The sharp rise in outstanding refinancing resulted in an increased demand for collateral. In order to meet these needs, the Eurosystem decided on 8 December 2011 to further expand the list of eligible assets, as a temporary solution. The minimum rating threshold was lowered for ABSs backed by loans to SMEs or residential mortgages. Additional measures were taken by certain central banks including the Banque de France to promote the use of credit claims, consisting mainly of corporate loans, as collateral in refinancing operations. For example, residential mortgage loans to households were temporarily accepted as collateral. At the same time, the Governing Council decided to reduce the reserve ratio from 2% to 1% as of 18 January 2012, effectively erasing EUR 100 billion from the structural liquidity needs of euro area banks.

As regards the other non-standard measures, the ECB's purchases under the Securities Market Programme (SMP) were resumed as of August 2011. The programme, which had stabilised at around EUR 75 billion since January 2011, exceeded

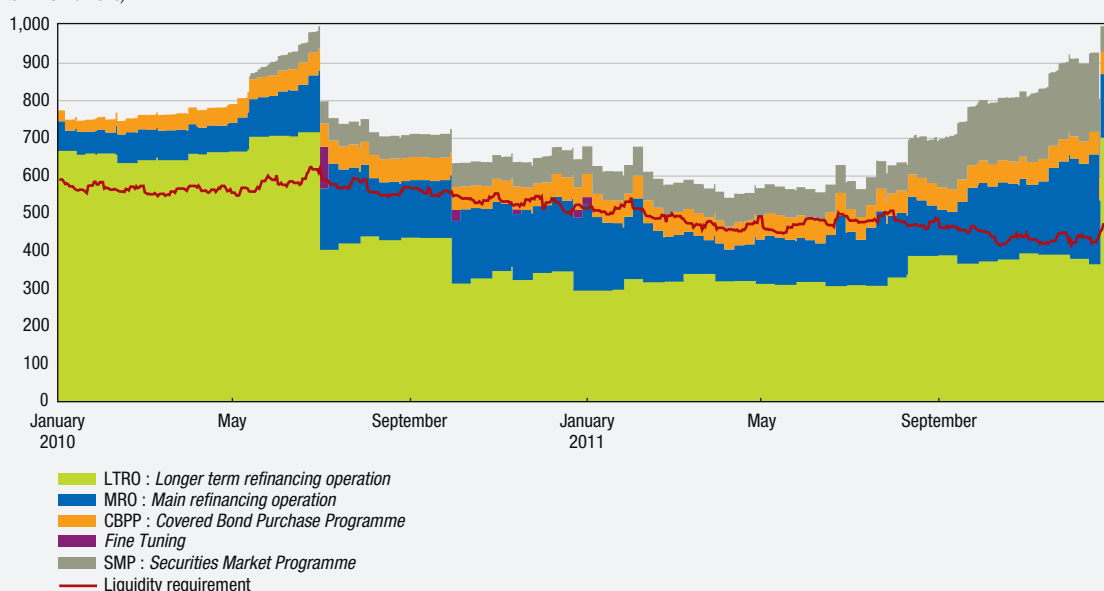
EUR 100 billion as of 15 August 2011 and then reached EUR 200 billion on 7 December 2011. At 31 December 2011 the outstanding amount of bonds purchased stood at EUR 211 billion. The amount of the weekly liquidity absorption operations to sterilise these acquisitions evolved in equal proportions.

Lastly, on 6 October 2011, the Eurosystem decided to conduct a second covered bond purchase programme (CBPP2) for a total value of EUR 40 billion. The purchases began on 1 November 2011 and are scheduled to stop at the end of October 2012. Like the first programme conducted between 1 July 2009 and 30 June 2010 for a amount EUR 60 billion, the objective is to revitalise a segment that is essential for the refinancing of the banking sector.

The deployment of these different measures has had the effect of increasing the intermediation role of central banks. Excess liquidity rose substantially over 2011, as witnessed by the significant increase in recourse to the deposit facility, particularly in the second half of the year. As a result the spread between the key rate and the Eonia widened in the second semester and stabilised at approximately 10 points above the rate on the deposit facility (see Chart 9 "Key rates and Eonia").

**Chart 11**  
**Change in term structure of euro area refinancing**

(amounts in EUR billions)



Source: European central bank.

## Box 8

### Effects of non-standard measures

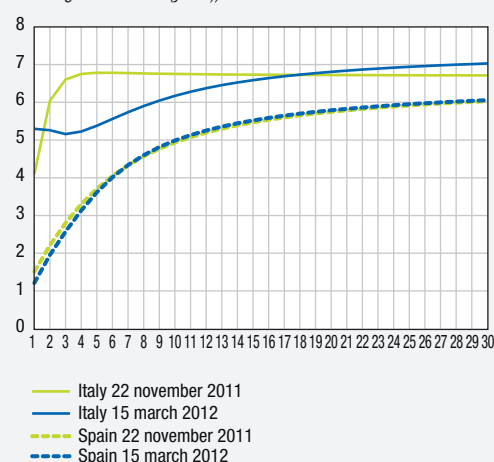
In 2011, the worsening of the sovereign debt crisis increased the risk premium on the sovereign bonds of certain euro area countries and led to a general deterioration of banking system financing conditions that revived the risks of a credit crunch, a paralysis of the interbank market or of a chain reaction of defaults. In this context, the Eurosystem has deployed a number of measures aimed at improving refinancing: in particular the extension of the refinancing maturities and the expansion of the range of securities accepted as collateral in the refinancing operations. As a result the ratio between the Eurosystem's total assets and the euro area's nominal GDP reached more than 26% at end-2011 versus 18.5% for the Federal Reserve's assets/US GDP.

To counter heightened tensions on the interbank and sovereign debt markets in the summer of 2011, the ECB resumed its acquisitions of public debt securities in the framework of the SMP (Securities Market Programme) and extended the maturities of its liquidity-providing operations.

The objective of the SMP announced in May 2010 was to restore the proper functioning of the transmission channels

**Chart A**  
**Italian and Spanish yield curves**  
**in November 2011 and March 2012**

(Spanish and Italian public interest rates (%) according to maturities (years))



Source: Bank for International Settlements.

.../...

of the single monetary policy that were disrupted by the turmoil on financial markets. Following the resurgence of tensions on sovereign debt markets in August 2011, the SMP was strengthened to counter the rise of risk premia on the sovereign bonds of certain euro area countries and the risk of contagion to the entire area. The announcement of the intensification of securities purchases in August 2011 resulted in a substantial initial fall (approximately -100 basis points) in the yield spreads on Italian and Spanish government bonds versus German bonds with comparable maturities. Moreover, the acquisitions appeared to reduce the price volatility.

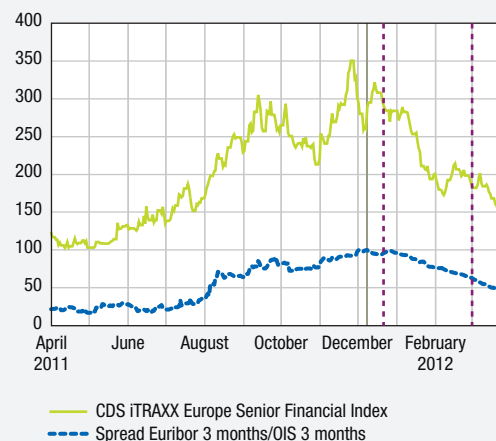
At the same time, the ECB pursued its longer-term liquidity-providing operations (a 6-month operation in August and then a 1-year operation in October see paragraph 3.2 for a detailed description). In December the ECB innovated by deciding to conduct two 3-year refinancing operations (Very Long Term Operations – VLTROs) with full allotment and an early repayment option after one year. The first of these VLRTOs was conducted in December 2011 and the second was scheduled for February 2012. The unprecedented extension of the maturities of these operations to three years allowed the provision of liquidity to banks over a longer period, thereby temporarily reducing the risk of default and/or of a credit crunch. The VLTROs of December 2011 and February 2012 had the effect of reducing the spreads observed on credit protection markets (CDS – Credit Default Swaps) as well as the spreads between the unsecured market rates (Euribor) and the OIS overnight index swap rates (see chart B). Moreover, these very long-term operations should allow a progressive strengthening of banks' resilience to the crisis. An ad hoc bank lending survey (conducted in February 2012) showed that this operation contributed significantly to enhancing their liquidity (56% of banks surveyed), reduced their refinancing costs (49%) and improved their profitability (36%). For the time being, the impact on the credit standards applied to new loans is difficult to assess.

In addition to the 36-month refinancing operations announced in December 2011, the scope of eligible collateral was expanded via a relaxation of certain criteria linked to structured assets and the range of eligible credit claims, the latter measure being applied according to the criteria specific to the NCBs (see paragraph 3|2). This extension should facilitate the access to liquidity for all euro area banks, including smaller institutions, in a context of dysfunctional interbank markets.

These measures very likely contributed to a contraction of certain risk premiums as suggested by Chart A which shows a sharp fall in the yields required by investors for holding Italian and Spanish sovereigns. One consequence of the lower yields to private borrowers in these countries is to facilitate the return to a normal functioning of monetary policy in the euro area as a whole. It signals therefore the effectiveness of non-standard measures adopted by the Eurosystem.

**Chart B**  
**Impact of 3-year VLTRO on the interbank market and on credit protection contracts**

(basis points)



Note: The blue vertical line represents the announcement by the Governing Council, on 8 December 2011, of the 3-year VLTRO operations; the two dotted vertical lines represent the each of the two operations, on 21 December 2011 and 29 February 2012.

Sources: Bloomberg, Markit.



## 4| FACILITATING CRISIS EXIT

### 4|1 Actions to preserve financial stability

In addition to ensuring monetary stability, one of the key tasks of the Banque de France is to safeguard financial stability. In this respect, the Banque de France participated in a number of market interventions and, in cooperation with the Autorité de Contrôle Prudentiel (ACP), it contributed to enhancing regulation and prudential supervision.

#### Safeguarding financial stability

In 2011, tensions ran high on euro area sovereign debt markets with marked problems in the financing of the banking sector.

With bank rescue plans and fiscal stimulus packages in place since 2008, many countries have faced major difficulties due to rising debt levels that investors judge to be hard to sustain.

To address these difficulties, European institutions were very proactive and implemented various measures including:

- Financial Assistance Programmes for States, conditional on internal reforms (Portugal and Ireland with the IMF; second Greek bailout with the involvement of the private sector accepting partial debt write-offs);
- bolstering European support mechanisms and promoting their long-term use;
- ECB intervention via the reactivation of the Securities Markets Programme (SMP) and a three-year long-term refinancing operation in December.

These initiatives helped to contain euro area sovereign yield spreads, preventing panic on financial markets.

#### Reinforcing financial supervision

In 2011, efforts to reinforce financial supervision continued.

The ACP has been closely involved in the process of the European recapitalisation exercise carried out by the EBA in order to strengthen the capital positions of supervised institutions by building up an exceptional and temporary capital buffer against sovereign debt exposures (monitoring of the exposure, definition and implementation).

A number of draft legislative provisions are currently being debated. For instance, following on from the publication by the Basel Committee, at end-2010, of a text on strengthening the resilience of the banking sector, which was the fruit of an international negotiation in which its representatives played a very active role, the ACP continued, in 2011, to participate in the work of the different bodies, in the European Union and Basel, responsible for standard setting and cooperation between supervisors.

The Banque de France and the ACP contributed to discussions aimed at fine tuning certain points of the decisions published in 2010, regarding notably the definition of capital, the capitalisation of bank exposures to central counterparties and the liquidity ratios, based in particular on the results of the impact studies conducted – in France and other Basel Committee member countries – among the main banks. In Europe, the gradual implementation of the draft Capital Requirements Regulation (CRR) as of 2013 will result in a strengthening of capital and a more balanced financing structure, built on stable funding.

Following on from the G20 initiative, work continued on identifying systemically important institutions. The Banque de France and the ACP participated in efforts by the Basel Committee, under the aegis of the Financial Stability Board, to identify systemically important banks (see Section 4|4 below).

The methodology for identifying systemically important insurance entities is currently being defined by the International Association of Insurance Supervisors (IAIS) of which the ACP is a member. In addition to the indicators used in the banking sector (cross-border activities, size, interconnectedness, non substitutability, complexity, etc.), the IAIS decided to introduce another indicator related to non-traditional



activities such as monoline insurance. But the boundary between traditional and non-traditional activities is difficult to establish.

All of these efforts, intended to strengthen financial supervision as a whole, will be pursued in 2012.

## 4|2 Fiscal consolidation

After a marked deterioration in the fiscal deficit during the crisis, euro area public finances started an adjustment process that led to a reduction in the

government deficit to stand at 6.4% of GDP in 2010 and 4.1% in 2011.

Thanks to both stronger economic growth and the implementation of fiscal consolidation measures, all euro area countries, except Cyprus, showed an improvement in their fiscal position between 2010 and 2011 (see Chart below).

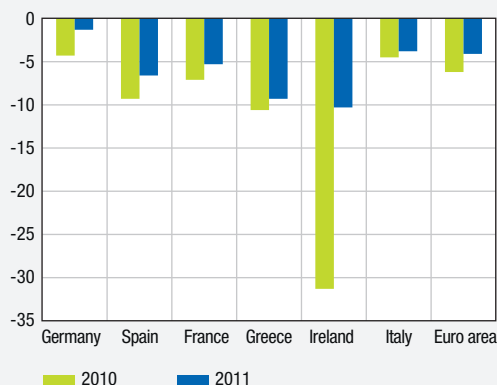
Ireland achieved the largest government deficit reduction of 19.1 percentage points of GDP in 2011. However, this improvement was entirely due to the end of the one-off financial sector rescue packages set in 2010. Among the main euro area countries, only Germany reached its initial fiscal adjustment objective and showed a government deficit well below the 3% threshold in 2011 at 1.0%.

Despite these efforts, the euro area debt-to-GDP ratio kept rising from 85.6% in 2010 to 88% in 2011.

The debt levels reached in the main euro area countries (see Chart below) are in some instances over 90% of GDP. Nevertheless, the situation varies significantly across countries. Italy is characterized by high public debt levels but also runs a large primary surplus (excluding the cost of debt servicing). Hence, Italian public debt grew by only 2.1 percentage points of GDP in 2011.

**Chart 12**  
**Public deficits**

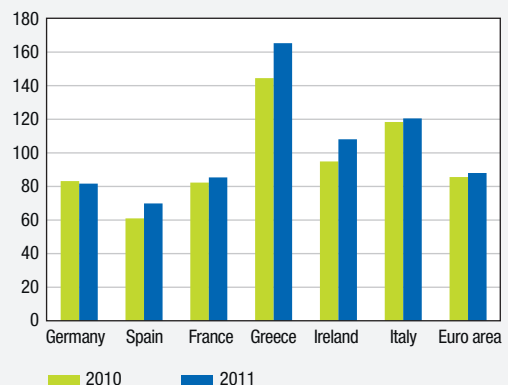
(as % of GDP)



Source: European Commission.

**Chart 13**  
**Public debt**

(as % of GDP)



Source: European Commission.



Box 9

## France's public finances in 2011

### Public finance developments in 2011

The economic crisis and the stimulus plan that followed strongly impacted the government's fiscal position, with the public deficit reaching EUR 142 billion or 7.6% of GDP in 2009 and representing 15.2% of total public revenue. Since then, the phasing-out of the exceptional measures taken in 2010 and the fiscal consolidation plan adopted in 2011 resulted in a significant improvement in the deficit which now only represent 10.2% of total public revenue in 2011 (5.2% of GDP). With the debt burden remaining stable over the 2009-2011 period – representing approximately 5% of public revenue – this improvement reflected a reduction of the primary deficit from 10.4% of public revenue in 2009 to 5.1% in 2011. Consolidation was chiefly achieved through measures on the revenue side: tax and social security contributions increased from 42.5% of GDP in 2010 to 43.9% in 2011. In particular, this stemmed from a rise in taxes on income and wealth (up 0.7 of a percentage point to 11.3% of GDP in 2011). At the same time, spending decelerated thanks to the freeze, in nominal terms, of expenditures and pension and healthcare reforms. However, the impact of these measures on the expenditure-to-GDP ratio remains marginal: in 2011, this ratio only declined by 0.6 percentage point compared with that of 2010, standing at 56% of GDP.

Compared with its principal European partners, France's debt burden represented a similar proportion of its public revenue to Spain's (5.1% and 6.8% respectively) in 2011, while Italy spent a tenth of its public revenue servicing its debts. In contrast, Spain's primary deficit was very substantial (17.4% of public revenue) whereas Italy actually posted a primary surplus.

On the back of an increase in GDP and a reduction in the deficit, the difference between the actual balance and the balance required to stabilise the debt-to-GDP ratio decreased. Hence, the French government debt-to-GDP ratio only rose by 3 percentage points in 2011 to stand at 86.0%, i.e. EUR 1,717 billion, of which EUR 178 billion in fixed-rate discount Treasury bills (BTF). The apparent interest rate on French debt (interest paid on debts) is gradually diminishing, and stood at 3.3% in 2011. With an average maturity of 7 years, the Agence France Trésor plans to issue medium and long term debt securities for EUR 178 billion. Issuance rate variations only gradually affect the apparent rates in proportion to the volume of gross debt security issuance in total outstanding public debt.

### Breakdown of consolidation measures

(compared with the previous year)

	2011	2012	2013
<b>Total measures (revenues)</b>	<b>11.4</b>	<b>27.6</b>	<b>32.8</b>
<i>o/w measures prior to 24/08</i>	<i>10.4</i>	<i>12.4</i>	<i>12.4</i>
<i>o/w measures of 24/08</i>	<i>1.0</i>	<i>10.0</i>	<i>9.5</i>
<i>o/w measures of 7/11</i>		<i>5.2</i>	<i>7.9</i>
<b>Total measures (expenditures)</b>	<b>11.2</b>	<b>23.9</b>	<b>35.0</b>
<i>o/w measures prior to 24/08</i>	<i>11.0</i>	<i>21.1</i>	<i>30.3</i>
<i>o/w measures of 24/08</i>		<i>1.0</i>	<i>1.0</i>
<i>o/w measures of 7/11</i>	<i>0.2</i>	<i>1.8</i>	<i>3.7</i>

Source: Ministry for the Economy and Finance.

### The main fiscal consolidation plans

In its effort to bring public finances back to the projected path (deficit of 3% of GDP in 2013), the government put forward two consolidation plans on 24 August and 7 November (see Table above).

The measures announced on 24 August are primarily aimed at reducing certain tax breaks, with each measure generating relatively low amounts of tax revenue. They included:

- tighter restrictions on corporate loss carry-forwards and the introduction of a temporary corporate income tax surcharge for large firms until 2013;
- a 1.2% rise in taxes levied on capital income;
- a change in the tax regime for real estate capital gains;
- a reduction or phasing out of certain exceptions in terms of the social security surcharge (CSG).

The 7 November consolidation plan constituted a break with the previous plan in that it focused on measures generating a high level of tax revenue such as raising the lower VAT rate from 5.5% to 7% and freezing income tax brackets. The government thus acted more decisively in response to the bleaker macroeconomic environment.

Box 10

### Reform of EU and euro area governance

Following the end of negotiations of the institutional “trialogue” (Commission, Council and European Parliament), the six new legislative proposals to strengthen economic governance in the European Union (the “six-pack”) came into force on 13 December 2011. These measures should considerably enhance euro area and EU economic governance, provided they are strictly enforced.

- Under the Stability and Growth Pact, debt developments will be as closely monitored as the 3% government deficit-to-GDP ratio. In principle, an Excessive Debt Procedure may be launched in Member States whose debt level exceeds 60% of GDP, if the gap between its debt level and the 60% reference is not reduced by an extent in the order of 1/20th annually on average over three years. Greater financial sanctions are provided for under the preventive and corrective arms of the Pact.
- The European Council Directive on requirements for budgetary frameworks of the Member States defines the minimum standards, notably in terms of public accounting systems, statistics, macroeconomic forecasting practices, as well as multi-annual fiscal planning and transparency of the budget process.
- Lastly, a new procedure, based on a scoreboard of ten internal and external economic indicators, provides for regular analyses that could result in an excessive imbalance procedure. If a euro area Member State persists in failing to put into practice the recommendations of the Council, sanctions may be imposed.

Moreover, if they are rapidly adopted, the conclusions of the euro area summit of 26 October, the legislative proposals of the Commission of 23 November and the conclusions of 9 December of the European Council meeting in its euro area format (the new “Treaty on Stability, Coordination and Governance in the Economic and Monetary Union”) will substantially strengthen some of the new procedures that have just entered into force.

- The new Treaty signed by 25 EU Member States on 30 January 2012 provides for the “reverse qualified majority voting” rule to be introduced at all stages of the excessive deficit procedure (this new voting rule means that a Commission Recommendation is considered to be adopted unless a qualified majority of Member States explicitly rejects it within ten days). Similarly, the signatories to this Treaty must transpose the balanced budget rule into their national law, preferably at the constitutional level, and will have the right to bring another signatory before the European Court of Justice if the former does not comply with the balanced budget rule (the Court of Justice may impose a financial sanction of up to 0.1% of GDP on the country concerned). Lastly, ad hoc euro area summits will be held twice a year, with their President appointed by the euro area Heads of State or Government at the same time as the President of the European Council and for the same duration.
- The two new legislative proposals by the Commission (“two-pack”) aim to strengthen the power of the Commission before the adoption of national budgetary policy and throughout its implementation phase for countries that might stray from their debt and deficit reduction trajectories. They also introduce a system of graduated monitoring in order to secure a timely and durable correction of excessive deficits. This would allow in particular an early detection of risks if a Member State does not correct its excessive deficit by the deadline set by the Council, and make it possible to take action accordingly. Lastly, they provide for enhanced surveillance of a Member State experiencing or threatened with financial difficulties even if it does not benefit from an adjustment programme: the Commission could recommend to the Council that a country posing a risk to its own financial stability and to that of the euro area make an official request for international financial aid.

## 4|3 Stimulating economic growth in the euro area through structural reforms

In a context of fiscal consolidation, structural reforms to shore up the resilience of economies, their potential growth and their competitiveness are particularly

important. Moreover, such reforms must sustain medium-term growth without being damaging in the short term to this consolidation.

Academic literature shows that constraints to labour market flexibility or competition on product and services markets have a major impact on labour force mobilisation

and productivity growth. Therefore, reducing these constraints could generate relatively significant economic gains.

Indeed, product and labour market rigidities influence the economy through a number of mechanisms. First,

they affect the creation and distribution of economic rents, which may have a negative impact on companies' incentive to innovate or seek any other performance gains. Besides, regulation can create barriers to market entry and more generally impede optimal resource allocation. This can raise the unemployment rate, in particular

#### Box 11

### The impact of the crisis on potential growth

With a production function-based approach, potential growth is determined by changes in factors of production (capital and labour) and the efficiency of these factors measured by total factor productivity (TFP). Yet, these growth sources could be affected at differing horizons by the crisis.

The impact of the crisis on the capital stock could be rapid and lasting. Indeed, a prolonged decline in investment and the permanent scrapping of the capital of failing companies could lead to a sustained reduction in productive capital. As regards employment, the sharp rise in unemployment and the sustained slowdown in activity in some sectors may lead to persistently high unemployment levels, irrespective of changes in business condition.

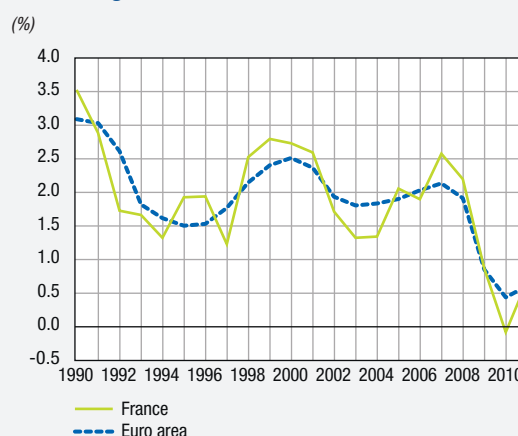
In the short term, the crisis could reduce the efficiency of labour and capital (TFP), due to capital ageing caused by a drop in investment. In the longer term, the crisis could have gradual and lasting effects on TFP if companies end up curbing their R&D expenditure because of financial constraints for example.

The study of these possible transmission channels of the crisis on potential output gives rise to three scenarios: (a) an "air pocket" scenario in which potential output and its growth rate are not lastingly affected by the crisis, (b) a scenario in which potential output is durably affected by the crisis, with output growth only gradually achieving its pre-crisis level and (c) a scenario in which potential output and its growth are affected over the long term.<sup>1</sup>

According to Banque de France assessments, current euro area potential growth has been strongly impacted by the crisis (see Chart): it stood at an average annual of 2.1% before the crisis (1990-2007) and 1.0% after the crisis (2008-2011). This marked contraction in potential growth can mainly be ascribed to the significant decrease in the contribution of total factor productivity, resulting from the ageing of capital stock due to declining investment. It can also be attributed to the higher equilibrium unemployment rate, in particular in Spain and Italy. In France, the potential growth shock was comparable.

However, in the longer term, numerous analyses of past financial crises, backed by econometric studies, suggest an impact only on the potential output level (scenario b) in advanced economies (such as Norway in 1987). Measures to support the financial system that helped to restore investor confidence, and the structural reforms underway should nonetheless limit the risk of potential GDP growth being lastingly affected by the crisis (scenario c). Therefore, in France and the euro area, potential GDP growth is expected to return to its trend rate at a seven-year horizon.

**Chart**  
**Potential growth for the euro area and France**



Source: Banque de France.

<sup>1</sup> Lemoine M. and Pavot J. (2009): "Impact of the financial crisis on long-term growth", Banque de France – Current Issues No.2, October.



the long-term unemployment rate, lower participation rates and slow down the growth of the most productive companies. While anti-competition laws are therefore detrimental in the long term, their withdrawal may be relatively costly in the short term. For example, increasing labour market flexibility may lead to a sharp rise in job destructions whereas job creations may be less rapid.

In response to this need for reforms, academic literature gives us some indications about the optimal strategy to adopt: it is important initially to reduce product market rigidities. Thus, incumbent rents contract, decreasing opposition to future institutional labour market reforms. In this respect, manufacturing sectors are much less strictly regulated than market services, while the latter are a major component of economic activity and significant producers of inputs of other activities.

It is precisely because of their role as intermediate goods producers that the regulation of services firms has a

strong impact on the productivity of other sectors of the economy. Indeed, regulation strengthens the market power of firms that produce intermediate goods, which can then capture a share of the economic rents of the companies that use these goods and services. The firms using these intermediate goods and services, therefore, do not have as much incentive to generate performance gains that could be siphoned off. Thus, over time, their productivity declines. More generally, it is possible, for each country, to quantify the influence of market services regulation on the productivity of the economy as a whole. It appears that in France, like in Germany, a reform of “regulated professions” (accountants, architects, lawyers, etc) would generate particularly high productivity gains.

Spain and Italy undertook even more ambitious reform programmes as they targeted areas of product markets, the labour market, the civil service and pension systems. Notably, for product markets, these reforms aim at reducing considerably the entry barriers to certain



regulated professions. As regards the labour market, they aim to reduce the sharp contrast between the extreme flexibility of some categories of employees and the protection enjoyed by other categories.

## 4|4 International coordination of economic policy

In response to the crisis, the G20 has become the leading forum for international economic and financial cooperation between the main economies. In 2011 France took over the presidency of the G20, with the Ministry of the Economy, Finance and Industry and the Banque de France in charge of the organising and chairing the G20 Finance. While the euro area sovereign debt crisis caught the attention during the G20 Cannes Summit of the Heads of State and government on 3 and 4 November 2011, consensus was also reached on a number of difficult issues.

G20 international economic cooperation took shape in 2011, with the adoption in Cannes of an “action plan” aiming to achieve strong, sustainable and balanced growth. At this Summit, euro area Member States committed to taking all the necessary actions to resolve the sovereign debt crisis. Similarly, in order to strengthen firewalls, G20 member countries stand ready to increase IMF resources if need be. Countries with fiscal room undertook to let their automatic stabilisers operate, and to take discretionary measures to support domestic demand should economic conditions worsen. China showed its determination to make its exchange rate more flexible and gradually reduce the pace of accumulation of foreign reserves. It also committed to rebalancing its growth model towards consumption.

The “Mutual Assessment Process”, which is the institutional cooperation framework between G20 countries, was enhanced. The G20 thus adopted guidelines to identify countries with internal and external macroeconomic imbalances in order to take the necessary preventive or corrective measures. Seven such countries were indentified. The G20 also launched

a peer review mechanism in order to ensure the correct implementation of the commitments announced in each country.

The French presidency also committed to make headway on the reform of the international monetary system. The Cannes Summit gave rise to concrete progress in crisis management mechanisms: the adoption of Conclusions on the Management of Capital Flows, aiming to prevent financial protectionism while limiting the negative impacts of the volatility of these flows; the adoption of Principles for Cooperation between the IMF and Regional Financing Arrangements; a new IMF Short-Term Liquidity Facility designed to help emerging market countries with a track record of sound policies to address the fallout from the crisis; and an Action Plan to Support the Development of Local Currency Bond Markets. The G20 is considering the possibility of revising the composition of the SDR basket before the next review planned for 2015, if a currency satisfies the criteria before that date.

G20 initiatives also led to the signature of more than 700 agreements to exchange tax information. The Global Forum assessed 59 jurisdictions and identified 11 cases of serious deficiencies.

As regards financial reform, the G20 focused on the implementation of the decisions taken since 2008, in all countries and areas; they are henceforth systematically monitored, in the framework of a table published by the Financial Stability Board (FSB). The G20 Cannes Summit adopted the work of the FSB on systemically important financial institutions, which includes in particular more intensive and effective supervision, requirements for cross-border cooperation, resolution regimes to anticipate a potential bankruptcy, and additional loss absorbency. The FSB published a list of the 29 banks concerned. This list will be updated each year.

Lastly, the G20 strengthened the governance and resources of the FSB. It endowed it with a legal personality and greater financial autonomy, while maintaining its existing links to the Bank for International Settlements.

# Tasks and activities of the Banque de France in 2011





The Banque de France's tasks centre on three core objectives: services provided to the national community, Eurosystem and supervision activities, and actions to preserve financial stability at the international level.

- Services provided to the national community include a wide range of activities, mainly:

- the assessment of the economy and its financing;
- the monitoring of firms *via* its rating system; this activity put the Bank in the best position to take charge of credit mediation when the financial crisis broke out;
- the issuance and management of banknotes and coins;
- the security of means of payment and market infrastructures;
- consumer protection;
- the examination of household indebtedness cases.

- As a Eurosystem national central bank (NCB), the Banque de France is responsible, alongside the 17 other members, for euro area monetary and financial stability.

- Action to preserve financial stability at the international level is mainly conducted through the Bank's participation in a number of international bodies, in cooperation with the other relevant players (central banks, as well as financial supervisors, finance ministries, international institutions, etc.).

## 1| SERVICES PROVIDED TO THE NATIONAL COMMUNITY

### 1|1 The assessment of the economy and its financing

#### The monthly business survey

The Banque de France analyses business conditions, which enables it to provide the Eurosystem and policy-makers with an assessment of the French economy and publish business surveys on its website.<sup>4</sup> This analysis is comprised of indicators, forecasts

and structural studies carried out by its network of branches and economic centres. Each month, based on the responses of a large number of business leaders, the Bank conducts studies on:

- industry and market services, with monthly balances of opinion;
- retail sales, with turnover indices.

In addition, the Banque de France conducts quarterly opinion surveys on the financial situation in industry and the wholesale and construction sectors. This national approach is enriched by regional summaries posted on internet each month.

Over the past years, the Banque de France has broadened its monthly business survey to include the monitoring of the personal services sector. Its representativeness of services has increased from 48% to 63% of the value added of market services (excluding real estate and financial services). In the space of four years, the sample of service companies surveyed rose from around 300, to over 2,700. Since September 2011, the results published are seasonally adjusted (based on data collected over a three-year period).

#### New publication on the funding of micro-enterprises and enhancement of data on SMEs

In June 2011, the Banque de France started to collect statistics from the main banking groups on loans granted to micro-enterprises (outstandings and new loans). Very small enterprises (VSE), which are defined as companies with an annual turnover of less than EUR 2 million, constitute the bulk of SMEs; their outstanding loans stood at EUR 211 billion at end-2011. The aggregated results of this data collection exercise are discussed in the *Stat Info*, "*Financement des micro-entreprises*" available in French on the Bank's website.

The Banque de France also publishes three *Stat Info* on SMEs. Two are monthly, focusing on business

<sup>4</sup> Available in French. See <http://www.banque-france.fr/economie-et-statistiques/conjoncture-et-croissance/enquetes-de-conjoncture-mensuelles.html>

failures in France and corporate lending. Since 2011, a third quarterly *Stat info* was added. The latter is devoted to:

- 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 risks associated with SMEs.

These data shed light on the impact of the crisis on companies, and in particular on SMEs.

## 1|2 Monitoring companies

### Company ratings

The Banque de France rates over 260,000 companies each year on the basis of accounts and consolidated statements. The ratings system reflects the Banque de France's overall assessment of the company's ability to meet its financial commitments at a three-year horizon. Without using fully automated processes (scoring), the Banque de France applies an "expert assessment" approach based on the individual and

in-depth analysis of the financial and non-financial situation of the company or group in question. This three-year analysis method tends to limit the impact of short-term factors.

In the context of the risk control framework implemented for the conduct of monetary policy operations, the Banque de France's rating system was approved by the Eurosystem as an In-House Credit Assessment System (ICAS) to assess the quality of assets pledged as collateral for bank refinancing operations. The Eurosystem defined the eligibility criteria specific to ICAS and regularly examines their performances in relation to credit quality thresholds.<sup>5</sup> As of 2012, in order to assess these performances, the notion of default based on that of the Basel II Accord (Basel default)<sup>6</sup> replaces that of failure,<sup>7</sup> but the level of these credit quality thresholds remains unchanged. In line with this new requirement, the Banque de France collected statistics from banks on actual "Basel defaults" and adapted its methodology.

As the Banque de France also has the status of external credit assessment institutions (ECAIs), its rating system may be used by credit institutions to calculate their regulatory capital requirements. Moreover, this recognition shows that the Bank meets all the international criteria for credit risk assessment: objectivity and independence in assigning ratings, regular ratings reviews, transparency and communication on its method.

Furthermore, the Banque de France's rating system can be used by banks in their decision-making processes. For firms, it also constitutes an external assessment that enables them to determine where they stand on a risk scale. It can thus be used by CEOs in their dealings

#### Box 12

#### The rating, a synoptical assessment comprising two elements

- The turnover rating represents a turnover category (when the latter is known, significant and sufficiently recent), represented by a letter, from A (turnover of EUR 750 million or over) to M (below EUR 100,000);
- The credit rating assesses the solvency risk that, by decreasing order of quality, is represented by the values 3++, 3+, 3, 4+, 4, 5+, 5, 6, 7, 8, 9 and P; a 0 rating is awarded if there is no unfavourable information or recent financial statements. Ratings 7 to 9 reflect the existence of trade bill payment incidents and the P rating is awarded to companies undergoing insolvency proceedings (turnaround procedure or judicial liquidation).

<sup>5</sup> That is to say, a probability of default within one year of below or equal to 0.10% for category 3 ratings, and of 0.40% for 4+ ratings.

<sup>6</sup> A particular obligor is in "default" when one or other or both of the following two conditions have occurred:

- the credit institution considers that, without measures such as realising collateral (where such collateral exists), the debtor will be unable to meet its credit obligations towards the credit institution, its parent company or one of its subsidiaries;
- the obligor is more than 90 days late on a significant credit obligation towards the credit institution, its parent company or one of its subsidiaries.

<sup>7</sup> An entity is said to be in "failure" if legal proceedings (turnaround procedure or judicial liquidation) have been initiated against it.

Box 13

### Key data on the Banque de France rating system

- 262,955 balance sheets of resident non-financial companies (or alike) analysed at 31 December 2011;
- around 4,300 consolidated accounts analysed at 31 December 2011.

Rating	Number of firms at 31/12/2011	Breakdown at 31/12/2011	Failure rate in 2011
3++	8,896	3.38%	0.02%
3+	21,741	8.27%	
3	30,236	11.50%	
4+	40,251	15.31%	0.18%
<b>Sub-Total</b>	<b>101,124</b>	<b>38.46%</b>	

Source: Banque de France.

with banks and enhance transparency, which facilitates their access to credit.

### Credit mediation

Making use of the organisation put in place in 2008 under the national mediation framework, Banque de France branch directors, in their quality of departmental credit mediators, continued their work of building bridges between financial institutions (bankers, credit insurers, factoring companies) and business managers. Together with national mediation analysts, the departmental units in charge of credit mediation processed almost half as many applications as in 2010 (4,535 requests received compared with 8,192 the previous year), despite the slight rise observed since autumn 2011. This can be explained

by the increasing involvement of trusted third-party mediators (volunteer representatives of professional associations), improved internal processing by banks of loan applications and relatively buoyant bank lending to SMEs in 2011.

Despite the growing complexity of the applications, the rate of successful mediation stood at 59% in 2011. SMEs remain the main beneficiaries of the mediation procedure as 96% of applications accepted in 2011 concerned companies with fewer than 50 employees.

Since November 2008, over 33,300 applications have been submitted by companies in difficulty, of which 82% were declared eligible for the procedure. Mediation has enabled over 15,000 firms to benefit from over EUR 3 billion in loans in order to develop their activity, allowing around 260,000 jobs to be saved or consolidated.

### Access to bank financing

An agreement aiming to improve VSEs' access to credit was signed on 1 April 2011 by Frédéric Lefebvre, the French Secretary of State for SMEs, with Oséo and the mutual guarantee company for tradesmen (Siagi). Its objective was to provide guarantees for limited liability sole traders (EIRL) to make it easier for them to obtain new loans.

Against this backdrop, the Bank organised a number of regional meetings on this subject. Following the first meeting in Strasbourg in June 2011, over 70 other such meetings were held, bringing together almost 4,000 representatives of VSEs.

## 1|3 Banknote and coin production and management

### Banknote production

2011 was a transition year for the Directorate General Banknote Manufacturing (DGFB), both in terms of the volume of banknotes produced and the industrial organisation; it also saw an acceleration in its programme to produce the future series of euro banknotes.

### Mediation in figures – 2011

- 4,535 applications received, of which 78% declared eligible
- 3,888 applications processed
- 1,885 companies received support
- 28,758 jobs saved



In terms of volumes produced and delivered, the 2011 level was down on that of 2010, following, in particular, a temporary contraction of export markets.

As regards its industrial organisation, the printing works in Chamalières underwent a major change due to the refocusing on its two sheet-fed printing lines, and the final decommissioning of its continuous printing line. At the same time, in technical and quality terms, it remained equivalent to the world's best printing works. As regards the paper mill, the quantities of paper produced for euro banknotes were

increased, not only for the Bank's printing works, but also for other Eurosystem printers. Lastly, a significant investment was made in a security machine to address the technical constraints of producing paper for the future series of euro banknotes. Nevertheless, in 2011, the paper mill was affected by both the very sharp rise in the market price of cotton and by the weak overall production schedule, which weighed on profitability as a whole.

At the European level, in 2011, the DGFB worked, together with the European Central Bank (ECB) 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.

### Production of banknotes – Results 2010 to 2011

*(annual volumes in billion banknotes, full-time equivalent staff at 31/12)*

	Annual volumes produced and delivered	Staff numbers
Results 2010	2.45	940
Results 2011	2.25	924

*Source: Banque de France.*

### 2011 key data

- 7.4 billion banknotes sorted
- 7.8 billion banknotes distributed by the Banque de France
- 7.5 billion banknotes received at the Banque de France
- 2.1 billion coins put into circulation

Following the work on the future security and origination features (i.e. the technical and graphical development) in 2010, the Bank carried out the pilot production of the first denomination of the future series.

In the medium term, the operational priorities of the DGFB continue on the same strategic lines as the previous years and focus on technical excellence and optimising its financial position. The roadmap of the DGFB is based on three strategic priorities:

- further optimising production facilities in order to remain the principal producer of euro in volume terms, with a state-of-the-art technical level compared with its competitors. In particular, improving the profitability of paper supply must be an operational priority in the coming years;
- continuing to systematically improve productivity by controlling the quality of production, optimising the performance of the machines and adapting the working structure to the production schedule of the coming years (notably in relation to the preparation of the future “euro 2” series);
- endeavouring to reduce all costs, notably by optimising supplies through systematic competitive tendering between suppliers and cutting back on operating costs.

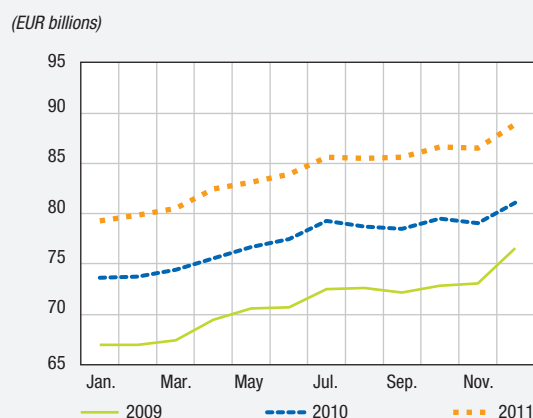
## Management of banknotes and coins in circulation

### Banknotes

In France, the net issuance of banknotes<sup>8</sup> grew at a sustained pace in 2011 (EUR 7.7 billion, or 9.5% in year-on-year terms) to reach EUR 88.8 billion at end-December 2011. This increase was more pronounced than that observed in 2010 (5.9%).

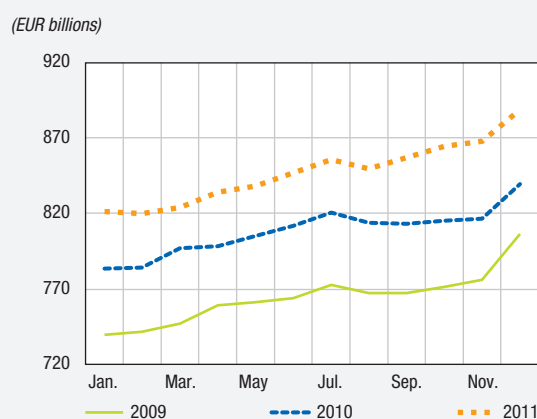
<sup>8</sup> Since 1 January 2002, “banknotes in circulation” designates all euro banknotes issued in the Eurosystem. National Statistics now use the concept “net currency in circulation”, defined as the difference between withdrawals and deposits at the counters of the national central bank since the first issue of each banknote.

**Chart 14**  
French net issuance of banknotes



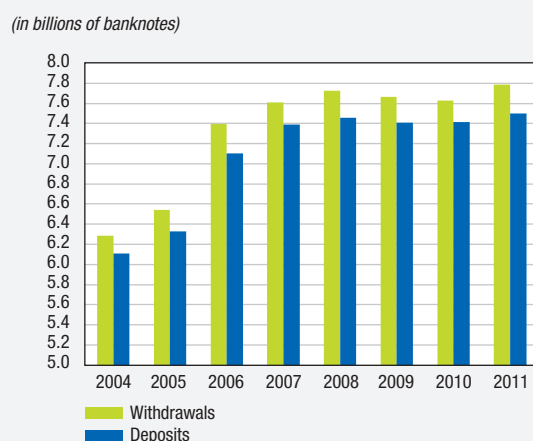
Source: Banque de France.

**Chart 15**  
Net euro area banknote issuance



Source: ECB.

**Chart 16**  
Banknotes handled by the Banque de France and the IEDOM



Source: Banque de France.

Box 14

### **The recycling of euro banknotes and coins in 2011<sup>1</sup>**

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

At end-2009, 36 processing agreements were in force between the Banque de France, credit institutions, cash-in-transit companies and companies operating ATMs. All-in-all, at 31 December 2011, there were 152 sites in France handling coins for delivery to the Banque de France. Inspections were carried out at 58 sites by Banque de France teams. The inspections carried out identified a number of shortcomings (inadequacy of equipment, operating and internal control procedures, etc.) that were rapidly rectified. Having identified several serious inadequacies, the Director General Cash Management and Branch Network Activities instructed two of these sites to bring their processing procedures into compliance with the requirements of the agreements. These problems were resolved.

#### **Agreements regarding the automatic distribution of banknotes not withdrawn from a central bank and inspections carried out by the Banque de France**

Following the publication, on 16 September 2010, of the decision of the European Central Bank on the authenticity and fitness checking and recirculation of euro banknotes, 2011 was marked by a change in the French regulatory framework regarding the processing of banknotes for the replenishment of ATMs. These amendments resulted in changes in the *Monetary and Financial Code* and the publication of a decision of the Governor of the Banque de France on 16 September 2011.

At end-2011, 57 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. 5,095 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 2011, the Banque de France carried out 195 on-site inspections of bank branches and workshops processing banknotes for the replenishment of ATMs. The shortcomings brought to light during the on-site or permanent inspections were addressed, except for one serious incident of non-compliance with the regulatory obligations that resulted in the termination of the agreement of a credit institution's service provider.

#### **Training bank employees in banknote authentication**

In accordance with the provisions of Article R122-6 of the *Monetary and Financial Code*, the Banque de France continued to provide support to banks that requested it in the training of staff charged with the manual distribution of banknotes in bank branches. In 2011, 2,185 credit institution staff members were trained by the Banque de France.

#### **Implementation of banknote recycling and coin processing in the overseas departments (Guadeloupe, French Guiana, Martinique, Reunion and Mayotte) and overseas communities (Saint Barthelemy, Saint Pierre and Miquelon, Saint Martin)**

The Banque de France charged the French overseas note-issuing bank (IEDOM) with the administration of the system concerning credit institutions headquartered in the overseas departments and communities. At end-2011, 6 agreements concerning the delivery by ATMs of recycled banknotes had been signed. The IEDOM carried out a check in one of the 31 sites concerned. 10 agreements covering the automatic processing of euro coins were in force in respect of ten production sites.

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<sup>1</sup> Report produced pursuant to Articles R123-3 of the *Monetary and Financial Code*.



It was also higher than that of the euro area as a whole (5.8% after 4.1% in 2010), where net issuance stood at EUR 888.6 billion at end-December 2011. At end-2011, French net issuance accounted for 22.6% of the European total in volume terms and 10.0% in value terms.

In contrast to the situation observed in the rest of the euro area, denominations used for transaction purposes (EUR 5, 10, 20 and 50) were the main drivers of French net issuance growth in value terms: indeed, it rose by 11.2% compared with 7.6% in the Eurosystem in the period under review. Conversely, denominations used for hoarding purposes (EUR 100, 200 and 500) marked a smaller increase than the euro area average (3.0% in value terms compared with 4.5% for the Eurosystem).

The volume of withdrawals from the Banque de France and the IEDOM stood at 7.8 billion banknotes (up 2.1%), with an equivalent value of EUR 184.3 billion. The volume of banknotes deposited in these institutions reached 7.5 billion (up 1.2%) with an equivalent value of EUR 176.6 billion.

The annual volume of banknotes processed rose by 127.8 million (1.8%) to reach 7.4 billion banknotes.

### Exchange of franc banknotes

French franc banknotes continued to be returned to the Banque de France. In the last month of 2011, this activity was particularly buoyant in the run-up to end of the exchange period for the last series of banknotes (17 February 2012). Over the year, volumes of French franc banknotes exchanged reached almost 888,000 banknotes with a value equivalent to EUR 35.1 million. At end-2011, 56.4 million banknotes remained in circulation with an equivalent value of EUR 566.7 million, taking account of payment to the French State for notes issued but not presented for exchange.

### Coins

In 2011, net outflows of coins continued to decline (40.7 million coins, down 4.2%). This trend was

observed for all coins with the exception of 10 cent and 50 cent coins.

Net outflows of copper coins and 20 cent coins reached historical lows over the period 2005-2011. While net outflows of 20 cent coins contracted, those of 10 cent coins rose, suggesting a gradual substitution of the use of 20 cent coins by 10 cent coins.

## 1|4 The security of means of payment and market infrastructures

### The security of means of payment

In accordance with Article L141-4 of the *Monetary and Financial Code*, the Banque de France ensures the security of cashless means of payment. In the performance of its duties, the Banque de France makes assessments and collects any useful information on these means of payment or the related technical facilities.

After assessing in 2008-2009 all French card payment schemes against the Eurosystem Oversight Framework for Card Payment Schemes, the Banque de France contributed to the review of international schemes operating in France within the cooperative assessment groups established by the Eurosystem.

It continued examining ways to implement the Eurosystem's harmonised oversight frameworks for credit transfer and direct debit schemes and took part in the setting up of a similar framework regarding electronic money transactions. The Banque de France participates in the European Forum on the Security of Retail Payments that met for the first time in January 2011 and brings together supervisors and central banks with a view to developing a common approach to risks and actions to be taken regarding the security of means of payments. In this context, it chairs a working group on the security of online payments.

At the national level, the Banque de France conducted a mission to assess the level of

security of the national direct debit scheme and the preparatory work related to the SEPA direct debit at the main French banks. At the same time in 2011, it launched initiatives about the rolling out of strong authentication solutions for merchants in order to protect on-line card payments on their sites. This work, conducted in the framework of the Observatory for Payment Card Security<sup>9</sup> for which the Banque de France provides the secretariat, thus contributed to a significant increase in the share of transactions benefiting from such schemes, thanks to the adoption of the technology by a few large e-merchants.

As part of the licensing procedure for payment institutions that comes within the remit of the *Autorité de contrôle prudentiel* (French Prudential Supervisory Authority – ACP), the Banque de France is also charged with expressing an opinion on the security of the technical means considered or implemented and on the general organisation of security, controls and the fight against fraud. Seven opinions were submitted in 2011 to the national supervisory authority.

Lastly, the Banque de France continued its technology watch, in an environment marked by increased innovation in the area of contactless payments, prepaid cards or mobile telephones, with the latter being used as either means or payment terminals. Furthermore, like in previous years, it collected quantitative and qualitative data from payment instrument issuers and operators, with a view to analysing changes in the payment instrument landscape in France and ensuring that the latter meet the security objectives that it defined.

### Implementation of the Single European Payments Area (SEPA) project

In 2011, discussions continued at the European level for the adoption of a regulation establishing at 1 February 2014 the definitive deadlines for migration to the SEPA direct debit and credit transfer and the phasing out of equivalent country-specific instruments. An agreement was reached on 20 December 2011 by the European institutions (European Commission, European Parliament, and the EU presidency) and the regulation is set to be adopted in March 2012.

The Banque de France co-chairs the National SEPA Committee<sup>10</sup> with the *Fédération bancaire française* (French Banking Federation). The Committee, which is closely monitoring France's migration to SEPA, observed that the rate of migration of companies continued to remain low. For instance, at end-2011, only 22% of credit transfers in France were made in the SEPA format, issued in the main part by public administration. As regards SEPA direct debits, the volumes remained insignificant, both at the French and European levels, at less than 1% of overall direct debits. The Committee therefore decided to launch an awareness campaign in autumn 2012 aimed at companies with a view to meeting the European deadline.

### Oversight of market infrastructures

Given that the safety and the robustness of payment systems is a prerequisite for financial stability (see below), the Banque de France is also responsible for the oversight of market infrastructures.

In 2011, together with the competent authorities of the Coordination Committee on the Clearing of Euronext Markets, the Banque de France assessed LCH.Clearnet SA, against the ESCB/CESR recommendations for central counterparties (CCPs). This assessment will be completed in early 2012.

In addition, the Banque de France assessed the French retail payment system, CORE (FR), managed by STET. This is the largest European retail payment system in both volume and value terms.

<sup>9</sup> The Observatory for Payment Card Security (Observatoire de la sécurité des cartes de paiement – hereinafter the Observatory) was created by virtue of the Everyday Security Act 2001-1062 of 15 November 2001. The legal provisions relating to the Observatory are set out in Article L141-4 of the French Monetary and Financial Code. The Observatory is meant to promote information-sharing and consultation between all parties concerned by the orderly operation and security of card payment schemes (consumers, merchants, issuers and public authorities).

<sup>10</sup> The National SEPA Committee coordinates the implementation of pan-European payment instruments in France. It is composed of representatives of all stakeholders in the project: banks, public administrations, companies, merchants and consumers, as well as members of Parliament, representatives of the Economic and Social and Environmental Council and of the Association of Mayors of France.

Lastly, in the framework of the Eurosystem's cooperative oversight arrangements, the Banque de France participated in 2011 in the assessment of EURO1, which is one of the European large-value payment systems, against the core principles for systemically important payment systems.

## 1|5 Consumer protection and general interest databases

2011 was the first full year in which the improvements made to the French National Register of Household Credit Repayment Incidents (FICP) were applied: data are entered on an ongoing basis, and institutions are informed in real time as to the situation of individuals encountering repayment difficulties. The permanent access to databases guaranteed to credit institutions enables them to satisfy the obligation imposed on them as

of 1 May 2011 to consult the FICP when granting consumer credit.

The consumer credit act also led the Banque de France to implement a written procedure in order to respond to individuals exercising the right of access to the FICP; the latter may now obtain the relevant FICP report.

Furthermore, in the framework of the Lagarde Act on consumer credit, the Banque de France took part in the work of the Committee in charge of laying the foundations for a national register of household credit. The report drafted in the light of this work was submitted to the government and Parliament, and was subsequently posted on the website of the Ministry of the Economy, Finance and Industry.

## 1|6 Processing of overindebtedness cases

### Provision of the secretariat for the household debt commissions

The Lagarde consumer credit Act includes a section on the reform of the processing of overindebtedness cases. This reform, which came into force on 1 November 2010, aims at rationalising and speeding up the procedure. The Commissions and their secretariats, provided by the Banque de France, made full use of the new provisions against the backdrop of a rise in the number of overindebtedness cases submitted (up 6.6% on 2010).

The Banque de France committed substantial resources in order to implement the Act, deal with the increase in cases submitted and process the cases within the deadlines set down by the government. The latter were successfully met. The Bank also put forward proposals to all commissions with a view to harmonising the case processing practices. This initiative was widely taken up by the commissions and resulted in very significant progress.

The summary of the Household Debt Commissions' reports in 2011 has been drawn up in accordance with the provisions of Article L331-12 of the French *Consumer Code*. It is presented below, as well as in the Annex to this report.

### Box 15

#### 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 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 merchants and service providers seeking to verify the validity of cheques.

#### 2011 key data

- 60.8 million consultations of the FCC
- 2.5 million individuals recorded in the FICP
- 133 million consultations of the FNCI

Box 16

### Annual activity report

In accordance with the provisions of Article L.331-12 of the French *Consumer Code*, each Household Debt Commission draws up an annual activity report on the number of cases processed, the measures administered, the type of debt involved and the difficulties encountered. These reports are submitted to the Banque de France, which is responsible for summarising them in its annual report. This new exercise is conducted for 2011, which is the first full year in which the recent reform introduced by the consumer credit Act of 1 July 2010 was applied.<sup>1</sup>

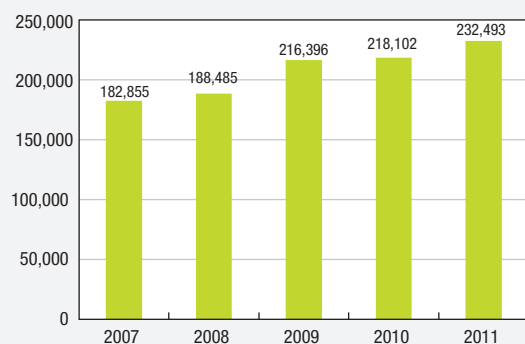
<sup>1</sup> The provisions relating to overindebtedness came into force on 1 November 2010.

### A completely overhauled procedure, and an increase in cases submitted to the Commissions

In 2011, the Household Debt Commissions received a total of 232,493 applications to process cases of overindebtedness, representing a 6.6% increase compared with 2010. This rise followed an almost flat period in 2010 (up 0.8%) and a large increase in 2009 (up 14.8%)

The bulk of this increase occurred in the first half of 2011, with the number of cases received after mid-summer close to levels observed in the previous year.

**Chart 17**  
**Number of cases submitted to the Commissions**



Source: Banque de France.

Box 17

### Personal recovery procedure

The personal recovery procedure is aimed at providing a solution tailored to the most difficult financial situations, that is to say "irremediably compromised" in legal terms, and that cannot be dealt with by rescheduling the debt.

This procedure, which falls within the remit of magistrates, results in the cancellation of most debts, after possible asset sales. The 2010 reform broadened the role of the household debt commissions in the implementation of this procedure.

In 2011 the Commissions and their secretariats had to integrate and implement the new legislative provisions whilst handling a higher volume of applications. The Commissions increased the frequency of their meetings and in 2010 and 2011, the Banque de France, which provides the secretariat for the Commissions, committed substantial resources to the implementation of the new law's provisions and to the processing of the different types of cases within appropriate deadlines. The maximum deadline of three months given to Commissions to manage the cases was satisfied in almost all cases, despite the increased inflow of cases observed in early 2011.

Pursuing the initiatives launched in late 2010, the secretariats stepped up their communication and consultation efforts with social workers and associations, particularly with regard to the effects of admissibility, the drawing up of debt closing statements, the new maximum timeframes for measures, the Commissions' capacity to impose measures and/or to recommend a personal recovery procedure without any judicial liquidation.

### How the new law will be applied: a harmonisation of practices and the quest for greater efficiency

The Commissions have optimised their practices in accordance with the guidelines defined by the Ministerial Circular of 29 August 2011. The latter requires the Commissions to work on the basis of harmonised principles in order to limit any discrepancies in the areas of case eligibility, guidance or resolution. The harmonisation work performed over

Box 18

### Ministerial Circular of 29 August 2011

This Circular, issued jointly by the Ministry of the Economy, Finance and Industry and the Ministry of the Budget, Public Accounts and State Reform, reiterates the objectives of the reform:

- accelerate the procedure and make it more effective, in order to better assist overindebted persons;
- promote the implementation of appropriate and durable solutions and avoid cases of successive filings of requests for assistance ("refiles") and the accumulation of provisional or suspended measures;
- ensure the protection of overindebted persons throughout the procedure and during the implementation of the resolution measures;
- strengthen the homogeneity and coherence of the way cases of overindebtedness are managed in order to enhance the overall equity of the service, without detracting from its capacity to take into account individual situations.

The internal regulations to be used by the Commissions are appended to the Circular.

the last two years by the Commissions and the Banque de France has already generated a reduction in the observed disparities in several procedural areas.

To enhance their efficiency, the Commissions have also intensified their cooperation with the different public bodies.

11 "Refiles" are defined as cases submitted by persons who have already applied to Commissions, irrespective of the outcome of the previous application.

Box 19

### Closer cooperation with public services

This initiative has notably led to closer collaboration with the CCAPEX (*commissions de coordination des actions de prévention des expulsions* – Eviction Prevention Coordination Commissions), integration of information from the employment/benefits office (*Pôle Emploi*) concerning the situation of debtors seeking employment (the Commissions not having to duplicate the checks conducted by the employment office), and a systematic request to the Departmental Public Finance Divisions for information allowing an assessment of debtors' assets and liabilities in the event of decisions to initiate a personal recovery procedure.

Moreover, the Commissions limited the use of measures that could result in "refiles".<sup>11</sup> Indeed, a significant share of such refiles (around 50%) arises following provisional measures implemented in the hope of a return to better fortune. And yet, it has been observed that when debtors refile a case, their financial situation has hardly changed. And so the Commissions now only use wait-and-see measures if the prospects of an improvement are probable and they avoid, in the event of a refile following the first provisional measure, any further similar measures.

### Breakdown of indebtedness

The Banque de France publishes on a quarterly basis an overindebtedness barometer focusing chiefly on data on debt levels. The following data are taken from the end-2011 version of this barometer.

**Table 2**  
**Breakdown of indebtedness**

	Share in overall indebtedness	Average indebtedness (in EUR)	Cases concerned (%)	Average number of debts
Financial debts	83.6%	32,500	94.7%	5.5
Debt relating to recurring expenses	8.9%	4,300	76.6%	3.7
Other debts	7.5%	5,500	50.8%	2.3
Overall indebtedness	100.0%	36,800	100.0%	9.3

NB: Average number of debts and average indebtedness by case, for the cases including such debts.  
Source: Banque de France, overindebtedness barometer, Q4 2011.





On average, each overindebtedness case contains 9.3 debts. Average indebtedness per case stands at around EUR 37,000. Financial debts (loans) are present in 95% of the cases and represent 83% of the overall amount of indebtedness. Within the category of financial debts, housing loans are present in a little under 9% of the cases, while consumer credits are present in almost 90% of the cases, and overdrafts in 59%. Debts relating to recurring expenses are present in 75% of the cases and represent around 9% of total debts. These proportions remained relatively stable over 2011. Detailed data may be consulted on the Banque de France's website.<sup>12</sup>

## 2| EUROSISTEM AND SUPERVISORY TASKS

As a member of the Eurosystem and the European System of Central Banks (ESCB), the Banque de France conducts all the activities of a national central bank (NCB). It contributes fully to the definition

and implementation of the common monetary policy, through its analysis of economic conditions and monetary developments in France and the euro area; it takes part in monetary policy operations and bank refinancing at the national level, in accordance with the Eurosystem's principle of decentralisation.

It also plays a key role in the framework of European integration, by contributing to major common infrastructure projects carried out under the auspices of the ESCB.

Lastly, the Banque de France exercises, via the *Autorité de contrôle prudentiel*, which operates under its aegis, the supervision of credit institutions, insurance companies and mutual and provident institutions.

<sup>12</sup> <http://www.banque-france.fr/la-banque-de-france/missions/protection-du-consommateur/surendettement/barometre-du-surendettement.html>



## 2|1 Forecasts, statistics, studies and research in support of the monetary policy

### Growth and inflation 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 economic forecasts and analyses. The publication of the monthly business survey is accompanied by a GDP growth forecast with a three-month horizon, the monthly index of business activity (MIBA).<sup>13,14</sup> Furthermore, the Banque de France also takes part in the work of the Eurosystem's Monetary Policy Committee by carrying out growth and inflation forecasts for France at a two-year horizon, in coordination with the other Eurosystem central banks. These forecasts provide data for drawing up the euro area forecasts.<sup>15</sup>

The Banque de France is thus able to conduct its own economic assessments for France and the euro area, which has been particularly useful during the difficult economic environment prevailing over the past few years.

### The production and publication of monetary and financial statistics

The preparation of monetary policy decisions is also based on monetary analysis, centred on a wide variety of economic indicators, in particular the broadest

monetary aggregate (M3), its components and its counterparts.

Within the Eurosystem's statistical framework, the Banque de France collects and analyses developments for France. For its part, the ECB centralises the national contributions, and calculates and publishes euro area aggregates.

The sources used to compile monthly or quarterly monetary indicators are the balance sheets of banks (including Eurosystem NCBs) and other credit institutions and money market funds.

The reporting framework for balance sheet data mainly applies to monetary financial institutions (MFIs), in accordance with ECB Regulations,<sup>16</sup> whose application procedures in France are established by a decision<sup>17</sup> by the Governor. It covers the branches and subsidiaries of credit institutions whose registered office or parent company is located outside the domestic territory. Pursuant to this rule, the reporting population mainly includes branches and subsidiaries of credit institutions of other European Union countries.

Since June 2011, the Banque de France has made its Webstat portal available to the public. This interactive database can be accessed on its website.<sup>18</sup> It provides access to thousands data series from the Banque de France and other major international partner organisations such as the ECB or Eurostat and simplifies their use. Webstat has an online help function with practical examples to enable users to rapidly access the required information.

### Balance of payments

The Banque de France compiles France's balance of payments and international investment position. These statistical documents assemble all the financial and economic transactions of the French economy with the rest of the world and, as such, make it possible to assess France's integration in its external environment. France's balance of payments is used for compiling other national (GDP, national income) or international (euro area balance of payments) statistical aggregates. Since 2011,

<sup>13</sup> <http://www.banque-france.fr/economie-et-statistiques/conjoncture-et-croissance/enquetes-de-conjoncture-mensuelles.html>

<sup>14</sup> *Monthly index of business activity (MIBA): an update (in French)*, Olivier Darné and Véronique Brunhes-Lesage, Banque de France Working Paper No.171, July 2007, <http://www.banque-france.fr/economie-et-statistiques/la-recherche/documents-de-travail/document/171.html>

<sup>15</sup> Euro area forecasts are published four times per year in March, June, September and December issues of the ECB's *Monthly Bulletin*; see <http://www.ecb.int/pub/mb/html/index.en.html>

<sup>16</sup> No.2423/2001 on the consolidated balance sheet of the MFI sector (ECB/2001/13) and No.3/2002 on MFI interest rate statistics (ECB/2001/18).

<sup>17</sup> Decision No.02-01.

<sup>18</sup> <http://webstat.banque-france.fr/fr/>

it has also contributed to indicators used to detect macroeconomic imbalances, in the framework of measures introduced by the European Union in response to the crisis.

Since 2009, the Banque de France conducts an annual survey on international trade in services among a sample of non-financial corporations, with the aim of enhancing the information regularly submitted by companies subject to the General Direct Reporting procedure. This survey replaces bank reporting suspended since early 2011 and contributes to the compilation of the “services excluding travel” item of the balance of payments.

### Research and publications

The economic research carried out by the Banque de France contributes to preparing monetary policy decisions, preparing international meetings (G20, G7, BIS, IMF, etc.), debating national economic policy and assessing financial stability. This research is also used to develop tools for analysing business conditions or for medium-term macroeconomic forecasts, as well as for models to assess the impact of monetary policy, estimates of potential growth and the impact of structural reforms on medium-term growth.

In 2011, research activities focused on the questions raised by the crisis. This includes reviewing tools in order to better take into account linkages between real and financial market behaviour, notably by introducing financial sector modelling into dynamic stochastic general equilibrium models, examining the relationship between asset price bubbles and monetary policy, potential growth and structural reforms, etc. Moreover, the French presidency of the G20 called for an in-depth assessment of the International Monetary System, the international coordination of economic policies and commodity prices.

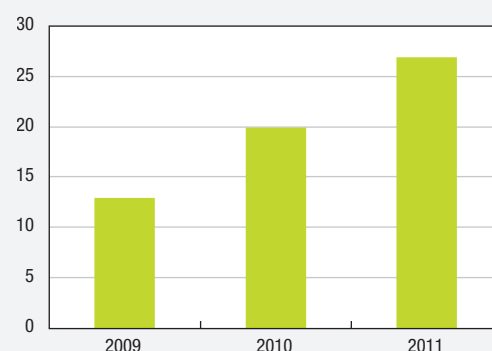
The number of publications by Banque de France economists in academic journals (tracked by the *Journal of Economic Literature*) rose: 54 publications in 2011 compared with 51 in 2010 and 20 in 2006.

### Box 20

#### The Banque de France Foundation for Monetary, Financial and Banking Economic Research

The volume of activity of the Banque de France Foundation continued to grow significantly in 2011. The Foundation organised 27 seminars, compared with around 20 in 2010, and received 10 or so visiting scholars. Visiting scholars had active exchanges with Banque de France research teams and, in some cases, developed cooperation arrangements.

#### Number of seminars organised by the Foundation



The first macroeconomics workshop, organised under the aegis of the Banque de France Foundation, was held on 25 November 2011 at the Banque de France. The aim of this new workshop, co-organised with several French research centres (Crest, Polytechnique, PSE, TSE, Sciences Po), is to regularly bring together macroeconomists working in Europe to present and discuss their work. In half the cases, the presentations are reserved for economists who have finished their PhD in the past six years. Six papers were selected from 120 applicants.

The Foundation awarded four research grants, of EUR 30,000 each, after a highly competitive selection process. These research grants aim to finance the high-level research published in the top international journals. For instance, the most recent financial research financed by the Foundation was published in the *American Economic Review*,

.../...

the *Quarterly Journal of Economics*, the *American Economic Journal* and the *Journal of Monetary Economics*.

Lastly, the Foundation continued to support young researchers from French universities. It awarded three prizes to young economics researchers, amounting to EUR 14,000, mainly in the form of release of teaching obligations, and awarded its thesis prize at the annual conference of the *Association française de sciences économiques* in September 2011, for the best thesis in monetary, financial and banking economics.

The Banque de France continued to rise in the rankings of economic institutions to 194<sup>th</sup> place internationally and 9<sup>th</sup> place nationally (including universities, international institutions, central banks, etc.) according to Rankings at IDEAS of the Federal Reserve Bank of Saint Louis.

Ten or so high-level conferences were organised, bringing together academics (including A. Auerbach, G. Corsetti, C. Goodhart, R. Perotti, K. Rogoff, N. Roubini, J. Tirole, to name but a few) and senior figures (14 speakers at the international symposium of 4 March were either Governors, Deputy Governors, European Commissioners or Finance Ministers).

### Research partnerships

Partnerships with universities were strengthened via formal agreements with the Banque de France Foundation (see box) or spontaneous cooperation efforts. The Banque de France now has agreements with the three leading economics departments since in addition to the two existing partnerships (Toulouse School of Economics in 2008, Paris School of Economics in 2009) it has recently signed an agreement with Sciences Po. Relations with universities are also developing with spontaneous cooperation on research projects (23 joint publications in 2011), participation of Banque de France researchers in university conferences or staff exchanges.

## 2|2 Participation in Eurosystem infrastructure projects

### A European market infrastructure project: TARGET2-Securities

The TARGET2-Securities project (T2S) aims to create common European platform for the settlement of securities transactions. T2S covers the settlement function currently conducted by central securities depositories. This platform sets out to address the current fragmentation of settlement infrastructures in Europe. With an integrated model for securities settlement in central bank money in euro and some other European currencies, the platform is to be launched, in several migration waves, by mid-2015.

The main entities in charge of the governance arrangements of the project are the ECB Governing Council and the T2S Programme Board, the project's steering committee charged with submitting proposals to the ECB's decision-making bodies on T2S issues that are of a strategic nature and managing relations with T2S clients and external stakeholders. These players are represented in several bodies: the Advisory Group, which includes representatives from banks, central securities depositories (CSDs) and NCBs and aims to ensure that T2S fully meets the needs of the market; National User Groups (NUGs), which form the link between the T2S Advisory Group and the various national markets; and lastly the CSD Contact group (CCG), which is in charge of negotiating and preparing the contract between the Eurosystem and the CSDs participating in T2S.

2011 was largely given over to the preparation of the master agreement between the Eurosystem and the CSDs. The agreement was officially presented to the CSDs in November 2011 after endorsement by the Governing Council with a view to them signing in the first half of 2012. Furthermore, an agreement between the Eurosystem and the central banks of non-euro area countries (Currency Participation Agreement) was being finalised. It governs the rights and obligations of the

Eurosystem and the non-euro area central banks regarding the settlement of currencies other than the euro in T2S and should also be signed in 2012.

The Banque de France is actively participating in this preparatory work, regarding legal and governance issues, in both bodies. Moreover, it has a central coordination role in the group of four NCBs (Banque de France, Bundesbank, Banca d'Italia, Banco de España) that are building this platform on behalf of the Eurosystem. In 2011, the detailed specifications for a market consultation were published. A new version of these specifications was released at the end of the year, taking into account the comments received.

## 2|3 Prudential supervision

The *Autorité de contrôle prudentiel*, resulting from the merger between the certification and supervisory authorities of the banking and insurance sectors, was placed under the aegis of the Banque de France when it was created in 2010. Its role is to safeguard financial stability, via the supervision of credit institutions and insurance companies, and to protect bank customers and policy holders.

### Increased ACP supervision during the crisis

In 2011, the situation of the economy and financial markets deteriorated, requiring greater supervision on the part of supervisors. Concerns over the exposure of financial institutions in certain euro area countries intensified in summer 2011 against the backdrop of the downgrade of the US sovereign credit rating, tumbling stock markets and the dollar-funding problems of large French banks.

The ACP was highly active in a number of areas.

#### An information drive aimed at economic agents

In 2011, the ACP kept economic agents well informed as to the position of banks and insurance companies with a view to dispelling rumours and correcting wrong or inaccurate analyses.

### Specific supervision of the main areas of vulnerability

Throughout 2011, the ACP imposed stringent requirements in terms of monitoring the risk of the entities it supervises, in order to maintain confidence in the financial system. In the banking sector, it stepped up its monitoring of liquidity positions, notably by liaising regularly with bank treasurers. In the insurance sector, life insurance inflows were very closely monitored. In the framework of an exercise called “landing”, life insurance companies were required to provide information to assess, in advance, using different scenarios, the impact of financial turbulence on their solvency at 31 December 2011.

### An active monitoring of supervised entities’ preparations for the new regulations

The ACP has been highly active in monitoring the preparations of credit institutions for Basel III and insurance companies for Solvency II. In this respect, it conducted a number of impact studies. In the framework of the Basel Committee and the G20, statistical collections were introduced by the ACP in order to identify institutions that were systemically important and that, due to their size, could give rise to contagion, and monitor them closely.

### Increased supervision of institutions

The ACP participated directly, within national and international bodies, in macroprudential supervision aiming to analyse financial system vulnerabilities and market developments, while cooperating in standard setting. Furthermore, since exemplary behaviour is particularly important in crisis periods, the ACP monitored the implementation of regulations concerning market professionals’ compensation practices.

### The ACP's supervision of commercial practices in 2011

The ACP ensures compliance, on the part of the entities it supervises, with the rules aimed at protecting consumers, in areas related to advertising, pre-contractual information, advisory

duties, and the observance of the contract throughout its life. It also ensures that adequate resources and procedures exist for this purpose. A specific directorate, the Directorate for the Supervision of Commercial Practices, is charged with these tasks at the ACP.

In 2011, the ACP conducted numerous checks in credit institutions, insurance firms and intermediaries, relating to different matters such as internal control, complaints handling and the quality of advice given. Some were carried out in association with the AMF, within the framework of the joint ACP-AMF unit. On the basis of the findings of these checks and the monitoring, by ACP teams, of advertising, new bank and insurance products and services and the complaints received from customers of banks and insurance companies, the ACP can identify certain “questionable” practices that are likely to be detrimental to customers’ interests. To address these questions, the ACP defines the rules of good practice, applicable to the entities it supervises, via recommendations.

Hence, five consumer protection recommendations were published by the ACP in 2011:

- recommendation on the management by credit institutions of mandate accounts for the managing agents of co-owned properties (15 February 2011);
- recommendation on the advertising of unit-linked life insurance contracts invested in bonds and other debt securities (23 March 2011);
- recommendation on the marketing of unit-linked life insurance contracts invested in debt securities issued by an entity with financial links to the insurer underwriting the contract (6 May 2011);
- recommendation on the marketing of life insurance policies linked to funeral payment plans (17 June 2011);
- recommendation on complaints handling (15 December 2011).

The ACP has also been pro-active in the area of consumer protection at the international level. It contributes

regularly to the work of different European Supervisory Authorities (European Insurance and Occupational Pensions Authority (EIOPA) and the European Banking Authority (EBA)) and participated in 2011 in G20 projects.

Moreover, Christine Lagarde, Minister of the Economy, Finance and Industry, entrusted the ACP with the task of ensuring that credit institutions belonging to the French Banking Federation complied with the commitments made with a view to making it easier for customers to switch banks. This gave rise to a survey among 344 credit institutions which concluded that these commitments had partially been met. In particular, improvements should be made to better inform customers about switching banks and the corresponding procedures and fees. Credit institutions should introduce indicators showing the use of this service and the actual implementation procedures. Lastly, the monitoring of commitments made by banks should be better integrated into the scope of internal control inspections, in accordance with the provisions of Article 5 of Regulation 97-02 of the French Banking and Financial Regulations Committee (CRBF). The full findings of these checks are collected in a report, published on the ACP website.

### 3| ACTIONS TO PRESERVE FINANCIAL STABILITY AT THE INTERNATIONAL LEVEL

#### 3|1 The Bank contributed to the French presidency of the G20, and co-chaired the G20 finance group

Throughout 2011, the Banque de France co-chaired, together with the Ministry of the Economy, Finance and Industry, the work of the G20 and G7 finance groups. The Bank has thereby played an active role in defining proposals for the French presidency, provided in-depth analyses, organised debates and planned events.

The Governor co-chaired, together with the Minister, the plenary meetings of the G20 and





G7 finance groups; the Second Deputy Governor co-chaired, together with the Director General of the Treasury, G20 Finance Deputies' meetings. Representatives of the Bank participated in the work of G20 working groups on the International Monetary System (IMS), macroeconomic coordination, and commodities.

A specific G20 task force was set up within the Bank to organise and coordinate this work, prepare the meetings of the G20 and G7 finance groups and provide secretariat services for them. This task force worked with a broad network of correspondents in the relevant units of the Bank who assisted it with the preparation of different topics and with organisational matters.

Notably, in 2011, the Bank organised, together with its counterparts from the French Treasury, four G20 meetings of finance ministers and central bank governors (two in Paris and two in Washington), two meetings of G7 finance ministers and central bank governors (the first in Washington in April, the second in Marseille on 9 and 10 September), six meetings of G20 Deputies, as well as numerous meetings of G20 working groups in cooperation with the chairpersons of these groups. Similarly, the Bank participated in the organisation of the high-level seminar on

the IMS in Nanjing in China on 31 March, and organised single-handedly a G20 *symposium* on microfinance on 8 July at the French Senate, with many prominent figures, including the Nobel peace prize laureate, Muhammad Yunus.

In order to contribute to the economic education of the general public, the Banque de France created a website on the IMS<sup>19</sup> that presents seminal articles, news and contributions from high-level academics and monetary policy-makers.

### Contribution to the G20 Study Group on Commodities – Nakaso report

On the behest of the French presidency, the G20 finance group set up a Study Group on Commodities, chaired by the Deputy Governor of the Bank of Japan. The Banque de France provided its secretariat, together with the Bank of Japan, and also drafted a large section of the group's report. This report set out the main factors driving commodity price developments and assessed their economic consequences. It did not put forward concrete measures in terms of regulation, as it was not the remit of the Study Group, but concluded that it was necessary to ensure the smooth functioning of international commodity markets (physical and derivatives) to allow for sustainable economic growth at the global level.

The report was published on the websites of the G20 and the Banque de France<sup>20</sup> and was presented at the Cannes summit of 4-5 November 2011.

## 3|2 Participation in European and international regulatory bodies

The Banque de France provides expertise to European and international bodies charged with improving and implementing regulation and safeguarding financial stability.

<sup>19</sup> <http://www.global-currencies.org/smi/fr/index.htm>

<sup>20</sup> <http://www.global-currencies.org/smi/fr/telechar/Divers/G20-Study-Grou-rapport-nakaso-final.pdf>



### The European Systemic Risk Board (ESRB)

The Bank participates in the ESRB. Created in December 2010, this Board became fully operational at the start of 2011, after setting up the different bodies of which it is comprised, in particular its technical assistance committee and its scientific committee. The Banque de France is represented in all the sub-groups. Thanks to its expertise, it is proactive in making proposals on the different issues addressed.

The ESRB was given a mandate to monitor and assess the three main risks that it identified for 2011: a euro area country default, funding difficulties for banks, and risks to economic growth. Indeed, in an environment as integrated as the European Union, the combination of these three elements could lead to contagion, which is one of the triggers of systemic risk.

In parallel, the ESRB studied the macroprudential aspects of the new European regulations (concerning, in particular, the Capital Requirements Directive and the European Market Infrastructures Regulation).

Furthermore, the ESRB published three recommendations:

- the first recommendation (21 September) relates to lending in foreign currencies to households and SMEs, which entails a foreign exchange risk (of which the borrowers are not always aware) and whose funding often involves the swap markets. The ESRB recommends that supervisors monitor these loans and impose on the institutions granting them a stringent risk management (in terms of pricing, capital requirements and funding in foreign currency).
- the second recommendation (22 December) relates to the US dollar denominated funding of credit institutions which is short-term and largely depends on US money market funds whose depositor base (investors) is very volatile. The ESRB thus recommends that national supervisory authorities should ensure that the credit institutions they supervise have in place

appropriate management procedures for the risks relating to this type of funding.

- in the third recommendation (22 December), the ESRB calls on Member States to designate an authority charged with a macroprudential framework at the national level with a view to safeguarding financial stability. In this respect, it advocates compliance with a number of criteria (such as the independence of the authority) in order to fully ensure the effectiveness of policy conducted and to implement macroprudential policy instruments (such as countercyclical buffers).

### European negotiations on regulatory standards (Basel III, Solvency II)

The ACP actively participates in the work of the different bodies, at the European level and in Basel, responsible for regulatory standard setting and cooperation between supervisors.

For instance, it took part in the preparations for the publication by the Commission, in July, of the draft CRD 4 (directive and regulation) implementing Basel III into EU law, while continuing to provide the necessary support to the Treasury in discussions with the Council.

Moreover, the ACP took a proactive role in the work of the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA), which have been operational since early 2011, by participating in some of their working groups and chairing others.

It took part in the stress tests coordinated by the EBA and in the exercise to strengthen banks' capital position.

### Financial Stability Board (FSB), Financial Stability Committee (FSC)

The Banque de France played a very active role in creating an international crisis management framework for systemically-important institutions, within the working groups of the FSB and the FSC, together with the Treasury, the ACP and the banks concerned. It played its role as a financial market authority through its cooperation with the *Autorité des marchés financiers* and management of the Paris Robustesse group.

## Oversight of exchange systems

The financial crisis has highlighted the lack of transparency on OTC markets and the importance of central counterparty clearing for OTC transactions, which contributes to reducing counterparty risk. In line with the G20 commitments of September 2009, all standardised OTC derivatives should be cleared through CCPs by end-2012 at the latest. In this context, the Banque de France took part in 2011 in the negotiations to establish and finalise the European Market Infrastructure Regulation (EMIR).

This regulation introduces rules relating to reporting and clearing obligations for eligible OTC derivatives, supervision, risk management and the governance of clearing houses and trade repositories. In 2011, the Banque de France participated in the working group that started to establish, under the aegis of the European Securities and Markets Authority (ESMA) and in cooperation with the ESCB, the technical standards for CCPs. These standards are due to be finalised by September 2012.

At the international level, the Bank takes part in strengthening the standards applicable to exchange systems and market infrastructures (central counterparties, central depositories and securities settlement systems, payment systems, and trade repositories). This work, conducted jointly by the Committee on Payment and Settlement Systems (CPSS) and the International Organisation of Securities Commissions (IOSCO) led to a general review of the standards throughout 2011, to be finalised in 2012.

The Banque de France co-chaired (together with the Securities and Exchange Board of India and the US Commodity Futures Trading Commission) the CPSS/IOSCO working group set up by the FSB to define the reporting principles in trade repositories for OTC derivatives. It is also a member of the OTC Derivatives Regulators' Forum. This Forum, set up in 2009, brings together central banks, banking supervisors and market regulators from several countries which cooperate on similar approaches.

### Box 21

#### Financial stability: key data for 2011

- Two exercises to assess the risks to the French financial system.
- Publication of an issue of the *Financial Stability Review* entitled "Global imbalances and financial stability".
- Five articles published in journals with selection panels (three in international journals).
- Twenty presentations at research conferences or symposia.

## Developing statistics to enhance financial stability

In 2009, the Group of 20 advanced and emerging economies had asked the IMF and the FSB to identify any statistical gaps whose correction could result in a better understanding of the financial system. The IMF and the FSB proposed 20 recommendations to enhance the collection of statistics aimed at (i) better identifying risks to the international financial system, (ii) better understanding financial interlinkages between countries, and (iii) detecting the vulnerabilities of national economies to the different shocks. It is also recommended improving the dissemination of statistics.

In 2011, the IMF and the FSB held bilateral meetings with each of the G20 countries to discuss how to make headway in order to meet these recommendations. Indeed, considerable progress was made, in particular regarding the availability of financial stability indicators.

## Contribution to academic debates

The Banque de France develops its studies and research programmes on financial stability with a view to consolidating its status in academic circles (see above). To this end, in 2011, it regularly

participated in seminars and conferences in France and abroad. It also published research articles in French and international journals and organised two series of seminars devoted to financial regulation and stability, one in the framework of its partnership with the Toulouse School of Economics, and the other in cooperation with Sciences Po Paris.

Lastly, in 2011, the Banque de France continued its efforts to inform and communicate on the main financial stability issues with the publication of its *Financial Stability Review* entitled “Global imbalances and financial stability”. This issue, which was presented in February at the G20 Finance meeting in Paris, brings together the contributions of the G20 central bank governors.

# Governance and strategy, human resources and financial management

## MEMBERS OF THE EXECUTIVE COMMITTEE

### From top to bottom:

**Hervé Le Guen,**

*Director Legal Affairs*

**Nathalie Aufauvre,**

*Deputy Secretary General,  
Committee Secretary*

**George Peiffer,**

*Director General Banknote Manufacturing*

**Jacques Fournier,**

*Director General Statistics*

**Denis Beau,**

*Director General Operations*

**Didier Elbaum,**

*Comptroller General*

**Danièle Nouy,**

*Secretary General of the  
Autorité de contrôle prudentiel*

**Frédéric Peyret,**

*Director General Human Resources*

**Christian Noyer,**

*Governor*

**Anne Le Lorier,**

*First Deputy Governor*

**Robert Ophèle,**

*Second Deputy Governor*

**Armand Pujal,**

*Secretary General*

**Henri Jullien,**

*Director General Cash Management and  
Branch Network Activities*

**Pierre Jaillet,**

*Director General Economics and  
International Relations*

**Nicolas de Sèze,**

*Director General of the IEDOM and the IEOM  
(not available to appear in this photograph)*





## 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 (who is 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 or 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, and the Careers Committee, which gives its opinion on the appointment of the Bank's senior executives.

The Governor is also Chairman of the *Autorité de contrôle prudentiel* (ACP – the Prudential Supervisory Authority), the Banking Mediation Committee, the Observatory for Payment Card Security and the Observatory for Regulated Savings.

#### The Executive Committee

Both in its plenary and reduced form, the Executive Committee is at the heart of the Banque de France's operational functioning. 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, which is chaired by the Governor, is composed 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 Banque de France, the Director General of the *Institut d'émission des départements d'outre-mer* (IEDOM – the French overseas departments note-issuing bank) and of the *Institut d'émission d'outre-mer* (IEOM – the French overseas note-issuing bank) is also a member of the Executive Committee.

The Executive Committee examines issues relating to the Bank's strategy and internal management. Its meetings 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 Head Office managers and regional managers.

#### 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 the latter 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 are 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, ensures that the risk limits for these operations are complied with 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



Box 22

### The Banque de France branch network at 31 December 2011



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 branch network and College of Regional Managers

The Banque de France network currently has 96 departmental branches (including 22 regional head offices), linked to which are 22 economic centres and 7 household debt centres. The activities related to currency in circulation are carried out at 66 of these sites and 4 specialised centres. In addition to these permanent units, there are 85 customer service and information offices, whose opening times are determined in accordance with customer use and which allow users to have direct contact with the Banque de France with respect to household debt, access to payment incident databases and the right to a bank account.

The Banque de France's branch network 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 branches in the region's various *départements*, and ensuring the consistency and quality of the work carried out;
- the *département* level comprising the departmental 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).

The regional manager is also in charge of the management of human resources and budgets as well as of the financial control for the region. 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 Bank's senior executives 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.

## 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 ACP 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 attends 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 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 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 budgets 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 principle of the independence of the Banque de France.



The General Council

*From left to right:*

Michel Felce; Henri de Richemont; François Calvarin; Serge Lepeltier; Anne Le Lorier; Christian Noyer; Robert Ophele; Jean-Philippe Thierry; Philippe Auberger; Hervé de Villeroché; Élisabeth Ducottet; Bernard Maris

## 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.

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 of these fields, the Audit Committee may interview any Banque de France manager and the Bank's auditors.

In 2011, the Audit Committee met four times. It focused most of its attention on the following areas:

- financial reporting: the Bank's auditors presented their report to the members of the Committee on the 2010 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 2012;

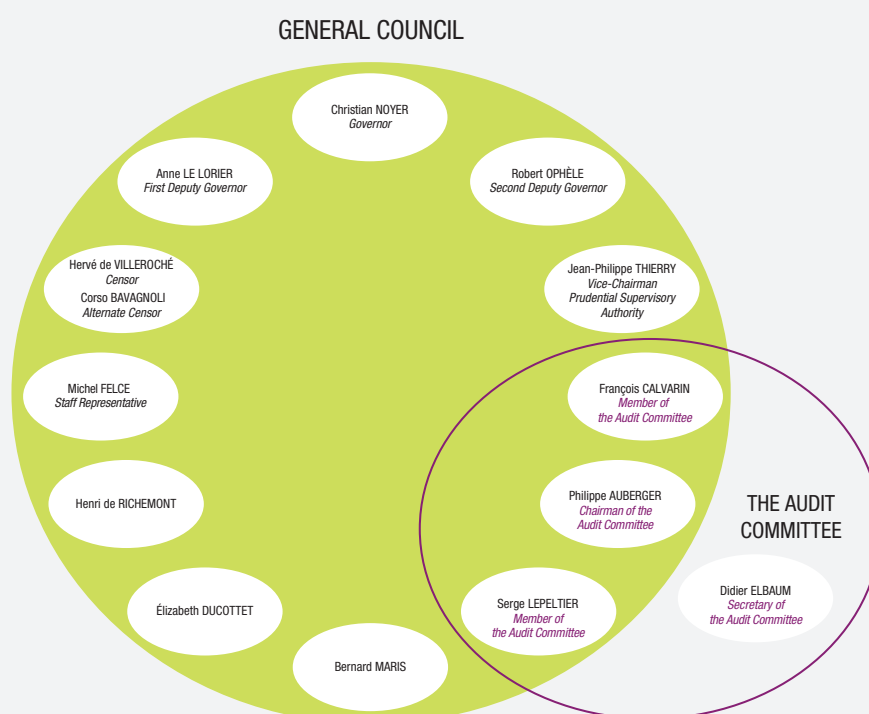
- internal control and risk management: the Audit Committee took note of the main findings of the procedure for the identification of operational risks and examined the risk management system implemented for several activities or processes (operations, investment of the Bank's own funds).

## Compensation Committee

Created by a General Council decision dated 12 March 2010, the Compensation Committee comprises 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.

## The General Council and the Audit Committee



## 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 using a risk-based approach. Its primary mission, in accordance with the terms of its charter, is to ensure the quality and efficiency of the management, risk control and internal control processes 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 its 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 and the Director of the Head Office Audit are permanent members of the ESCB Internal Auditors Committee (IAC) that meets several times a year at the ECB. Together with their counterparts at the other 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 work conducted in the framework of the conferences and working groups organised under the aegis of the Bank for International Settlements (BIS) for the heads of the internal audit departments from about 15 advanced countries with a view notably to 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 important role in coordinating the network of internal audit managers of the central banks of French-speaking countries. After conferences in Paris in 2008, Rabat in 2009, Beirut in 2010, the network held its fourth conference in Dakar, Senegal, at the invitation of the BCEAO.

### 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:

- strengthening internal controls by assessing all of the operational risks as well as the internal control mechanisms and the action plans aimed at reducing these risks;
- adopting the best practices in place within the ESCB and those recommended by the Basel Committee in this area.

In addition, for risks relating to its information system the Bank has a mode of organisation, a methodology and assessment procedures similar to those adopted by the ESCB.

The risk management organisation is decentralised and is structured as follows:

- within the Risk Prevention Directorate, which is attached to the Comptroller General, a special unit charged with the assessment of operational risks defines the methodology used, has a general remit to provide advice to other directorates general and coordinates the reporting to the Bank's authorities; another unit performs the role of IT system security manager and draws up, in collaboration with the responsible departments of the Organisation and Information Systems Division, the rules concerning information security and provides guidance on how they should be applied;



- in each directorate general, a risk manager is in charge of updating the mapping of operational risks and assisting in the implementation of risk-reduction action plans; similarly, 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; each directorate general and regional branch has an IT system security officer, who is the contact person for the IT system security manager;
- the Internal Control Co-ordination Committee (3CI) supervises the functioning of the operational risk management system. It is chaired by the Comptroller General and comprises the Directors General, the Legal Affairs and Audit Directors and risk managers;
- each year, the report on the consolidated operational risks is presented to the Executive Committee and the Audit Committee.

## 2| THE BANK'S BUSINESS STRATEGY

Thanks to its strategic orientations over the past few years, the Banque de France has been a key player in the management of the financial crisis. By working towards its own transformation, it has been able to strengthen its capacity to take decisions and act with a view to meeting greater demands in terms of its statistical expertise and its ability to carry out economic assessments, and being a proactive player both in European bodies (Committee of European Banking Supervisors) and international fora (G20).

In addition, the French banking sector's strong resilience to the crisis has demonstrated the effectiveness of placing banking supervision under the aegis of the central bank, as well as the quality of prudential supervision for which it is fully responsible.

Lastly, against a backdrop of worsening economic conditions, the household debt and credit mediation commission secretariats were able to cope with the rising number of cases submitted, at the same time meeting deadlines and providing a high quality of service.

### 2|1 The Bank's business strategy for 2008-2012

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, and the enlargement of the Eurosystem are all having a profound impact on the exercise of these tasks.

In order to cope with these developments and enable the Banque de France to best meet its responsibilities, the Executive Committee defined a strategic cycle for 2008-2012 structured around four areas for development over the medium-term, which in turn were broken down into objectives appearing in the Bank's strategic map, which presents in standardised form 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;
- the 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.

#### Buttressing the Bank's position in the Eurosystem

The need for efficient management of the Eurosystem's resources, together with increasing European integration, raises the question of the position of each of the 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 actively involved in its achievement.

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

#### Increasing the Bank's influence in defining and implementing monetary policy

The Banque de France has set itself the goal of being influential in the monetary policy decision-making process. Within the Eurosystem, like in economic discussions at the national and 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 internationally-recognised research work, enabling it to develop an autonomous capacity for analysis and effective assessment, analysis and forecasting tools.

In addition, the Bank wishes to continue to play a leading operational role in the implementation of monetary policy. To do this, it can draw on its expertise with regard to the valuation of the collateral submitted in monetary policy operations, which has enabled it to offer to the Eurosystem to perform valuations on behalf of the Eurosystem as a whole within the framework of the Common European Pricing Hub (CEPH) project.

Furthermore, within the Eurosystem, the Banque de France is one of the few national central banks (along with those of Austria, Germany and Spain) to have a certified In-House Credit Assessment System (ICAS) that allows it to select «eligible» companies whose bank claims may be used as collateral in monetary policy operations and thus to facilitate commercial banks' access to liquidity in central bank money.

#### Targeting attractive offers for the Eurosystem

Having successfully managed the TARGET2 project, the Banque de France is now playing the same role in the TARGET2 Securities (T2S) project, which is scheduled to go live in 2014. Ambitious objectives have also been set in the industrial field related to the creation of the new ES2 banknote series.

Overall, the Banque de France pursues a targeting strategy regarding projects deemed to be strategic and where it can provide value added to the Eurosystem.

At the same time, the development of new *High Energy Performance* IT support centres which satisfy very strict availability requirements in respect of the two future platforms, will allow the Banque de France to capitalise on its capacity to host European applications vis-à-vis the ESCB.

#### Strengthening the Bank's operational position on markets

An in-depth expertise in financial markets and a real-time understanding of their developments not only requires analytical and research capacities but also real operational experience. The Banque de France has therefore acquired 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.

Since October 2010 the Banque de France has a trading platform in New York that allows extended trading hours for the management of its North-American currency reserve portfolios. Its presence at the heart of one of the largest international financial markets is a valuable advantage in the development of the Banque de France's expertise on financial markets.

#### Being a major player in the area of financial stability

The financial crisis has underscored the need for central banks and supervisors to play a greater role in ensuring the stability of a global financial system. With the establishment of the new Prudential Supervisory Authority (*Autorité de Contrôle Prudentiel – ACP*) under the aegis of the Banque de France, France now has a solid supervisory framework and a high level of visibility regarding the potential systemic risks facing financial systems.

The Banque de France must continue as an initiator of regulatory proposals and seek to ensure a sound balance between the security of financial systems and the financing of the economy.

In this respect, the Bank has three strategic objectives:

### Contributing to the strengthening of the financial regulations

The Banque de France, via the General Secretariat of the ACP and the Directorate General Operations, has actively participated in international work on strengthening the regulatory environment of the banking sector (Basel 3) and the insurance sector (Solvency 2).

The Bank now takes responsibility for ensuring the correct implementation of the new regulations by closely associating financial sector companies with the conditions under which the regulations must be implemented in order to guarantee their viability and long-term effectiveness.

### Preventing systemic risk

To identify and anticipate the risks facing the financial system, the Banque de France can draw on its expertise in the area of banking and insurance supervision, its operational knowledge of markets and its capacity to conduct both micro and macro economic analysis.

Several actions have been taken or initiated at a national level. The ACP's General Secretariat has notably pursued its in-depth analysis based on stress tests allowing a diagnosis of the resilience of banks to adverse economic developments. In this framework, the ACP participated in the coordinated stress tests conducted by the European Banking Authorities.

### 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 was one of the Bank's priorities for 2010 and is now operational.

Thanks to its close links with the Banque de France, the ACP now 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 particularly difficult 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 bankers and prudential supervisors. These exchanges are essential in allowing the Bank and the ACP to reach the best possible diagnosis in the shortest possible timeframes, and in ensuring better responsiveness and effectiveness.

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 enhances the strength of the Bank's position in the Governing Council and ESRB (European Systemic Risk Board) discussions.

### Contributing to the smooth functioning of the economy

Credit mediation, the extended powers granted to household debt commissions and the discussions on the setting-up of a positive household 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 protection for consumers of insurance, banking and savings products

Although protecting consumers of financial products is not a historical mission of central banks, today it is one of the core activities entrusted to the Banque de France. In addition to its historical activities such as the *Infobanque* service (helping consumers with bank-related issues), the provision of assistance in resolving over-indebtedness and the management of payment incident databases, the Bank can now extend the scope of its consumer protection activities by drawing on the competencies of the new ACP.

### Fine-tuning the Bank's assessment of the economy and its financing

Using its expertise in measuring and assessing France's local and national economy, the Banque de France's reports on the state of the economy and

its financing are a primary source of information for France's high-level government and State authorities. This expertise is also exploited in the Bank's analyses and ratings of individual companies with its compilation and communication to banks of its FIBEN database (database of French companies' financial fundamentals and ratings), its economic sector reports compiled by the sectoral assessment (GEODE) for the benefit of enterprises, and its regional economic assessments (ACSEL) for the benefit of local authorities. Indeed, the convergence, synergies and spillover effects generated by these different activities all contribute to the unmatched credibility of the Bank's diagnoses of the economy and business financing.

### Reinforcing the security of means of payment

In the cash payments domain, the proper circulation of banknotes and coins – the traditional mission of central banks – remains an essential component of the smooth running of the economy. That is why the Banque de France has decided to mobilise very substantial resources in order 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 applied to the operators in the cash industry responsible for cash recycling, in the framework of agreements signed with the Banque de France.

All of these actions point towards a single objective: ensuring the security of banknotes and coins.

The Banque de France must also continue to guarantee a high level of security of non-cash payments for French citizens in a context of mature new technologies (remote, contactless, online payments, etc.). It is also playing an active role in creating the right conditions for the implementation of European payment systems (SEPA).

### Ensuring the Bank's financial independence

The strict management of the Bank's resources and particularly of its invested monetary income is the best

guarantee of its independence. This strict management allows the Bank to:

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

Efforts towards an optimal allocation of the Bank's financial resources will continue via a focus on three strategic objectives:

### Optimising investments

The optimisation of the systems used in the steering and governance of investment projects is a key factor in the successful management of the Bank's investments, as these systems must be able to guarantee the appropriateness of the considered investments vis-à-vis the enterprise's requirements, and subsequently ensure that these investments are correctly managed.

The Bank's Executive Committee has decided to set up a governance structure specifically dedicated to the largest projects with, on the one hand, an internal management and steering structure based on a dedicated sponsor and a dedicated project manager, and, on the other hand, regular meetings of the Bank's Executive Committee specifically for the purpose of discussing the Major Projects and taking the key decisions in the life of these projects.

At the end of 2011, the Bank's Major Projects portfolio contained a total of nine projects, ranging from organisational projects such as the creation of the *Autorité de Contrôle Prudentiel* (ACP), to IT projects for the Bank's operations (e.g. TARGET2 Securities), industrial projects (new Banknote Production Centres) and property management projects (the reorganisation of the Bank's head office and its annexes).

### Offering the best service at the lowest cost

At all levels of the Bank and in each domain of activity, the Banque de France staff have been

mobilised to make the necessary efforts to provide the best service at the lowest cost. The reduction of costs and the optimisation of resources, whilst maintaining the same quality and implication in their work, do therefore constitute primary objectives in the exercise of their daily missions.

Over recent years, the Banque de France has conducted several re-engineering programmes to enhance the efficacy and efficiency of its key processes. These initiatives 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.

### 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 ambition has been translated into three main objectives:

- reducing the Bank's breakeven point by a continued reduction of its expenses and by earning a better economic return from the services provided to the local authorities; the Bank's breakeven was less than 1% for the first time in 2010, and it continued to fall in 2011;
- the allocation of adequate provisions for its employee-related liabilities, particularly pension liabilities. The financing agreement signed in the framework of the reform of the Bank's pension scheme has allowed annual coverage of the rights accumulated by active employees and a fraction of uncovered past rights. At year-end 2011, the Bank's employee-related liabilities were more than 55% covered;
- the progressive strengthening of the Bank's own funds to cover the growth of its balance sheet. In this framework the government has agreed to raise the Bank's capital to 1 billion euro via the incorporation of reserves and to raise the ceiling of the Bank's reserves to 2 billion euro; the Bank allocates 5% of net profit to reserves every year.

Alongside these initiatives, the Bank is also seeking to foster greater earnings stability at a high level that will allow the payment of a significant dividend to its shareholder, the French State, via the implementation of a long-term investment policy designed to de-correlate its income from the interest rate cycle.

### Key success factors

The objectives defined in the Bank's four strategic priorities form an ambitious programme for the Banque de France. Its achievement is largely dependent on the institution's capacity to mobilise its teams at all levels of the organisation. That is why its operational objectives are accompanied by an entire range of initiatives aimed at changing the ways its teams work and live together in the company, and making the collective achievement of these goals easier and individually more satisfying. These initiatives are themselves organised around four objectives:

#### 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 Bank's ability to meet all the challenges it faces and achieve its objectives depends on its capacity to adapt the quality and quantity of its human resources to the needs generated by its strategy. This objective may be subdivided into three areas of action:

- raising recruitment levels 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 passed on to the younger generation.



These policies are already underway at the Bank and will be pursued and intensified over the coming years.

#### Developing cross-sectoral management and collaboration

Inter-departmental collaboration is often seen as an abstract concept. However it responds to a vital and concrete need. This need stems from the increasing interaction between different domains of activity and the increasing complexity of the problems faced, the solutions to which imply a broad vision that includes different viewpoints.

The Bank's operational teams have substantial experience of inter-departmental work as proved by the successful changeover to the euro and, more recently, in the resolution of the crisis which has involved the simultaneous mobilisation of studies, operations and prudential controls, as well as actions that closely combine head office initiatives with those of the Bank's network.

This "transversal" approach – amply demonstrated during these very demanding periods of the Bank's history – should be adopted as a standard working methodology applied on a day-to-day basis. It involves not only the voluntary and systematic sharing of information, knowledge, skills and expertise, but also the promotion of a genuine transversal management culture, allowing all staff to access and exchange information and to work more harmoniously together on a daily basis.

#### Promoting a culture of performance and risk control

The development of a veritable culture of performance and risk control throughout the organisation is the best way to ensure the quality of the management of the Bank's resources.

This culture must be assimilated by all members of staff, each at their own level of responsibility. The implementation of tools to manage and monitor targets and enable a better recognition of the contributions of each staff member is fundamental to the achievement of this goal.

#### Steering the Information System towards client needs

In view of the nature of its activities, the Bank's information system is the backbone of its operations. It contributes to and supports its operations on a daily basis and has a decisive impact on the organisation of its operational processes. It is therefore essential that it be adapted as closely as possible to the Bank's different areas of activity to allow them to successfully accomplish their strategic objectives.

#### Corporate Social Responsibility (CSR)

Beyond its strategic objectives for the development of the Bank's activities and the associated key success factors, the Banque de France is an organisation that wishes to affirm its social responsibility. In this area, the Bank has three permanent objectives:

- promote well-being in the workplace;
- reduce its environmental footprint;
- contribute to the financial and economic education of the general public.

These strategic objectives are described in detail in Chapter 4 "Sustainable Development: a corporate responsibility".

## 2|2 The Bank's strategic orientations for 2020

With the 2008-2012 strategic cycle drawing to a close, the Bank's Executive Committee initiated discussions aimed at defining the outlines of the Banque de France in 2020. These discussions aimed to establish a framework for the Bank's future strategic plans, and particularly the next 2013-2015 three-year plan.

Three issues have been identified by the Executive Committee as being of vital importance for the future of the Bank in the medium-term:

- its capacity to consolidate its influence in France, in Europe and in the rest of the world;



- the capacity to build the Banque de France of the 2020s within the framework of a coordinated and collective movement;
- the continuation of efforts to strengthen the Bank's financial structure.

### Enhancing the Bank's global influence

Over recent years, the development of the Bank's international influence has become one of its key

strategic priorities. In 2011, its role during the G20, the robustness of the French financial system and the success of the missions recently entrusted to the Bank by the government all contributed to this strategy.

The Banque de France aims to be an influential organisation in public and international debates and to act as a driving force in bringing forward proposals taking the initiative. This objective is central to the Bank's top three strategic priorities – which are to strengthen its position within the Eurosystem,

to play a key role in fostering financial stability and to contribute to the smooth functioning of the economy – and will remain a major objective for the bank over the coming years so that the Bank can continue to play its role in a context that has been profoundly changed by the crisis.

#### Tapping synergies to consolidate the Bank's influence

The success of this strategy of influence relies particularly on one key factor: making the most of the synergies between the different responsibilities and missions entrusted to the Bank. In effect, the Bank's diversity of activities not only allows it to offer a broad range of expertise, but also gives it access to a wealth of information on the entire economy that is considerably deeper than the information available to other Eurosystem central banks or any other public institution. The work conducted by the Bank's branches in managing the consequences of the crisis and the contribution to the assessment of France's economic and financial condition by the Bank's "Companies Directorate" are perfect examples. Likewise, the Bank's assessment of the risks to financial stability has benefited from its operational experience on financial markets, from the results of its prudential supervision activities and from the risk monitoring performed by its Risk Directorate. In fact, a side-effect of the crisis has been an increase of the Bank's influence on government policy.

This capacity to exploit the synergies between its different activities should be further developed and intensified. Over recent years, the Banque de France has proved the relevance of its central banking model. Its ambition is now to consolidate and strengthen the efficacy of this model.

Internal synergies will be a powerful lever for strengthening the role of the Banque de France within international fora. The principal challenge for the Bank will be to channel the fruits of its research activities into its decision-making process and to combine different areas of expertise in order to better anticipate and identify nascent risks at an early stage. Indeed, this should be a priority if the Bank wishes to maintain its capacity to positively influence the economic and financial sphere.

#### Consolidating links with external institutions

The Banque de France also needs to consolidate its links with the other institutions with which it works closely in order to enhance its understanding of their interests and expectations. These links, via a network of seconded employees, allow the Bank to establish and maintain close and highly valuable relations with its partners such as other central banks, European and international financial institutions and organs of the French public administration.

#### Developing a key role in European Integration

The business model developed by the Banque de France also lends itself to an enhancement of the Bank's role within the Eurosystem, in a context where, after 12 years of activity, the Eurosystem is rapidly evolving from a decentralised model towards specialisation model with the emergence, alongside the ECB, of some major players. The Banque de France wishes to consolidate its position as one of these players.

The Banque de France is already a major player in market activities, in payment and settlement infrastructures and in the cash industry. To consolidate this position, the Banks needs to pursue a number of objectives: develop its institutional client activities, contribute to the success of the Eurosystem's major projects to which it is affiliated, actively support the Paris financial centre and improve the economic performances of its banknote manufacturing activity in order to become a leading player in the euro area's future public banknote production market.

#### Building the Bank for the 2020s

The second of the Bank's identified strategic priorities is to prepare for the next decade, i.e. 2020 and beyond. For the Executive Committee, the Banque de France of the 2020s should be a flexible and reactive Bank with a strong capacity for adaptation. It must also be more efficient in its methods of functioning and of internal collaboration. And lastly, it must be a modern Bank, fully integrated into the digital era, and capable of making the most of the formidable development of new technologies in order to be able to focus the actions and expertise of its employees on the activities that represent the Bank's real added value.

At the same time, the Executive Committee has expressed confidence in maintaining the Bank's extended scope of missions which constitute a coherent and robust whole that has proved its value in the context of the financial crisis.

The evolution of the Bank's demographic profile over the next eight years will be a key factor in its development: between the start of 2012 and the end of the year 2020, more than 40% of the current staff of the Bank will have retired from the institution.

This evolution represents a challenge for the Bank as well as a twin opportunity: on the one hand it implies a major overhaul of its organisation, its processes and its methods of functioning and collaboration; and on the other hand it implies the recruitment, at an unprecedented level, of the personnel that will be needed to build the future of the institution and, in so doing, a considerable rejuvenation of the Bank's staff.

Although the exact roadmap leading towards the Banque de France of the 2020s has not yet been defined, a number of orientations have already been adopted:

- confirmation of the Bank's continued presence in the different *départements* of France;
- modernisation of the cash activities within its branch network;
- consolidation of its global competitiveness in banknote manufacturing;
- the need to overhaul its processes and its methods of functioning, both for the operational activities and for the supporting functions, by distinguishing between those activities that involve close interaction with clients and partners (front office) from those that can be centralised (back office).

#### The maintenance of the territorial network at the level of the *départements*

A departmental network (i.e. one branch per *département* or county) appears to be the most appropriate density for the Bank's branch network to the extent that it provides proximity not just to locally elected politicians and State representatives but

also to local individual and companies. This proximity has been essential for the Bank's support of the credit mediation mechanism. The departmental network has already proved its relevance and it will remain the most appropriate model for the Bank. It therefore appears essential that the network should continue its strong commitment to the production of company ratings and to its other services for private individuals, local public authorities and the banking community. To do this, the respective organisations of the departmental and regional teams must evolve in order to allow mass processing. Moreover, the resources allocated to the management of over-indebtedness will need to remain controlled so as not to weigh on the implementation of the Bank's other missions.

#### Modernisation of the branch network

For several years now the Banque de France has been pursuing the same objective for its cash management activities:

- to maintain the necessary proportion – of at least 50% of the national banknote processing activity – to ensure an adequate quality of cash circulation;
- but also to maintain capacities allowing a very rapid renewal of a substantial share of the banknotes in circulation in the event of major crisis.

At the same time, the Banque de France needs to modernise and rationalise its cash activities for two principal reasons:

- firstly, because high levels of security are required at its installations in a context of rising criminality;
- and secondly, because the cash management sector – including the Banque de France – needs to invest heavily in order to maintain state-of-the-art technology and to improve working conditions.

The targeted organisation model could be made up of a smaller number of modern and functional cash centres with high output capacities, allowing the Bank to carry out its central bank missions (by ensuring the appropriate quality of the banknotes and coins in circulation), and, at the same time, to improve the working conditions in its cash management facilities and generate the



necessary productivity gains. These objectives underpin the three major projects currently underway.

### **The new cash centres project**

The NCC project (new cash centres) launched at the end of 2009 aims to create new cash management infrastructures functioning according to an industrial model that will, in the longer term, allow the issuance and maintenance of banknotes and coins under better cost-efficiency and working conditions. Two new cash centres are scheduled to open in the middle of the decade; one near Lille and the other in the inner suburbs of Paris. Other new cash centres are also being studied.

### **The electronic portal for cash exchanges**

Mid-November 2011 saw the successful opening of “Interop”, the electronic portal for cash exchanges with the cash industry. This new interface is gradually replacing the paper exchanges practiced hitherto; it enhances the traceability of exchange operations between the companies involved in the French cash sector in accordance with standards applied at the Eurosystem level. The use of this electronic portal will be generalised in 2012 and a similar system of traceability is being studied in order to optimise the management of cash inside the Banque de France’s cash management centres.

### **Modernisation of cash processing**

The end of 2011 saw the launch of the project to renew the cash processing equipment: this project satisfies three main objectives:

- to industrialise the processes by introducing high-capacity equipments;
- to optimise the process so as to gain in and reduce costs;
- to reduce the arduousness of working conditions by re-engineering the organisation of the work.

These major projects are fully in line with the framework of studies initiated in early 2012 to build a modernised cash management network by 2020.

### **Consolidation of the global competitiveness of its banknote manufacturing**

For several years the Banque de France has pursued a programme of modernisation and consolidation of its banknote manufacturing activities (paper mills, printing works); efforts must be resolutely pursued in the following areas:

- complete the automation of a certain number of industrial functions and optimise staff levels following foreseeable staff retirements in order to achieve equivalent levels of productivity to those posted in the private sector;
- give priority to the question of the industrial future of the paper production facilities – whose main production tools will soon be obsolete – in order to restore its profitability;
- guarantee the supply under all circumstances of high quality and high security banknotes, at a cost price equivalent to market prices;
- establish structural partnerships with other public cash manufacturers within the euro area in order to achieve critical mass while simultaneously ensuring an efficient level of public control over the production of the single currency.

### **Redesigning processes and methods of functioning**

The cash management activity is not the only area in which substantial changes must be considered. Among the supporting activities, several projects have been initiated to lighten and optimise the internal functioning of the institution. Likewise, re-engineering measures are under study or in progress in certain operational business areas such as banking services, the processing of over-indebted cases and the credit rating activities. In these areas as well, the aim is to outsource the tasks that create little value-added, identify administrative simplifications, and integrate new technologies.

These re-engineering initiatives will require strong support from the Bank’s staff in order to redesign the way the work is organised and the operational



methodologies. It is not just a question of automating certain processes but rather of conducting a profound transformation based on a renovated information system.

Both information technologies and human resources management will be at the heart of these changes. The objective of creating a more flexible and more reactive bank endowed with the necessary skills for the future will also rely heavily on the bank's capacity to identify the skills that will be needed, develop professional adaptability and strengthen professional and geographic mobility. These objectives and projects will be accompanied by major "change management" initiatives.

### Continuing efforts to strengthen the Bank's financial structure

The strengthening of the Bank's financial structure was one of the strategic objectives for the period 2008-2012 (see 2|1). This will remain a strategic priority over the coming years as the financial crisis has amply demonstrated the importance of a solid financial structure.

The future changes will require major investments. Thanks to the rigorous management of its resources over recent years, the Bank is in a position to invest in building its future and to ensure that these changes occur in the best possible conditions.

Lastly, a stronger financial structure is a necessary condition for the Banque de France to respect the implicit pact passed with its employees and to ensure the sustainability of a social model that has proved its efficacy with a consolidated pension scheme and employee welfare system and the financing of social activities managed by the different works councils.

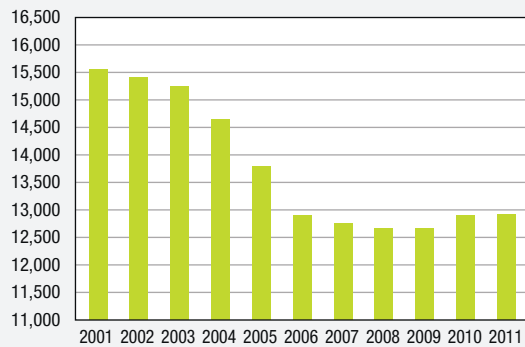
## 3| HUMAN RESOURCES MANAGEMENT

### 3|1 The demographic dynamic and organisation of the Bank

The demographic trend among Banque de France employees constitutes a major opportunity for

**Chart 18**  
**Total staff numbers**

(staff remunerated in FTE at 31 December 2011)



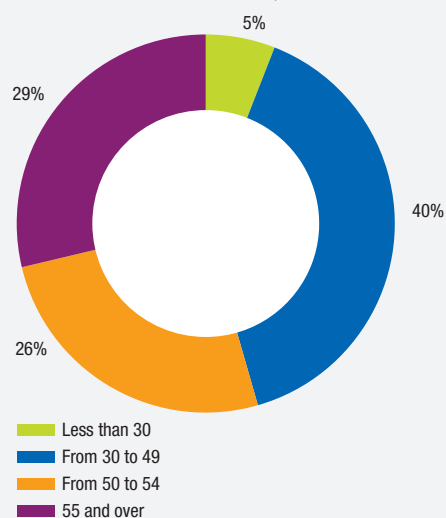
Source: Banque de France.

its re-organisation. Over the last ten years, the Bank's staff headcount has been reduced by more than 18%. At 31 December 2011, the Bank's total full-time equivalent headcount was 13,025 agents, approximately the same level as at end-2010. Of this number, 86.6% were tenured staff, 12.8% were contract staff and 0.6% were civil servants (following the creation of the *Autorité de contrôle prudentiel* (the Prudential Supervisory Authority) in March 2010). Close to 55% of the Bank's total staff were over 50.

Between now and the year 2020, five thousand employees will be retiring, with the pace of retirements accelerating as of 2015 to approximately 750 per year as of 2018.

**Chart 19**  
**Breakdown of total staff by age bracket**

(staff remunerated in FTE at 31 December 2011)



Source: Banque de France.

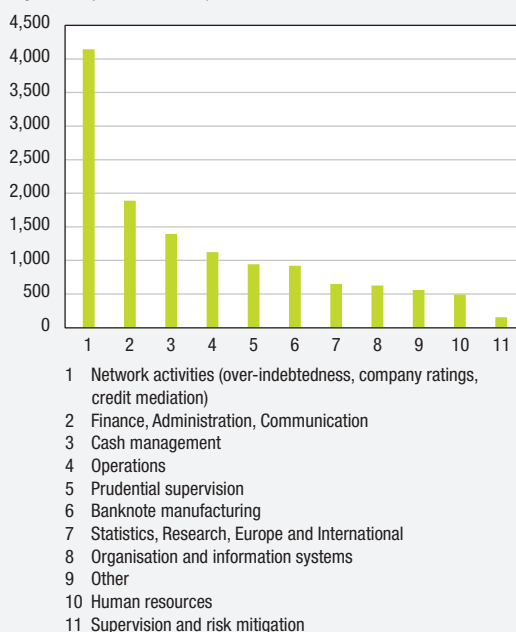
The Bank's human resources policy for the coming years is closely correlated to the demographic evolution of its staff, which will play a key role in its development and which effectively offers an opportunity for a major reorganisation of the Banque de France and of its methods of functioning and collaboration.

With no planned changes in the scope of the Bank's missions and activities, this evolution will need to be actively managed with innovation playing a key role. As in the rest of the public sector, the Banque de France will only replace a certain proportion of the staff who retire, adjusting its recruitment efforts to the changing needs of its different fields of activity over time and recruiting with a high level of discernment.

The staff departures over the coming decade will notably provide the Bank with an opportunity to recruit candidates with profiles adapted to the bank's future needs. Indeed, the recruitment of 2,500 employees over eight years represents a challenge for the Bank in terms of attractiveness to graduates from France's top universities and *grandes écoles*. New generation communication tools are used to attract candidates to the competitive examinations as well as contract staff and interns.

**Chart 20**  
**Breakdown per domain of activity**

(average monthly FTE headcount)



Source: Banque de France.

## Box 23

### A socially responsible institution of the French Republic

The Banque de France has been committed to a socially responsible human resources policy for many years now. This commitment is particularly strong in three domains: professional equality, the integration of disabled workers and the employment of young people from disadvantaged backgrounds.

For the period 2009-2012, the Bank signed an agreement on professional equality and implemented numerous concrete measures to enhance its professional gender equality and to promote a better work-home life balance. This commitment was materialised by the signature of the *Corporate Parenthood Charter* and the winning of the *Equality label* in 2009, as well as by the organisation of the Parenthood Day in June 2011.

The Bank also has an active policy of encouraging disabled workers' access to employment. The principal framework for this action is the Work Adjustment and Rehabilitation Centre (*Centre d'adaptation et de réinsertion par le travail – CART*). In addition, the agreement on the recruitment, training and maintenance in employment of disabled workers, which provides for the support and assistance of disabled workers and the adaptation of their work stations, allowed the Bank to recruit 27 disabled workers in 2011 versus 9 in 2010.

Regarding the integration of and support for young people from disadvantaged backgrounds, the Bank has launched numerous initiatives, particularly in the framework of a partnership with two secondary schools from the Créteil Education authority in order to assist young people from the priority education areas (*Zones d'éducation prioritaire – ZEP*), which has resulted in:

- the implementation of methodological support courses for 5<sup>th</sup> and 6<sup>th</sup> form pupils; 92 secondary school pupils benefited from these courses during the 2011-2012 school year (96 in the previous cycle) over a total of 420 hours, up 40% versus the previous year;
- the setting up of tutorials given voluntarily by Bank staff to these secondary school pupils;
- the presentation of economic themes and/or Bank missions in the form of educational workshops (249 secondary school pupils participated in these workshops in 2011);

.../...

- the participation of Bank professionals in juries for the preparation of the oral exams for secondary school pupils or students;
- internships for BTS (Advanced Vocational Diploma) students of the partner schools.

A number of initiatives were also conducted in the Bank's branch network with work experience for 376 school pupils and the involvement of twenty-five tutors in the provinces to assist students on apprenticeship and professionalization contracts.

At the same time, the transformation of the institution will very much rely on its existing staff to oversee the development of new skills and the diffusion of new collaborative working methods and tools that enhance the value added by each member of staff. The development of the motivation and commitment of the Bank's employees aged over 45, who represent 70% of its total headcount, constitutes a key factor in the success of the Bank's transformation and the integration of younger generations.

While 48% of the Bank's employees work in its Head office, 45% work in the branch network and 7% work in the Bank's banknote manufacturing sites.

## 3|2 Training for older employees

In 2011, a company agreement on the employment of older staff was negotiated with the Unions. If it gathers a sufficient number of signatures, it will replace the action plan established in December 2009 concerning older contract staff, a plan that is due to expire at end-2012.

The agreement is based on the Bank's very specific age pyramid: 29% of the staff is over 55, and their professional lives have recently been extended by the reforms of the national pension scheme. This has led to the determination of targets for a more active management of the ages and in particular of older staff, defining concrete actions that stimulate their motivation and adaptability at the Bank.

Beyond the overall objective of maintaining older staff in employment at a level of 27%, this agreement sets out a number of major orientations:

- combating age discrimination;
- enhancing the motivation and well-being at work of older staff via forward-planning and career-development through a series of converging measures: interviews at the start of the second and third parts of each employee's career (respectively at age 45 and 55), development of professional skills, encouraging adaptability via occupational mobility;
- tapping experience by transferring knowledge and skills;
- improving working conditions and taking arduousness into account for older staff who have worked in situations presenting certain risks;
- setting up a service to assist staff in their switch from working-life to retirement.

## 3|3 The prevention of social risks as a key element in preparing and accompanying change

Following work conducted by the joint observatory for the prevention of occupational health risks and numerous proposals from workgroups on topics such as management, employee recognition, professional fatigue (physical and mental) and the management of emergencies, a draft agreement on the prevention of psychosocial risks was signed with three labour unions.

The agreement contains four principal objectives: 1) mobilising all parties in the adoption of an effective risk prevention policy, 2) finding ways to enhance the staff/management communication and dialogue, 3) understanding and recognising the designated role of each employee, and 4) responding rapidly to crisis situations and capitalising on acquired experience. These four principal objectives have given rise to 25 concrete measures, most of which carry deadlines and progress indicators.

The notion of employee/management dialogue is a major element in this agreement. That is why these measures include the regular organisation of departmental meetings during which issues such as working conditions, departmental organisation and the workload may be discussed, as well as more informal exchanges and support for employee initiatives. Encouraging employees to express their views on questions of organisation and issues relating to the simplification of administrative tasks will help management to spend more time managing and more time listening to and communicating with their teams.

#### Box 24

##### **Commitment to telework**

The company agreement on telework of 23 December 2009, one of the very first in the public sector, allowed the Banque de France and its employees to embark on an alternative form of work organisation. After an initial experimental period in 2010 involving teams that volunteered to participate in the project and a number of shorter tests involving disabled employees or employees with limited mobility, the deployment of telework accelerated in 2011, particularly within the branch network.

Two thirds of the Directorates General and all the regional branches have now introduced telework. In total more than 1,800 positions are eligible for telework and close to 500 agreements have already been validated. Most of these agreements involve one day of telework per week.

The first assessment report conducted in the autumn of 2011 allowed confirmation of the positive impact of telework both for managers and teleworkers as well as for their colleagues. The objectives of a better work-home life balance, of reducing transportation fatigue and of greater autonomy in the organisation of individual responsibilities would appear to have been achieved. The report indicates that teleworking arrangements function best when the management restructures the organisation of activities and when teleworking employees are experienced and autonomous.

This first positive assessment should allow a continued progression of teleworking arrangements in 2012, both in their current form (a fixed number of days per week) but also in more flexible or more occasional forms (that have not yet been defined) in response to more specific needs.

At the same time, a number of new management tools are being introduced: communication tools that strengthen the sense of belonging (management communication documents on major topical issues, tools allowing managers to report more regularly on the implementation of the Bank's strategy, etc.), sound compendia and practice guidelines (on the prevention of psycho-social risks, on how to organise a meeting, on how to use the Bank's internal message system, etc.).

The agreement also provides for new mechanisms such as the implementation of a resource centre dedicated to managers – a space for professional discussions (comparing feedback notes, deployment of best practices, etc.) – and the nomination of a “Resources Person”, reporting directly to the Director General of Human Resources. This “Resources Person” acts as a non-hierarchical starting point for employees and managers in the resolution of workplace tensions alongside existing channels (management, human resources managers, occupational health staff and employee representatives).

The deployment over four years of the programme destined to train managers in preventing psychosocial risks is continuing. In the first two years, 53% of the Bank's managers received this training. A large number of training sessions are also offered to non-management employees on a voluntary basis.

### **3/4 Learning and adapting**

Against a backdrop of massive retirements over the 2012-2020 period and the transformation of business lines, the continuity of the Banque de France's missions and activities very much depends on its existing teams. The Bank's staff will need to develop the behavioural skills that will allow them to embrace change and facilitate professional mobility. The adaptability of the Bank's personnel will therefore become the key to the success of the human resources policy because it will largely determine how well the institution can match the needs of its different activities with available resources. This enhanced level of adaptability implies greater employee initiative and autonomy, as well as the setting up of collaborative networks



of individual support to pool knowledge, skills and best practices. The Bank will pursue an ambitious policy of accompanying change with training and the development of interdepartmental skills at both staff and management levels. Lastly, the Banque de France plans to foster occupational mobility using “professional navigation” mechanisms such as function mapping, “professional development paths”, capitalising on professional experience and internal promotion.

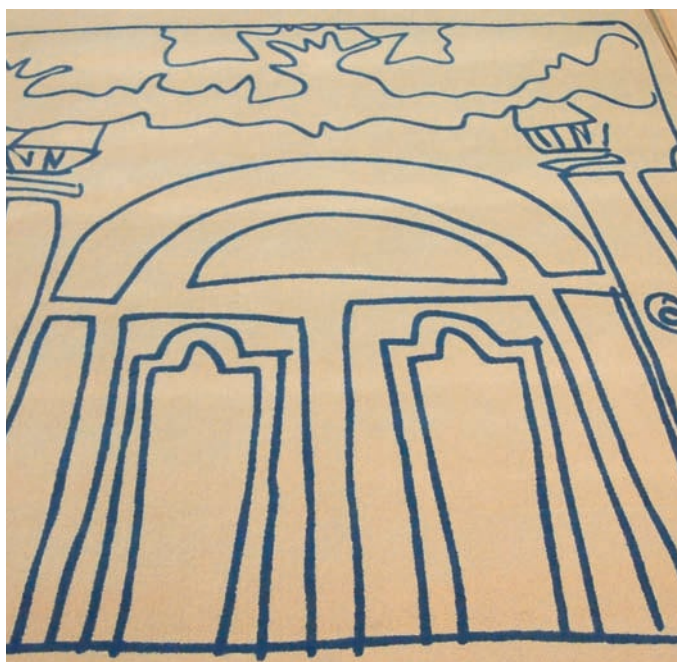
#### **4| FINANCIAL MANAGEMENT: A YEAR MARKED BY THE EURO AREA SOVEREIGN DEBT CRISIS**

At the end of a financial year substantially complicated by the financial crisis, particularly within the euro area, the Bank's profit before taxes and exceptional items posted a sharp rise in 2011 to EUR 5.6 billion versus EUR 4.5 billion in 2010. After the allocation of an exceptional provision of EUR 2.06 billion to the fund for general risks (FGR) and the payment of EUR 2.01 billion in corporate income tax, the Bank's net profit amounted to EUR 1,570 million, down EUR 989 million versus 2010.

Generally speaking, the Banque de France generates the bulk of its income by investing the resources it receives from its share in the issuance of euro area banknotes. These investments take the form of a) loans to credit institutions in the framework of the implementation of monetary policy, b) investments in securities portfolios, and c) claims against the Eurosystem. 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 resources received for the issuance of notes and coins in accordance with the Eurosystem's “banknote allocation key”.

In 2011, several elements contributed to the strong rise in the Bank's pre-exceptional pre-tax income:

- the continued increase in the volume of euros in circulation, which automatically raises the volume of investable resources for the Bank;



- an increase in the average income earned on these investments resulting primarily from the acquisition of the sovereign debt of certain euro area countries decided by the ECB in response to the deteriorated functioning of the government debt markets of these countries;
- a contraction of net operating costs largely resulting from the State's remuneration of services provided by the Bank at full expected cost as of 2011.

#### **4|1 The continuation of exceptional monetary policy measures**

The bulk of the increasing resources that the Bank receives from banknote issuance is invested in monetary policy operations. In 2011, these operations again included exceptional measures.

##### **Continued growth of banknote circulation**

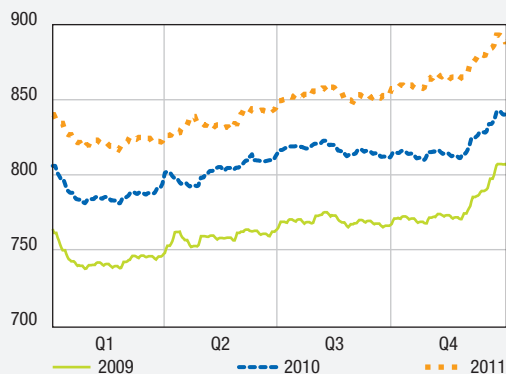
In a context of weak economic growth, total banknotes put into circulation by the Eurosystem continued to grow in 2011 (+4.8%, versus +5.8% in 2010).

In accordance with the Eurosystem's allocation mechanism, the Banque de France books a share in the



**Chart 21**  
**Total euro banknotes in circulation**

(outstanding amounts in EUR billions)



Source: ECB.

total value of banknotes in circulation corresponding to its percentage stake in the ECB's capital as a liability. This share amounted to EUR 162 billion at end-2011, up EUR 8.4 billion versus end-2010, generating additional resources to invest of more than EUR 6.9 billion (in annual average terms).

### Exceptional measures to support market liquidity

Throughout 2011, the Eurosystem's central banks pursued measures initiated in 2008 to mitigate the impaired functioning of money markets in the form of liquidity provision operations with maturities from 1 to 12 months, alongside their standard 1-week to 3-month refinancing operations. In addition, in December 2011, the ECB conducted a very long-term refinancing operations with a maturity of 36 months and an option of early repayment after 1 year. Since October 2008, these operations have been conducted in the form of fixed rate tenders with full allotment.

In total, outstanding euro-denominated loans from the Banque de France to French credit institutions amounted to approximately EUR one hundred billion at end-2011.

The injection of these vast sums of cash into the system, larger in volume than the net refinancing requirements of the banking sector, has been accompanied by substantial end-of-day liquidity-absorption operations via the Eurosystem deposit facility.

Furthermore, to alleviate tensions on international money markets, in the autumn of 2011, the ECB, in coordination with the United States Federal Reserve, the Bank of Canada, the Bank of Japan, the Bank of England and the Swiss National Bank, carried out a number of US dollar 3-month liquidity-providing operations in addition to the weekly operations already in place.

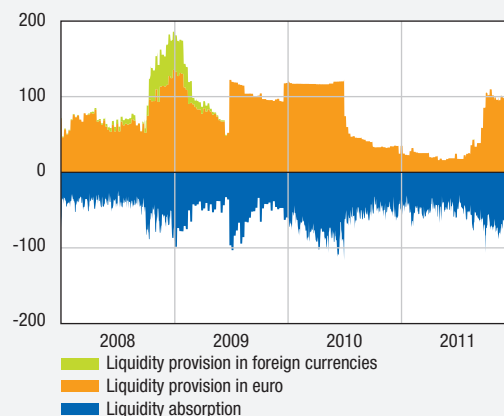
### Continuation of non-standard operations involving the purchase of securities

In 2009 the Eurosystem launched its first Covered Bond Purchase Programme (CBPP) with the primary goal of restoring banks' access to this method of financing and of improving the efficacy of monetary policy. This programme ended in June 2010 after reaching its target of EUR 60 billion. At end 2011, the value of the covered bonds acquired by the Banque de France in the framework of this programme was EUR 11.5 billion.

In November 2011, a second Covered Bond Purchase Programme was launched (CBPP2) with the twin objective of easing financing conditions for banks and companies and of encouraging financial institutions to expand their lending to clients. This programme is expected to run until October 2012 and has a target ceiling of EUR 40 billion. At end 2011, the value of the

**Chart 22**  
**Liquidity provision and absorption by the Banque de France**

(outstanding amounts in EUR billions)



Source: Banque de France.

covered bonds acquired by the Banque de France in the framework of this programme was EUR 700 million.

As of May 2010, the Eurosystem launched a sovereign debt acquisition programme (Securities Market Programme – SMP) in response to the deteriorated financial situations of certain euro area countries. These securities acquisitions, the objective of which was not to provide additional liquidity, but rather to re-establish the monetary policy transmission mechanism by restoring more normal market conditions, were neutralised by specific liquidity absorbing operations. These non-standard operations resulted in the constitution of very large portfolios of securities: in 2011, the Banque de France acquired close to EUR 27 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 coordinated 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.

## 4|2 A marked rise in financial income

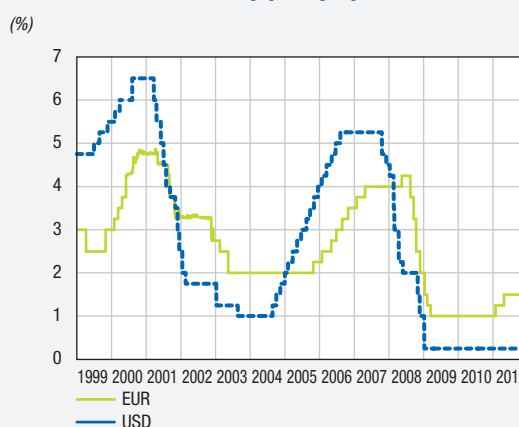
Despite historically low key interest rates in the world's major economies, the Banque de France's total financial income and net earnings from activities posted a sharp progression to EUR 7.76 billion in 2011 versus EUR 6.43 billion in 2010.

### Rise in monetary income

The bulk of the Bank's financial income is composed of 'monetary income', i.e. 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 6.25 billion in 2011, up sharply (+ EUR 1.04 billion) compared with 2010.

This rise in monetary income was essentially generated by the Bank's euro-denominated securities

**Chart 23**  
**Rates of main monetary policy operations**



Source: ECB, Fed.

portfolios, the size of which was very substantially raised during 2011. It was also due in part to the temporary rise in the key rates from 1% to 1.50% bringing the average refinancing rate to 1.25% for 2011, versus 1% in 2010. In total, the Bank's euro-denominated monetary income posted an increase of EUR 967 million in 2011, to EUR 5.25 billion.

At the same time, in a context of persistently low key interest rates in the world's main economies, the Bank's income derived from holding foreign exchange reserves amounted to EUR 996 million in 2011, a EUR 71 million increase versus 2010.

As in 2009 and 2010, the Bank recorded an exceptional financial income in 2011 from the partial release of a provision allocated in 2008 to cover operational risk on monetary policy operations with the Eurosystem's counterparties that defaulted during the financial crisis.<sup>21</sup> This provision reversal, recognised simultaneously by the Eurosystem NCBs in proportion to their ECB capital key, resulted from

<sup>21</sup> Five counterparties of three Eurosystem central banks defaulted in 2008 whilst participating in 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 appropriate provisions, in proportion to their respective shares 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 1.18 billion in the 2008 accounts of the Banque de France. Since then, provision reversals have been EUR 356 million in 2009, EUR 372 million in 2010 and EUR 260 million in 2011.

the divestment and upward revaluation of securities and debt instruments deposited as collateral for their operations by failing counterparties and still held by the Eurosystem.

### Decrease of ECB and IEDOM dividends

The dividends received from the IEDOM and the ECB in 2011 were down EUR 113 million versus 2010. The ECB retained part of its annual earnings to further increase its provisions for exposure to currency, interest rate and credit risk in line with its increasing exposure to risk.

### 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 1.32 billion, an increase of EUR 402 million compared with 2010.

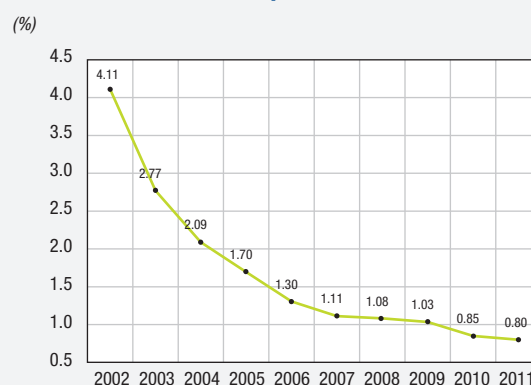
This increase in non-monetary income came mainly from two elements:

- the Bank's activities on behalf of institutional clients grew substantially in 2011;
- 2011 was the first year in which the French State remunerated the services provided by the Bank at their full estimated cost.

## 4|3 Efficient control of operating expenses in a context of robust activity

In the context of a substantial increase in the workload during 2011 in response to the

**Chart 24**  
**Evolution of break-even point**



Source: Banque de France.

consequences of the financial crisis at a local, national and European level, the Bank's staff costs rose moderately in 2011 (by 2.4%, with EUR 1.1 billion for active employees and EUR 333 million in pension payments).

Other operating expenses progressed mainly under the effect of higher IT expenditure related notably to the Eurosystem's common projects, and, to a lesser extent, of an increase in postal charges. The latter resulted from the growth in the number of cases of over-indebtedness and the new procedures introduced by the Lagarde Act.

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. At the end of 2011 the ratio stood at 0.80% compared with 0.85% a year earlier.

## 4|4 Strengthening of the capital structure and maintenance of a high level of payments to the State

In an uncertain economic context marked by an increase in financial risks, the strengthening of the Bank's capital structure has been accelerated.

## Strengthening the capital structure

Between year-end 2010 and year-end 2011, the Bank's own funds rose to EUR 9.73 billion, up EUR 2.94 billion. This strengthening of the Bank's own funds, indispensable considering the expansion of the institution's risk profile, can be broken down into several elements.

First, the Fund for General Risks (FGR) was raised by an additional EUR 2.06 billion, to take it to EUR 3.81 billion. The FGR is aimed at covering all possible risks to which the Bank is exposed in the framework of its activities, except currency risk on gold and foreign exchange reserves which is covered by the State's revaluation reserve for gold and foreign exchange reserves. The FGR is a fund that is intended to cover all the risks for which operating profits may prove insufficient.

In 2011, the risk related to monetary policy operations substantially increased due to the rise in the volume of operations conducted in the framework of monetary policy (bank refinancing and securities purchase programmes), the concentration of exposures onto certain countries and counterparties and the extension of average maturities.

Second, in accordance with Decree No. 2011-256 of 9 March 2011, the Bank's capital was raised to EUR 1 billion by the incorporation of available reserves. Other own resources were also bolstered. Such was the case for the General reserve, the ceiling of which was raised by the capital increase operation. As a result, the Banque de France can continue to strengthen the structure of its participating interests, including its stake in the ECB, which also launched a capital increase operation.

## Corporate income tax

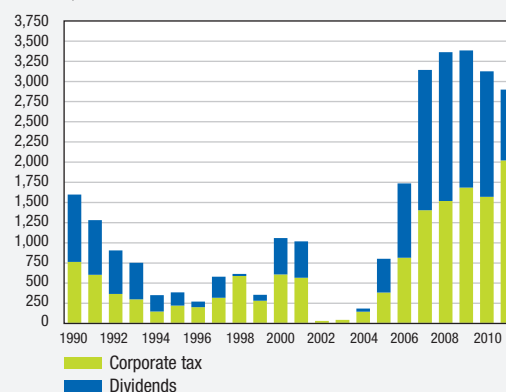
The Banque de France is subject to corporate income tax and a number of additional tax contributions. For 2011 the Bank's tax obligation to the French State amounted to a total of EUR 2.01 billion, representing an increase of EUR 478 million versus 2010.

During its session on 13 April 2012, the General Council agreed to pay a dividend of EUR 877 million to the State. Taking into account the corporate income tax charge amounting to EUR 2.01 billion, the Bank's payments to the State with respect to the financial year 2011 amounted to EUR 2.89 billion. For the fifth year running, the Banque de France has made a contribution to the State budget of roughly EUR 3 billion.

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

**Chart 25**  
**Payments to the State**

(EUR millions)



Source: Banque de France.

# Sustainable development: a corporate responsibility





In recent years, the Banque de France has adopted a structured societal responsibility approach, in order to take into account environmental constraints and objectives and to develop a series of actions in favour of society. After looking into its operational implementation, a new step was taken in 2011 with the further deployment of the Bank's societal responsibility policy.

Based on a stricter regulatory and normative framework, this approach has enabled the Bank to make headway in three main areas: developing an analysis on the financing of a more sustainable economy, reducing its environmental footprint and implementing civic responsibility initiatives, in particular in the area of economic and financial education of the public.

The results obtained testify to the Banque de France's determination to meet its commitments towards society and contribute to anchoring sustainable development both in its internal organisation and in the fulfillment of its tasks.

## 1| SUSTAINABLE FINANCE

In a globalized world economy marked by energy and commodity price volatility and a decline in natural resources, the Banque de France pursued its research work on low carbon sustainable growth, more respectful of environmental and societal concerns. Its approach revolved around three aspects: microfinance, the economic and financial implications of sustainable development and climate change for industrial companies, the financing of green growth.

### 1|1 Microfinance

Microfinance, which has three constituents, microcredit, microinsurance and solidarity-based savings, is a primary instrument for fighting social and financial exclusion, in poor or emerging countries as well as in developed countries, albeit in different ways.

Microcredit, which derives from long-established lending systems (pawnshops, mutualism, tontines, etc.) and enjoys a wide international recognition, marked by the very active role of Professor Muhammad Yunus, Nobel Peace Prize winner in 2006, represents a responsible approach to finance directly geared towards the real economy and focused on achieving social objectives.

Microcredit, which also benefits from technological innovations, such as mobile banking, is now widespread and concerns 190 million borrowers worldwide, according to the latest statistics available.

It should be added that the default rates observed in this sector of finance are generally extremely low, a sign of the financial viability of the transactions involved and of recipients' commitment to carry out promising and hopeful projects.

The growing interest shown in microcredit is also illustrated by the organization, under the French presidency of the G20, of an international symposium at the French Senate. It was held jointly by the Microfinance Observatory and the Ministry of the Economy, Finance and Industry (see box 25). The issues discussed had previously been raised at a seminar organised jointly with the *Caisse des Dépôts et Consignations* and the Microfinance Observatory in June 2011, which led to the drawing-up of recommendations aimed at the researchers and practitioners participating in the symposium. The proceedings were published in English and French, in November 2011.

The Microfinance Observatory was set up in 2006 within the Banque de France, with a view to increasing knowledge of microcredit operations.

It is chaired by Mr Michel Camdessus, Honorary Governor, and its secretariat is handled by the Directorate for Private Individuals, within the Directorate General Cash Management and Branch Network Activities. In November 2011, it published its third annual report. Given the international context and the strong reaffirmation of the role of microfinance, this report analyses the characteristics of the sector in Europe and France.

Box 25

**G20 International Symposium on Microfinance  
8 July 2011**

On the occasion of the French presidency of the G20, the Observatory of Microfinance organized jointly with the Ministry of Economy, Finance and Industry on 8 July 2011 at the Palais du Luxembourg in Paris, a symposium on various issues of microfinance.

Bringing together some forty international speakers from various horizons (central banks, international organizations, banks, etc.), the discussions focused on – in the light of shared experiences between North and South – the objectives of microfinance and the problems relating to funding and regulation in this sector.

Three major challenges for microfinance were also identified:

- strengthening the financial soundness of institutions and the stability of the financial sector;
- increasing access to private financing;
- making poverty reduction and social inclusion a priority.

## **1|2 The sustainable development survey conducted among industrial companies**

In 2011, the Sustainable Development Division of the Banque de France conducted a national survey on the economic and financial implications of sustainable development and climate change for industrial companies. It aimed at assessing how these issues were taken into account by companies, in particular through the analysis of investment decisions, energy choices and climate risk management.

In June 2011, a questionnaire was sent to close to 3,000 persons in the industrial sector. 648 questionnaires were returned and analysed. They represent 22% of the sample and almost 33% of the workforce. The size of the panel of respondents is very satisfactory as regards a voluntary survey on sustainable development.

The survey confirms that companies have integrated sustainable development into their governance. The responses show that these issues are increasingly taken into consideration. Indeed, just over one in two companies has already carried out investments related to sustainable development, in particular

in the areas of energy efficiency, water treatment, waste management and recycling. These investments also meet the following objectives: profitability, achievement of a competitive advantage through innovation, opening-up to new markets. These investments, mainly self-financed, are essentially carried out by large companies, given that the smaller ones are relatively unfamiliar with the types of financial support to which they are entitled.

Sustainable development-oriented investment, which varies according to the financial position of companies, their strategies and external constraints, is expected to continue: over 80% of responding companies that have already invested in this area will continue to do so during the next few years while others are planning to follow suit.

Energy management is a major and growing issue for companies. Three quarters of the panel of respondents consider that energy prices weigh heavily to very heavily on their activities. An even larger number of businesses anticipate a significant rise in energy prices in the coming years. Against a backdrop of very strong international competition, this trend has been an incentive for industrial companies to improve their energy efficiency, to reduce and optimize consumption in all areas and, for some, to turn to subcontractors and suppliers nearby.

Among the investments made or programmed, the thermal renovation of buildings is a priority.

While companies often mention the importance of eco responsible and sustainable development, they also stress the need to maintain their level of competitiveness and the risk of having customers turn to “less sustainable but cheaper” products and equipment. Thus, nearly half of companies surveyed consider that strengthening environmental regulations has a negative impact on their competitiveness.

With regard to their adaptation to climate change and their management of environmental and social risks, close to a quarter of responding companies have already seen their activity affected by a climatic hazard (damaged stocks and/or equipment, cancelled or late deliveries, absenteeism, etc.). However, very few companies set up business continuity plans (BCP). The survey nevertheless shows that in the event of adverse weather conditions, adopting a BCP helps to significantly dampen their effect.

## 1|3 Study on the financing of green growth

In an international context characterized by the price increase of non-renewable resources and the rise in energy prices (France’s energy bill amounted to EUR 46.2 billion in 2010, up 20% over one year, i.e. 2.4% of GDP), the Banque de France contributes to academic discussions on the conditions and challenges of low carbon sustainable growth. It has conducted a study on the financing of green growth,<sup>22</sup> which sets out the basic principles and challenges of a transition

<sup>22</sup> “Green” growth refers to economic growth that uses fewer natural resources and energy and is less pollutant; the most relevant sectors can be classified into four groups:

- sectors where greenhouse gases (GHG) can be reduced;
- sectors where energy efficiency can be better controlled, especially in the building and transportation sectors;
- sectors where natural resources and raw materials can be managed, through waste recycling and recovery, green chemistry and water treatment;
- sectors playing a transverse role in terms of energy management and storage, in particular information and communication technology (ICT) and nanotechnology.

towards an economic paradigm less dependent on the energies of the past and focused on knowledge and innovation.

### Box 26

#### The financing of green growth

Innovation, which is a strategic axis for companies, helps to control production costs and opens up new opportunities in future technologies (wind and solar energy, CO<sub>2</sub> capture and storage, energy-efficient transport, smart grids, low consumption buildings, etc.). However, it faces two major obstacles: the barriers to entry imposed by technology and conventional production systems, and specific financing issues. There is, indeed, a risk of crowding out new technologies that are struggling to develop in an oligopolistic environment where conventional technologies have a dominant position. In addition, financing green growth requires large investments in the long run with a non-negligible degree of uncertainty concerning their profitability. As a result, investments that are economically profitable in the long-term and generators of growth could not materialize due to a lack of funding.

In France, government support for green growth occurs through two main sets of measures: first, investments related to the implementation of the *Grenelle de l’environnement* agreements and, second, certain programmes included in *Investissements d’avenir*. The study examines, in particular, the two annual reports on the Grenelle commitments, submitted to Parliament in 2009 and 2010, and the work conducted to assess its impact on growth. As regards the *Investissements d’avenir* scheme, it analyzes the investment programmes by operator, the commitment timetable and the participation of the private sector.

The study concludes that different measures may be considered to support the transition towards a more virtuous growth model:

- strengthening price signals (or ecological prices);
- establishing public-private partnerships;
- widening the time horizon of green investments, in particular a lengthening of the amortization period;

.../...

- channeling available savings insufficiently steered towards the financing of long-term investments;
- supporting the development of socially responsible investment (SRI);
- positively discriminating green investments through fundamental variables, such as the amortization method, loan duration, debt ratios or interest rates.

## 2| REDUCTION OF THE ENVIRONMENTAL FOOTPRINT

It is on the basis of the Bilan Carbone® developed in 2008 that the Banque de France defined an Environmental Footprint Reduction Master Plan (*Schéma de réduction de l'empreinte environnementale* – SDREE) whose three-year objectives (2010-2012) focus on four areas:

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

An additional core area is the improvement of the energy performance of the Bank's real estate and Green IT.

### 2|1 Reduction of consumption

#### Reducing energy consumption

The structural and behavioral actions implemented in 2010 and pursued in 2011, combined with a consistent, well-targeted and pro-active communication policy, have helped to significantly reduce energy consumption in the service sector (-19.9% compared to 2008) as in the industrial sector (-20% compared to 2008). In the latter case, the decline in activity explains that the end result is well above the expected target.

Several factors, both internal and external, have also contributed to achieving these results:

- **A study of production processes in the cash industry:** the Banknote Manufacturing Directorate has shifted to cut sheet printing. This process is generally less energy intensive than continuous printing. A carbon footprint assessment incorporating the new production conditions was carried out to measure more accurately the environmental impact of this change.

- The increased activity of the Bank's data centre at the administrative center of Marne-la-Vallée explains the 14% rise in electricity consumption. However, the gas consumption of the site has dropped by 76.5% as a result of **the restarting and optimization of the energy recovery loop**. Thanks to this system, which is based on the recovery of heat generated by the air conditioning system, it is possible to heat 63% of the premises.

A **mild winter**: its impact is roughly 5% (calculated by applying the climate severity index provided by Météo France).

#### Increasing the share of renewable energy

When it renews its electricity contracts, the Banque de France systematically considers having recourse to renewable energy. Thus, in July 2011, the paper-mill at Vic-le-Comte, the printing works at Chamalières, the Bank's head office and the administrative centre at Marne-la-Vallée, signed contracts that include 75% of electricity from renewable sources. Given that these sites account for over 70% of the Bank's electricity consumption and over 40% of its overall energy consumption, the overall share of renewable energy increased from 15% in 2010 to 28.7% in 2011. The Bank's industrial sites recorded an average ratio of renewable energy of 64.3% in 2011 against 40% in 2010.

#### Optimising employee travel

In 2010, the Banque de France deployed an employee travel policy with the aim of:

- optimizing employee travel: setting up professional carpooling, development of video conferencing, car-sharing, teleworking, etc.

- encouraging the use of public transport, environmentally-friendly transport whenever this is possible, and the use of the train instead of the plane when the journey time is less than three hours by train.

The increase in CO<sub>2</sub> emissions recorded in 2011 is primarily due to the growth in air travel generated by activities related to the G20 presidency conducted by the Banque de France.

The share of Paris-Frankfurt train journeys contracted slightly: 26% in 2011 against 28% in 2010 (and 20% in 2009).

In order to limit the environmental impact of car journeys, the Banque de France regularly renews its fleet of cars by opting for cleaner vehicles. Average CO<sub>2</sub> emissions thus dropped from 208g/km in 2009 to 198g/km at end-2011.

In addition, 145 training sessions focusing on the principles of eco-driving were organized in 2011; training was given to 406 Bank employees.

As part of the implementation of the Workplace Travel Plan, two days of training to improve the safety of occasional or regular bike riders in urban traffic conditions were also held at the Bank's head office.

### Lowering water consumption

Water consumption was successfully kept in check thanks to:

- Water-saving equipment was installed in all bathrooms.
- The management of technical systems, especially those used for irrigating green spaces was improved.
- The air conditioning system at the administrative centre of Marne-la-Vallée was improved.
- Expenditure was monitored on a monthly basis to facilitate the early detection of leaks.

## 2|2 Improving the Bank's energy performance and preserving the environment

Improving the energy performance of its existing buildings is one of the main thrusts of the Banque de France's sustainable development policy.

### A complete overview of the Bank's real-estate stock in 2011

In order to manage its work policy as best as possible, the Banque de France drew up, with the help of an external service provider, a mapping of the energy performance of its buildings. This work, conducted between 2010 and 2011 on 2007-2009 3-year data, identified the best ways of improving the Bank's energy performance. This mapping covered the 117 units in the network and the two administrative centers, operational buildings owned





by the Bank (i.e. a net total surface of 510,000 square meters). A comprehensive report was drawn up for each unit, including an energy label (energy performance assessment), a first-level assessment of the technical condition of the buildings, the equipment and its uses, as well as qualitative proposals for improvement.

### Improving the energy performance of the Bank's real-estate and reducing its carbon footprint

#### An ambitious work programme

From 2010, the Banque de France launched a "pro-active" work policy, carrying out a series of structural improvements (door frames, roofs, walls) and optimising its technical installations by making eco responsible choices.

In the network, two major national programmes for cutting heating and hot water consumption were implemented.

The first concerns the installation of thermostatic taps and variable displacement pumps, which adjust the flow of heating circuits; the second programme, which runs until 2019, concerns for the renovation of boiler houses that are over 20 years old.

In terms of rehabilitation and major renovations, two major projects were launched in 2011:

- The first concerns the thermal insulation of the facades, terraces and roofs of the head office and the replacement of window frames and windows. It also aims at enhancing the comfort of occupants: improvement of heating, electrical and computer networks, lighting systems and bathroom facilities in order to optimize energy and water consumption.
- The second, launched in 2011 on one of the head office's outlying buildings, will lead at end-2012 to a complete renovation of the roof, a total facelift of the facades and better insulation.

#### New sustainable buildings

In terms of new constructions, the Banque de France has adopted an environmental approach, by ensuring that its projects fit into the urban landscape and by applying building principles that limit its impact on the external environment while ensuring a maximum level of comfort for its occupants.

This is the case of the new branch in Lyon, "Le Bayard", which should eventually receive two certifications: "Minergie" and "BBC".

#### Box 27

### The new Bank branch in Lyon "Le Bayard"

The Banque de France purchased a new building in Lyon to group together all of its regional activities. This building of a net total surface of 6,589 m<sup>2</sup>, consists of a basement, a ground floor, including a public reception area, a canteen and six floors of offices.

Boasting a dual certification, Minergie and BBC-Effinergie, it should consume half the energy of a standard branch. In order to achieve this, a series of devices were used: wood frame facades with reinforced insulation, automatically operated blinds depending on the amount of sunlight, "smart" lighting, earth-air heat exchangers, photovoltaic panels integrated into the facades and solar panels for producing hot water for the restaurant. Finally, the absence of false ceilings and the rooftop garden will provide a significant thermal inertia to the building.

A number of facilities have also been introduced to ensure good staff working conditions: adjustable partitions to facilitate the organization of space; acoustic treatment and confidential spaces equipped with telephones in the landscaped areas. The move is scheduled for end 2012/early 2013.

As regards the future high energy performance IT centre with a net total surface of 12,000 square meters, its construction, which started in early 2012 in Serris (Seine-et-Marne)) and is expected to be completed by mid-2013, is part of a global approach for reducing the building's carbon footprint and energy requirements.

## Biodiversity

Aware of the declining biodiversity, the Banque de France has been taking actions in line with the new National Biodiversity Strategy (NBS) for 2011-2020. Located in urban centres where vegetation is sometimes scarce, some of the Bank's establishments are surrounded by gardens. Based on the study conducted in 2010 on the management of such green spaces, a good practice guide was drawn up. It should enable the Bank to better take account of biodiversity in the management of its premises.

## 2|3 Green IT

The drive towards sustainable development, initiated several years ago by the IT Department jointly with the Bank's other business areas, follows a dual approach:

- "Green for IT" actions directly concern the Bank's energy efficiency.
- "IT for Green" actions complement the dematerialisation of processes and interactions with the Bank's ecosystem.

### Green for IT: Improving the Bank's energy efficiency

The core actions already taken (choice of more energy-efficient equipment, server virtualisation, waste treatment, etc.) continue to produce their effects.

New actions will contribute to amplifying the approach: increasing the number of video-conferencing

rooms, using email communication systems, extending the number of applications and services available to teleworkers.

### IT for Green: dematerialising processes and improving interactions within the ecosystem

The dematerialisation of internal processes and interactions with external partners (suppliers,

#### Box 28

#### **BilanDirect FIBEN**

The electronic transmission of balance sheets by companies and accountants is an important step forward both in terms of modernizing the Bank's information system and promoting sustainable development.

Up until then, this information was exclusively collected by mail 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 amounted to around three million sheets.

The BilanDirect FIBEN project consisted in gradually dematerializing the collection of roughly 340,000 balance sheets. Based on the same channels and the same EDI format as those used by the Public Finances General Directorate for its e-filing services, BilanDirect FIBEN allows companies and their accountants to transmit tax returns to the Banque de France in electronic form. This information, which is directly integrated into the information system of the Companies Directorate, can then be viewed on screen in Cerfa-type format to facilitate the understanding of figures and economic and financial analysis.

In 2011, 86,000 balance sheets were received through electronic transmission, i.e. 25% of balance sheets included in the FIBEN database. This volume more than doubled compared with the previous year (35,000 balance sheets transmitted in 2010). In 2012, with the accountants association closely involved in the work of the Banque de France, this figure is expected to at least double.



customers, banks) has a significant impact in terms of reducing the Bank's environmental footprint. This approach focuses essentially on the electronic transmission of balance sheets, cash transportation, billing, ordering, and the simplification of administrative tasks relating to personnel management.

Lastly, in 2011, the Banque de France took part in developing the sectoral NTIC Guide for measuring greenhouse gas emissions, under the aegis of the ADEME and the CIGREF. Thanks to the elements contained in this guide, it will be possible to carry out a GHG assessment of the IT function, showing the areas of the IT function and the applications on which to focus initiatives with a significant impact on GHG emissions.

### **3| ECONOMIC AND FINANCIAL EDUCATION OF THE PUBLIC**

#### **3|1 Initiatives in favour of social workers**

In 2011, as part of its responsibility in dealing with household overindebtedness, the Banque de France pursued its training and information initiatives in favour of social workers.

The secretariats of the household debt commissions invited 578 social workers to present to them the procedures for processing household debt files implemented at the Banque de France.

Furthermore, the Banque de France organized and conducted 798 sessions aimed at informing social workers of the latest regulatory developments or providing training on the processing procedures. Overall, close to 11,573 social workers received information or training on the subject in 2011.

## 3|2 Economic and financial education initiatives

In 2011, the Banque de France pursued its initiatives with regard to the economic and financial education of the public.

### Initiatives in favour of teachers and school children

The Press and Communication Directorate strengthened its educational programme aimed at the general public and organized regular workshops and conferences for secondary school children, but also senior citizens and students from French and foreign universities. In 2011, 84 educational workshops were organized, compared with 65 in 2010. They were mainly held in the reception area of the Banque de France in Paris.

In the framework of its partnership with the French Ministry of Education, and in order to provide a new educational support to school teachers, the Banque

#### Box 29

### **Implementation 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 in April 2010 between the education authority of Créteil and the Banque de France. This agreement reflects the Bank's strong commitment in terms of social 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.

In this context, a specially dedicated "student training" unit worked in close cooperation with the teaching staff of the partner schools: the secondary schools Champlain in Chennevières-sur-Marne (Val-de-Marne) and Jean Moulin in Torcy (Seine-et-Marne).

Throughout the year 2011, 6<sup>th</sup> form management students received extra training (240 hours) on methodology: group work organized on the Bank's premises on time organization and management, note-taking, writing a CV, a cover letter, job interview simulations or English immersion. All of these subjects complete the school curriculum and are particularly appreciated by students.

Lively presentations of the main economic and financial tasks of the Banque de France were made by business professionals during educational workshops organized by the Press and Communication Directorate. These workshops, which were also open to 5<sup>th</sup> form students, aimed at addressing in an entertaining way the topics covered in the school curricula: personal credit and overindebtedness, the euro, etc.

In addition, junior high school students from the Val-de-Marne completed internships in Bank branches and the administrative centre of Marne-la-Vallée. Finally, the patronage of students by Bank staff, the "flagship" initiative of the partnership, was an enriching experience for all. This scheme involved offering these students guidance and helping them achieve their educational and professional goals.



de France created, together with the ECB, the “Euro School” poster. This poster aimed at primary school children shows a map of the euro area, the euro banknotes and coins and their security features. It was distributed for free to 15,000 schools in France.

In 2011, 550 secondary school children from priority education areas were taken on for a week of observation in the branch network.

### Actions in favour of the general public

As part of its task of informing the public on regulations and banking practices (Infobanque), and with the purpose of contributing to the public’s financial education, the Banque de France offers on its website some simple and general information on private individuals’ relation with their bank, as well as on the functioning of accounts, means of payment, savings, credit and the principles of bank mediation. The list of mediators for each credit institution is also available.

The website also offers practical information and documentation on:

- the right of access to basic banking services;
- payment incident registers (Central Cheque Register, the National Register of Household Credit Repayment Incidents);
- the procedure for processing household debt.

General information on these issues may also be obtained by calling the “ABE-Infoservice” helpline provided by the Banque de France in partnership with the *Autorité de contrôle prudentiel* and the Financial Markets Authority.

In addition, the Banque de France supports several initiatives that complement its own initiatives for the financial education of the public.

- As regards the economic education of the public, the Banque de France has from the beginning supported the *Journées de l’Économie* to which it contributes both financially and through numerous speakers. It also supports the *Journée du livre d’économie*.

- Intent on improving the prevention of difficult personal financial situations, the Banque de France actively contributes to the action of the *Institut pour l’Éducation financière du public*.

## 3|3 The Cité de l’économie et de la monnaie

The objective of the future museum so-called *Cité de l’économie et de la monnaie* (CEM) is to help improve the general public’s knowledge of economics, in particular that of young people. It will present, in an interactive form, the principal economic and monetary concepts and will also exhibit part of the Bank’s collections of coins, banknotes, professional equipment and furniture. Following the competition organised in 2010, a team of architects/museographers was selected by the jury in early 2011 to implement the project on the premises of the former branch of Paris-Malesherbes. In 2011, the team defined, during a first phase of general studies, the outline of the architectural project and the museum tour in close cooperation with the project team. The second phase of detailed studies will be finalized in 2012. The Scientific Council meets on a regular basis to examine the contents of the CEM’s exhibits.

In parallel to the official launching of the project by the Governor during a press conference on 25 May 2011, a website devoted to the project ([www.citedeleconomie.fr](http://www.citedeleconomie.fr)) was set up. It offers information on the different stages of the project and already includes some educational contents (games, videos, bibliographies, etc.).

## 4| LEVERS FOR ACTION

These levers for action involve, in particular, strengthening the quality approach and seeking to obtain the best certifications, taking into account Corporate Social Responsibility (CSR)-related concerns in the procurement strategy, implementing the sustainable development information system and, finally, carrying out actions of internal and external communication. Furthermore, the actions taken to enhance employees’ well-being at work are presented in Chapter 3 devoted to human resource management.





## 4|1 Quality approach

### New certifications obtained in 2011

For over 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 2011. 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.

Following on from the commitments made in previous years in favour of a quality approach with the ISO 9001 certification, the Banque de France pursued its efforts towards improving the prevention of occupational risks in the field of banknote and coin issuance.

With the integration of 22 new cash centres in the scope of ISO 9001 certification, all of the cash centres in the network and in the head office (*Délégation de la caisse institutionnelle du siège* – DCIS), and the Delegation in the Banknote Manufacturing Centre (Chamalières) are now involved in quality management and in implementing measures of analysis and continuous improvement.

The Banknote Manufacturing DG obtained the renewal of its triple certification: ISO 9001 (quality management), ISO 14001 (environmental management) and OHSAS 18001 (occupational health and safety). In 2011, it also underwent an AFAQ 26000 assessment, during which the relevance of its sustainable development approach was validated. The Banknote Manufacturing DG reached for the second time the Maturity threshold for the integration of sustainable development principles. The main progress observed concerns the Bank's territorial presence.

## ISO 26000 approach

After having been involved in both the development of the ISO 26000 standard and in the awareness-raising initiatives that followed its release, notably as a partner of the second *États généraux de la responsabilité sociétale*, the Banque de France drew up in 2011 an assessment of its environmental, social and societal practices relative to the principles laid down by the ISO 26000 standard. This assessment highlighted the results obtained under the approach adopted by the Banque de France, which represent a solid foundation and are sufficiently mature to enable the Bank to implement, as appropriate, an ISO 26000 approach.

## 4|2 Procurement policy

Following the creation in early 2011 of a Procurement Directorate, greater attention was paid to sustainable development and societal responsibility issues in the procurement strategy.

From the moment they express their needs, prescribing services, which impulse purchases, are made aware of the importance of adopting an approach that integrates these criteria among those that will guide the procurement decision. When specifications for tenders are being drafted, account is taken of socio-environmental requirements, which are also becoming better understood and accepted by the bidders.

The administrative management of procurement procedures has also evolved towards a significant reduction in paper consumption: a key objective is the digitisation and electronic transmission of a growing number of documents: thus, for the procedures launched in 2011 by the Procurement Directorate, 75% of bids were received in electronic form.

## 4|3 Sustainable development information system

In order to reinforce its CSR approach, the Banque de France is conducting a project with a view to developing a tool for steering its sustainable

development strategy, to monitor indicators, targeted objectives and related action plans. This information system will enable the Bank to measure and monitor its environmental footprint and other indicators linked to sustainable development.

## 4|4 Communication

### Internal communication, awareness-raising and training initiatives

#### A new sustainable development intranet site

In terms of internal communication, the new sustainable development intranet site is now accessible from the homepage of the Bank's website. This contributes to improving the clarity of the institution's entire sustainable development approach, whether it be the targets for reducing the environmental footprint or the monitoring and results of actions carried out. It includes a section on good practices (buildings, waste, travel, energy, gardens, IT, etc.), an "economics" section with internal studies, summaries and minutes of symposia, a section on eco-mobility, and internal, national and international news. A set of educational materials has also been developed to help Bank staff take on board sustainable development issues.

#### Dedicated training programmes

This approach is also based on a new training programme: "Sustainable development: social, economic and environmental responsibility" that contributes to the development of worker skills in an area considered as strategic by the Banque de France.

### External communication and collective work

On 8 April 2011, the Secretary General Armand Pujal signed the Charter of the Sustainable Development Club of Public Institutions and Enterprises in the presence of Nathalie Kosciusko-Morizet, Minister for Ecology, Sustainable Development, Transportation and Housing. The Banque de France thus joined the group of sixty other companies that are committed to promoting the principles of sustainable development,

in the framework of a social and environmental responsibility approach including, in particular, the commitments of the *Grenelle de l'environnement*. The Banque de France contributes to various working groups of the Club.

The Banque de France took part in the second “Green Day” organized by the European Central Bank in October 2011. This one-day event is an opportunity for staff in charge of “sustainable development” at Eurosystem central banks to present the respective

approaches adopted and their foundations. It also facilitates the exchange of best practices and “benchmarking” within a growing network of European correspondents.

This global and cross-sectoral approach reflects the Bank’s will to anticipate the new legal framework that is being set up, through the Grenelle II Act, and that tends towards greater transparency on the part of companies with regard to social and environmental issues.

## The accounts of the Banque de France





## 1| REPORT ON ASSETS, LIABILITIES AND RESULTS

The accounts for the year ending 31 December 2011 were approved by the General Council of the Banque de France at its meeting of 13 April 2012. The Bank's net profit stood at EUR 1,570 million, down compared with 2010 (-EUR 989 million). This decrease in net profit was primarily due to an exceptional allocation of EUR 2,065 million to its fund for general risks. At the same time, against the backdrop of significant demands placed on the Bank in response to the economic and financial crisis, its operating expenses have been controlled and the net income from its activities has increased.

*For the sake of clarity, raw items appearing in the published accounts have been grouped together in the presentation below. Details of the accounting principles used 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, reaching EUR 214 billion in 2011 versus EUR 183 billion in 2010.

<b>Financial position</b>			
<i>(year-end amounts, and change, EUR millions)</i>			
	2011	2010	Change 2011/2010
<b>NET ASSETS</b>	<b>214,130</b>	<b>183,158</b>	<b>30,972</b>
Net sources of funds from banknote operations	162,752	154,268	8,484
Net banking refinancing <sup>a)</sup>	22,930	9,659	13,271
Net position with customers	16,893	10,404	6,489
Other	11,555	8,827	2,728
<b>NET LIABILITIES</b>	<b>214,130</b>	<b>183,158</b>	<b>30,972</b>
Gold and net foreign exchange position	32,458	27,887	4,571
Euro-denominated portfolios	148,567	98,698	49,869
Position with Eurosystem <sup>a)</sup>	33,105	56,573	-23,468

a) The intra-SEBC positions related to the operations of the payment system Target2 are now aggregated with Bank's position vis-à-vis the Eurosystem instead of being included in the net bank refinancing aggregate (2010 pro forma).

This increase resulted from the continued expansion of banknotes in circulation and the growth in the Bank's net borrowing position in relation to bank refinancing operations as part of monetary policy. This reflects the facts that at the accounts closing date, deposits by banks into Banque de France accounts exceeded loans that had been granted to them.

On the assets side, the increase in the Bank's portfolios denominated in euro mainly corresponds to the acquisitions undertaken by the Eurosystem in certain securities markets as part of the non-standard measures taken in response to the financial crisis.

### Banknotes

<b>Banknotes in circulation</b>			
<i>(year-end amounts and change, EUR millions)</i>			
	2011	2010	Change 2011/2010
<b>Euro banknotes</b>	<b>162,185</b>	<b>153,667</b>	<b>8,519</b>
Banknotes put into circulation by the Banque de France	88,838	81,099	7,739
Adjustment of banknotes allocated by the Eurosystem	77,322	76,316	1,006
Advance to the IEDOM	-3,975	-3,748	-227
<b>French franc banknotes</b>	<b>567</b>	<b>602</b>	<b>-35</b>
<b>NET SOURCES OF FUNDS FROM BANKNOTE OPERATIONS</b>	<b>162,752</b>	<b>154,268</b>	<b>8,484</b>

### Euro banknotes

Net resources from banknotes rose at a more moderate pace than in previous years in a context of weak economic growth.

Since the introduction of the euro at the start of 2002, 92% of the total value of euro banknotes in circulation has been allocated, at each month end, between each of the national central banks (NCBs) in the Eurosystem in proportion to its paid-up share in the capital of the European Central Bank (ECB). The remaining 8% has been allocated to the ECB. The difference between the share of euro banknotes allocated to the Banque de France and the net issuance of euro banknotes carried out by the Bank generates a claim on the Eurosystem on the asset side (cf. balance sheet item A8.3). This claim is remunerated at the marginal rate applied to the Eurosystem's main refinancing operations.



The IEDOM (*Institut d'émission des départements d'outre-mer* – the French overseas department note-issuing bank) acts on behalf of the Banque de France in managing banknote circulation in France's five overseas *départements* (Guadeloupe, Martinique, Guyana, Reunion and Mayotte) and in its overseas territorial communities of Saint Pierre and Miquelon, Saint Barthélemy and Saint Martin. 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 remained exchangeable at Banque de France branches for a period of 10 years until 17 February 2012. 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 2011, French franc banknotes represented a liability of EUR 567 million, down EUR 35 million compared with end-2010. The income relating to the outstanding and un-exchangeable French franc banknotes in circulation after 17 February 2012 will be recognised by the State in 2012.

### Bank refinancing operations

This aggregate item groups together operations with credit institutions conducted in the framework of monetary policy; it does not include operations carried out with banks as part of the Banque de France's activities with institutional customers.

The year-end figures show a strong increase in the recourse to refinancing compared with year-end 2010, mainly due to substantial grants of liquidity in the framework of the ECB's first three-year refinancing operation made at end-December 2011.

By the end of 2011, holdings by French credit institutions in the books of the Banque de France had considerably increased (from EUR 45 billion to EUR 171 billion) due to a sharp slowdown of the

### Net bank refinancing

(year-end amounts, and change, EUR millions)

	2011	2010	Change 2011/2010
<b>Assets</b>	<b>172,368</b>	<b>34,984</b>	<b>137,383</b>
Euro-denominated loans in the framework of monetary policy operations	148,071	34,984	113,087
Foreign currency loans in the framework of monetary policy operations	24,297	0	24,297
<b>Liabilities</b>	<b>195,298</b>	<b>44,643</b>	<b>150,655</b>
Current account of banks subject to minimum reserves	171,001	44,643	126,358
Counterpart of foreign exchange lending (non-interest bearing debt with the ECB)	24,297	0	24,297
<b>NET BANK REFINANCING</b>	<b>22,930</b>	<b>9,659</b>	<b>13,271</b>

interbanking market amidst fears triggered by the euro area debt crisis. In total, the monetary policy operations with French credit institutions, recorded as assets and liabilities, produced a net resource for the Banque de France.

### Operations with institutional customers

#### Operations with institutional customers

(year-end amounts and change, EUR millions)

	2011	2010	Change 2011/2010
<b>Assets</b>	<b>135,755</b>	<b>111,225</b>	<b>24,530</b>
Lending to the French Treasury (advance in respect of coins)	0	0	0
Back-to-back investment of customer deposits (other than the French Treasury)	135,755	111,225	24,530
<b>Liabilities</b>	<b>152,648</b>	<b>121,630</b>	<b>31,019</b>
Liabilities vis-à-vis the State	8,937	1,488	7,449
Customer deposits	143,711	120,142	23,569
<b>NET POSITION WITH CUSTOMERS</b>	<b>16,893</b>	<b>10,404</b>	<b>6,489</b>

### Operations with the French Treasury

In a context of weak money-market liquidity, outstanding liabilities vis-à-vis the French Treasury posted a sharp increase over 2011, rising from EUR 1.5 billion in 2010 to EUR 8.9 billion at end-2011.

## 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 reserve assets and to carry out foreign exchange transactions. Institutional customers' deposits and the back-to-back operations are recorded in dedicated balance sheet (see above) and off balance sheet accounts.<sup>23</sup>

The volume of business conducted with institutional customers increased by 20% in 2011 reaching EUR 144 billion by the end of the year.

## Gold and foreign exchange reserves

Net gold and foreign exchange reserves continued to increase, by EUR 4.6 billion in 2011, primarily as a result of operations with the International Monetary Fund (IMF).

### Gold reserves

<b>Gold and foreign exchange reserves</b>			
<i>(year-end amounts, EUR millions)</i>			
	2011	2010	Change 2011/2010
<b>Assets</b>	<b>156,314</b>	<b>140,920</b>	<b>15,395</b>
Gold	95,282	82,640	12,642
Foreign exchange assets and investments	43,428	43,548	-119
Relations with the IMF	17,604	14,732	2,872
<b>Liabilities</b>	<b>123,856</b>	<b>113,032</b>	<b>10,824</b>
Foreign exchange liabilities	8,901	12,264	-3,363
Counterpart to SDR allocations	12,030	11,734	296
Revaluation accounts (gold, foreign currency and securities denominated in foreign currencies)	81,055	67,211	13,844
Revaluation reserve of State gold reserves		18,499	-18,499
Revaluation reserve of State foreign exchange reserves	–	3,323	-3,323
Revaluation reserve of State gold and foreign exchange reserves	21,869		21,869
<b>TOTAL GOLD AND FOREIGN EXCHANGE RESERVES</b>	<b>-32,458</b>	<b>-27,887</b>	<b>-4,571</b>

<sup>23</sup> See note 27 of the Notes to the annual accounts.

<sup>24</sup> From an accounting standpoint, this aggregate comprises balance sheet item A7 "Euro-denominated fixed-income 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 accounts, which are shown on the liabilities side of the balance sheet in item P13.2.

At the end of 2011, the Banque de France's gold reserves remained stable compared with a year earlier, at 2,435 tons. After another strong rise in gold prices (up by 11.5%), the euro value of the Bank's gold assets increased by EUR 12.6 billion versus end-2010.

In 2011, the Banque de France continued its gold coin trading activity, which allowed it to realise gains on sales amounting to EUR 8.7 million. These realised gains were allocated to the revaluation reserve of State gold and foreign exchange reserves. The gold revaluation account opened on 1 January 1999, which books unrealised capital gains on gold as of that date, stood at EUR 76 billion by the end of 2011.

### Foreign exchange assets and operations with the International Monetary Fund

The Bank's foreign exchange reserves, net of liabilities, increased over 2011 from 31.7 to 34.5 billion euro owing to an appreciation of foreign currencies against the euro and a limited increase in the Bank's foreign currency holdings. The sale of foreign currency revenues generated net realised foreign exchange gains of EUR 38.7 million. This sum was allocated to the revaluation reserve of State gold and foreign exchange reserves.

The claim on the IMF stood at EUR 17.6 billion, up EUR 2.9 billion versus end-2010 after additional financing granted to the IMF by France in the context of continued international efforts to stem the financial crisis.

### The Banque de France's euro-denominated portfolios

These include "monetary portfolios" and own-resources own funds and provisions portfolios.

### Euro-denominated monetary portfolios<sup>24</sup>

The Banque de France holds portfolios to invest its monetary resources (i) in the framework of monetary policy programmes adopted in 2009, 2010 and 2011, and (ii) in the framework adopted by the Eurosystem in 2003, which allows NCBs to build up their portfolios (not related to the implementation of monetary policy) within annually-reviewed limits.

### Euro-denominated portfolios

(year-end amounts, EUR millions)

	2011	2010	Change 2011/2010
<b>Euro-denominated monetary portfolios</b>	<b>142,356</b>	<b>92,876</b>	<b>49,480</b>
Available-for-sale	20,505	13,680	6,824
Held-to-maturity	121,851	79,196	42,656
<b>Own funds investment portfolio</b>	<b>6,212</b>	<b>5,823</b>	<b>389</b>
Available-for-sale	3,707	3,526	181
Held-to-maturity	801	830	-29
Participating interests	1,704	1,467	237
<i>o/w ECB capital</i>	<i>1,299</i>	<i>1,062</i>	<i>237</i>
<b>EURO-DENOMINATED SECURITIES</b>	<b>148,567</b>	<b>98,698</b>	<b>49,869</b>

In this context, 2011 saw a particularly sharp rise in the held-to-maturity securities corresponding to operations related to the implementation of monetary policy.

### Own resources portfolios

These portfolios, which stood at EUR 6.2 billion at end-December 2011 showed an increase on account of the expansion of own funds resulting from decisions regarding the appropriation of 2010 profits.

At the same time, the national central banks of the Eurosystem were asked to release the second tranche of the ECB's capital increase. The share subscribed by the Banque de France thus increased by EUR 237 million.

### Net position with the Eurosystem

The Banque de France has several claims and liabilities on the Eurosystem, notably:

- a 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;
- a 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;

### Net position with the Eurosystem

(year-end amounts, EUR millions)

	2011	2010	Change 2011/2010
Claim on the Eurosystem for banknotes in circulation	77,576	76,506	1,070
Claim on the ECB for gold and foreign exchange assets transferred	8,281	8,263	18
Other claims on the Eurosystem	467	167	300
Liability towards the Eurosystem related to <i>Target2</i>	-53,218	-28,363	-24,856
<b>NET POSITION WITH THE EUROSISTEM</b>	<b>33,105</b>	<b>56,573</b>	<b>-23,469</b>

- a liability, relating to the functioning of the Target2 Payment System used for transfers of central bank money within the euro area, which rose from EUR 28.4 billion to EUR 53.2 billion during 2011.

These items are remunerated at the Eurosystem's main refinancing operations rate.

The other claims on the Eurosystem correspond to an advance on ECB dividends of EUR 132 million and to income receivable from the ECB in respect of the net pooling of monetary income (EUR 334 million in 2011 versus EUR 167 million in 2010). This balance includes corrections relating to 2008 and 2010 worth EUR 8.3 million.

### Other items

Decree 2011-256 of 9 March 2011 raised the Banque de France's capital to EUR 1 billion by incorporating available reserves into its capital.

The net balance of the line "Other items" posted a sharp increase of EUR 4.4 billion versus end-2010 due notably to the allocation of a provision of EUR 2,065 million to the fund for general risks.

The reduction in provisions for liabilities and charges is principally explained by the reversal of the provision for monetary policy operations established in 2008, pursuant to Article 32.4 of the ESCB statutes. The total amount of the provision, initially established at EUR 5.7 billion for the entire Eurosystem, was reduced

## Other items

(year-end amounts, EUR millions)

	2011	2010	Change 2011/2010
Capital, reserves and retained earnings	5,832	4,954	879
Provisions for liabilities and charges	1,015	1,221	-205
Fund for general risks	3,810	1,745	2,065
Fixed assets	-892	-865	-27
Other liabilities	219	-786	1,005
Net profit for the year	1,570	2,559	-989
<b>TOTAL</b>	<b>11,555</b>	<b>8,827</b>	<b>2,728</b>

to EUR 4.0 billion at end-2009, to EUR 2.2 billion at end-2010, and then to EUR 949 million at end-2011 after asset disposals and an improvement in the market valuations of securities posted as collateral for these operations. As a result, for the third consecutive year, the Banque de France was able to book a provision reversal of EUR 260 million thereby reducing the initial provision of EUR 1,186 million to EUR 196 million.

In addition, the fund for general risks was raised to EUR 3,810 million by a provision of EUR 2,065 million in order to take into account the overall increase in risks to which the Banque de France is exposed.

## 1|2 Breakdown of profit

Net profit for 2011 amounted to EUR 1,570 million, down EUR 989 million on 2010.

### Net income from activities

In 2011, the Banque de France's posted a substantial increase in the net income from its activities that reached EUR 7,760 million in 2011 versus EUR 6,435 million in 2010 (+20.6%).

<sup>25</sup> 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 334 million in 2011 compared with EUR 167 million in 2010.

The growth of euro-denominated monetary income and, to a lesser extent, of net income from non-monetary activities, were the two largest contributors to the increase in the Bank's net income on activities in 2011. In a context of persistently low international interest rates, the Bank's foreign currency portfolios financed by monetary liabilities generated a moderate increase in income versus 2010.

### Net income from activities

(year-end amounts and change, EUR millions)

	2011	2010	Change 2011/2010
<b>NET INCOME ON ACTIVITIES</b>	<b>7,760</b>	<b>6,435</b>	<b>1,325</b>
<b>Euro monetary income</b>	<b>5,251</b>	<b>4,284</b>	<b>967</b>
Income from available-for-sale and held-to-maturity portfolios	4188	3031	1,157
Net income from refinancing of the banking system	74	315	-242
Net income on positions with the Eurosystem	460	464	-4
Pooling of monetary income	594	540	55
Other interest-bearing accounts	-64	-66	2
<b>Foreign currency monetary income</b>	<b>996</b>	<b>925</b>	<b>71</b>
<b>ECB and IEDOM dividends</b>	<b>190</b>	<b>304</b>	<b>-113</b>
<b>Net income from non-monetary activities</b>	<b>1,322</b>	<b>922</b>	<b>400</b>

### Euro-denominated monetary income

Net monetary income from euro transactions is the largest component of the Banque de France's income. It includes (i) income on securities, (ii) net income from bank refinancing corresponding to the difference between the interest received on bank loans granted in the framework of monetary policy and the remuneration on deposits by credit institutions (compulsory reserve requirements, deposit facilities, and the collection of deposits), (iii) interest on intra-Eurosystem balances corresponding mainly to the Eurosystem adjustments made to the monetary income from banknotes in circulation, to the transfer of foreign currency reserves to the ECB and to positions related to the Target2 payment system, and (iv) the net revenue in respect of the pooling of monetary income. This latter element includes the balance of the Eurosystem's monetary income distribution mechanism<sup>25</sup> and allocations as well as reversals of provisions for monetary policy operations.

With the combination of the Bank's expanding balance sheet and the high interest payments on the securities purchased in the framework of the ECB's securities purchase programmes, the Bank's interest income in 2011 was up compared with the previous year. This income also benefited from the temporary increase in the ECB's key interest rates from 1% to 1.50%: The average rate on the main refinancing operations was 1.25% in 2011 versus 1% in 2010.

#### Foreign currency monetary income

In 2011, foreign currency portfolios financed by monetary liabilities generated a profit of EUR 996 million, up EUR 71 million on the previous year. The persistently low interest rates in the United States reduced the return on the Bank's dollar-denominated assets, but this was offset by income generated by a diversification of the Bank's foreign currency reserves.

#### ECB and IEDOM dividends

In 2011, the ECB paid a dividend of EUR 35 million to the Banque de France in respect of income generated in 2010. The ECB also settled the balance of its available seigniorage income after deducting the allocation to the provision for foreign exchange, interest-rate and credit risks. This balance generated an advance on dividends of EUR 132 million.

In addition, the dividend paid by the IEDOM in 2011 in respect of 2010 was EUR 23 million, up by EUR 18 million on the previous year.

#### Net income from non-monetary activities

The Bank's non-monetary activities generated total net income of EUR 1,322 million in 2011, an increase by EUR 402 million compared with 2010.

This income reflected an increase in activity with institutional clients in 2011. In addition, for the first time, the Bank's services to the French State, either on its behalf or at the State's request, were remunerated at their full cost in 2011, thereby generating additional income compared with 2010. Income derived from sales of goods to other central banks (exports of non-euro banknotes)

and the provision of services to commercial banks (management of means of payments and of customer information databases) posted a slight fall by 2.7% in 2011 versus 2010.

The contributions from the entities subject to the supervision of the ACP (*Autorité de contrôle prudentiel* – Prudential Supervisory Authority, which is under the aegis of the Banque de France), financed the ACP's operating costs thereby obviating the need for any contribution from the Bank.

Lastly, income from the portfolios in which the Bank's own funds and the Employee Reserve Fund are invested suffered from the contraction of equity markets and amounted to EUR 171 million, a decrease of EUR 36 million on the previous year.

#### Operating expenses

Operating expenses stood at EUR 2,109 million in 2011, up by EUR 202 million compared with 2010.

The increase in pension expenses and the consolidation of the ACP's staff were the main contributors to the rise in the Bank's staff costs. Other staff costs increased only moderately.

The reversal of a EUR 96 million tax provision in 2010 distorted the comparison basis and was the principal reason for the apparent increase in "Other operating expenses" in 2011. These other costs were also higher after IT expenditure relating notably to Eurosystem projects and to postal charges

#### Operating expenses

(year-end amounts and change, EUR millions)

	2011	2010	Change 2011/2010
<b>OPERATING EXPENSES</b>	<b>-2,109</b>	<b>-1,907</b>	<b>-202</b>
Staff costs and pension expenses	-1,432	-1,398	-35
Taxes other than income tax	-38	-45	7
Depreciation charges on fixed assets	-144	-136	-8
Capitalised production	13	31	-18
Other operating expenses	-508	-360	-149



incurred as a result of the increase in the number of over-indebtedness dossiers filed with the Bank.

## Profit for the year

### Main income statement balances

(year-end amounts and change, EUR millions)

	2011	2010	Change 2011/2010
Net income on activities of the Banque de France	7,760	6,435	1,325
Operating expenses	-2,109	-1,907	-202
<b>Profit before tax and exceptional items</b>	<b>5,651</b>	<b>4,527</b>	<b>1,123</b>
Net transfer to fund for general risks and accelerated tax depreciation	-2,067	-405	-1,662
Exceptional items	–	0	0
Corporate income tax	-2,014	-1,563	-450
<b>PROFIT FOR THE YEAR</b>	<b>1,570</b>	<b>2,559</b>	<b>-989</b>

## Fund for general risks

The fund for general risks (FGR) is intended to cover all possible risks to which the Bank is exposed in the framework of its activities, except currency risk on gold and foreign exchange reserves which is covered by the revaluation reserve of State' gold and foreign exchange reserves. The FGR represents a provision that is intended to cover any risks that could not be adequately covered by operating profit.

The increase in the volume of operations conducted in the framework of monetary policy and the risks associated with the exceptional measures taken in response to the financial crisis prompted the Bank to raise its FGR by an additional EUR 2,065 million. The total value of the FGR at end-2011 stood at EUR 3,810 million.

## Corporate income tax

The Banque de France is subject to corporate income tax and a number of additional tax contributions. For 2011, the Banque de France's income tax commitment stood at EUR 2,014 million, up EUR 450 million versus 2010. This increase resulted from rise in the Bank's ordinary earnings and, for EUR 93 million, from the exceptional 5% increase in corporate income tax imposed by the 2011 Supplementary Budget Act (n°2011-1978 dated 28 December 2011).

## Appropriation of net profits

After consolidation of the Bank's FGR, an incremental provision of EUR 2.1 million to accelerated tax depreciation charges and payment of its income tax commitments, net profit for the Bank for 2011 stood at EUR 1,570 million, down EUR 989 million compared with 2010.

Decree no. 2011-256 of 9 March 2011 that raised the Bank's capital to EUR 1 billion via the incorporation of the entire value of the reserve provided for by Article R. 144-4 of the *Monetary and Financial Code*, and fixed the ceiling for the latter reserve at twice the Bank's capital, expanded the Bank's capacity to allocate sums to this general reserve.

At its meeting of 13 April 2012, the General Council of the Bank approved the 2011 accounts certified, as in previous years, by the auditors, and discussed the appropriation of profits.

Having taken into account retained earnings of EUR 126 million from 2010 profits, the General Council decided on the following appropriation of total profits of EUR 1,696 million:

- a regulatory appropriation to the general reserve amounting to EUR 78 million, i.e. 5% of net profit;
- a dividend paid to the State amounting to EUR 877 million;
- an appropriation to the unrestricted reserve fund amounting to EUR 161 million;
- an appropriation to the Employee Reserve Fund of EUR 126 million in respect of entitlements acquired during 2010;
- an appropriation to the special pension reserve amounting to EUR 146 million;
- a contribution to the provision for investment amounting to EUR 5.5 million.

The balance of EUR 302.3 million was carried forward as retained earnings.

## 2| THE INDIVIDUAL ACCOUNTS OF THE BANQUE DE FRANCE

### 2|1 The balance sheet and profit and loss account

#### Balance sheet at 31 December 2011

(EUR millions) <sup>a)</sup>

Notes to annual accounts	Item	Description	2011	2010
<b>Assets</b>				
1	A1	Gold	95,282	82,640
2	A2	Foreign exchange assets (excl. relations with the IMF)	67,725	43,548
		2.1 Foreign exchange assets held with non-euro area residents	23,116	31,608
		2.2 Foreign exchange assets held with euro area residents	44,609	11,940
3	A3	Relations with the IMF	17,604	14,732
		3.1 Financing provided to the IMF	6,027	3,453
		3.2 Acquisitions of Special Drawing Rights	11,577	11,279
5	A4	Euro-denominated claims on non-euro area residents	10,113	6,901
4	A5	Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations	129,336	34,984
5	A6	Other euro-denominated loans to euro area credit institutions	51,420	24,716
6	A7	Euro-denominated securities issued by euro area residents	139,294	90,415
		7.1 Securities held for monetary policy purposes	48,756	21,336
		7.2 Other securities	90,538	69,079
	A8	Relations within the Eurosystem	87,622	85,998
13		8.1 Participating interest in the ECB	1,299	1,062
7		8.2 Claims arising on the transfer of reserve assets to the ECB	8,281	8,263
8		8.3 Claims on the Eurosystem for euro banknotes in circulation	77,576	76,506
9		8.4 Other claims on the Eurosystem	467	167
10	A9	Advance to the IEDOM	3,975	3,748
	A10	Claims on the French Treasury	0	0
11	A11	Other euro and foreign currency denominated financial assets	100,964	88,480
12	A12	Miscellaneous	4,618	4,194
13	A13	Fixed assets	1,297	1,270
		13.1 Tangible and intangible assets	892	865
		13.2 Participating interests (other than interest in the ECB)	405	405
<b>TOTAL ASSETS</b>			<b>709,250</b>	<b>481,626</b>
<b>Liabilities</b>				
			<b>2011</b>	<b>2010</b>
				<i>Pro forma</i>
14	P1	Banknotes in circulation	166,160	157,415
4	P2	Euro-denominated liabilities to euro area credit institutions in the framework of monetary policy operations	171,001	44,643
		2.1 Current accounts	53,163	32,911
		2.2 Other liabilities	117,838	11,732
	P3	Other euro-denominated liabilities to euro area credit institutions	1,874	1,688
15	P4	Euro-denominated liabilities to non-euro area residents	18,699	20,042
2	P5	Foreign exchange liabilities	8,901	12,264
3	P6	Counterpart to SDR allocations	12,030	11,734
16	P7	Relations within the Eurosystem	77,515	28,363
17	P8	Euro-denominated liabilities to other euro area residents	13,151	5,504
		8.1 Treasury's account	8,937	1,487
		8.2 Other liabilities	4,214	4,017
18	P9	Items in course of settlement	102	213
19	P10	Banking transactions	118,924	91,818
20	P11	Miscellaneous	4,996	7,590
21	P12	Provisions for liabilities and charges	1,015	1,221
22	P13	Revaluation accounts	81,709	67,961
23	P14	Fund for general risks and accelerated tax depreciation	3,902	1,835
24	P15	Revaluation reserve of State gold and foreign exchange reserves	21,869	21,822
25	P17	Capital, reserves and retained earnings	5,832	4,954
	P18	Profit for the year	1,570	2,559
<b>TOTAL LIABILITIES</b>			<b>709,250</b>	<b>481,626</b>

a) Each item of the balance sheet and profit and loss account is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise.

## 2011 profit and loss account

(EUR millions) <sup>a)</sup>

Notes to annual accounts	Item	Description	2011	2010
	<b>1.</b>	<b>Net income on activities of the Banque de France</b>	<b>7,759</b>	<b>6,434</b>
31	1.1	Net interest income	6,216	4,901
	1.1.1	Interest and related income	8,878	6,749
	1.1.2	Interest and related expenses	-2,663	-1,848
32	1.2	Net income/loss on financial transactions	-48	30
	1.2.1	Net of realised gains/losses and unrealised losses on foreign exchange	47	260
	1.2.2	Net of charges to/releases from the revaluation reserve of State foreign exchange reserves	-47	-260
	1.2.3	Net of other income and expenses on financial transactions	-48	30
	1.3	Commission	12	15
	1.3.1	Commission (income)	44	44
	1.3.2	Commission (expense)	-32	-29
33	1.4	Income from equity securities and participating interests	222	361
34	1.5	Net result of pooling of monetary income	594	540
35	1.6	Net of other income and expenses	763	587
	<b>2.</b>	<b>Operating expenses</b>	<b>-2,109</b>	<b>-1,907</b>
36	2.1	Personnel and related expenses	-1,432	-1,398
	2.2	Taxes other than income tax	-38	-45
	2.3	Provisions, depreciation and amortisation	-144	-136
	2.4	Net of other operating income and expenses	-495	-328
		<b>PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS (1 + 2)</b>	<b>5,650</b>	<b>4,527</b>
	<b>3.</b>	<b>Net charge to the fund for general risks and accelerated tax depreciation</b>	<b>-2,067</b>	<b>-405</b>
	<b>4.</b>	<b>Extraordinary items</b>	<b>-</b>	<b>-</b>
	4.1	Extraordinary income	-	-
	4.2	Extraordinary charges	-	-
37	<b>5.</b>	<b>Corporate income tax</b>	<b>-2,014</b>	<b>-1,563</b>
		<b>PROFIT FOR THE YEAR (1 + 2 + 3 + 4 +5)</b>	<b>1,570</b>	<b>2,559</b>

a) Each item of the balance sheet and profit and loss account is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise.

## 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 R 144-6 of the *Monetary and Financial Code*, which specifies that:

- the Banque de France must comply with the accounting and valuation methods laid down by the Governing Council of the ECB in its 11 November 2011 guideline **on the legal framework for accounting and financial reporting in the European System of Central Banks** for all activities carried out within the framework of the ESCB.<sup>26</sup> This Guideline establishes in particular the accounting rules applicable to refinancing operations for the banking sector, securities, foreign currency

<sup>26</sup> OJEU of 9 February 2011, L35, P.31.

transactions carried out in the course of foreign exchange reserve management, and the issue of banknotes;

- the accounting rules established by the *Autorité des normes comptables* (ANC – Accounting Standards Authority) 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 (since replaced by the Guideline of 10 November 2006, and subsequently by that of 11 November 2011) to cover the securities portfolios recorded in asset item A11.

## Valuation methods

### Foreign exchange gains/losses

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

#### *Foreign exchange gains/losses on State gold and currency reserves*

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

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

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

#### *Revaluation reserve of State gold and foreign currency reserves*

Pursuant to the new agreement between the State and the Banque de France, which came into force on 2 February 2011 and which replaces the agreement of 31 March 1999, the revaluation reserve of State gold reserves (*réserve de réévaluation des réserves en or de l'État – RRROE*) – and the revaluation reserve of State currency exchange reserves (*réserve de réévaluation des réserves en devises de l'État – RRRDE*) – have been merged into a single reserve called the revaluation reserve of State gold and foreign exchange reserves (*réserve de réévaluation des réserves en or et en devises de l'État – RRRODE*). In order to make them easier to compare, the two reserves have been merged in the pro forma accounts drawn up on 31 December 2010.

Like the 1999 agreement, the new agreement of 2011 neutralises the impact on the Bank's profit and loss account of realised gains and losses and of unrealised losses at year-end, thanks to a mechanism whereby the counterpart in the profit and loss account is symmetrically offset against the RRRODE. However, as before, the amount of net foreign exchange gains taken to the RRRODE may only be limited to the net profit for the year before the transfer to the reserves.

Moreover, the new agreement stipulates that:

- the amount of the RRRODE must henceforth be equal to at least 12% of the gold and foreign currency position; it must also be sufficient to cover the losses that would arise from a fall in prices equivalent to that of the worst of the past ten years;
- if the RRRODE falls below its minimum amount as defined above, it is supplemented from profits

for the financial year, without exceeding 20% of net profit.

#### *Other foreign exchange gains/losses*

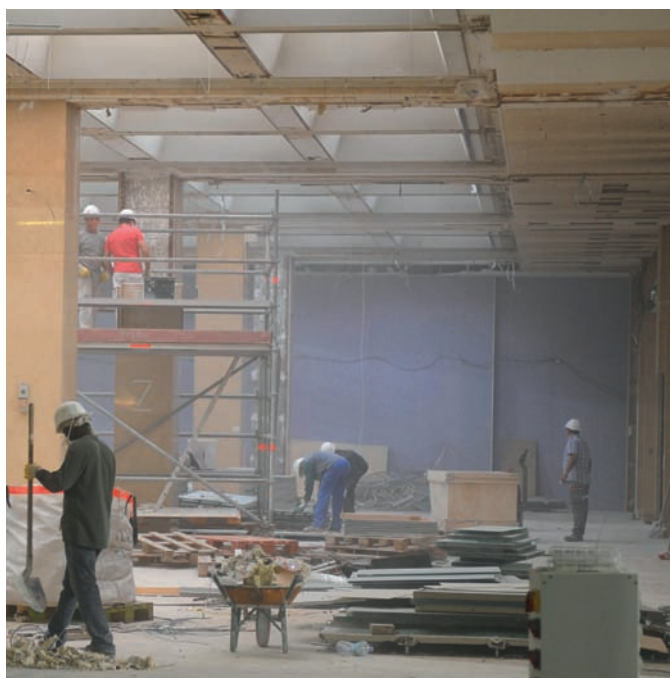
The Banque de France applies Regulation 89-01 of the Banking and Financial Regulation Committee (*Comité de la réglementation bancaire et financière* – CRBF) to foreign exchange operations that are not connected to its main responsibilities. Foreign currency deposits and investments are marked to market 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 30 – and securities held for monetary policy purposes)**

Other fixed-income securities and variable-yield securities are recorded under:

- item A2 of the balance sheet for securities denominated in foreign currencies held in connection with foreign exchange reserve management;
- item A7.1 for securities acquired for monetary policy purposes;
- item A11 for euro-denominated securities earmarked against the Bank’s own funds, provisions and customer deposits recorded in items P4 or P10;
- item A12 for securities held in the pension reserve fund of Banque de France employees (see Note 30), and item A4 or A7.2 for other securities denominated in euro depending on whether they are issued by non-residents or residents.

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 P13). Unrealised losses are booked as expenses on financial transactions (profit and loss account item 1.2.3). Unrealised gains and losses are not netted. 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.

#### **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 P13). Unrealised losses are booked as expenses on financial transactions (profit and loss account item 1.2.3). Unrealised gains and losses are not netted. 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 gold and 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 P13). 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 P13). 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 French standards.

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 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. Most 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

See Note 23.

### Pension scheme

See Note 30.

### Post-balance sheet events

See Note 6.

### 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 (2,435 tonnes) remained unchanged in 2011.

#### 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.

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

### Foreign exchange assets and liabilities (excl. relations with the IMF)

Asset item A2 and Liability item P5

(EUR millions)

	2011	2010
<b>ASSETS</b>		
<b>Foreign currency assets</b>		
Overnight deposits	100	28
Fixed-term deposits	14,360	15,486
Provision of US dollar liquidity to Eurosystem counterparties	25,118	–
Securities received under repurchase agreements	504	836
Fixed-income securities	27,345	26,918
Accrued interest receivable	298	280
<b>TOTAL</b>	<b>67,725</b>	<b>43,548</b>
<b>LIABILITIES</b>		
<b>Foreign exchange liabilities</b>		
Securities delivered under repurchase agreements	8,896	12,262
Accrued interest payable	6	2
<b>TOTAL</b>	<b>8,901</b>	<b>12,264</b>

above on accounting principles and valuation methods. Securities intended to be held to maturity totalled EUR 11,650 million at 31 December 2011 compared to EUR 10,570 million at 31 December 2010.

The item "foreign currency assets" also includes claims on euro area residents, taking the form of securities repurchase agreements, for an equivalent value in euro of EUR 25,118 million (USD 32.5 billion). These loans were granted in the framework of the temporary reciprocal currency arrangement (swap lines) put in place by the US Federal Reserve System and the ECB. Under this programme, the US Federal Reserve System provided the dollars to the ECB through a EUR/USD swap. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct US dollar liquidity-providing operations with Eurosystem counterparties. These back-to-back swap transactions resulted in non-remunerated *intra*-Eurosystem balances between the ECB and the NCBs, reported under liability item P7 "Relations within the Eurosystem".

### NOTE 3: RELATIONS WITH THE IMF

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

- drawing rights under the reserve tranche that corresponds to the fraction of France's share in the IMF's capital that is settled in gold and other foreign exchange assets, plus the IMF's net employment of euro in the form, notably, of euro-denominated drawings and repayments by member countries on France's account;
- the loans granted to the IMF as part of the agreement that came into effect on 2 December 2009 (see below);
- loans granted to the PRGT trust (poverty reduction growth trust) set up under the aegis of the IMF.

The item "Acquisitions of SDRs" (Special Drawing Rights) includes the euro equivalent of the SDRs held by France and purchases of SDRs in the framework of voluntary swap 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.

Changes in financing provided to the IMF stem from:

- net drawings by the IMF of EUR 1,091 million on France's quota (excess of drawings over repayments);
- from the drawing of SDR 1,144 million (equivalent to EUR 1,313 million) in 2011 under the loan agreement between the Banque de France and the IMF of December 2009. This agreement provides for a maximum of EUR 21,178 million since the bilateral loan agreements were merged with the New Arrangements to Borrow of February 2011;
- loans granted to the PRGT trust (poverty reduction growth trust) set up under the aegis of the IMF amounting to SDR 194 million (equivalent to EUR 230 million).

The change in Asset item A3.2 "Acquisitions of SDRs" (Special Drawing Rights) arises from the payment of interest relating to receivables and liabilities in SDRs as well as the purchases of SDRs under voluntary swap agreements with other central banks and the change in the price of SDRs from one year end to the next.

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. The change in the item results from movements in the SDR/euro exchange rate.

### Relations with the IMF

Asset item A3 and Liability item P6

(EUR millions)

	2011	2010
<b>ASSETS</b>		
Financing provided to the IMF	6,025	3,453
Acquisitions of Special Drawing Rights	11,574	11,271
Accrued interest receivable	6	8
<b>TOTAL</b>	<b>17,604</b>	<b>14,732</b>
<b>LIABILITIES</b>		
Counterpart to SDR allocations	12,026	11,727
Accrued interest payable	4	7
<b>TOTAL</b>	<b>12,030</b>	<b>11,734</b>

### NOTE 4: MONETARY POLICY OPERATIONS

The total receivables held by the Eurosystem in relation to monetary policy operations amounted to EUR 863,568 million, of which EUR 129,238 million recorded on the Banque de France's balance sheet. In accordance with Article 32.4 of the ESCB Statute, any risks from monetary policy operations, if they were to materialise, should 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 significant open market operations in volume terms conducted by the Eurosystem until 2008; they play a key role in steering interest rates, bank liquidity management and signalling 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.

Since October 2008, these operations were conducted as fixed rate tender procedures.

**Longer-term refinancing operations (LTROs)** are carried out through monthly tenders for loans with a maturity of three months. In the framework of the enhanced credit support measures to support bank lending and liquidity in the euro area money market, the Governing Council decided in December 2011 to conduct two longer-term refinancing operations with a maturity of 36 months and the option of early repayment after one year.

These operations are conducted as fixed rate tender procedures with full allotment. The rate in these operations is fixed at the average rate of the main refinancing operations over the life of the respective operation. Interest will be paid when the respective operation matures. The first operation was allotted on 21 December 2011 and the second scheduled for 29 February 2012.

#### Euro-denominated loans to euro area credit institutions within the framework of monetary policy operations

Asset item A5

(EUR millions)

	2011	2010
Main refinancing operations	6,098	11,955
Longer-term refinancing operations	123,140	20,221
Fine-tuning operations	0	2,800
Structural operations	–	–
Marginal lending facility	–	–
Margin calls paid	–	–
Accrued interest receivable	98	8
<b>TOTAL</b>	<b>129,336</b>	<b>34,984</b>

**Marginal lending facilities** are overnight facilities granted in the form of reverse transactions with the Banque de France counterparties at their request. Interest is paid on these facilities at a rate fixed by the Eurosystem.

**Fine-tuning operations** are executed on an ad-hoc basis with the aim of managing the liquidity situation in the market and steering interest rates. Fine-tuning operations take the form of reverse transactions, or outright foreign exchange swaps or collections of fixed-term deposits. These operations are generally executed by means of quick tenders or bilateral procedures.

#### Euro-denominated liabilities to euro area credit institutions within the framework of monetary policy operations

Liability item P2

(EUR millions)

	2011	2010
<b>Current accounts</b>	<b>53,135</b>	<b>32,878</b>
<b>Remaining liabilities</b>	<b>117,827</b>	<b>11,709</b>
Deposit facilities	51,262	10,959
Fixed-term deposits	66,565	750
Repurchase agreements	–	–
Margin calls received	–	–
<b>Accrued interest payable</b>	<b>39</b>	<b>56</b>
<b>TOTAL</b>	<b>171,001</b>	<b>44,643</b>

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). Holdings of required reserves are remunerated at the average rate of the main refinancing operations over the maintenance period.

**Deposit facilities** enable Banque de France counterparties to make overnight deposits. The interest rate on the deposit facility is set by the Eurosystem and provides a floor for the interbank market rate. The high level of the deposit facility observed at 31 December 2011 can be attributed to the 36-month refinancing operation of 21 December 2011 described above.

**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. The item A6 also includes EUR 18.7 billion in relation to Emergency Liquidity Assistance provided to a domestic credit institution outside the framework of the monetary policy operations of the Eurosystem. The total amount of this loan is backed by collateral.

**Claims in euro issued by non-euro area residents**  
Asset item A4

(EUR millions)

	2011	2010
Securities held until maturity	3,142	2,524
Other claims	6,899	4,318
Accrued interest receivable	72	59
<b>TOTAL</b>	<b>10,113</b>	<b>6,901</b>

**NOTE 6: ASSET ITEM A7 “EURO-DENOMINATED SECURITIES ISSUED BY EURO AREA RESIDENTS”**

**A7.1 “Securities held for monetary policy purposes”**  
Item A7.1 contains securities acquired within the scope of the two covered bond purchase programmes<sup>27</sup> and in the framework of the SMP – Securities Markets Programme.<sup>28</sup>

The amount of covered bond purchases established in the first programme was reached at end-June 2010.

On 6 October 2011, the Governing Council of the ECB decided to launch a second covered bond

purchase programme. It provides for the purchase by NCBs and the ECB of euro-denominated covered bonds issued in the euro area with a view to improving the financing conditions of credit institutions and companies and encourage banks to maintain and step up the customer lending. This programme should be completed by end-October 2012.

Lastly, in the framework of the Securities Markets Programme (SMP), the ECB and the ECBs may purchase debt instruments issued by public or private entities incorporated in the euro area with a view to correcting the severe tensions in certain euro area security market segments and to restoring the proper functioning of the monetary policy transmission mechanisms. The total amount of securities held by Eurosystem NCBs in the framework of the SMP stood at EUR 194,155 million in 2011, compared with EUR 60,873 million in 2010. As regards the share of the Banque de France, it totalled EUR 36,946 million in 2011, against EUR 9,353 million in 2010. 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.

All securities held for monetary policy purposes are fixed-income securities held to maturity and valued at amortised cost; they are subject to impairment tests carried out on the basis of the available information and an estimate of the recoverable amounts at accounts closing date.

In this context, the Governing Council examined the impact for the Eurosystem of the private sector involvement (PSI) programme announced in 2011. This programme proposed a partial restructuring of Greek debt to ensure its long-term sustainability. Part of the securities held by the Eurosystem under the SMP was issued by Greece. However, given that this voluntary exchange programme only covers debt held by the private sector, it will not have an impact on future income

<sup>27</sup> See ECB press releases of 4 June 2009 and of 6 October 2011.

<sup>28</sup> See ECB press release of 10 May 2010.



from the securities held by Eurosystem central banks. Moreover, the Governing Council considered that there was no reason to believe, at 31 December 2011, that this programme would not be successfully implemented. Therefore, no impairment was observed on this portfolio at 31 December 2011.

### Post-balance sheet events

In February 2012, Eurosystem central banks swapped Greek bonds held in their SMP portfolio and, where appropriate in other portfolios, for new Greek bonds. These newly acquired bonds have exactly the same characteristics as the old ones in terms of their nominal amount, interest rate, coupon payment dates and final redemption date. They are not included in the list of assets eligible for Greek debt restructuring conducted under the PSI initiative.

### 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 28). 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)

	2011	2010
<b>A7.1 Securities held for monetary policy purposes</b>	<b>49,732</b>	<b>21,336</b>
Securities of the securities markets programme (SMP)	36,946	9,353
Covered bonds	11,073	11,505
Securities held under the second covered bond purchase programme	737	0
Accrued interest receivable	976	478
<b>A7.2 Other securities</b>	<b>89,562</b>	<b>69,079</b>
Securities held until maturity	68,404	54,260
Other securities	19,784	13,632
Accrued interest receivable	1,374	1,187
<b>TOTAL</b>	<b>139,294</b>	<b>90,415</b>

### 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.

### Claims arising on the transfer of reserve assets to the ECB

Asset item A8.2

(EUR millions)

	2011	2010
Claims arising on the transfer of reserve assets to the ECB	8,192	8,192
Accrued interest receivable	89	71
<b>TOTAL</b>	<b>8,281</b>	<b>8,263</b>

### NOTE 8: CLAIM ON THE EUROSYSTEM FOR EURO BANKNOTES IN CIRCULATION

The intra-ESCB claim arising from the allocation of euro banknotes within the Eurosystem and the liability to the ECB relating to the 8% share of euro banknotes in circulation are shown as a net amount in item A8.3 "Claim on the Eurosystem for euro banknotes in circulation", along with accrued interest receivable as at 31 December 2011. 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 EUROSYSTEM

This item includes any income receivable from the ECB in respect of the distribution of the balance of monetary income (see Note 34 of the profit and loss account) as well as the ECB's interim distribution of profit (see Note 14 on banknotes in circulation.)

In 2011, the ECB Governing Council decided to distribute an interim dividend of EUR 654 million

### Other claims on the Eurosystem

Asset item A 8.4

(EUR millions)

	2011	2010
Other claims on the Eurosystem	334	167
ECB interim dividends	133	0
<b>TOTAL</b>	<b>467</b>	<b>167</b>

to the Eurosystem NCBs (of which EUR 133 million for the Banque de France).

### NOTE 10: ADVANCE TO THE IEDOM

The circulation of banknotes in the overseas departments and the territorial units of St Pierre and Miquelon, Saint Barthélemy and Saint Martin, is managed by the 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)

	2011	2010
Fixed income securities held until maturity <sup>a), b), c)</sup>	71,470	59,706
Other fixed-income securities and variable-yield securities	4,403	4,427
Other operations	24,901	24,218
Accrued interest receivable	190	129
<b>TOTAL OF OTHER EURO- AND FOREIGN CURRENCY-DENOMINATED FINANCIAL ASSETS</b>	<b>100,964</b>	<b>88,480</b>

a) In 2011, 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 57,221 million,

c) Of which EUR 70,819 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)

		2011		2010
	Fixed income securities held until maturity	Other securities	Total	Total
Fixed-income securities				
Government securities	71,003		71,003	59,483
Securities issued by public bodies	104		104	180
Other issuers	364		364	317
Accrued interest receivable	169		169	121
NET BALANCE SHEET VALUE	71,640		71,640	60,101
Equities and other variable-yield securities				
French and foreign mutual funds		1,347	1,347	1,368
Capitalisation mutual funds		2,780	2,780	2,698
Other variable-yield securities		81	81	87
NET BALANCE SHEET VALUE		4,208	4,208	4,153

### NOTE 12: MISCELLANEOUS

The other accrual accounts that incorporate 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.

### Miscellaneous

Asset item A12

(EUR millions)

	2011	2010
<b>Deferred income, accrued expenses, etc.</b>	<b>818</b>	<b>363</b>
Accrued income	435	339
Prepaid expenses	23	24
Other items	360	—
<b>Miscellaneous</b>	<b>3,800</b>	<b>3,831</b>
<b>TOTAL</b>	<b>4,618</b>	<b>4,194</b>

## Fixed assets

Asset item A8.1 and A13

(EUR millions)

	2011	Increase	Decrease	2010
Participating interest in the ECB (gross value)	1,293	237	–	1,056
FX translation difference on participating interest in the ECB	6			6
Participating interest in the ECB (balance sheet value)	1,299			1,062
Non-ECB participating interest (gross value)	405			405
Intangible fixed assets (gross value)	516	132	64	448
Amortisation	308	60	3	251
Net value of intangible fixed assets	208	72	61	197
Tangible fixed assets (gross value)	2,180	331	282	2,130
Depreciation and provisions	1,496	84	51	1,462
Net value of tangible fixed assets	684	247	231	668
<b>Total tangible and intangible fixed assets (net value)</b>	<b>892</b>	<b>319</b>	<b>292</b>	<b>865</b>

Note: Increases and decreases also include transfers between fixed asset accounts.

## Information relating to subsidiaries and participating interests at 31 December 2011

Asset item A8.1 and A13.2

(EUR millions, part in %)

	Asset item	Listed	Share capital held	2011 Share-holders' equity	2011 profit/loss equity	2011 book value
European Central Bank <sup>a)</sup>	A 8.1	No	20.32	37,217	728	1,299
Bank for International Settlements	A 13.2	No	9.16	19,589	968	405
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

a) 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.

### 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 stand at EUR 10,760,652,402.58. The Eurosystem NCBs will pay their additional capital contribution in three equal annual instalments as of 2010 (EUR 237 million for France). The second instalment was made on 29 December 2011 and the last will be made at end-2012.

Consequently, the subscribed and paid-up capital of the Banque de France in the ECB have changed as follows:

#### Subscribed capital and paid-up capital

(euros)

Subscribed capital since 29 December 2010	1,530,293,899.48
Paid-up capital at 31 December 2010	1,056,253,899.48
Paid-up capital at 1 January 2011	1,056,253,899.48
Paid-up capital as of 28 December 2011	1,293,273,899.48

The share in the capital of the ECB recorded on the asset side of the balance sheet corresponds to the net amount of the subscribed and paid-up capital (subscription minus the unpaid capital subscription).

Pursuant to 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. This resulted in a change in the Banque de France's share in the capital key of the ECB, determined solely on the basis of the participating interests of the euro area NCBs. In particular, this is the key used to establish the allocation of monetary income and dividends by the ECB. At 1 January 2011 the Banque de France's share in the capital key of the ECB stood at 20.3246% (compared with 20.3767% previously).

**Share of the Banque de France  
in the capital of the ECB**

(%)

To December 2003	16.8337
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 17 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 business day of each month in accordance with the banknote allocation key.<sup>29</sup>

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,<sup>30</sup> *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 period<sup>31</sup> 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 reduce 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, for Slovakia on 1 January 2014 and Estonia on 01 January 2017.

Interest income and expense on these balances are cleared through the accounts of the ECB and included in item 1.1 "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,<sup>32</sup> as well as the income generated on the securities that it holds under the Securities Markets Programme, 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. This income is distributed in full unless the ECB's net profit is less than it. The Governing Council may also decide to reduce the redistribution of seigniorage income by the amount of the costs incurred by the ECB arising on the issuance and storage of euro banknotes. Lastly, the Governing Council may decide to transfer all or part of this income to a provision for foreign exchange rate, interest rate and gold price risks (see Note 33).

French franc banknotes, which ceased to be legal tender on 17 February 2002, may still be exchanged

<sup>29</sup> ECB decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15).

<sup>30</sup> 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.

<sup>31</sup> 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.

<sup>32</sup> 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.

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).

**NOTE 15: EURO-DENOMINATED LIABILITIES  
TO NON-EURO AREA RESIDENTS**

<b>Euro-denominated liabilities to non-euro area residents</b> Liability item P4 (EUR millions)		
	2011	2010
Euro-denominated liabilities to non-euro area residents	18,684	20,017
Accrued interest payable	15	25
<b>TOTAL</b>	<b>18,699</b>	<b>20,042</b>

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 28).

**NOTE 16: EURO-DENOMINATED LIABILITIES TO THE EUROSISTEM**

<b>Euro-denominated liabilities to the Eurosystem</b> Liability item P7 (EUR millions)		
	2011	2010
Euro-denominated liabilities to the Eurosystem	77,424	28,349
Accrued interest payable	91	14
<b>TOTAL</b>	<b>77,515</b>	<b>28,363</b>

Euro-denominated liabilities to the Eurosystem comprise France’s net debt arising on cross-border transfers via TARGET2 with other NCBs in the ESCB.

These liabilities, which increased sharply in 2011, also include non-interest bearing debt of EUR 24,613 million vis-à-vis the ECB arising from foreign exchange swaps entered into with the latter in the framework of the dollar-denominated

temporary Term Auction Facility (see Notes 2 and 29).

**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 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 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).

<b>Euro-denominated liabilities to other euro area residents</b> Liability item P8 (EUR millions)		
	2011	2010
Liabilities vis-à-vis the State	8,938	1,487
Other liabilities	4,211	4,014
Accrued interest payable	2	3
<b>TOTAL</b>	<b>13,151</b>	<b>5,504</b>

**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)

	2011	2010
Overnight deposits	19,834	14,241
Other banking transactions	98,722	77,279
Accrued interest payable	368	298
<b>TOTAL</b>	<b>118,924</b>	<b>91,818</b>

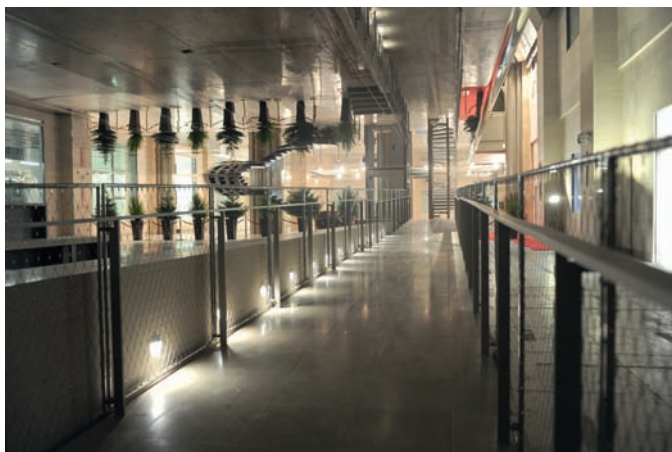
For the record, euro-denominated deposits made by institutional customers (other than monetary and financial institutions) and private customers are recorded in liability item P8.2.

### NOTE 20: MISCELLANEOUS

In 2011, this item includes mainly:

- the capital of the Banque de France Employee Reserve Fund (see Note 30);
- French franc banknotes still in circulation (see Note 14).

In 2011 this item incorporated the revaluation impact of off-balance sheet foreign exchange positions held in relation to retail banking operations and foreign exchange management. 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)

	2011	2010
Deferred income, accrued expenses, etc.	393	735
<i>Accrued expenses</i>	<i>393</i>	<i>351</i>
<i>Deferred income, etc.</i>	<i>0</i>	<i>384</i>
French franc banknotes in circulation	567	602
Miscellaneous	4,036	6,253
<b>TOTAL</b>	<b>4,996</b>	<b>7,590</b>

### 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 for working employees (death benefits, long-service medals, end-of-career leave, extended sick leave, pensions for industrial injuries, unemployment benefits);
- provisions to cover various social obligations granted to retired employees (death benefits, complementary health funds, etc.) that are not funded by the pension scheme;
- the other provisions include notably provisions for major repairs.

Pursuant to Article 32.4 of the ESCB Statutes, the provision for counterparty risk relating to monetary policy operations is distributed among the NCBs of the Eurosystem in proportion to their respective paid-up shares in the ECB’s capital as at the date when the default occurred. Pursuant to the general prudence principle, the Governing Council has re-examined the amount of this

provision, initially established in 2008, and decided to bring it from EUR 2,207 million at end-2010 to EUR 949 million at end-2011. The Banque de France's share in this provision at 31 December 2011 stood at EUR 196 million. This has led to a reversal of provisions of EUR 260 million, which impacts the item 1.5 "Net result of pooling of monetary income" in the profit and loss account (see Note 34).

Moreover, the allocation of EUR 40 million to the provision covering the Bank's commitment to fund a portion of the complementary health plan for pensioners mainly arises from the increase in the contribution to the mutual insurance company and from a new tax on provident contributions of 8%, applicable as of 1 January 2011.

#### Provisions for liabilities and charges

Liability item P12

(EUR millions)

	2011	Increase	Decrease	2010
Provisions for restructuring	115		8	123
Provisions for changing the age pyramid	23		0	23
Provisions for retirement benefits	158	1		157
Provisions for the complementary health plan	252	40		212
Other miscellaneous provisions in relation to current employees	90	8	1	83
Other miscellaneous provisions in relation to retired employees	158		1	159
Provisions relative to monetary policy operations	196		260	456
Other	23	17	2	8
<b>TOTAL</b>	<b>1,015</b>	<b>66</b>	<b>272</b>	<b>1,221</b>

#### NOTE 22: REVALUATION ACCOUNTS

Gold and foreign exchange assets and liabilities are revalued at the reference prices indicated by the ECB on 31 December 2011. The unrealised gain on gold was calculated using a price of EUR 37,848.7 per kilogram of fine gold, compared with EUR 33,932 at end-2010.

The revaluation rates used at 31 December 2011 for the main currencies held were the following:

- 1 euro = 1.2939 US dollars (compared with 1.3362 at end-2010);
- 1 euro = 0.8427 SDRs (compared with 0.8641 at end-2010).

#### Revaluation accounts

Liability item P13

(EUR millions)

	2011	2010
Revaluation account – gold	75,937	63,296
Revaluation account – foreign exchange	5,047	3,871
Revaluation account – securities	725	787
Revaluation account – forward financial instruments	0	7
<b>TOTAL</b>	<b>81,709</b>	<b>67,961</b>

#### NOTE 23: FUND FOR GENERAL RISKS (FRG)

This fund for general risks (FRG) 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.

The FRG is intended to cover all possible risks to which the Bank is exposed in the framework of its activities, except for the foreign exchange risk incurred on gold and foreign exchange reserves, which is covered by the relevant revaluation accounts and by the RRRODE (see paragraph on valuation methods). The amount of the FRG is reviewed each year on the basis of the volume of outstanding operations at the account closing date and an analysis of the attendant risks, based notably on past losses or stress tests. In order to calculate corporate income tax, the allocation to the FRG is not a deductible expense and vice versa the reversal of the FRG is not subject to tax.

The 2012 allocation can mainly be attributed to the rise in the volume of monetary policy operations and associated risks.

#### NOTE 24: REVALUATION RESERVE OF STATE GOLD

##### AND FOREIGN EXCHANGE RESERVES

See the notes on the RRRODE in the section describing the valuation methods.

#### NOTE 25: CAPITAL, RESERVES AND RETAINED EARNINGS

Decree 2011-256 of 9 March 2011 raised the Banque de France's capital to EUR 1 billion through the incorporation into the capital of EUR 457,347,051.71 taken from the specific reserve fund and of EUR 85,305,896.58, taken from the general reserve fund.

##### Capital, reserves and retained earnings

Liability item P17

(EUR millions)

	2011	2010
<b>Capital</b>	<b>1,000</b>	<b>457</b>
<b>Reserves</b>	<b>4,706</b>	<b>4,342</b>
Statutory reserves	128	457
Long-term capital gains	100	100
Special pension reserve fund (see Note 30)	1,472	1,244
Other reserves <sup>a)</sup>	3,006	2,540
<b>Retained earnings</b>	<b>126</b>	<b>155</b>
<b>TOTAL</b>	<b>5,832</b>	<b>4,954</b>

*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 26: SECURITIES COMMITMENTS

##### Securities commitments

(EUR millions)

	2011	2010
Securities to be received	592	543
Securities to be delivered	–	–

#### NOTE 27: INTEREST RATE FUTURES CONTRACTS

##### Notional amount of financial futures contracts

(EUR millions)

	2011	2010
<b>Outright transactions organised markets</b>		
Interest rate contracts denominated in foreign currency		
Purchases	28,495	16,087
Sales	40,052	31,029
Interest rate contracts denominated in euro		
Purchases	14,917	10,895
Sales	17,395	20,425
<b>Over-the-counter markets</b>		
Interest rate swaps denominated in foreign currency	768	3,037
Interest rate swaps denominated in euro	–	–

#### NOTE 28: 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 ANC (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 and the ECB (see Note 2).

##### Amounts of foreign currency receivable and deliverable in respect of transactions carried out with customers

(EUR millions)

	2011	2010
<b>Euro to be received against foreign currency to be delivered</b>		
Foreign currency to be delivered	2,149	4,879
Euro to be received	2,231	5,011
<b>Foreign currency to be received against euro to be delivered</b>		
Foreign currency to be received	39,852	37,270
Euro to be delivered	38,341	36,763
<b>Foreign currency to be received against foreign currency to be delivered</b>	<b>77,382</b>	<b>62,802</b>
<b>Foreign currency to be delivered against foreign currency to be received</b>	<b>77,128</b>	<b>65,144</b>

**NOTE 29: 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 on 4 October 2009 to grant a special drawing right (SDR) loan for a maximum 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 and the repayment schedule will also be denominated in SDRs.

A first drawdown on the Banque de France was made in 2011 of SDR 194 million (EUR 230 million).

Moreover, in 2010, the Banque de France had a bilateral loan financing commitment of EUR 11.060 billion. The financing commitment was merged with that of the New Arrangements to Borrow (NAB), signed by France on 4 April 2011. Since that date, all bilateral loans come under the NAB. The total amount of the credit line that the IMF can draw on is taken off the balance sheet and now stands at SDR 18,657 million. At 31 December 2011, total loans granted stood at SDR 1,145 million (EUR 1,313 million), with the balance of the financing commitment totalling EUR 21.158 billion (SDR 17.846 billion).

**NOTE 30: 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 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".

## Pension liabilities and funding

(EUR millions)

Liabilities			Funding		
	2011	2010		2011	2010
Liabilities in respect of the special retirement scheme	9,834	9,845	Funding	5,244	4,886
o/w to current workforce	4,052	4,284	o/w Employee Reserve Fund	3,772	3,642
o/w to retirees	5,783	5,561	o/w Special Reserve Fund	1,472	1,244
Liabilities in respect of the additional seniority granted as part of restructuring plans	121	121	Provisions	121	121
<b>Total gross liabilities</b>	<b>9,955</b>	<b>9,966</b>	<b>Total funding</b>	<b>5,365</b>	<b>5,007</b>
<b>NET LIABILITIES</b>	<b>4,590</b>	<b>4,959</b>			

In addition, as part of the restructuring programmes implemented since 1999 (“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), 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 A11. 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 assumptions concerning future career and salary developments.

For the calculation of pension liabilities as at 31 December 2011, 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 has progressively been put in place from 1 January 2009 and applies to employees who start drawing their pension with a greater/smaller number of quarters than that required to obtain a full pension.

With the new reform that should come into force on 1 January 2016, the retirement age will be raised to 62 and the pension age to 67.

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 2011, as in previous years, a discount rate of 4.5% was applied.



## Profit and Loss Account

### NOTE 31: NET INTEREST INCOME

#### Net interest income

Profit and loss item 1.1

(EUR millions)

	2011	2010
Interest on foreign exchange assets	1,009	964
<i>o/w: Interest on held-to-maturity securities</i>	516	460
Interest on claims on the IMF	60	40
Interest on euro-denominated claims on non-residents	—	—
Interest on lending to credit institutions	750	802
Interest on euro-denominated securities	4,288	3,037
<i>o/w: Interest on held-to-maturity securities</i>	2,978	2,471
<i>o/w: Interest on securities held for monetary policy purposes</i>	1310	566
Interest on claims arising on the transfer of reserve assets to the ECB	88	70
Interest on net claims on the Eurosystem <sup>a)</sup>	0	0
Interest on the net euro banknote position	950	756
Total of other euro- and foreign currency denominated financial assets	1,733	1,080
<i>o/w: Interest on available-for-sale securities</i>	0	0
<i>Interest on held-to-maturity securities</i>	366	282
<i>Other interest</i>	1367	798
<b>Total interest and related income (1)</b>	<b>8,878</b>	<b>6,749</b>
Interest on euro-denominated liabilities to monetary financial institutions in the euro area	-711	-532
<i>o/w: Interest paid on minimum reserves</i>	-517	-406
Interest on euro-denominated liabilities to non-euro area residents	-953	-719
Interest on foreign exchange liabilities	-62	-41
Interest on counterpart to SDR allocations	-45	-34
Interest on net claims on the Eurosystem <sup>a)</sup>	-578	-363
Interest paid on the Treasury account	-6	-16
Other interest	-307	-143
<b>Total interest and related expenses (2)</b>	<b>-2,663</b>	<b>-1,848</b>
<b>NET INTEREST INCOME (3 = 1 + 2)</b>	<b>6,216</b>	<b>4,901</b>

a) Interest on the Banque de France's net position within the TARGET system (see Notes 9 and 16).

### NOTE 32: NET INCOME/LOSS ON FINANCIAL TRANSACTIONS

In 2011, the net balance of realised gold and foreign exchange gains and losses and unrealised foreign exchange losses was a gain of EUR 47 million.

In accordance with the agreement of 2 February 2011 between the State and the Banque de France on the management of accounting of State foreign exchange reserves, the realised gains on gold and on foreign exchange amounting to EUR 47 million were allocated to the RRRODE, 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)

	2011	2010
Net gain/loss on foreign currency denominated securities <sup>a), b), c)</sup>	36	-2
Net gain/loss on euro-denominated securities included in item A7 <sup>b), c)</sup>	-117	14
Net gain/loss on available-for-sale securities included in item A11 <sup>b)</sup>	18	—
Net foreign exchange gain/loss (excluding foreign exchange reserve management)	16	18
<b>TOTAL</b>	<b>-48</b>	<b>30</b>

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 33: INCOME FROM EQUITY SECURITIES  
AND PARTICIPATING INTERESTS**

For 2010, the Governing Council decided to retain all the ECB's seigniorage income as well as income on securities under the Securities Markets Programme and not to distribute them in the form of an interim distribution of profit so as to increase the amount of the provision for foreign exchange risk, interest rate risk, credit risk and gold price risk. Furthermore, in 2010, the Banque de France received a dividend of EUR 299 million from the ECB.

For 2011, the Governing Council decided to raise the provision for foreign exchange rate, interest rate, credit and gold price risks to its maximum allowed ceiling. The ECB made an interim profit distribution of EUR 654 million, of which EUR 133 million to the Banque de France. Moreover, in 2011, it distributed another dividend of EUR 171 millions, of which EUR 35 million to the Banque de France.

**Income from equity shares and participating interests**  
Profit and loss item 1.4

(EUR millions)

	2011	2010
ECB dividend	167	299
Dividends from other participating interests	44	50
Dividends from available-for-sale securities	11	12
Other income	0	0
<b>TOTAL</b>	<b>222</b>	<b>361</b>

**NOTE 34: NET RESULT OF POOLING OF MONETARY INCOME**

This item includes the net result of pooling of monetary income for 2011, totalling EUR 334 million compared with an income of EUR 167 million in 2010, and the Banque de France's share in the reversal of provision for counterparty risk in relation to Eurosystem monetary policy operations amounting to EUR 260 million, against a reversal of EUR 372 million in 2010 (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 lending to euro area credit institutions in the framework of monetary policy operations; securities held for monetary policy purposes, 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 main refinancing operations.

The monetary income pooled by the Eurosystem is allocated between NCBs according to their share in the ECB's capital. The difference between the monetary income pooled by the Banque de France (EUR 2,862 million) and that reallocated to the Bank (EUR 3,196 million) constitutes the net result arising from the calculation of monetary income recorded in profit and loss item 1.5.

**NOTE 35: NET OF OTHER INCOME AND EXPENSES**

The *Autorité de contrôle prudentiel* (ACP – Prudential Supervisory Authority), established

**Net of other income and expenses**  
Profit and loss item 1.6

(EUR millions)

	2011	2010
Remuneration for services rendered to the State	317	152
Payments for ACP's supervisory expenses	162	162
Other income <sup>a)</sup>	292	283
<b>Total other income (1)</b>	<b>771</b>	<b>597</b>
<b>Total other expenses (2)</b>	<b>-8</b>	<b>-10</b>
<b>NET OF OTHER INCOME AND EXPENSES (3 = 1 + 2)</b>	<b>763</b>	<b>587</b>

<sup>a)</sup> This item notably includes fees charged for use of the databases managed by the Banque de France (FNCL, FICP, FCC, FIBEN).

by Order 2010-76 of 21 January 2010 merging the certification and supervisory authorities of the banking and insurance sectors, is a financially autonomous, independent administrative authority without legal personality. 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 recognised in the accounts of the Banque de France. Expenses are booked as operating expenses according to their nature and income consists of levies raised from the organisations under the supervision of the ACP. In 2011 like in 2010, levies for supervisory expenses generated EUR 162 million, recorded in profit and loss account item 1.6 "Net of other income and expenses".

Services provided by the Banque de France to the State are henceforth remunerated at full cost whereas up to 2010 they were based solely on direct costs.



#### NOTE 36: PERSONNEL AND RELATED EXPENSES

##### Personnel and related expenses

Profit and loss item 2.1

(EUR millions)

	2011	2010
Salaries, wages and related taxes	-784	-771
Social security expenses	-187	-183
Retirement expenses	-428	-411
Profit-sharing and incentive plans	-33	-33
<b>TOTAL PERSONNEL EXPENSES</b>	<b>-1,432</b>	<b>-1,398</b>

#### NOTE 37: CORPORATE INCOME TAX

According to 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 L.144-4 of the *Monetary and Financial Code* and the agreement in Article L.141-2 of the said Code.

These new provisions have been in force since 1 January 2007.

##### Corporate income tax

Profit and loss item 5

(EUR millions)

	2011	2010
Income taxes for the year	2,014	1,563
on recurring income	2,014	1,563
on exceptional items	–	–

The 2011 supplementary budget act called for an exceptional contribution to corporate income tax amounting to 5% of corporate income tax under ordinary law. In principle, this contribution is temporary since it only applies to years ending between 31 December 2011 and 30 December 2013.

#### Other information

##### Remuneration of management bodies

(EUR millions)

	2011	2010
Total remuneration paid to management bodies	3	3

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

This is a free translation into English of the statutory auditors' report on the financial statements issued in French and it is provided solely for the convenience of English speaking users.

The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing

the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.

This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

### Mazars

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### Deloitte & associés

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## AUDITORS' REPORT ON THE ANNUAL ACCOUNTS

*Year ended 31 December 2011*

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 2011 on:

- our audit of the annual accounts of the Banque de France, as annexed to this report;
- the basis for our opinion;
- the specific procedures required by Article R144-8 of the *Monetary and Financial Code*.

The annual accounts have been approved 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 professional standards applicable in France; these standards require that we plan and perform the audit in such a way as to obtain reasonable assurance that the annual accounts are free from material misstatement. An audit includes examining, on a test basis or via other selection methods, evidence supporting the figures and disclosures in the annual accounts. It also includes assessing the accounting principles used and significant estimates made as well as evaluating the overall presentation of the financial statements. We believe that the information we have collected provides a reasonable basis for our opinion.

In our opinion, the annual accounts of the Banque de France give a true and fair view of the results of its operations for the year ending 31 December 2011 and of its financial position and assets and liabilities at that date. These accounts have been drawn up 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 prejudice to our opinion, we draw your attention to the following points:

- the introduction to the Notes to the annual accounts describes the accounting principles and presentation applicable to the Bank, some of which are specific to the European System of Central Banks (ESCB);
- the accounting treatment of the exposure to Greek debt described in Note 6 of the Notes to the annual accounts;
- the fact that the General Council has determined the level of detail of the financial information published in accordance with its right provided for in Article R144-6 of the *Monetary and Financial Code*.

## 2| Basis for our assessments

The accounting estimates used in the preparation of the financial statements for the year ending 31 December 2011 were drawn up in a particularly uncertain context related to the public debt crises in certain euro area countries (in particular Greece) accompanied by an economic crisis and a liquidity crisis. This context made all assumptions regarding the economic outlook particularly difficult. It is in this context that, as required by Article L. 823-9 of the *Commercial Code* relating to the basis for our assessments, we draw your attention to the following:

- the Banque de France 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 checking the data and assumptions on which these estimates are based, reviewing calculations and controls conducted by the Banque de France or at the ESCB level, comparing the accounting estimates for previous periods with the corresponding actual figures and examining the procedures in place for the validation of these estimates by the Bank's management. These elements formed the basis of our assessment of the reasonableness of these estimates.
- Note 30 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 30 to the financial statements provides appropriate information. We conducted 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

We have 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, 13 April 2012  
The Auditors

**Mazars**  
Patrick de Cambourg  
Max Dongar

**Deloitte & associés**  
José-Luis Garcia



### 3| COMBINED ACCOUNTS

#### 3|1 The combined balance sheet and profit and loss account

##### Combined balance sheet at 31 december 2010

(EUR millions) <sup>a)</sup>

Notes to combined annual accounts	Item	Description	2011	2010
<b>ASSETS</b>				
	A1	Gold	95,282	82,640
	A2	Foreign exchange assets (excl. relations with the IMF)	67,725	43,548
		2.1 Foreign exchange assets held with non-euro area residents	23,116	31,608
		2.2 Foreign exchange assets held with euro area residents	44,613	11,940
	A3	Relations with the IMF	17,604	14,732
		3.1 Financing provided to the IMF	6,026	3,453
		3.2 Acquisitions of Special Drawing Rights	11,577	11,278
	A4	Euro-denominated claims on non-euro area residents	10,113	6,901
	A5	Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations	129,336	34,984
	A6	Other euro-denominated loans to euro area credit institutions	51,421	24,716
	A7	Euro-denominated securities issued by euro area credit institutions	139,294	90,415
		7.1 Securities held for monetary policy purposes	48,756	21,336
		7.2 Other securities	90,538	69,079
	A8	Relations within the Eurosystem	87,622	85,998
		8.1 Participating interest in the ECB	1,299	1,062
		8.2 Claims arising on the transfer of reserve assets to the ECB	8,281	8,263
		8.3 Claim on the Eurosystem for euro banknotes in circulation	77,576	76,506
		8.4 Other claims on the Eurosystem	467	167
2	A9	Claims on the French Treasury in respect of coins	0	0
	A10	Other euro and foreign currency denominated financial assets	100,967	88,482
1	A11	Miscellaneous	6,126	5,606
	A12	Fixed assets	1,333	1,307
		12.1 Tangible and intangible assets	919	893
		12.2 Participating interests (other than interest in the ECB)	414	414
<b>TOTAL ASSETS</b>			<b>706,823</b>	<b>479,329</b>
<b>LIABILITIES</b>				
	P1	Banknotes in circulation	166,160	157,415
	P2	Euro-denominated liabilities to euro area credit institutions in the framework of monetary policy operations	171,001	44,643
		2.1 Current accounts	53,163	32,911
		2.2 Other liabilities	117,838	11,732
	P3	Other euro-denominated liabilities to euro area credit institutions	1,874	1,688
	P4	Euro-denominated liabilities to non-euro area residents	18,699	20,042
	P5	Foreign exchange liabilities	8,901	12,264
	P6	Counterpart to SDR allocations	12,030	11,734
	P7	Relations within the Eurosystem	77,515	28,363
	P8	Euro-denominated liabilities to other euro area residents	10,116	2,609
		8.1 Treasury's account	9,061	1,590
		8.2 Other liabilities	1,055	1,018
2	P9	Items in course of settlement	132	240
	P10	Banking transactions	118,924	91,818
	P11	Miscellaneous	5,005	7,599
	P12	Provisions for liabilities and charges	1,033	1,237
	P13	Revaluation accounts	81,709	67,961
	P14	Fund for general risks	3,810	1,745
	P15	Revaluation reserve of State gold reserves	21,869	21,822
	P16	Revaluation reserve of State foreign exchange reserves		
1	P17	Capital, reserves and retained earnings	6,489	5,611
		17.1 IEDOM capital grant, reserves and retained earnings	141	151
		17.2 Capital, reserves and retained earnings of the Banque de France	6,348	5,460
	P18	Profit for the year	1,556	2,538
<b>TOTAL LIABILITIES</b>			<b>706,823</b>	<b>479,329</b>

a) Each item of the balance sheet and profit and loss account is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise.

## 2011 combined profit and loss account

(EUR millions) <sup>a)</sup>

Notes to combined annual accounts	Item	Description	2011	2010
	1.	<b>Net income on the activities of the Banque de France</b>	<b>7,815</b>	<b>6,492</b>
	1.1	Net interest income	6,276	4,945
	1.1.1	Interest and related income	8,902	6,758
2	1.1.2	Interest and related expenses	-2,625	-1,813
	1.2	Net income/loss on financial transactions	-48	30
	1.2.1	Net balance of realised gains/losses and unrealised losses on foreign exchange	47	260
	1.2.2	Net of charges to/releases from foreign exchange revaluation reserves	-47	-260
	1.2.3	Net of other income and expenses on financial transactions	-48	30
	1.3	Commission	12	15
	1.3.1	Commission (income)	44	44
	1.3.2	Commission (expense)	-32	-29
2	1.4	Income from equity securities and participating interests	199	356
	1.5	Net result of pooling of monetary income	594	540
	1.6	Net of other income and expenses	782	604
	2.	<b>Operating expenses</b>	<b>-2,160</b>	<b>-1,958</b>
	2.1	Personnel and related expenses	-1,451	-1,415
	2.2	Taxes other than income tax	-38	-46
	2.3	Provisions, depreciation and amortisation	-148	-140
	2.4	Other operating expenses	-524	-357
		<b>PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS (1 + 2)</b>	<b>5,655</b>	<b>4,534</b>
	3.	<b>Net charge to the fund for general risks</b>	<b>-2,065</b>	<b>-400</b>
	4.	<b>Extraordinary items</b>	<b>-</b>	<b>-</b>
	4.1	Extraordinary income	-	-
	4.2	Extraordinary charges	-	-
1	5.	<b>Corporate income tax</b>	<b>-2,034</b>	<b>-1,596</b>
		<b>PROFIT FOR THE YEAR (1 + 2 + 3 + 4 + 5)</b>	<b>1,556</b>	<b>2,538</b>

a) Each item of the balance sheet and profit and loss account is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise.

## 3|2 Notes to the combined annual accounts

### Scope of consolidation

#### Undertakings excluded from the consolidation

At 31 December 2011, 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 man, one vote” principle, in compliance with Article 10.2 of the Statute.

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

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

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

It is administered by a supervisory board composed of fifteen 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 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	130	
Other deferred tax relating to securities	15	
Provisions not deductible for tax purposes	289	
Charges deducted for tax purposes but not yet recognised in the accounts	7	
Other recurring timing differences		33
<b>TOTAL</b>	<b>441</b>	<b>53</b>

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

- the tax charge for the year, which in 2011 is EUR 19 million higher than in the individual annual accounts;
- item P17 "Capital, reserves and retained earnings", which includes the balance of EUR 407 million, representing the net deferred tax asset at the start of 2011.

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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## AUDITORS' REPORT ON THE COMBINED ANNUAL ACCOUNTS

Year ended 31 December 2011

In accordance with the assignment entrusted to us by the Banque de France's 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 2011.

The combined annual accounts have been approved 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 professional standards applicable in France. These standards require that we plan and perform the audit in such a way as to obtain reasonable assurance that the combined financial statements are free from material misstatement. An audit includes examining, on a test basis or via other selection methods, evidence supporting the figures 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 combined results of the operations of the Banque de France and of the IEDOM for the year to 31 December 2011 and project an accurate representation of their financial position and assets and liabilities at that date. These accounts have been drawn up 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 prejudice to this opinion, we should draw your attention to the following points:

- a) The primary impact of presenting the combined annual accounts of the Banque de France and the IEDOM has been the elimination of the reciprocal operations and the recognition of deferred taxes. These impacts are described in the summary Notes to the combined annual accounts. With the exception of impact on deferred taxes described in the Notes to the combined annual accounts, the combination of the annual accounts has not materially affected the overall annual accounts of the Banque de France.

b) The introduction to the Notes to the annual accounts and the Notes to the combined annual accounts provide a detailed description of the accounting principles and presentation applied to the combined annual accounts, a number of which are specific to the ESCB.

c) The accounting treatment of the exposure to Greek debt described in Note 6 of the Notes to the annual accounts.

d) As explained in the Notes to the annual accounts, the General Council of the Banque de France has determined the level of detail of the financial information published, in accordance with its right under Article R144-6 of the *Monetary and Financial Code*.

e) For the reasons described in paragraph a) above, there is no specific comment relating to the combination of the Banque de France and the IEDOM annual accounts in the Report on the Bank's assets, liabilities and results.

## 2| Basis for our assessments

The accounting estimates used in the preparation of the financial statements for the year ending 31 December 2011 were drawn up in a particularly uncertain context related to the public debt crises in certain euro area countries (in particular Greece) accompanied by an economic crisis and a liquidity crisis. This context made all assumptions regarding the economic outlook particularly difficult. It is in this context that, as required by Article L. 823-9 of the *Commercial Code* relating to the basis for our assessments, we draw your attention to the following:

- the Banque de France 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 checking the data and assumptions on which these estimates are based, reviewing calculations and controls conducted by the Banque de France or at the ESCB level, comparing the accounting estimates for previous periods with the corresponding actual figures and examining the procedures in place for the validation of these estimates by the Bank's management. These elements formed the basis of our assessment of the reasonableness of these estimates;
- Note 30 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 inherent assumptions, checking the calculations and verifying that Note 30 to the financial statements provides appropriate information. We conducted an assessment of the reasonableness of these estimates;
- as indicated in Note 1 of the Notes to the combined accounts, the Banque de France posted a net deferred tax asset of EUR 388 million as at 31 December 2011. The Bank believes that profits earned in future periods will enable this asset to be recovered. As part of our assessment, we reviewed documentation provided by the Banque de France in support of this position and were satisfied as to its reasonableness.

Our assessments of these elements were made within the context of our audit 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, 13 April 2012  
The Auditors

**Mazars**  
Patrick de Cambourg  
Max Dongar

**Deloitte & associés**  
José-Luis Garcia







# Appendix 1

## SUMMARY OF THE HOUSEHOLD DEBT COMMISSIONS' ACTIVITY REPORTS IN 2011

This summary of the Household Debt Commissions' reports in 2011 has been drawn up in accordance with the provisions of Article L.331-12 of the French *Consumer Code*. It is presented below.

### An annual activity report

In accordance with the provisions of Article L.331-12 of the French *Consumer Code*, each Commission draws up an annual activity report on the number of cases handled, the resolutions administered, the type of debt involved and difficulties encountered. These reports are communicated to the Banque de France, which is responsible for summarising them in its annual report. This new procedure was introduced in 2011, the first full year of application of the recent reform of the Consumer Credit Act of 1 July 2010.<sup>1</sup>

<sup>1</sup> The provisions relating to over-indebtedness came into force on 1 November 2010.

### A completely overhauled procedure, and an increase in the number of applications presented to the Commissions

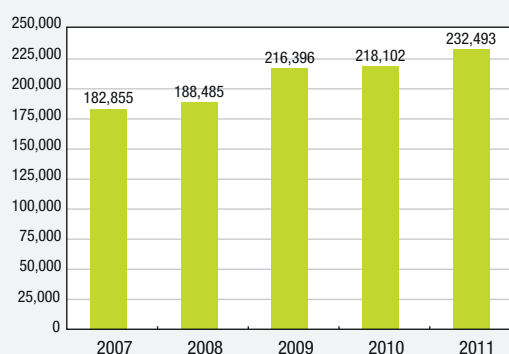
During 2011, the Household Debt Commissions received a total of 232,493 applications for assistance with over-indebtedness, representing a 6.6% progression compared with 2010. This rise followed an almost flat trend in 2010 (+0.8 %) and a sharp increase in 2009 (+14.8%).

The bulk of this increase was recorded in the first half of 2011, with the number of applications in the second semester returning close to the previous year's average.

In 2011, the Commissions and their secretariats therefore had to integrate and implement the new legislative provisions whilst handling a higher volume of applications. The Commissions increased the frequency of their meetings and in 2010 and 2011, the Banque de France, which provides secretariat services for the Commissions, committed substantial resources to the implementation of the provisions of the new law and to the processing of the different types of applications within appropriate timeframes. The maximum timeframe of three months for Commissions to reject or accept (and, in the latter case, decide which type of resolution is the most appropriate, hereinafter referred to as "orientation") the applications was respected in almost all cases thanks to the efforts of the Commissions and their secretariats, despite the increased inflow of applications observed in early 2011.<sup>1</sup>

Pursuing the initiatives launched in late 2010, the Secretariats stepped up their communication and consultation efforts with social workers and associations, particularly with regard to the effects of eligibility (i.e. the consequences of a Commission's decision to accept an application for assistance), the closing statement of total liabilities, the new maximum timeframes for measures, the Commissions' capacity to impose measures and/or to recommend a personal recovery procedure without judicial liquidation (one of the Commissions' options).

Applications filed with the Commissions



<sup>1</sup> The dossiers that took more than three months to orient (a very small percentage of the total) were in most cases due to requests for further information by the Commission, leading to a breach of the 3-month limit by only several days.

## How the new law will be applied: a harmonisation of practices and the drive for greater efficiency

The Commissions have optimised their practices in accordance with the guidelines defined by the Ministerial Circular of 29 August 2011. The latter requires the Commissions to work on the basis of harmonised principles in order to limit any discrepancies in application eligibility, orientation or resolution. The harmonisation work performed over the last two years by the Commissions and the Banque de France has already generated a reduction of the observed disparities in several procedural areas.

### The Ministerial Circular of 29 August 2011

This Circular, issued jointly by the Ministry of the Economy, Finance and Industry and the Ministry of the Budget, Public Accounts and State Reform, reiterates the objectives of the reform:

- to accelerate the procedure and make it more effective, in order to better assist over-indebted persons;
- to promote the implementation of appropriate and durable solutions and to avoid cases of successive filings of requests for assistance ("re-files") and the accumulation of provisional or suspended measures;
- to ensure the protection of over-indebted persons throughout the procedure and during the implementation of the resolution measures;
- to strengthen the homogeneity and coherence of the way situations of over-indebtedness are managed in order to enhance the overall equity of the service, without detracting from its capacity to take into account individual situations.

A model of the internal regulations for the Commissions was also annexed to the Circular.

To enhance their efficiency, the Commissions have also intensified their cooperation with the different public bodies.

### Better cooperation with public services

This initiative has notably led to closer collaboration with the CCAPEX (*Commissions de coordination des actions de prévention des expulsions* – Eviction Prevention Coordination Commission), with the *Pôle Emploi* (employment/benefits office) in taking into account the situations of debtors seeking employment (the Commissions not having to duplicate checks conducted by the employment office), and the systematic request to Departmental Public Finance Divisions for information allowing an assessment of debtors' assets and liabilities in the event of a decision to initiate a personal recovery procedure.

In addition, the Commissions have limited their recourse to measures that could possibly lead to "re-files"<sup>2</sup> of applications. In fact, a high proportion of re-files (roughly 40%) occur at the end of the provisional measures implemented in anticipation of a return to better fortune. However, in most cases of re-files, the Commissions find that the debtor's financial situation has changed little compared with their initial situation. Thus the Commissions no longer use suspended measures unless there is a clear outlook for an improvement in the financial situation and, in the event of a re-file at the end of an initial provisional measure, they avoid the imposition of any similar measure.

<sup>2</sup> Re-files are dossiers filed by individuals or households who have already filed dossiers with the Commissions, whatever the outcome of the initial dossier.



## Study of the eligibility and initial stage orientation of applications: adjustments following the commencement of the new law

In keeping with the spirit of a procedure geared towards persons with difficult or fragile financial situations, the examination of the initial applications for assistance focuses primarily on the debtors' declarations. However, analysis of the situations is completed by examination of a number of pieces of documentary evidence<sup>3</sup> and by consultation of information made available by public bodies, particularly for applications oriented towards a personal recovery procedure.<sup>4</sup> The Commissions and the Banque de France are therefore seeking to maintain a balance between the mechanism's accessibility and a necessary degree of discipline in the management of applications.<sup>5</sup>

During 2011, the Commissions declared nearly 80% of the applications they received as eligible, up slightly on previous years, mainly due to the new orientation introduced by the new legislation relating to applications filed by owners of their principal residences. The other applications were either closed (roughly 15% of those filed) because they were incomplete<sup>6</sup> or at the request of the debtors concerned, or were declared ineligible (roughly 7%) for motives such as an insufficient level of indebtedness, an absence of good faith, or a failure to meet the criteria for the procedure.

## Measures implemented: changes

The proportion of eligible applications that were steered towards personal recovery plans with or without judicial liquidation substantially increased (+35%) due firstly to debtors' financial situations, which were characterised by a combination of insolvency and an absence of any medium-term outlook for improvement, and secondly to the Commissions' objective of limiting provisional solutions.

The proportion of amicable resolution plans declined both as a result of the decrease in moratory proposals (see above) and the reduction of the maximum duration of plans from ten to eight years. Consequently, the number of imposed or recommended measures implemented or submitted to the judges by the Commissions at the request of the debtor rose significantly.

**Table 1**  
**Key data for the Commissions' activity**

(in number of applications)

	2011	2010
Applications filed	232,493	218,102
<i>o/w re-files (%)</i>	38.7	39.8
Eligible applications	202,900	182,007
Ineligible applications	14,647	13,622
Steered towards amicable resolution	145,821	139,241
Steered towards personal recovery procedure	65,776	50,119
Recommended for personal recovery without judicial liquidation	57,162	ns
Debtor agrees to personal recovery with judicial liquidation	1,034	ns
Agreed repayment schedules	73,945	86,419
Measures imposed or recommended by the Commissions	57,371	47,559
<i>o/w measures imposed by the Commissions</i>	31,049	ns
<i>o/w measures recommended by the Commissions</i>	26,322	ns
Applications closed	33,357	26,910
Other outcomes ( <i>o/w applications deemed ineligible</i> )	2,131	na

ns = not significant; concerns the types of decisions only existing since 1 November 2010; na = non-available

**Table 2**  
**Structure of the Commissions' decisions**

(as a percentage of total applications handled)

	2011
Proportion of applications closed before orientation or declared ineligible	14.4
Proportion of applications steered towards PRP with JL or having received a recommendation for PRP without JL	24.4
Proportion of applications resolved by agreed repayment schedules	31.0
Proportion of applications under imposed or recommended measures	23.9
Other, including applications closed after orientation or declared ineligible by the judge	6.5

PRP: personal recovery plan  
JL: judicial liquidation

<sup>3</sup> Notably, identity cards and documents justifying income and costs (including rent, bank statements, etc.).

<sup>4</sup> Particularly from the Family Allowance office and from the Departmental Public Finance Bureau.

<sup>5</sup> Certain debtors are assisted by a social worker or an association in the preparation of their dossiers.

<sup>6</sup> Dossiers are only closed after several requests for information sent to the debtor have remained unanswered.



## Difficulties encountered by the commissions

### Effects of eligibility:

#### implementation was generally satisfactory, but could be improved

The qualification of an application as “eligible” has the effect of suspending all debt recovery procedures as well as the payment of debts incurred prior to the date on which the application was classified as “eligible”. This suspension is valid for the entire duration of the procedure and, at the longest, for a non-extendable maximum of twelve months. However, in certain cases, the processing of the application takes longer than this maximum 12 month period due to appeals or requests for verifications of debts launched during the procedure. In such situations, although rare, the debtor may once again face debt collection measures launched by creditors despite the fact that the processing of his/her application is not complete. For this reason, a large number of Commissions suggest that the effects of eligibility be extended until the application processing is terminated, including beyond twelve months where necessary.

### Difficulties relating to housing

A number of Commissions also observed articulation difficulties between certain effects of the procedure and certain legal provisions relating to housing. For example, the personal housing subsidy benefit (*aide personnalisée au logement* or APL) is automatically re-instated by the decision of application eligibility,<sup>7</sup> but in certain cases there is no longer a lease because it has been cancelled before the application has been declared eligible. Another difficulty is that eligibility automatically prohibits the debtor from paying his/her debts, including rent arrears that have been subject to a Social Cohesion Agreement, via which the landlord has agreed to renew the lease provided the tenant pays the rent arrears. This results in delicate situations in which the debtor finds himself/herself once again threatened with eviction. Many of the Commissions suggest an evolution of the legislative framework concerning this problem.

Certain Commissions have pointed out that capping repayments at an amount calculated by reference to the scale of distrainable portions sometimes leads to the unavoidable sale of the principal home, and they recommend that the cap should be exceeded, with the agreement of the debtor, when such action would avoid the sale of the home.<sup>8</sup> Other Commissions have warned that the reduction of the maximum duration of recovery plans to eight years can also lead to the sale of the principal home in certain particular cases of debtors who are owners of their principal home with no mortgage to repay.

### The personal recovery plan (PRP): similar observations from most Commissions and some persistent difficulties relating to interpretation

Some Commissions indicated that different tribunals have differing appreciations of what “irremediably compromised” means in respect of debtors' situations. In most cases, this appears to be related to certain tribunals' refusal to consider the possibility of a PRP in the case of debtors below a certain age, an initial application, or when a distrainable portion has been defined. Differences in interpretation have also been observed regarding the ways in which the duration of previous measures is taken into account when plans are revised or renewed.<sup>9</sup> The number of such cases nevertheless remains low as Commissions and magistrates usually have converging views regarding the origins of situations of over-indebtedness.

<sup>7</sup> Some suggest that eligibility should trigger not just the reinstatement of the personal housing subsidy (APL) but that of all the housing-related personal benefits such as housing benefit (Allocation Logement or AL).

<sup>8</sup> First-time home buyers have no rent to pay but rather a mortgage to repay. Logically therefore, in order to keep their homes, the amount of money entrusted to the debtor(s) for the payment of their household costs should be reduced and the amount earmarked for the repayment of loans should be raised.

<sup>9</sup> Notably, taking into account the debt liability suspension measures that the debtor was granted in the framework of previous cases of over-indebtedness or the orientation of dossiers into PRP resolution when the debtor has already benefited from eight years of successive measures. On these subjects, although the Commissions' position is generally accepted by the tribunal, certain differences of interpretation have been observed. The Commissions would welcome some clarification on these two points.

### A relatively heavy procedure

The Commissions and their secretariats have underscored the relative increase in the cumbersomeness of the part of the procedure that they are responsible for, and particularly the substantial work required in managing the correspondence and acknowledgements of receipt that are a constant part of the procedure. For example, close to 3.5 million recorded delivery letters were sent out by the Commissions in 2011.<sup>10</sup> The Commissions have also observed that the breakdown of the personal recovery plan without judicial liquidation into two distinct decisions, with orientation on the one hand and recommendation on the other – both decisions being open to appeal –, also constitutes an increase in the weight of the procedure for the Commissions.

### Complex and changing situations, some of which need constant supervision and assistance

As regards the situation of over-indebted persons, certain Commissions indicate that numerous applications are filed incomplete, generating a substantial volume of follow-up, reminder and application completion work for the secretariats. Another problem brought to light is the difficulty encountered by certain debtors in implementing the plans agreed under the Commissions' guidance. On this point, the Commissions have underscored that a significant proportion of debtors need some kind of assistance during the first month of the implementation of the agreed measures.

Several reports highlight the difficulty of assessing the very unstable situation of certain debtors, or mention the difficulties of assessing the financial situation of debtors who apply for assistance individually although they are married or live in a couple. Certain reports mention the existence of applications from persons with very clear social disadvantages, for whom the procedure may be of little utility: for example, after benefiting from a personal recovery plan, certain debtors re-apply for assistance, with new debts for current expenses that they are unable to repay. Certain Commissions have suggested that in such cases (currently very few in number)<sup>11</sup> any new PRP should be accompanied by regular visits from a social worker to conduct a social and budgetary supervision of the person or family concerned.

Moreover, certain applications present only very low levels of indebtedness<sup>12</sup> or a very limited room for manoeuvre due to the structural weakness of the available resources, suggesting that a simplified procedure could be a more appropriate way of handling these cases.

### Difficulties encountered with creditors

Although the effects of eligibility are generally applied, certain cases of non-respect of the suspension of debt repayments incurred before eligibility was granted were still being observed in the second half of the year. It has also been mentioned that certain creditors do not systematically warn the entities to whom they have entrusted the recovery of their debts of the eligibility of their clients' applications.

Cases of debts being sold in the middle of the procedure or during the execution of measures have also been highlighted. Such practices are tending to increase and the debtors are often unaware of them. They make applications far more difficult to handle and occasionally lead to the failure of the measures taken.

The procedure has maintained a globally consensual character, with only a small minority of the eligibility decisions being subject to an appeal.<sup>13</sup> Nevertheless, a certain increase has been observed in the number of contested PRP decisions,<sup>14</sup> particularly from lenders, but also from certain public bodies. There have also been

<sup>10</sup> In 2008, the Banque de France implemented a procedure for the exchange of dematerialised correspondence with certain credit institutions and major corporations. We expect to be able to introduce this procedure with other major creditors as of end-2012.

<sup>11</sup> Less than 1% of the applications being processed on the date this summary was drawn up.

<sup>12</sup> 8% of the dossiers concern applicants with debts not exceeding 5,000 euros in debts.

<sup>13</sup> The procedure remains relatively consensual: only approximately 6.5% of the decisions concerning the eligibility and orientation of applications are appealed. This proportion is however closer to 20% in the case of orientations towards a personal recovery plan (PRP).

<sup>14</sup> In this respect, the Commissions have again underscored the fact that the possibility to contest, either separately or cumulatively, the orientation decision and the recommendation to proceed with a PRP without judicial liquidation, has contributed to this increase in appeals.

cases of eviction, bank account closure and disconnection of vital services such as energy and water after the decision to commence a personal recovery plan has been validated by the judge.

A recent provision has excluded from the procedure all debts to social security organisations that are deemed by a judicial decision (or independently by the creditor organisation) to have been incurred fraudulently. However, it has been observed that the notion of fraud is sometimes interpreted differently by the organisations concerned.<sup>15</sup>

A large proportion of the negotiation failures are related to the almost systematic refusal by creditors of proposals carrying a debt cancellation element, which have been more numerous since the reduction of the maximum duration of the measures from ten to eight years. However, very few of these same proposals, when re-presented as imposed or recommended measures, are contested by the same creditors. This sharply increases the duration and the cost of procedures, for an identical final result.

Certain institutional creditors do not respond or respond very late to the proposals transmitted by the Commissions, leading to the failure of negotiations. Some Commissions suggest that after a certain deadline, non-response from such creditors should be interpreted as agreement to the proposals that have been addressed to them. The Commissions have observed recurrent requests from credit institutions to obtain “contact monthly payments”,<sup>16</sup> prohibited by the Ministerial Circular, or very high repayments, systematically equal to or higher than the amount calculated by reference to the scale of distrainable portions.

### Calculation of debts: a complex procedure

A high number of Commissions signalled the necessity to optimise the way debtors' liabilities are totalled. The purpose of this calculation is to stop the accumulation of interest and penalty payments. The calculation is carried out after the creditors have informed the Commission of the amounts of outstanding debts, which they are asked to do within 30 days of receiving notice of a Commission's decision to accept an application (eligibility).

The Commissions have found that creditors continue to calculate interest and late payment penalties for 5 to 7 weeks<sup>17</sup> following the eligibility decision date, although as of that date the debtor is prohibited from settling his debts. Indeed, the Commissions have found cases of charges being added – after receipt of the eligibility decision – for “the transfer to non-performing loans”. In addition, the amounts declared by the creditors to the Commission during this 30 days-period – and which will be used as the basis for a resolution of the debts – are not totally stabilised in the creditors' books since at the time the creditors declare these amounts, the final calculation of the debtor's total liabilities has not yet been made. The result is that certain creditors request a subsequent update of their claim at a later stage in the procedure or during the implementation of measures, occasioning negotiations breakdowns and confusion.

Consequently a large number of Commissions have requested that interest and penalty payments should be frozen as of the eligibility date in order a) to ensure consistency with the debtor's prohibition from settling his debts, b) to allow the Commissions to work on unchanging amounts, and c) to increase the transparency of the total liabilities for all parties involved in the procedure.

Lastly it has been observed that a minority of credit institution declares amounts to the Commissions corresponding not only to the residual capital plus unpaid interest due, but also to total interest and incidentals to become due until the end of the contract, without communicating all the information necessary for the Commissions to pursue the resolution of the case. The Commissions would therefore welcome improvements in these areas.

<sup>15</sup> Sometimes for reasons of late declarations.

<sup>16</sup> Monthly payments of very small sums (less than 10 euros) the principal aim of which is not repayment of the debt but keeping track of the debtor by the creditor. The multiplication of these monthly payments detracts from the repayment of the priority debts (mortgage/rents, arrears, etc.) and their costs (direct debit or transfer fees) is often disproportionately high.

<sup>17</sup> Bearing in mind postal delivery times.

## Types of over-indebtedness

**Table 3**  
**Types of over-indebtedness**

	Share of total debt (as a %)	Average indebtedness (EUR)	Cases concerned (as a %)	Average number of debts
Financial debts	83.6	32,500	94.7	5.5
Current expenses debt	8.9	4,300	76.6	3.7
Other debts	7.5	5,500	50.8	2.3
Overall indebtedness	100.0	36,800	100.0	9.3

*Note: Average number of debts and average indebtedness per case, in the cases where such debts are present.*

*Source: Banque de France, over-indebtedness barometer, 4<sup>th</sup> quarter 2011.*

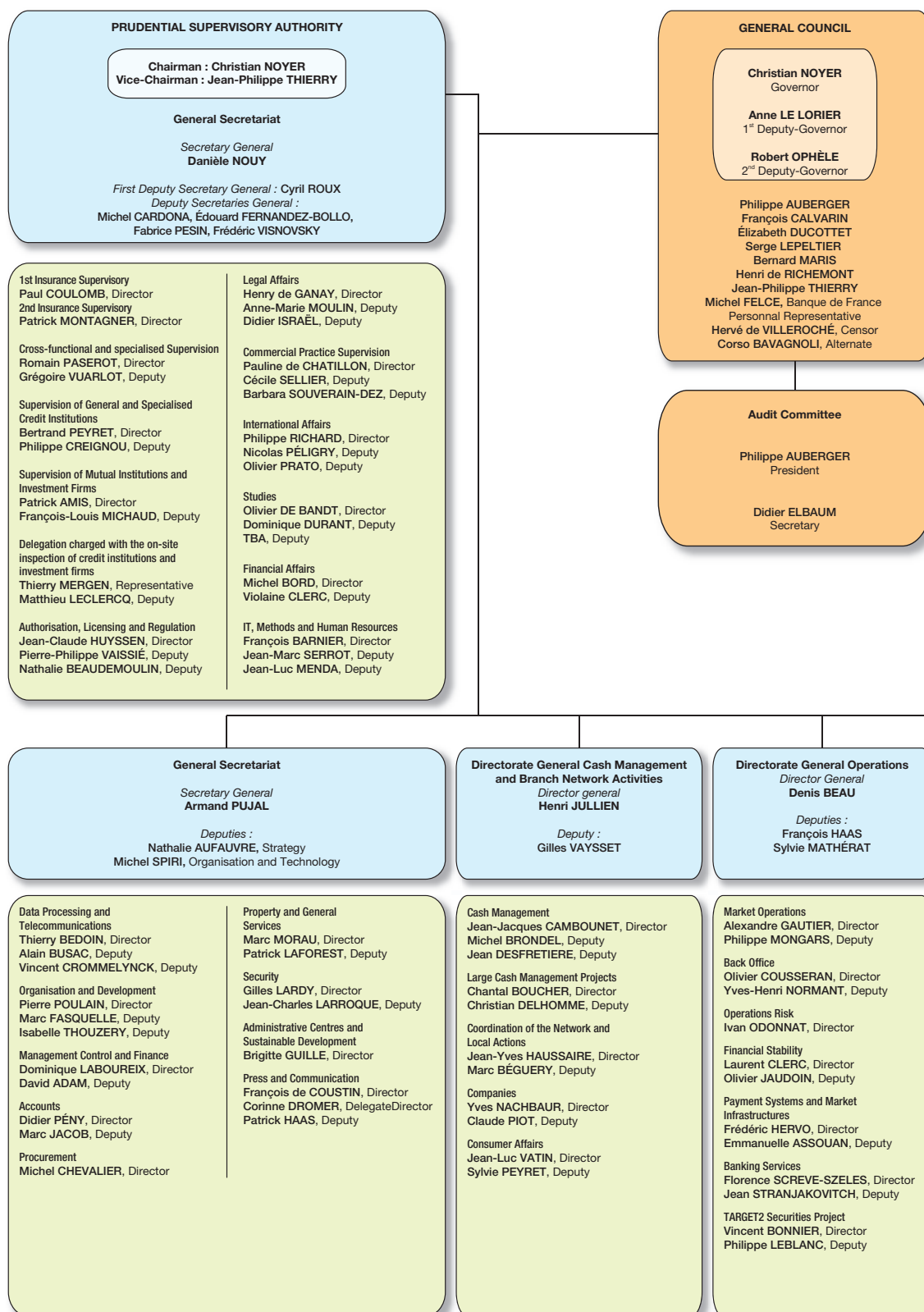
The Banque de France published a quarterly over-indebtedness barometer that brings together a number of debt-related statistics. The figures shown below were taken from the over-indebtedness barometer published at end-2011.

On average, each case of over-indebtedness contains 9.3 debts. The average level of over-indebtedness is close to EUR 37,000. Financial debts (loans) are present in 95% of the dossiers and represent approximately 83% of the amount of total indebtedness contained in the dossiers. Within this category of financial debts, mortgage loans are present in just under 9% of the dossiers, consumer credit in nearly 90% of the situations, and overdrafts in 59% of the cases. Debts representing current expenses are present in 75% of the dossiers and represent roughly 9% of the aggregate indebtedness. These proportions were relatively stable over 2011. Detailed figures are available on the website of the Banque de France.<sup>18</sup>

<sup>18</sup> <http://www.banque-france.fr/la-banque-de-france/missions/protection-du-consommateur/surendettement/barometre-du-surendettement.html>

# Appendix 2

## ORGANISATION OF THE BANQUE DE FRANCE

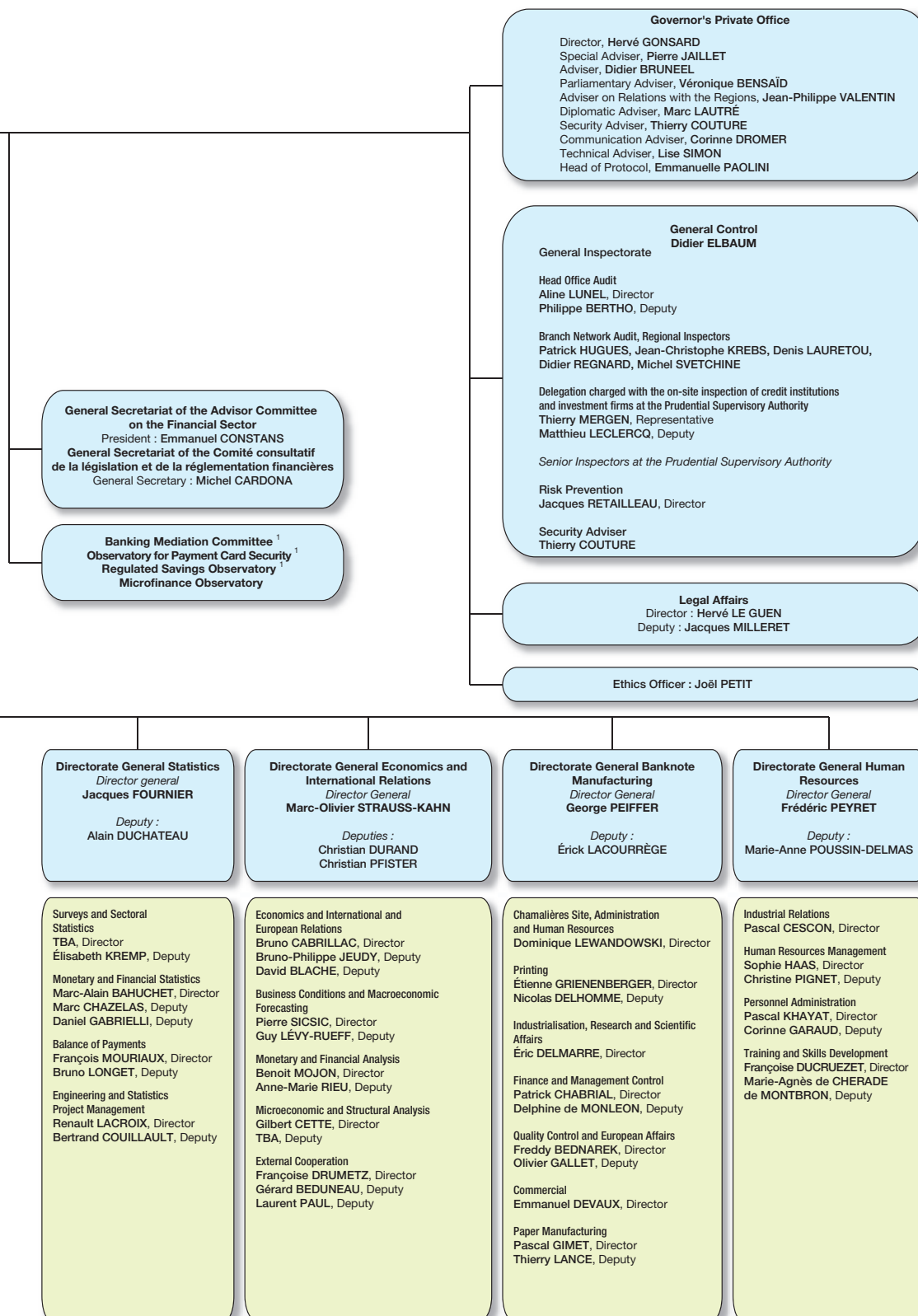


96 departmental directorates of which 22 regional directorates

<sup>1</sup> The Governor chairs the Banking Mediation Committee, the Observatory for Payment Card Security and the Regulated Savings Observatory.



AT 17 SEPTEMBER 2012



21 economic centres, 7 household debt centres and 4 currency circulation management centres



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