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Issues regarding euroisation in regions neighbouring the euro area

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The euro is used to a significant extent in regions neighbouring the euro area, either as the official or the de facto currency. In most cases, this use, referred to as euroisation, is unilateral. While economic theory generally agrees on the short-term costs and benefits of dollarisation/euroisation, question marks hang over the medium- to long-term consequences for the countries concerned and its sustainability.

Official unilateral euroisation has contributed in territories such as Kosovo and Montenegro to a rapid macroeconomic stabilisation following major political or economic crises. As a result, it has been considered by a number of larger countries. It nevertheless entails risks for long-term financial stability, associated with the loss of lender-of-last-resort function, above all in countries or territories characterised by a small number of banks with foreign capital and a fragile external position.

In de facto euroised countries, the greatest risk would be a very rapid increase in loans denominated in foreign currencies, which would result in a transfer of exchange rate risk – related to a possible depreciation of the domestic currency – to final borrowers (households and non-financial corporations) and thus in an indirect credit risk for banks.

Euro area membership for countries that have adopted the euro unilaterally does not appear compatible with the multilateral framework provided for in the Maastricht Treaty. For de facto euroised countries, prospects of joining the euro area cannot, in themselves, eliminate exchange rate and credit risks, as membership is a long-term process requiring sustainable convergence. Furthermore, a high level of euroisation makes it more difficult for central banks to fight inflation and thus for the countries concerned to meet the convergence criteria.

Key words: euroisation/dollarisation, international currency, financial stability.

JEL codes: E41, E42, F31, F33

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While the growing role played by the euro in regions neighbouring the euro area reflects its developing status as an international currency, this development also has major implications for the financial stability of the countries concerned.

The monetary phenomenon known as euroisation is defined as the use of the euro by a third country as a replacement for its domestic currency. Euroisation takes different forms:

• firstly, there is a distinction to be made between de facto euroisation, where private agents use the euro as a parallel currency, and official euroisation, where the monetary authorities adopt an exchange rate regime in which the euro is legal tender;

• as regards de facto euroisation, the euro may be used in cash form (cash euroisation) or for the denomination of bank deposits and loans (financial euroisation); this is the case in many of the New Member States (NMS) in central and eastern Europe and south-eastern European countries;

• in the case of official euroisation, there is a distinction between unilateral euroisation (e.g. Montenegro and Kosovo) and multilateral euroisation, which gives rise to the signing of a monetary agreement with the euro area (e.g. San Marino, the Vatican City and Monaco);

• furthermore, an official euroisation exchange rate regime can be characterised either by the euro being used as the sole legal tender or by the coexistence of several legal tenders.

Certain central European countries, which were candidates for accession to the European Union in the 1990s, may have planned to introduce the euro unilaterally, but were discouraged from doing so by the EU's official position, which deems unilateral euroisation as incompatible with the multilateral framework set down in the Maastricht Treaty concerning the adoption of the euro. The EU Economic and Financial Affairs Council's position, reached in November 2000 and consistent with the Eurosystem's standpoint, specifies that "unilateral euroisation would not be a way to circumvent the stages foreseen by the Treaty for the adoption of the euro". This position is justified in many respects:

• euroisation is not a substitute for economic integration;

• it carries risks for the financial stability of the countries concerned;

• even if the euroised countries have a smaller economic weight relative to the euro area, the Eurosystem should in no way be considered as responsible for

the euroised countries' financial stability, i.e. obliged to provide emergency liquidity in the event of a banking crisis.

This paper strives, first and foremost, to present the debates concerning the benefits and the costs of official and de facto euroisation (part I). It then reviews the present situation of euroised countries and territories in Europe (part II).

1| Review of the literature

1|1 De facto euroisation or dollarisation

In this first sub-section, we use the term "dollarisation" in the generic sense, according to literary convention, as the adoption of a foreign currency as legal tender.

The motives for holding foreign currency

Currency substitution models refer to situations in which a demand for foreign currency arises to ensure means of payment and unit of account functions. In a context of strong inflation, or even hyper-inflation, economic agents seek to protect themselves against the risk of a devaluation/depreciation of their domestic currency, as in Latin America during the 1970s, the transition countries at the beginning of the 1990s and CIS countries at present.

However, this approach does not entirely explain the persistence, or even the surge in dollarisation during the 1990s, despite the fact that macroeconomic stabilisation policies had managed to bring down inflation (Balino *et alii*, 1999).

Asset substitution models, which focus on the store-of-value function of money, concern situations in which a macroeconomic risk leads to a demand for foreign assets. This financial dollarisation can have both an international and a domestic dimension.

International dollarisation (financial contracts between residents and foreigners, i.e. bond debt) can be attributed to countries' inability to borrow abroad in their own currency. According to the literature on "original sin" (Eichengreen and Hausmann, 1999), this inability does not only reflect domestic factors, but rather, as underlined by Prat (2006), "international financial market characteristics and, more precisely, the presence of fixed transaction costs and network externalities (therefore it is in the investors' interest to use a currency already used in international transactions)".

Eduardo Levy Yeyati (2006) describes two financial dollarisation factors (financial contracts between residents, loans and deposits denominated in foreign currencies): on the one hand, rational risk-hedging behaviour in reaction to the transmission of exchange rate variations to domestic prices and, on the other hand, a consequence of moral hazard related to the lender-of-last-resort function. In this instance, by anticipating public intervention in the event of a massive depreciation, borrowers do not sufficiently internalise the risks related to foreign currency loans.

The effects

To its credit, dollarisation can make the development of financial intermediation possible in countries with high inflation, by offering depositors a hedging tool; conversely, most of the active dedollarisation policies (Mexico, Peru and Bolivia) have triggered a sharp contraction in domestic financial intermediation (Balino *et alii*, 1999).

Nevertheless, dollarisation has a certain number of negative consequences.

One strand of literature underscores the negative consequences of dollarisation on monetary policy, in view of the fact that the currencies in circulation are outside the monetary authorities' control. In dollarised economies, the demand for money is more unstable, due to the increased sensitivity of monetary aggregates to changes in exchange rate expectations. As a result, many economists consider that dollarisation poses a challenge to the conduct of a coherent and independent monetary policy (see Balino *et alii*, 1999). The more financial intermediation is carried out in foreign currencies, the weaker the efficient functioning of the interest rate channel. Growth of loans in foreign currencies is not limited, as long as there is currency import; the impact of interest rate hikes on the apparent cost of foreign currency denominated loans diminishes.

Increase in the exchange rate pass-through to import prices due to dollarisation has also been the subject of many studies. The increase in the exchange rate pass-through limits the flexibility of monetary policy and its counter-cyclical role.

However, these studies mainly focus on the negative impact of dollarisation on financial stability: financial dollarisation exacerbates the risks related to currency mismatches in the economic agents' balance sheets (currency mismatches).

The concept of currency mismatches is at the core of third generation currency crisis models, drawn up in the wake of the Asian crisis: "The accumulation of external liabilities denominated in foreign currencies, while income (or assets) continues to be denominated in the domestic currency, produces

financial fragility on the various economic sectors' balance sheets, which, in extreme cases, can lead to self-fulfilling expectations of exchange rate depreciation on the part of investors" (Prat (2006)). The analysis of crises in emerging countries has therefore emphasised the strong dependence of these countries vis-à-vis external borrowing (with non-residents) and the large proportion of these foreign currency denominated loans.

However, an approach that only addresses currency mismatches is insufficient; risk exists at the sector level, linked to the possibility for residents to hold domestic assets and/or liabilities denominated in foreign currencies. In the case of a real depreciation of the domestic currency following an economic shock or a shift in investor expectations, these domestic currency mismatches lead to insolvency, or even failure, as the debtors are unable to repay the domestic creditors in the foreign currency. Currency mismatches on a domestic level weigh on the banking sector both directly and indirectly:

• exchange rate risk weighs on the banking system when the share of liabilities in foreign currencies is higher than the share of assets in foreign currencies, making it necessary to hedge foreign exchange risk;

• exchange rate risk is transferred to borrowers (companies and households), so there is indirect credit risk for banks when the share of banks' foreign currency assets exceeds the share of foreign currency liabilities. Given the prudential rules generally imposed on banks concerning their net foreign exchange positions, it is mainly via this indirect effect that the use of foreign currencies renders emerging countries vulnerable (De Nicolo *et alii,* 2003).

Recent empirical studies confirm the risks to financial stability. According to Nicolo, Honohan and Ize (2003), dollarised banking sectors are characterised by a higher risk of insolvency and a greater volatility of deposits. Calvo and Reinhart (1999) highlight a close link between the degree of financial dollarisation and emerging economies' tendency towards a sudden stop of capital flows.

Not only does de facto dollarisation facilitate the occurrence of financial crises, but it also has a compounding effect in the event of a sharp depreciation in the exchange rate (Edwards and Magendzo, 2003): "countries with currency mismatches on their balance sheets risk seeing the value of their liabilities increase in relation to the value of their assets, making the servicing of the external and domestic debt more difficult in the event of a depreciation of their currency" (Prat (2006)).

Partial dollarisation thus triggers the "fear of floating" exchange rate regimes (Calvo and Reinhart, 1999), which in turn strengthens the incentives for dollarisation.

The risks that currency mismatches place on financial stability call into question the suitability of floating exchange rate regimes for emerging markets; economies affected by dollarisation are no longer able to use the exchange rate to absorb external shocks. Since these countries seek to limit exchange rate volatility, allegedly floating exchange rate regimes are in reality fixed exchange rate regimes. This forced exchange rate rigidity in turn fuels dollarisation. It reinforces moral hazard associated with exchange rate stability, triggering a true "vicious circle" of dollarisation (Honohan and Shi, 2001).

Once a certain level of currency substitution is reached, de facto dollarisation seems to be a self-sustained phenomenon: in reaction to the increased fragility of the financial system due to dollarisation, the monetary authorities are increasingly committed to a fixed exchange rate regime, which itself encourages dollarisation. As a result, certain largely dollarised countries/territories may be tempted in certain circumstances by the most extreme solution in terms of fixed exchange rate regimes, i.e. converting the currency that is widely used in the economy into legal tender.

1|2 Unilateral official euroisation

As in Latin America, where several countries have been tempted by unilateral dollarisation (e.g. Argentina in 1999) or have indeed taken this step (Salvador in 2000, followed by Ecuador in 2001), the debate over unilateral euroisation has prevailed in Europe.

The economic debate on the unilateral introduction of the euro in acceding and accession countries is based on a cost and benefit approach, revealing three fundamental trade-offs:

- reduction of transaction costs versus exchange rate rigidity;

- reinforcement of credibility versus loss of the use of countercyclical monetary policy;

- reduction of debt costs versus the weakening of the financial system (loss of the lender-of-last-resort function).

The expected benefits

Like monetary union, unilateral euroisation enables economic agents to benefit from a reduction in transaction costs. In contrast, the other benefits that are traditionally associated with optimal currency areas (OCA) – such as a decline in nominal interest rates and the disappearance of external constraints – are even more debatable.

By removing the exchange rate risk and the default risk associated with the possibility of devaluation and by helping to contain inflation, unilateral euroisation allows a decline in nominal rates and thus reduces the cost of investment financing and public debt (Schoors, 2001; Levasseur, 2004).

Backé and Wojcik (2002) nonetheless underscore the limits to this approach: though short-term rates are – in a situation of unilateral euroisation – determined by the monetary policy of the country of issuance, in contrast, long-term interest rates always appear to be determined by real factors such as savings rates, the marginal productivity of investment and, particularly, the expected risk of default.

The external constraint would probably be eased by unilateral euroisation: increased financial integration would facilitate the financing of external imbalances if need be. However, the accumulation of external liabilities could continue indefinitely: in the long term, international investors would be tempted to revise up the risk premium in view of the increase in default risk.

To what extent can unilateral euroisation isolate a country from external crises? While it indeed protects countries from exchange rate crises stemming from contagion alone, it cannot serve as a safeguard against crises of another nature. An unsustainable public deficit or a worsening external position may incite international investors to shift from public debt to other assets, or even trigger capital flight. Reducing the probability that a balance of payments crisis will occur is thus achieved at the price of increasing the likelihood of a banking system crisis (Honohan and Shi, 2001).

Advocates of unilateral euroisation believe that it would enable a smooth entry into the euro area, avoiding such exchange rate crises as observed in the period leading up to EMU (Buiter and Graf, 2002).

However, unilateral euroisation cannot be considered as a substitute to economic and monetary integration: it does not allow potential nominal adjustments during the convergence period and prevents the market from assessing the sustainability of the exchange rate.

The costs

One of the most direct quantifiable costs of unilateral euroisation is the total loss of seigniorage, i.e. the revenues from base money creation.

In transition economies, seigniorage is, with the odd exception, relatively low, representing 1-2% of GDP per annum (Schobert, 2003).

Renouncing the privilege of issuing domestic currency signifies above all that the central bank can only play its role of lender of last resort within the limits of its foreign currency reserves, once the domestic currency has been replaced. Foreign currency reserves are nonetheless, by construction, very low, or even non-existent. Due to the absence of public sources of emergency liquidity provision, banks in a financial crisis must therefore find alternative sources.

The absence of a lender of last resort would nevertheless be mitigated by the large share of foreign banks in the national banking systems of the countries concerned (Calvo and Reinhart, 1999) since parent companies' loans to their subsidiaries can be considered a more stable source of financing than international loans. Furthermore, foreign banks are not as quick to reduce loan amounts during crises as domestic banks are (Bratkowski, 2002). In this instance, the presence of foreign banks may constitute a gauge of solidity in the event of a financial crisis in a de facto euroised country, or even a remedy in the absence of lender of last resort for officially euroised countries.

That said, the participation of foreign banks in the event of a banking crisis is far from guaranteed; they will base their decision to provide capital on a case-by-case basis, without necessarily taking into account systemic aspects. The Argentine crisis revealed the limitations of parent companies' support to their banking subsidiaries following the application of different conversion rates to bank loans and deposits after the fixed dollar-peso exchange rate collapsed.

Giving up monetary and exchange rate policies as macroeconomic policy instruments eliminates any possibility of correcting a major exchange rate misalignment, barring a real adjustment to prices and wages.

In accordance with the OCA theory, the probability of asymmetric shocks and the capacity to cope with them are criteria to be assessed before adopting a common currency or a foreign currency as legal tender; if not, misalignment of the real exchange rate could well occur. Although there is no longer an exchange rate between the currency of euroised countries and the legal tender in the euro area, exposed sectors' prices and wages could diverge lastingly from rivals' price levels, whether or not an asymmetric shock occurs.

There are sources of price misalignment specific to transition countries that would be more difficult to manage in the framework of unilateral euroisation. This would indeed help short-term interest rates to be cut from the outset. The decline in real interest rates that would ensue could boost domestic demand, leading to a credit boom. Without being able to use monetary and exchange rate policies, the overheating of the economy

would be difficult to manage, as the efficiency of prudential policy is subject to uncertainty (see 2.3 below). The very advantage of unilateral euroisation, i.e. the reduction of exchange rate risk and access to foreign capital markets, may ultimately make the task more arduous.

2| Overview

2|1 Typology

There are four different types of de facto or officially euroised country and territory:

• the officially and multilaterally euroised microstates San Marino, the Vatican City and Monaco, have signed monetary conventions with the euro area, provided for in the Maastricht Treaty. These countries had already signed monetary agreements with France and Italy before introduction of the euro;[1]

• the officially and multilaterally euroised French overseas territorial communities Saint-Pierre-et-Miquelon and Mayotte. French overseas territories in the Pacific are considering introducing the euro;

• the officially and unilaterally euroised south-eastern European countries and territories: Montenegro and Kosovo. Following the war in former Yugoslavia and Kosovo, all currencies became legal tender in Kosovo in 1999, but accounts had to be kept in Deutsche Mark. As of 1 January 2002, the euro replaced the Deutsche Mark. Euroisation was carried out without negotiating with the ECB and via the straightforward exchange of bank notes, making, de facto, the euro the only currency in circulation. In Montenegro, the introduction of the Deutsche Mark was carried out unilaterally by the Montenegrin government in January 2001, before the euro became legal tender in June 2002;

• central, eastern and south-eastern European countries, largely de facto euroised and which have the prospect of entering the euro area in the near future. Amongst the EU-CEEC, Baltic countries in particular are characterised by a significant level of euroisation of bank deposits and loans. These countries are expected to enter the euro area in the future, when they have fulfilled the Maastricht criteria. The south-eastern European non-EU member countries, on the other hand, like the EU New Member States (NMS), are characterised by a very high level of euroisation of

1 *Andorra remains a unilaterally euroised state, pending the conclusion to negotiations, suspended for the time being, that were initiated in October 2004 with the European Community, with a view to signing a monetary agreement.*

deposits and loans and by a significant level of euro bank notes and coins in circulation, but some of these countries are only at the preliminary stage of the EU accession process.

Even more so than the dollarised countries and territories, euroised territories are characterised by their geographical or institutional proximity with the issuance area, which in this instance is the euro area.

2|2 The circumstances of euroisation

The circumstances leading the countries concerned to introduce the euro – either de facto or officially – are often similar to those leading to dollarisation:

• exchange rate crises and periods of hyperinflation – following wars with attendant bankruptcies and losses of bank deposits – shattering populations' confidence in their domestic currency (Levy Yeyati and Sturzenegger, 2003), notably in Kosovo and Montenegro;

• widespread circulation of foreign notes (mainly the Deutsche Mark and the Austrian shilling, and then the euro) linked to tourist activity in all south-eastern European countries and the significant flow of migrants. This currency circulation can, in certain cases, lead to the euroisation of bank deposits and official euroisation.

However, euroisation in Europe also has specific causes, notably:

• the impact of the introduction of euro cash, which has led states that used one of the legacy currencies (San Marino, the Vatican City, Monaco) to adopt the euro as legal tender. For these states, the introduction of the euro was provided for in the Maastricht Treaty. Furthermore, the euro cash changeover was accompanied in south-eastern Europe by the widespread conversion of hoarded bank notes from legacy currencies into euro-denominated bank deposits (ECB, 2005);

• the high level of income from migrant workers from south-eastern Europe.

All in all, countries and territories that have carried out de facto or official euroisation are characterised by their small size, their geographical proximity to the euro area, political links with certain euro area Member States, in certain cases corresponding to dependent territory status and/or the specificity of the circumstances leading up to euroisation, e.g. wars, major economic crises, with a widespread de facto euroisation frequently preceding official euroisation.

2|3 The implications of euroisation in central, eastern and south-eastern Europe

Officially euroised countries/territories

For Kosovo and Montenegro, euroisation helped macroeconomic stabilisation, marked by very rapid disinflation, at the beginning of the 2000s (see Chart 1). Its effects on growth are harder to identify due to external factors, such as fluctuations in external aid, which represent a large share of the two countries' or territories' GDP.

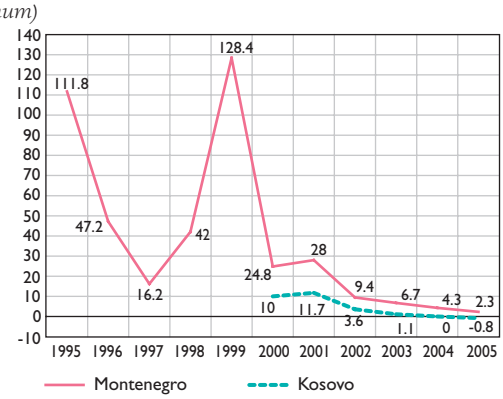
In view of their very high current account deficits, these countries'/territories' foreign currency reserves are practically nonexistent. Furthermore, they are both highly dependent on external sources for the financing of the current account deficit, such as revenues from tourism, external public aid and migrant workers' remittances, which boost foreign currency deposits. Lastly, since Kosovo is not a sovereign state – like Montenegro until very recently – it does not have access to international capital markets.

De facto euroised countries

The euroisation of bank deposits has reached particularly high levels (between 30% and over 80%) in Latvia (EU Member State) and certain Balkan states: Croatia, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Serbia and, to a lesser degree, Bulgaria. For eight of the sample countries, the share of the euro in bank deposits increased between 2001 and 2005. As regards Latvia, the rise in the share of euro-denominated bank deposits could be due to economic agents' perception of their forthcoming entry into the euro area.

Chart 1 Inflation in Montenegro and Kosovo since 1995

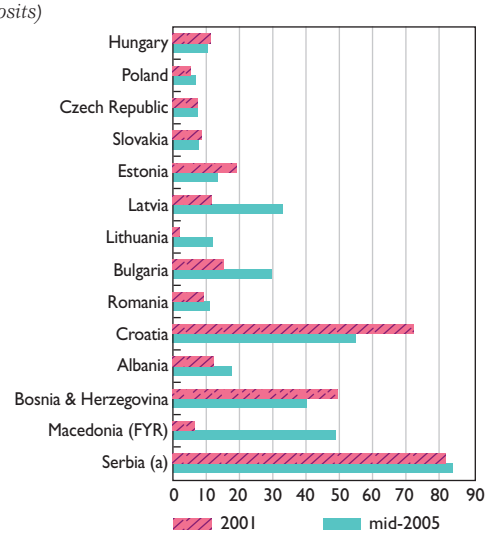
(% change per annum)



Sources: Republic of Montenegro statistics office, quoted in Liebscher et al. (2005), Banking and Payments Authority of Kosovo.

Chart 2 Share of the euro in bank deposits in central, eastern and southern European countries

(as a % of total deposits)



(a) Latest figure: mid-2004.
Sources: ECB and national central banks.

In contrast, for Croatia and Bosnia and Herzegovina, which are two of the countries with the highest euroisation rate of deposits in the sample, the share denominated in euro has decreased since 2001 (see Chart 2).

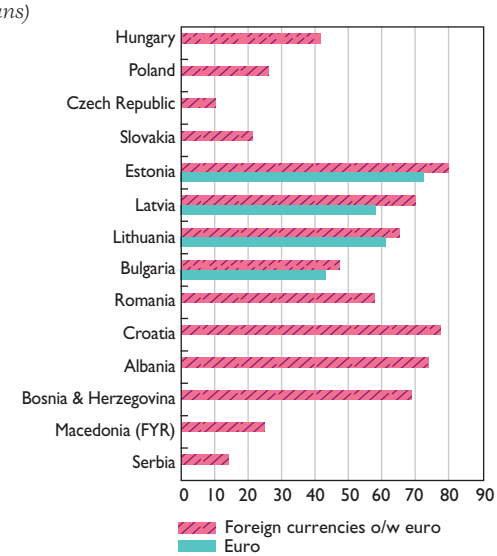
National central banks' aggregate statistics do not always reveal the euro-denominated share in total bank loans. Information available for Estonia, Latvia, Lithuania and Bulgaria indicates a very high share of euro-denominated bank loans to non-financial corporations and households of 73%, 59%, 61% and 44% respectively. Taking the overall share of foreign currency denominated loans as an indicator of the euroisation of loans, the level is also high in Romania, Albania and Croatia, at 58%, 74% and 77% respectively (see Chart 3). Note the significant share of the Swiss Franc in the "euroisation" of loans and deposits. For Croatia, the ratio includes loans indexed to foreign currencies, which represent a sizeable share, accounting for 66% of total loans to the private sector at end-2005.

The very rapid growth in foreign currency denominated loans over recent years (up 88% between 2004 and 2005 in Latvia, 83% in Lithuania, 50% in the former Yugoslav Republic of Macedonia, 35% in Estonia and Bulgaria and 23% in Croatia) may increase the risk for the financial stability of the countries concerned.

A rise in foreign currency denominated loans could be considered as part of the natural catch-up and financial deepening process, causing

Chart 3 Share of foreign currencies in private sector loans (a) in central, eastern and southern Europe in 2005

(as a % of total loans)



(a) Including loans indexed to foreign currencies.
Sources: national central banks, ECB, IMF, Walko and Reininger (2005).

the share of total private sector loans (denominated both in foreign and local currencies) in the GDP to converge towards the most developed countries' levels. However, the rate of the rise in total loans must remain sustainable, since this rise, by fuelling domestic demand, contributes to the widening of current account deficits. In several countries in the area, the current account deficit thus exceeds 10% of GDP.

All in all, in most of the countries considered in this paper the central banks have used prudential measures to attempt to limit the growth of foreign currency denominated loans. These measures targeted either the banks (e.g. setting limits on their foreign currency liabilities, imposing a ratio of foreign currency denominated assets to foreign currency denominated liabilities and a foreign currency denominated loans to capital ratio, increasing the weighting of foreign currency denominated loan outstandings for the calculation of the capital adequacy ratio, etc.), or the borrowers (setting a maximum ratio of foreign currency denominated debt servicing to income). However, these measures were only relatively effective, at best only temporarily slowing the rise in foreign currency denominated loans, as in Croatia, for example. In actual fact, they are frequently circumvented by residents – notably businesses, which can, for example, borrow directly from abroad or have access to non-bank loans – and particularly by foreign banks that can obtain financing from their parent company. This limited efficiency has led the Bank of Bulgaria to gradually remove the credit ceilings introduced in 2004.

This rapid increase in foreign currency denominated loans and deposits raises the question as to how exposed the banking system is to exchange rate risk. This evaluation, which must take into account the banks' balance sheet and off-balance sheet items, is complex. In most countries, banks' unhedged foreign currency exposure including off-balance sheet items, as a percentage of their equity capital, is low (see Table 1, which uses an IMF indicator, notably within the framework of Article IV missions).

We shall therefore focus on the situation of non-bank agents, particularly households and small- and medium-sized enterprises, as a rise in their foreign currency denominated debt may pose a problem for their solvency, due to their limited access to exchange rate hedging instruments and their low levels of foreign currency resources available for the servicing of their debt.

Table 1 Currency mismatches and banks' exposure to exchange rate risks (in 2005)

(as a % of equity capital, GDP percentage points)

	Exchange rate regime	Banks' net unhedged foreign currency exposure	Differential between the value of foreign currency denominated bank loans to the private sector and deposits
Hungary	Fluctuation bands of +/- 15% vis-à-vis the euro	3.5	11
Poland	Free floating	2.5	-7.1
Czech Republic	Managed floating	0.3	-17.8
Slovakia	ERM II - Fluctuation bands of +/- 15% vis-à-vis the euro	-30.0	1.1
Estonia	Euro-based currency board	80.0	52.3
Latvia	Fixed exchange rate against the euro	15.0	40.0
Lithuania	Euro-based currency board	1.8	14.1
Bulgaria	Euro-based currency board	-5.6	2.9
Romania	Managed floating	-0.6	0.7 (a)
Croatia	Managed floating	5.5	-6.7 (b)
Albania	Managed floating	9.5	6.5
Bosnia & Herzegovina	Euro-based currency board	na	-13.7
Macedonia (FYR)	Fixed exchange rate against the euro	na	-11.4 (b)
Serbia	Managed floating	na	-9.0

(a) In 2004.
(b) Including loans indexed to foreign currencies.
Sources: IMF, national central banks, ECB, authors' calculations.

We can therefore draw up a typology of countries according to the difference between the relative amount of foreign currency denominated loans to the private sector and foreign currency denominated deposits. In certain countries, the ratio of foreign currency denominated loans minus foreign currency denominated deposits to GDP is negative. In other countries, however, the amount of foreign currency denominated loans is markedly higher than that of its equivalent in deposits, i.e. accounting for between 11 and 53 GDP percentage points. This situation means that the exchange rate risk linked to a potential depreciation of the domestic currency against the euro is transferred to the borrowers; it brings about an indirect credit risk for banks, since a depreciation of the domestic currency could reduce borrowers' solvency, if their income in euro is not equivalent. In such a situation, banks' collateral may be insufficient to protect them against a decline in borrowers' solvency.

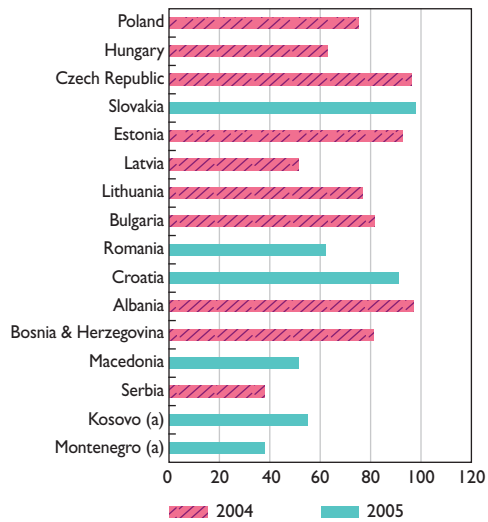
An issue common to de facto and de jure euroised countries

In view of the size of the currency mismatches in certain countries, the weight of foreign banks in national banking systems represents a factor of stability.

As regards foreign banks' presence in national banking systems, two sorts of country can be identified (see Chart 4):

Chart 4 Share of foreign bank assets in total bank assets in 2005

(%)



(a) Share in the capital.
Sources: ECB, national central banks, IMF.

• countries with a significant presence of banks with foreign capital (over 60% of the total assets or capital owned by foreign banks), notably central European NMS and Baltic states (with the exception of Latvia), Bulgaria, Croatia, Albania and Bosnia and Herzegovina. In these countries, in the event of a banking crisis following the depreciation of the domestic currency, it is expected that the parent company would provide financial support;

• countries with banks with predominantly domestic capital: Latvia, the former Yugoslav Republic of Macedonia, Serbia and the two officially euroised countries/territories (Montenegro and Kosovo). In these countries, the provision of emergency liquidity, for banks with a predominance of domestic capital, is the local authorities' responsibility.

Official euroisation has been considered by certain countries as a foreign exchange regime contributing to rapid macroeconomic stabilisation in the wake of a major political or economic crisis. However, it may generate risks for long-term financial stability linked to the absence of the lender-of-last-resort function.

These risks raise questions concerning possible exit strategies, particularly since there are few examples of dedollarisation (Chile, Israel). A substitute to official euroisation is the currency board, whose main advantages over euroisation are retaining seigniorage and a certain amount of leeway for the monetary authorities to exercise the lender-of-last-resort function, according to the currency board's practical operating procedures.

The Eurosystem's standpoint, i.e. that unilateral euroisation is incompatible with the adoption of the euro, does not differ greatly from that of the US Federal Reserve which, as regards Argentina's dollarisation, pointed out that the Fed could not be held responsible as lender of last resort.

As regards de facto euroised countries, the greatest risks posed by foreign currency mismatches are faced by countries where households and companies have incurred high levels of foreign currency debt. This situation carries an exchange rate risk in the event of the domestic currency's depreciation for final borrowers and an indirect credit risk for banks.

Risks related to official or de facto euroisation, particularly for non-EU south-eastern European countries, must be monitored even more closely, since entry into the euro area is not necessarily likely for several years, due to delays in the euro area convergence process by many of them. Moreover, the European Union insists upon the need for sustainable convergence. Furthermore, a high level of euroisation makes it more difficult for central banks to control inflation and for countries to meet the convergence criteria.

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France's balance of payments and international investment position in 2006

Balance of Payment's Directorate

In 2006, France's balance of payments showed a current account deficit of EUR 22.5 billion. The latter widened by EUR 6.8 billion as a result of the EUR 8.4 billion increase in the energy trade deficit.

Direct investment recorded net outflows of EUR 27 billion in 2006, on the back of inflows and outflows comparable to those observed in 2005. Thus, in 2006, foreign direct investment (FDI) in France remained at the high level recorded the previous year.

Portfolio investment registered net outflows of almost EUR 60 billion as a result of the unprecedented level of residents' purchases of foreign securities, which totalled EUR 270 billion.

Net inflows of loan and deposit transactions stood at the exceptionally high level of EUR 156 billion, mainly owing to monetary financial institutions' (MFIs) use of international interbank refinancing.

It was, therefore, MFIs that, via external resources, financed the current account deficit and the net outflows corresponding to direct and portfolio investment. In 2006, MFIs thus confirmed the role they played during the previous two years in contributing to the balance of payments' equilibrium.

Key words: balance of payments, current account, trade balance, direct investment, portfolio investment, international investment position, mergers and acquisitions.

JEL codes: F10, F21, F23.

NB: This article summarises the main elements described in the 2006 Annual Report on France's balance of payments and its international investment position. *For further details, the reader can refer to the document (in French) at the following link:* http://www.banque-france.fr/fr/stat_conjoncture/balance/bdppof/bdppof.htm.

In 2006, the current account posted a deficit of EUR 22.5 billion, i.e. 1.3% of GDP, compared with 0.9% the previous year. Direct investment registered net outflows of EUR 27 billion. Portfolio investment registered net outflows of EUR 60 billion. These outflows were mainly financed by exceptionally high levels of international interbank refinancing, amounting to EUR 126 billion.

Annual trends should be analysed in light of the major revisions of the previous years' figures. In particular, the 2005 current account balance, which recorded a deficit of EUR 27 billion one year ago, was revised down to a deficit of EUR 16 billion. Upon publication of the 2006 Annual Report on France's Balance of Payments, the new method of estimating certain items was published, so as to incorporate new sources or adopt methods more consistent with users' expectations. Overall and as illustrated by the table below, the current account balance improved by EUR 14 billion in 2004 and by EUR 11 billion in 2005.

Revisions to data on income were the most significant, particularly for portfolio investment, which was subject to a change in evaluation methods. Previously, international payments communicated by reporting banking institutions were used to estimate amounts. Henceforth it has been decided to use direct estimates based on outstandings and interest rates.

The second major change concerns data on the "travel" item of France's balance of payments. Following two years of testing and development, three surveys have been deemed efficient enough to replace the more limited sources that were previously used.

The last major change concerns the CIF-FOB[1] calculation ratio applied to imports. This ratio, estimated by the General Directorate of Customs and Excise, was increased from 2% to 3% from 2004 onwards. This has led to the downward revision of goods imports and an improvement in the trade balance, as the adjustment for transport and insurance applied to the (unchanged) CIF figure for imports has increased. In contrast, transport import flows have been revised upwards, leading to an erosion of the trade balance, because a significant share of this service is provided by non-resident companies.

1 Data relative to CIF (cost, insurance and freight) imports are adjusted before being integrated into the balance of payments so as to state them in FOB (free on board) terms, as for export data.

Summary of the revisions made to 2004 and 2005 data

(EUR billions)

	2004	2005
Current account	14.1	11.3
Goods	3.1	3.0
Transport	-2.0	-2.2
Travel	3.4	1.9
Other servicies excluding travel and transport *o/w merchandise trade*	1.4 *0.7*	2.9 *2.1*
Income *o/w income from portfolio investments*	8.0 *7.7*	5.7 *7.8*
Current transfers	0.2	0.1

1| Current account

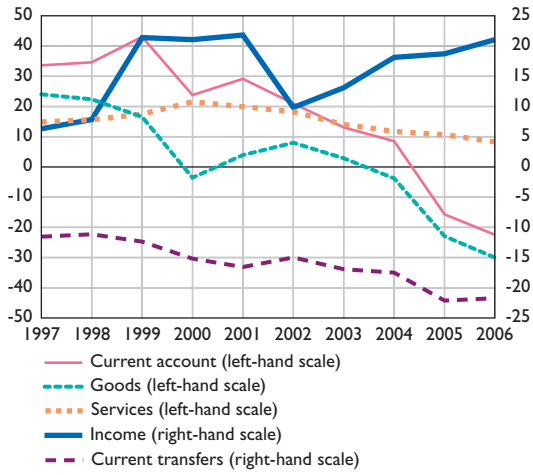
In spite of an acceleration in revenue growth, the current account deficit widened by EUR 6.8 billion to EUR 22.5 billion.

This was due to a deterioration in the foreign trade balance in goods, entirely attributable to the energy deficit in 2006.[2]

The other transactions recorded in the current account were insufficient to offset this trend. In particular, the foreign trade balance in services was eroded. While the travel surplus increased, the surplus on other services

Current account and components

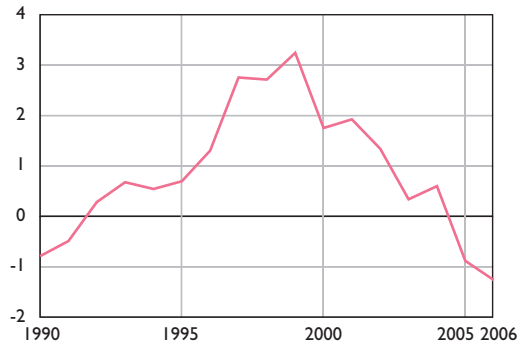
(EUR billions)



2 *Data on the foreign trade balance in goods is taken from figures published by the Customs and Excise General Directorate and is therefore not presented in this article.*

Current account balance

(as a % of GDP)

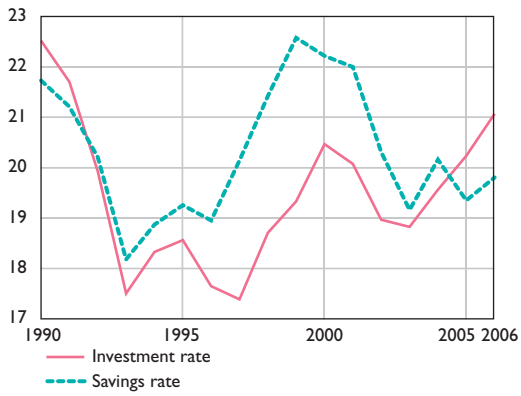


than travel and transport declined markedly in 2006.[3] The income account balance advanced slightly to EUR 21 billion, thus returning to the level recorded at the beginning of the decade. Current transfers, which generally show a deficit, remained stable at a negative EUR 22 billion.

The domestic savings rate,[4] calculated by adding together the investment rate and the current account balance/GDP ratio, picked up slightly. At 19.8%, which is the average level observed over the past five years, it was exceeded by the investment rate.

Savings and investment in France

(as a % of GDP)



3 *Other services mainly correspond to trade in services between companies, such as financial, IT or communication services, royalties and licence fees, and research, technical assistance and study fees.*

4 *The current account balance is, in accounting terms, the differential between national savings (income minus consumption) and investment carried out in France.*

1|1 Goods

Since 2001, the goods balance has deteriorated, moving into negative terrain from 2004 onwards. In 2006, it declined again, though much less so than in 2005 (by EUR 7 billion, compared with EUR 19.2 billion), reaching a deficit of EUR 30 billion. In a general context of growth in world trade, foreign trade flows were robust. Nevertheless, growth in exports (8.8%) remained weaker than growth in imports (10.2%).

The main component in the goods balance, i.e. foreign trade data collected by customs authorities, was eroded by EUR 6.2 billion according to FOB-FOB data. However, unlike in 2005, the surplus excluding energy picked up in 2006, by EUR 2.2 billion, while the energy deficit increased by a further EUR 8.4 billion.

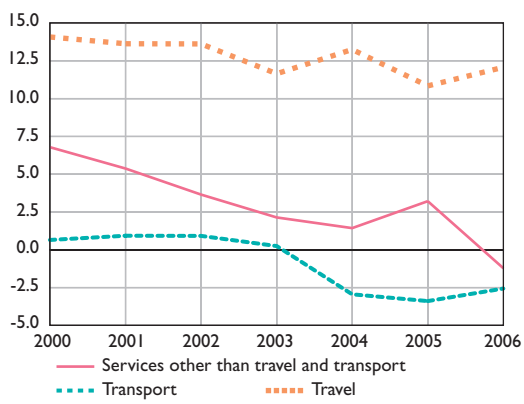
Nevertheless, French export growth remains below the euro area average (10.6%, including intra-European trade), reflecting further market share losses in 2006.

1|2 Trade in services

The surplus in the services foreign trade balance continued to contract. The decline was sharper than in 2005, by EUR 2.3 billion (compared with EUR 1.1 billion the previous year), reaching EUR 8.3 billion. The rise in spending was less sustained in 2006 (1.2%) than in previous years, and revenues contracted by 1.5%.

Services balance
Main components

(EUR billions)



This trend was due to the deterioration in the services excluding travel and transport trade balance which, for the first time, moved into negative terrain. In contrast, there has been a decrease in the transport trade deficit and an increase in the travel trade surplus, though by smaller amounts.

1|2|1 Transport

The trade balance for the transport of merchandise and people picked up by EUR 0.8 billion, while remaining negative (by EUR 2.6 billion). Trade flows contracted, both in terms of expenditure and receipts, though less so for the latter (decreasing by 10% and 8% respectively).

The reduction in both the maritime transport deficit (by EUR 0.5 billion) and the air transport deficit (by EUR 0.4 billion), owing to a reduction in spending on freight transport, was accountable for the improvement. However, the deficit of other maritime and air transport costs (stopover and chartering costs, etc.) has widened. The surpluses on maritime and air-passenger transport remained stable.

1|2|2 Travel

The travel trade surplus reached EUR 12.1 billion, up EUR 1.4 billion on the previous year. This rise follows a EUR 2.4 billion contraction in 2005.

Revenue from tourism increased by 4.3% in 2006, with a greater contribution from euro area visitors (up by 4.7%) than from non-euro area visitors (3.7%). Within the euro area, the increase in revenues generated by Spanish and Dutch tourists was much higher than the decline related to the decrease in German visitors.

Expenditure by French tourists abroad advanced by 1.2%. In terms of geographic structure the situation diverges considerably, as expenditure within the euro area increased markedly, by 7.0%, while expenditure in destinations outside the euro area declined, by 2.8%. Within the euro area, Spain remained the most popular destination for French tourists, although their spending diminished. The rise in French tourists' expenditure in Italy and Greece offset this decline.

1|2|3 Other services excluding travel and transport

The trade balance for services excluding travel and transport deteriorated by EUR 4.4 billion year-on-year (see graph). This is an extension of the trend initiated in 2000, which has led to a deficit – of EUR 1.2 billion – for the first time since 1996. The conjunction of a sharp increase in expenditure (9.6%) and a decline in revenue (by 2.9%) is at the root of this deterioration.

Other services excluding travel and transport
(o/w other servicies to companies)

(EUR billions)

"Other services to businesses",[5] which represented 54% of receipts and 60% of expenditure, were accountable for this deterioration. Having risen in 2005, their trade balance declined by EUR 3 billion to reach a deficit of EUR 2.7 billion. This trend was mainly driven by the various services to businesses.[6] This category of services posted a deficit of EUR 1.6 billion, due to the growing imbalance of transactions by a dozen or so large groups in the aerospace, automobile, electronics and pharmaceutical sectors. Moreover, the rapid development in the activity of a foreign company, established in France and specialised in leasing, triggered a slight deficit of EUR 0.5 billion. Lastly, merchanting posted a EUR 2.6 billion surplus, down by EUR 0.6 billion relative to 2005.

The widening of the financial services deficit (by EUR 1.1 billion) also weighed on the "other services to businesses" results. The amount of retrocession of fees, paid by French banks to non-resident subsidiaries for portfolio transactions carried out for clients of these subsidiaries, was significant this year. This expenditure should be counterbalanced by "receipts" that remain in investment portfolio inflows, with gains and losses on portfolio investments being recorded in the balances of payments' financial account.

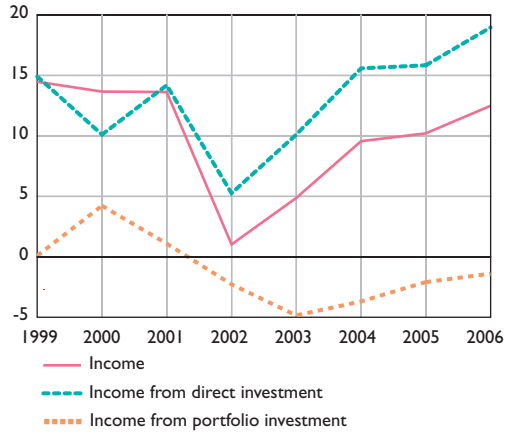
1|3 Income

In 2006, the income surplus stood at EUR 21 billion, i.e. up by EUR 2.3 billion relative to 2005. Receipts increased more rapidly than expenditure, by 29.6% and 26.8% respectively.

5 Comprising international merchanting, other commercial services, rentals and various services to businesses.
6 This item principally covers research, technical assistance and study services, management services and publicity services.

Investment income

(EUR billions)



The EUR 3.1 billion increase in the direct investment income surplus was mainly due to the rise in profit reinvested stemming from French foreign direct investment.[7] To a lesser extent, the portfolio investment income deficit diminished, by EUR 0.7 billion. In contrast, the deficit for other investment income widened by EUR 1.6 billion.

1|4 Current transfers

Following the sharp decline recorded in 2005, the current transfers deficit[8] improved slightly, by EUR 0.4 billion, to stand at EUR 21.7 billion. Receipts advanced by 8.4% and expenditure by 3.0%.

The EUR 1.2 billion reduction in the general government's current transfers deficit was greater than the EUR 0.9 billion deterioration in the other sectors' current transfers deficit.

2| Financial account

This account reflects the exchange of financial assets between France and abroad. In 2006, inflows were EUR 64 billion greater than outflows, mainly due to loan and deposit transactions, for which inflows exceeded outflows by EUR 156 billion. These flows, coupled with valuation effects, mainly linked to euro exchange rate trends and changes in financial asset prices,

7 At the time of writing, these figures were still mainly estimated for 2006.
8 Essentially transfers carried out by general government, such as taxes, social benefits and operating costs for international bodies and workers' remittances.

France's international investment position

(amounts in EUR billions; estimate of direct investments in terms of market value)

	2005	2006	Change			
			Total	of which		
				2006 flows	Exchange rate effect	Stock-prices effect
Direct investment	**479**	**516**	**37**	**27**	**-36**	**46**
French direct investment abroad	1,333	1,537	205	92	-38	151
Foreign direct investment in France	-854	-1,021	-168	-65	3	-105
Portfolio investment	**-185**	**-174**	**11**	**60**	**-22**	**-27**
Foreign securities	1,582	1 844	263	271	-34	31
Domestic securities	-1,767	-2,019	-252	-211	13	-58
Other investment	**-127**	**-272**	**-145**	**- 156**	**18**	**0**
MFIs' deposit/loan position	-175	-299	-124	-136	19	–
Assets	*841*	*946*	*105*	*128*	*-24*	–
Liabilities	*-1,016*	*-1,245*	*-229*	*-263*	*42*	–
Reserve assets	**63**	**75**	**12**	**9**	**3**	**–**
Net position	**182**	**87**	**-95**	**-64**	**-36**	**19**

Notes:

- *Derivatives and deposits/loans excluding MFIs are not represented in this table.*
- *Due to the rounding of figures, the total of the changes is not equal to the total of the components.*

led to a decline in France's net position, which stood at EUR 87 billion at end-2006, compared to EUR 182 billion one year earlier.

2|1 Direct investment

Direct investment transactions recorded net outflows of EUR 27 billion in 2006, slightly below those observed in 2005 (EUR 32 billion). The 2006 figure was very close to that observed in Germany (EUR 29 billion). However, both inflows and outflows were much higher in France. Direct investment inflows totalled EUR 65 billion for France, as against EUR 34 billion for Germany, while outflows stood at EUR 92 billion for France, compared to EUR 63 billion for Germany.

In terms of outstandings, the net external asset position of direct investment posted a more moderate increase than in 2005. Calculated at market value, outstandings rose by EUR 37 billion relative to end-2005, to EUR 516 billion. This item, up sharply since the end of the 1990s, is the main credit item of the overall position.

2|1|1 French direct investment abroad

French direct investment abroad totalled EUR 92 billion in 2006, very slightly below the 2005 figure (EUR 97 billion).

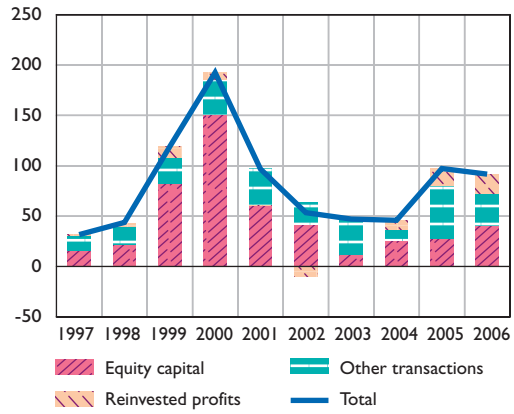
Continuing the trend initiated in 2004, the share of equity capital transactions, excluding property investment, increased. In 2006, equity capital transactions accounted for 40% of total net flows, compared with 26% in 2005. The amount of these transactions is significantly higher than in 2005 (EUR 38 billion, compared with EUR 25 billion). Amongst the year's principal transactions, AXA's buyout of the insurance company Winterthur (Switzerland) and the link-up between Alcatel and Lucent (US) are worthy of mention. In contrast, the share of other transactions, taking the form of French companies' short- and long-term loans and cash flows to their non-resident subsidiaries, was 33% in 2006, compared to 53% one year earlier. The net amount for other direct investment thus fell by EUR 21 billion, to EUR 30 billion.

Due to the creation of world-class groups, equity capital transactions and other transactions have become largely interchangeable. Major French groups can rely on their network of subsidiaries abroad to carry out acquisitions. In these cases, they grant intra-group loans.

Against this backdrop, the increase in the share of equity capital transactions, which had been on a downward trend over several years, may appear surprising. Two explanations are possible. First, a general trend towards the simplification and consolidation of control structures and financial links between parent companies and subsidiaries has led to an increase in the share of equity capital transactions in intra-group flows. Examples of these

French direct investment abroad

(EUR billions)



transactions include the acquisition of Lafarge North America's minority interests (US), followed by a delisting, and Suez's acquisition of 100% of Electrabel's (Belgium) capital. Second, 2006 was characterised by the high level of investment in the banking sector, which reached EUR 11 billion, i.e. 30% of the year's equity capital transactions, compared with EUR 4 billion in 2005. Direct investment in the banking sector, by definition, comprise equity capital transactions, with the exception of participating loans. Loans and cash flows, even intra-group ones, are recorded as other investment, as are all bank loan and deposit transactions.

Geographically speaking, French net direct investment flows are structurally oriented towards EU-25 countries, particularly those in the euro area (54% and 39% respectively). That said, compared to the previous year, flows shifted back towards the United States and Switzerland in 2006.[9]

In international investment position (IIP) terms, the stock of investment in market value terms advanced by 15%, to EUR 1,537 billion, which is significantly lower than in 2005 (24%).

This increase in the stock of investment is almost entirely due to equity capital transactions. The latter admittedly accounted for two-thirds of the amount of direct investment flows and, above all, outstandings were revised upwards by EUR 113 billion, due to changes in exchange rates and asset prices. Following an increase in 2005, the share invested in companies listed abroad remained stable at 8.3%, totalling EUR 104 billion.

2|1|2 Foreign direct investment in France

Inflows of foreign direct investment (FDI) in France were almost identical to those observed in 2005, amounting to EUR 65 billion. Equity capital transactions, excluding property investment, dipped slightly, by less than EUR 2 billion to EUR 9 billion. This decline was offset by the rise in property investment by a slightly higher amount. Property acquisitions, in the strictest sense of the term, do not take into account mergers and acquisitions or equity investment in the property sector, which are recorded as equity capital transactions. These transactions, which were already substantial in 2005, remained sustained in 2006. The creation of tax-efficient property investment vehicles (*Société d'investissement immobilier cotée* – SIIC) appears to have shored up non-resident property investment.

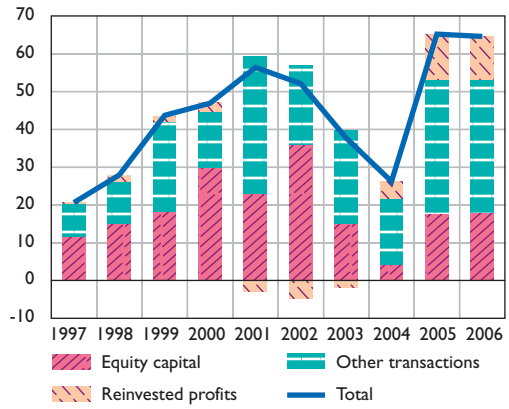
In geographical terms,[10] the leading foreign direct investor in France is still the Netherlands, followed by the United Kingdom, Luxembourg and the

9 Although industrialised nations' predominance has been confirmed, note that their weighting is increased by the international methodology used for direct investment, based on the principle of first counterpart country.

10 As for French direct investment abroad, the statistics were drawn up by identifying the leading investor countries, without taking into account the fact that the investor company can itself be owned by a company located in another country. If we take into account this phenomenon, the geographical breakdown changes significantly, as illustrated by Pierre Caussé in an article published in the Bulletin de la Banque de France *n° 159, March 2007.*

Foreign direct investment abroad

(EUR billions)



United States. Overall, the euro area countries are still the leading foreign investors in France, accounting for 57% of total FDI flows.

In 2006, FDI outstandings in France increased by EUR 168 billion compared to end-2005, reaching a level of EUR 1,021 billion. Some 39% of this increase was due to balance of payments flows, particularly owing to trends in listed French equities. Since FDI in France is around 90% euro-denominated, exchange rate fluctuations have a marginal impact. FDI in listed French companies totalled some EUR 70 billion in 2006, i.e. 9% of their equity capital.

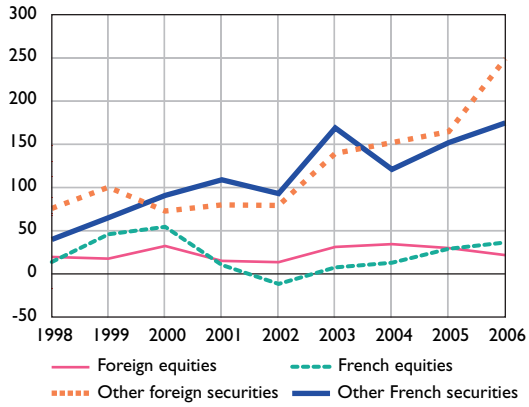
2|2 Portfolio investment

In 2006, portfolio investment net outflows were significantly higher – at EUR 60 billion – than in 2005 (EUR 14 billion).

Investment in equities (see graph below) registered net inflows for the first time since 2000 and totalled EUR 15 billion. The EUR 8 billion decline in residents' net investment coincided with a EUR 7 billion rise in net acquisitions by non-residents. French investors remained net acquirers of equities issued outside the euro area, notably UK and US companies, at a comparable level to that observed in 2005 (EUR 24 billion, compared to EUR 23 billion). In contrast, they reduced their equity holdings in the euro area by over EUR 2 billion, after net purchases of EUR 7 billion in 2005. Above all, non-residents bought EUR 36 billion worth of French equities, mainly in the framework of share exchanges, which is offset by the acquisition of foreign companies by French groups, recorded under French direct investment abroad.

Portfolio investment

(EUR billions)



Regarding financial instruments other than equities, net outflows totalled EUR 74 billion, of which EUR 60 billion was in bonds and related instruments. Outflows on money-market instruments represented EUR 10 billion and those on mutual fund shares EUR 4 billion.

All in all, at end-2006, the securities position showed a deficit of EUR 174 billion. Having thus improved by some EUR 11 billion, it has returned to the level observed in 2004. The portfolio value of French residents' investment in foreign securities rose by EUR 263 billion, compared to EUR 252 billion for non-resident investors in French securities. The positive effect of EUR 60 billion of net balance of payment flows on the position was offset by valuation effects amounting to EUR 49 billion, divided almost equally between variations in market prices and in foreign exchange rates.

2|2|1 Investment in foreign securities by residents

Net acquisitions of foreign securities by residents grew by EUR 76 billion between 2005 and 2006, reaching the unprecedented level of EUR 271 billion. This explains most of the increase in their portfolios, which stood at EUR 1,844 billion at end-2006, compared with EUR 1,582 billion at end-2005. Foreign bond outstandings came to EUR 1,192 billion, up by EUR 175 billion on the year-earlier figure, of which EUR 225 billion was accounted for by flows alone. The amount invested in foreign equities increased by EUR 57 billion, EUR 22 billion of which stemming from transaction flows.

MFIs' net acquisitions increased by almost EUR 14 billion to EUR 89 billion. Some 90% comprised debt securities, mainly with maturities of over one

year. The share of the MFI sector in the total dipped by around 6 percentage points, as it did in 2005, to 33%. As a result, the share held by resident monetary and financial institutions in stocks fell again in 2006 to 41%, compared with 42% in 2005. Net acquisitions carried out by the "other sectors" stood at EUR 166 billion, i.e. EUR 53 billion more than in 2005, and mainly comprised debt securities with maturities of over one year.

Residents stepped up acquisitions of securities issued outside the euro area (up by 75%) more markedly than those issued within the euro area (18%). However, euro-area securities accounted for over half of acquisitions. In terms of stocks, securities issued in the euro area accounted for 61% of the total, with EUR 1,117 billion in outstandings. Just under 45% of total outstandings for securities issued outside the euro area were euro-denominated.

2|2|2 Investment in French securities by non-residents

Net acquisitions of French securities by non-residents reached EUR 211 billion, i.e. EUR 30 billion more than in 2005. These acquisitions of securities by non-residents, coupled with valuation effects estimated at EUR 41 billion, brought total outstandings for end-2006 to EUR 2,019 billion, compared with EUR 1,767 billion in 2005. Most of these acquisitions continued to comprise bonds and notes (58.1%). However, the share of equities increased by almost 3 percentage points to 31%.

Flows of French securities stood at EUR 36 billion, of which around one-third contributed to the financing of French investment abroad, notably the link up between Alcatel and Lucent and AXA's buyout of Winterthur. As a result, there has been an increase in the rate of non-resident holdings of French securities, particularly of CAC 40 companies. The stock owned by non-residents stood at EUR 630 billion in 2006, compared with EUR 502 billion one year earlier. Non-resident holdings in French CAC 40 companies alone accounted for 46%. This figure does not only include portfolio investment,[11] but also direct investment. That said, although the share of the latter is rising, it remains limited (3.5%).

Non-resident acquisitions of bonds and notes stood at EUR 165 billion in 2006. Non-resident investors acquired a greater amount of securities issued by resident MFIs (EUR 83 billion) than government bonds (EUR 53 billion). The portfolio of bonds and notes increased by EUR 115 billion, on account of flows and valuation effects. At end-2006, total outstandings thus stood at EUR 1,174 billion. The non-resident holding rate for negotiable government debt securities continued to increase, reaching 59%.

11 The rules established for the drawing-up of the balance of payments stipulate that any stake over 10% is considered as a direct investment and any stake below 10% as a portfolio investment.

2|3 Other investments (loan and deposit transactions)

At EUR 156 billion, net inflows of loan and deposit transactions reached an exceptionally high level. This was thanks to resident monetary financial institutions (MFIs),[12] which hugely increased their net financing to EUR 136 billion.

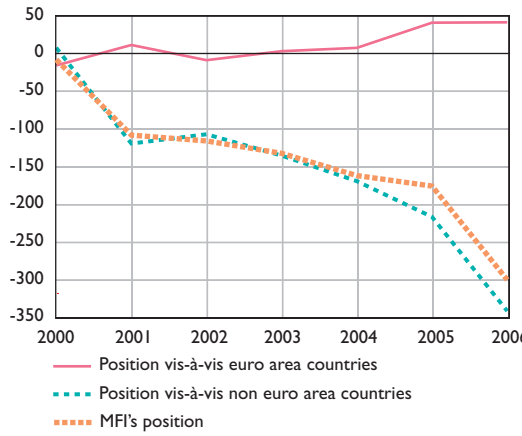
Assets and liabilities in the MFI sector increased rapidly. Loan and deposit transaction flows stood at EUR 128 billion and EUR 263 billion respectively. In terms of outstandings, the net position of MFIs' loan and deposit transactions declined by EUR 124 billion to a negative EUR 299 billion during 2006. In 2006, MFIs' net debt was exclusively vis-à-vis counterparties – irrespective of their type – located outside the euro area. This debt stood at EUR 341 billion, 37% of which denominated in euro. The financing of this debt was mainly carried out via financial institutions located in the United Kingdom or offshore. This shift away from the euro area has continued for several years, as illustrated by trends in outstandings in the graph below.

The balance concerning "other sectors" came to EUR 15 billion, down by EUR 14 billion on the 2005 level. This results from the debt of industrial and commercial firms (EUR 11 billion) while investment firms were net lenders by a small amount.

All told, with respect to outstandings, liabilities exceeded assets by EUR 272 billion, i.e. by twice as much as in 2005 and three times as much as in 2004. The main contributor to this trend was the MFI sector.

Breakdown of MFI positions by area

(EUR billions)



12 *This population mainly comprises credit institutions and money-market fund shares.*

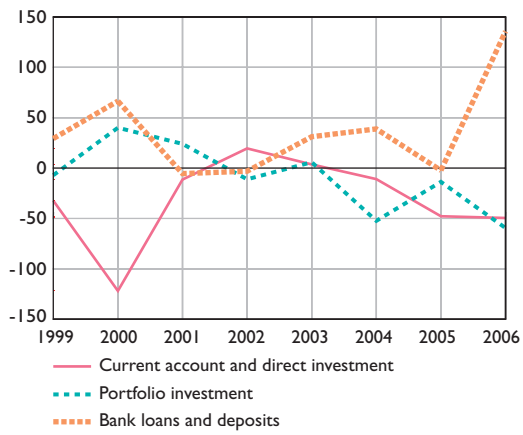
3| Overall equilibrium of the balance of payments

All in all, following on from what has been observed over several years, but on a scale not seen since 1999, the increase in banks' international liabilities, in the form of loans and deposits, covers the financing requirements resulting from the current account deficit and net capital outflows, in the form of both direct and portfolio investment. Of this exceptionally high amount, (EUR 136 billion) over 92% corresponded to interbank flows. The reconstitution of a simplified account for credit institutions[13] illustrates this phenomenon which, combined with the sustained acquisition of their securities by non-resident investors, secured the resources needed for the granting of credit to residents.

In view of the statistical nature of the drawing up of a balance of payments – which theoretically should show an equilibrium – identified inflows of funds exceed outflows by EUR 41 billion, thus accounting for the amount given in errors and omissions. In 2005, the opposite was true, when a financing shortfall of EUR 26 billion was observed.

Equilibrium of the balance of payments

(EUR billions)



13 For further details on its construction, please refer to the 2006 Annual Report on France's balance of payments and its international investment position, *pages 47 and 48 (in French) at the following link:* http://www.banque-france.fr/fr/stat_conjoncture/telnomot/bdp/rap_2006/rap_2006.pdf.

Resident credit institutions' transactions in 2006

(EUR billions)

	Resident (a)	Non-resident			Total (b)
		Total	Euro area	Outside the euro area	
Assets	**188**	**90**	**26**	**64**	**278**
Securities	27	63	13	50	90
Equities and mutual fund shares	*45*	*19*	*5*	*15*	*64*
Debt securities	*-18*	*44*	*9*	*36*	*26*
Customer credit	161	27	13	14	188
Liabilities	**8**	**259**	**–**	**–**	**267**
Securities	58	90	–	–	148
Equities and mutual fund shares	*7*	*6*	–	–	*13*
Debt securities	*51*	*84*	–	–	*135*
MFI loans and deposits (net)	-4	126	10	117	123
Customer deposits	-42	38	0	38	- 4
Balance	**179**	**-169**	**–**	**–**	**11**

(a) Obtained by balancing out.

(b) Source: national financial accounts.

The position of manufacturing firms in 2006

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Activity in the manufacturing sector accelerated in 2006, with nominal turnover climbing by 4%, in spite of a decline in the automotive industry. This trend was chiefly sustained by small and medium-sized manufacturing enterprises (SMMEs). Moreover, the investment rate remained stable.

The gross profit margin ratio stood at its lowest since 2000. Between 2000 and 2006, the decline was more marked for large firms. That said, the fall in depreciation charges and the rise in financial income enabled net return on equity to reach its highest level in ten years, also mainly thanks to large firms.

Large firms are still benefiting from favourable interest rates for borrowers and the gap between the cost of debt financing and the return on operating capital (ROOC): their debt ratios have increased and have benefited from positive gearing, favouring the renewal of return on equity (ROE).

In contrast, SMMEs have reduced their debt ratios to the lowest levels for ten years. Gearing does not come into play: trends in their ROOC and ROE are more in step with each other.

The most recent noteworthy factor is the continued expansion of groups with, in particular, the development of holding companies responsible for their financing. This financing by the group and its partners, which is a major feature of large firms, accounted for half of total financial debt in 2006. The position of holding companies requires particular attention in the analysis of company accounts: in 2006, holding companies bore over one-third of manufacturing groups' bank debt.

Key words: manufacturing sector, SMME, activity, profitability, debt, financial structure, group.
JEL codes: E22, G32, L23, L25, L6

*NB This paper is complemented by statistics comprising long runs of data, exclusively available in French on line at the following link: http://www.banque-france.fr/fr/ stat_conjoncture/statent/sei_2006.htm. The analysis is a follow-up to the publication "*Premiers résultats des PMI en 2006 : meilleure rentabilité mais reprise de l'investissement*", published in French on the Banque de France website in August 2007 (http://www.banque-france.fr/fr/publications/telechar/observatoire/SEI_N8_Note_PMI.pdf). The analysis is based on financial year 2006 accounts, recorded over Q2 and Q3 2007, covering small and medium-sized manufacturing enterprises (SMMEs) and large firms in the manufacturing sector.*

1| Activity more sustained for SMMEs than for large firms

1.1 Dynamic performances in capital goods

In 2006, the manufacturing sector posted better performances than in 2005; turnover growth accelerated, while it had slowed the previous year (a nominal increase of 4.0%, compared with a rise of just 2.0% in 2005). This was the case for intermediate goods, capital goods and the food industry. In the consumer goods sector activity was more subdued than in 2005 and in the automotive industry there was a year-on-year decline. As in 2005, small enterprises' nominal turnover increased more significantly than that of large firms (see Table 1).

Table 1 Change in nominal turnover

	Total		Very small firms		SMMEs		Large firms	
	2005	2006	2005	2006	2005	2006	2005	2006
Food industry	1.3	4.6	-0.8	3.0	1.0	3.1	1.6	5.3
Consumer goods	2.2	1.1	2.3	-0.9	0.6	2.8	2.9	0.4
Automotive industry	-1.8	-3.0	4.9	5.9	5.6	4.7	-2.1	-3.3
Capital goods	5.7	9.1	1.5	5.6	5.0	7.6	6.4	10.3
Intermediate goods	2.6	6.7	3.1	5.4	3.0	7.0	2.4	6.7
Total	**2.0**	**4.0**	**1.5**	**3.7**	**2.7**	**5.6**	**1.7**	**3.5**

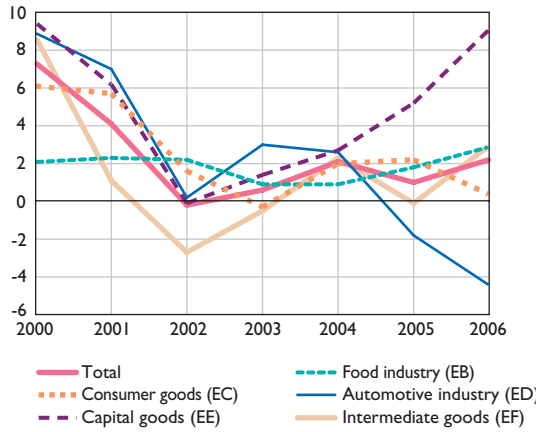
Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

In real terms, the upturn was less marked (see Chart 1). Prices increased more rapidly than in the previous year, particularly in the intermediate goods sector (up 3.6%, owing to the rise in the cost of raw materials), and in the food industry (up 1.7%). In 2005, prices remained relatively unchanged in most sectors; only the price of intermediate goods climbed significantly, by 2.7%.

The capital goods sector was the most dynamic in terms of trading volumes (rising 9.1% in 2006, after a 5.2% increase in 2005). Business activity also accelerated markedly in the intermediate goods sector and the food industry. In contrast, business slowed in the consumer goods sector and the automotive industry, where the slowdown that commenced in 2005 was exacerbated.

Charts 1 and 2 Trends in real turnover by sector and company size

(%)



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source : Banque de France – Balance Sheet Data Centre, Companies Observatory.

The upturn in business activity in 2006, taking all company sizes and all sectors into consideration, continued the trend that began after the dip in 2002 (see Chart 2). SMMEs were more dynamic than large firms, posting increases of 3.7% and 1.7% respectively in 2006.

For the second consecutive year, business activity in large firms declined, mainly in the automotive industry, where large firms dominate. Taking all sectors into consideration, very small manufacturing firms continued the upturn initiated in 2005; only the very small manufacturing firms in the consumer goods sector posted a decline in 2006.

Box 1

Methodology

In 2006, manufacturing enterprises were analysed on the basis of a Balance Sheet Data Centre sample taken at the beginning of September 2007. This sample of enterprises has a coverage ratio of around 50% in terms of employee numbers. The analysis covers the period from 1996 to 2006 and, irrespective of what year n may be, the comparison is made on a constant sample basis relative to the preceding year. The results are then weighted (sector, size) based on INSEE's exhaustive data, to take into account the sampling.

Size criteria:

The definitions are based on three of the criteria defined by the European Commission: number of employees, annual sales and balance sheet assets. (The Commission adds a fourth criterion: independence.)

• Very small firm: 10 to 19 employees, with annual sales of less than EUR 10 million and balance sheet assets totalling less than EUR 10 million.
• SME (small or medium-sized enterprise): 20 to 249 employees, with annual sales of EUR 10 to 50 million and balance sheet assets totalling EUR 10 to 43 million euros.
• Large firm: 250 or more employees, annual sales greater than EUR 50 million, or balance sheet assets totalling more than 43 million euros.
• Small group: fewer than 500 employees, annual sales of less than EUR 50 million, and fewer than 5 subsidiaries.
• Large group: all other cases.

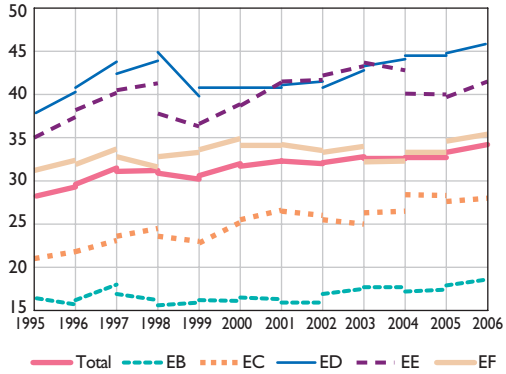
A specific analysis concerning manufacturing groups is outlined in paragraph 4, taking into account all the subsidiaries, manufacturing or otherwise, of manufacturing groups, using the FIBEN database. Manufacturing groups are all those with over half of total employees in the manufacturing sector.

The main economic variables are studied at the level of each of the manufacturing sectors in the NES16 classification: food, consumer goods, automotive, capital goods and intermediate goods industries, comparing the three sizes of enterprises.

Having reached a plateau since 2001, the share of turnover generated from exports increased slightly in 2006, gaining almost one percentage point (see Chart 3). The rise in exports recorded in 2006 was mainly thanks to large firms, which already registered twice as much business with foreign markets than SMMEs (41.5 % and 18.6 % respectively). The increase was also owing to a stronger decline in the automotive industry's total turnover than in its export turnover. The capital goods sector recorded the

Chart 3 Share of turnover generated from exports, by sector

(%)



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

greatest increase, while in contrast, the consumer goods sector recorded the smallest. In comparison with 1995, the share of turnover generated from exports gained six percentage points in the manufacturing sector as a whole, mainly thanks to the automotive, consumer goods and capital goods industries. Over the period from 1995 to 2006, taking all sectors into consideration, the share of large firms' turnover generated from exports increased by 6.6 percentage points, while that of SMMEs and very small manufacturing firms grew by 1.5 and 1.3 percentage points respectively.

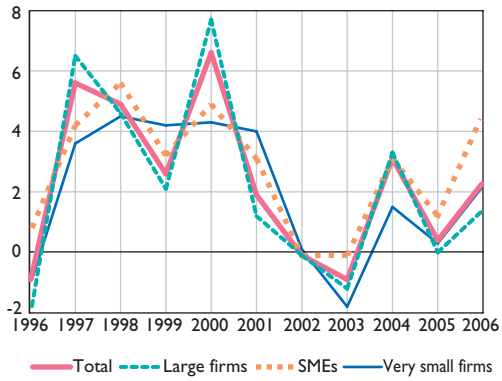
1|2 Continued increase in value added in spite of a rise in input costs

The share of turnover absorbed by the cost of raw materials increased in 2006, thus continuing the trend recorded over the two preceding years. During the period from 1995 to 2006, the weight of raw material costs increased by over two percentage points in the intermediate goods and capital goods sectors and very markedly in the automotive industry, while in the food industry it declined by over four percentage points.

Despite the growth in input costs, the increase in the value added in the manufacturing sector was greater in 2006 than in 2005 (2.3% and 0.4% respectively – see Chart 4). The increase was mainly observed in the capital goods and intermediate goods sectors, while in the automotive industry value added declined. In this context, as in 2005, the value added of large firms was impacted by results in the automotive industry, while

Chart 4 Changes in produced value added according to company size

(%)



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

that of SMMEs rebounded. As a result, the growth rate of the value added of SMMEs returned to levels close to those observed at the end of the 1990s.

1|3 Staff costs increased despite a reduction in the number of employees

Employment in the manufacturing sector continued the decline initiated in 2002. The sharpest reduction was in the automotive industry (5.2%), although the consumer goods and intermediate goods sectors were also concerned (1.4% each). In these three sectors, employment has decreased regardless of the firms' size. In the food and capital goods industries, staff numbers increased in SMMEs and large firms. Taking all sectors into account, only SMMEs managed to stem the decline in manufacturing employment initiated in 2002. Conversely, job destructions accelerated in large firms.

In spite of the decline in manufacturing employment, personnel costs increased in all sectors, barring the automotive industry. The sharpest increases were in the capital goods and food industries.

Box 2

Manufacturing firms have opened up to export markets

Concentration among certain firms

In the manufacturing sector, 67% of firms export. On average, these exports account for 37% of their turnover. The exports are concentrated among certain firms: only 43% of manufacturing firms generate over 5% of their turnover from exports and just 23% generate over 20% of their turnover from exports. For firms with an export rate of over 20%, the average share of turnover generated from exports reached 53% in 2006.

Firms that form part of a group tend to export more than independent companies and the share of their turnover generated by exports tends to be higher. This is particularly the case when the firm is part of a large group: 76% of large groups' subsidiaries export, compared to only 61% of independent firms.

Table 2 Exporting firms resident in France

	Total	Size			Status		
		Very small firms	SMMEs	Large firms	Independent	Subsidiary of a small group	Subsidiary of a large group
Exporting firms							
Percentage	67	57	73	93	61	71	76
Share of turnover generated from exports	37	20	24	42	20	26	41
Firms that generate over 5% of turnover from exports							
Percentage	43	32	47	79	36	46	54
Share of turnover generated from exports	43	31	33	46	31	35	45
Firms that generate over 20% of turnover from exports							
Percentage	23	16	25	57	17	25	36
Share of turnover generated from exports	53	48	48	53	47	49	53

Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

Large firms tend to export more regularly

Companies in the manufacturing sector do not necessarily export every year. Only 55% of companies exported both in 2005 and 2006 and 47% in 2004, 2005 and 2006. Calculated on the basis of the population of firms that generated over 20% of their turnover from exports in 2006, these proportions drop to 18% and 15% respectively.

The larger a company, the more it benefits from the advantages of competitiveness thanks to their size, enabling them to access foreign markets and maintain their position there (see Tables 2 and 3). Of the large firms that exported in 2006, 93% had

.../...

.../...
already exported in 2004 and 2005, while for SMMEs this proportion was 86%. Likewise, the more a company exports, the greater its chances of maintaining a high openness ratio.

Table 3 Proportion of exporting firms

(%)

	Total	Very small firms	SMMEs	Large firms
2005 and 2006				
Firms whose share of turnover generated from exports:				
• is positive each year	55	42	62	81
• exceeds 20% each year	18	10	20	48
2004 to 2006				
Firms whose share of turnover generated from exports:				
• is positive each year	47	34	54	73
• exceeds 20% each year	15	8	17	43

Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

Export turnover for manufacturing groups: mainly generated via manufacturing subsidiaries

Table 4 Breakdown of turnover and export turnover by sector of the subsidiaries in 2006

(%)

	Turnover	Export turnover
Food industry	13	7
Consumer goods	12	12
Automotive industry	23	26
Capital goods	13	17
Intermediate goods	25	29
Retail	11	7
Business services	2	2
Other	1	0
Total	**100**	**100**

Scope: All subsidiaries of manufacturing groups (groups for which over half of the employees work in the manufacturing sector).
Source: Banque de France – FIBEN, Companies Observatory.

The export turnover of manufacturing firms corresponds to their direct exports of products and services, as recorded in company balance sheets. Part of this export turnover may correspond to non-manufacturing products or services. Moreover, in view of group structures, part of the manufacturing exports of these firms is carried out by non-manufacturing subsidiaries (see Box 1). However, aggregating the financial statements of all of the manufacturing groups' subsidiaries, regardless of the sector to which they belong, shows that direct exports continued to account for the lion's share of these manufacturing groups' exports. While 14% of the manufacturing groups' turnover was generated by non-manufacturing subsidiaries, the share generated from exports was around 9% (see Table 4). The best part of manufacturing groups' export turnover is therefore directly generated by manufacturing firms, mainly in the automotive industry and intermediate goods sector.

1|4 A moderate upturn in investment, accompanied by a slight rise in intangible expenses

Investment spending in the corporate sector increased moderately in 2006 (by 2.5% for all company sizes), at a rate equivalent to that of value added. This slight upturn in investment, coupled with the decline in manufacturing staff levels resulted in 3.3 percentage points of capital deepening. SMMEs were more dynamic than very small manufacturing firms or large firms. The rise was observed predominantly in two sectors: food and capital goods. In the capital goods industry, the mechanical equipment, electrical and electronic goods segments were the most dynamic, mainly thanks to large firms. In SMMEs, the rise in investment particularly concerned the consumer goods and food industries. On the other hand, the automotive industry is notable for its reduction in investment, irrespective of company size.

Reported to value added, investment in 2006 remained below the level reached in 2000, and the rebound that began in 2004 was not confirmed (see Chart 5). The investment ratio remained stable relative to 2005, irrespective of company size. That said, the rate was higher for large firms than for other categories (see Table 5). By dividing up the population of SMMEs according to their status, the investment rate for SMMEs forming part of a large group increased markedly, while it remained stable for independent SMMEs and those forming part of small groups (see Chart 6).

Table 5 Investment ratio by size and by sector

(%)

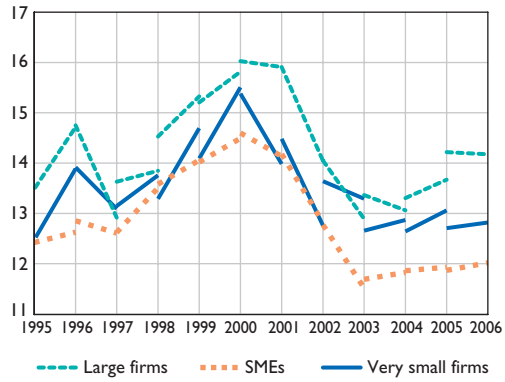
	2005	2006
Food industries	13.7	15.3
Consumer goods	11.6	11.7
Automotive industry	20.9	21.5
Capital goods	8.7	8.7
Intermediate goods	14.5	14.1
Very small firms	12.7	12.8
SMMEs	11.9	12.0
Large firms	14.2	14.2
Total	**13.4**	**13.4**

Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

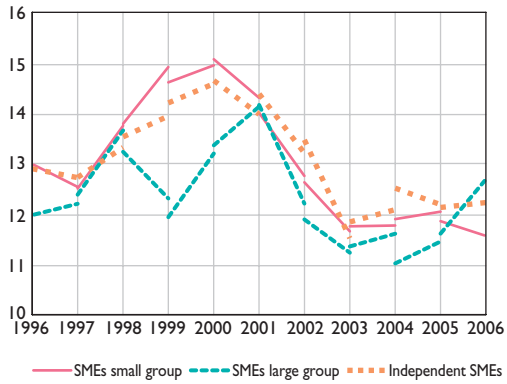
Charts 5 and 6 Investment ratio: productive investment to produced value added

(%)

Total manufacturing sector



SMMEs according to their status



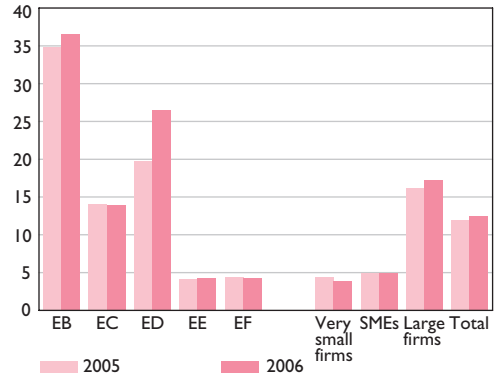
Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

Whereas food industries' investment ratio climbed in 2006 due to high investment spending in this sector, in the automotive sector the rate only increased because value added diminished sharply. As regards SMMEs, the investment ratio increased in the consumer goods sector, particularly in the pharmaceuticals, perfumes and cleaning and polishing preparations industries, and above all in the household equipment industry.

Intangible expenses and tangible and intangible investment represented 26% of the value added in 2006, i.e. half a percentage point more than in 2005. Although partly booked as expenses, some intangible investments also contributed to improving the production and marketing process. Over the decade preceding 2006, the share of intangible expenses in value added more than doubled for large firms, reaching a level of 17%

Chart 7 Share of intangible expenses in produced value added

(%)



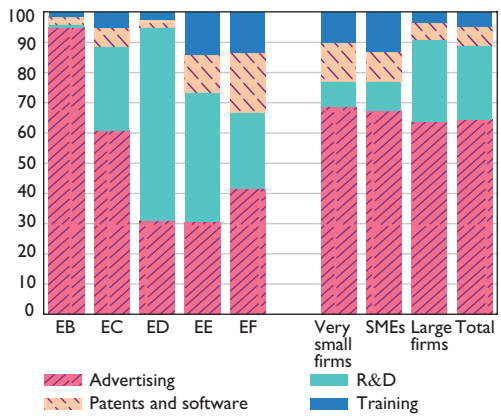
Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

in 2006 (see Chart 7). This share is now three times as high as for SMMEs. It is particularly high in the food industry, due to trade expenses, and in the automotive sector, owing also to research and development (R&D) costs. In 2006, growth in intangible expenses of around 7% was mainly on R&D costs (see Chart 8).

The acquisitions of stakes in a number of large firms, mainly in the food and consumer goods industries, led to a more marked increase in their investment rate,[1] while the rate for very small firms and SMMEs remained stable.

Chart 8 Breakdown of intangible expenses in 2006

(%)



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

1 Net investment = capital expenditure + acquisitions of stakes and fixed investments + changes in other fixed assets – disposals of assets and share investments

1|5 Improved labour productivity thanks to the level of equipment per employee

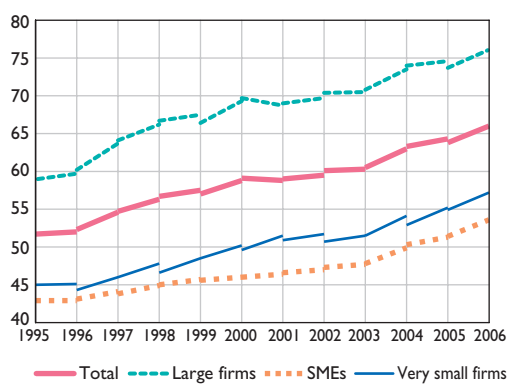
Labour productivity in the manufacturing sector increased in 2006 thanks to capital deepening (increase in the level of equipment per employee); equipment productivity remained stable. During the period from 1995 to 2006, there was a steady increase in labour productivity, reaching a total of EUR 14.3 thousand per employee.

Labour productivity increased in all sectors with the exception of the automotive industry, where there was a marked decline. Capital deepening continued, but equipment productivity only increased in the capital goods sectors and, marginally, in the intermediate goods sector, diminishing in the other three sectors.

In 2006, labour productivity advanced at a similar pace for SMMEs and large firms, but not for the same reasons. As regards SMMEs, the increase was owing to equipment productivity, while for large firms, it was exclusively due to capital deepening.

Chart 9 Labour productivity (value added per employee) according to company size

(EUR thousands)



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

2| Financial debt increased, particularly in the consumer goods and automotive sectors

2|1 The increase in bank and financial debt was more marked for large firms

Box 3

Data from the Banque de France Central Credit Register

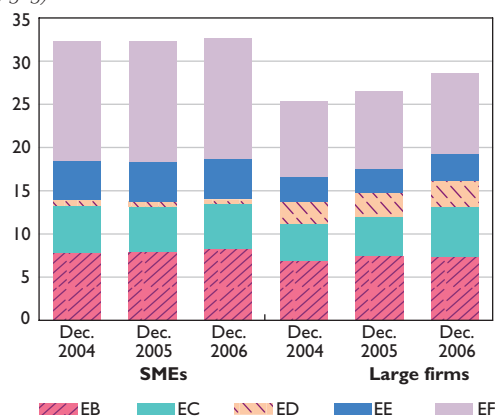
Outstanding loans to manufacturing firms stood at EUR 61.3 billion in December 2006, up 4.3% year-on-year. Outstandings for large firms (turnover exceeding EUR 50 million) increased by 8%, while for SMEs they remained almost stable (up 1%).

Since the beginning of 2001, loan outstandings in the manufacturing sector have gone through three phases. Until September 2001, loan outstandings increased both for large firms and SMEs. From September 2001 to June 2004, outstandings fell sharply for all companies. Since June 2004, the rise in loan outstandings was mainly owing to large firms.

The main share of credit extended to manufacturing firms was granted to those belonging to a group: 73% of outstandings declared in 2006 to the Central Credit Register concerned firms controlled by a group, compared to only 63% in 2000. For SMEs alone, this share increased from 46% to 57% during this six-year period, as the number of independent companies diminished.

Chart 10 Outstandings declared by credit institutions

(EUR thousands, yoy)



Scope: Resident manufacturing firms.
Source: Banque de France – Central Credit Register.

In terms of outstandings, financial debt increased by 7% in 2006 (bank debt rose by 11.5%). All manufacturing sectors were concerned, though the rise was more marked in the consumer goods sector and, to a lesser degree, in the automotive industry. Moreover, large firms were more strongly affected, including for bank debt, which confirms data from the Banque de France Central Credit Register, highlighting more dynamic growth in large firms' loan outstandings in 2006.

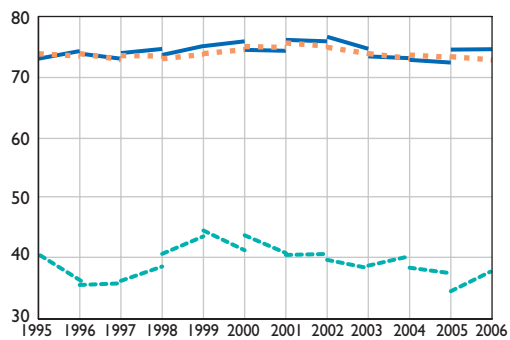
2|2 A sharp increase in financing by the group and its partners over a decade

Bank loans are the source of financing most favoured by small enterprises (almost 75% of these firms' financial debt). Two-thirds of bank loans to small enterprises are medium- and long-term loans (see Charts 11 and 12). The share of bank loans in total financial debt remained stable.

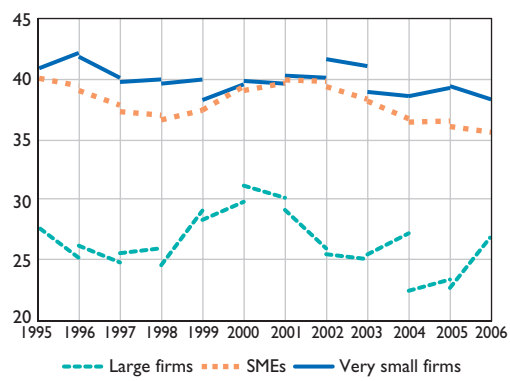
Charts 11 and 12 Share of bank loans

(%)

In financial debt



In produced value added



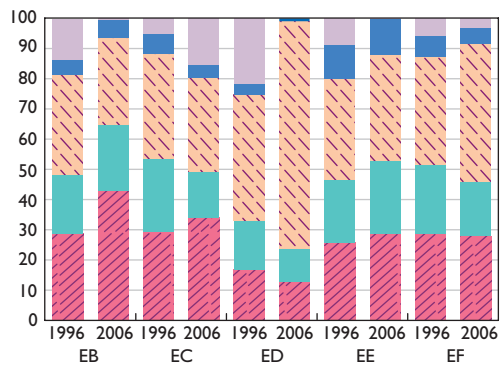
Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

Another component of financial debt is the share financed by the group and its partners (see Charts 13 and 14). This mode of financing is widespread among large firms, accounting for half of their total financial debt. It is particularly significant in the automotive sector (accounting for three-quarters of financial debt) and up significantly in relation to 1996, to the detriment of market financing and bank loans. A share of this financing is in reality comprised in the financing of the group and its partners via holding companies. Only an analysis based on consolidated accounts would enable a correct evaluation of the debt on the entire scope of the groups, irrespective of their location. The aggregation of all of the manufacturing groups' subsidiaries' financial statements is only an initial step, which enables the analysis to be focused on the national level (see paragraph 4).

Charts 13 and 14 Structure of financial debt by sector and size in 1996 and 2006

(%)

Sector



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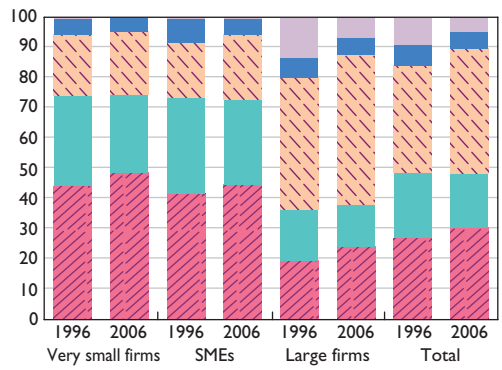
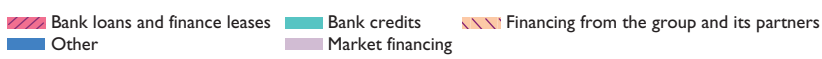




Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

In 2006, market financing thus accounted for a limited proportion of total financial debt, with the exception of large firms of intermediate goods, a certain number of which accounted for the most part.

As a result, financing structures have changed significantly over the past decade owing to the development of groups. The sectoral differences between the proportion of group financing, market financing and bank loans probably mainly reflects the various organisational methods with a certain share dedicated to holding companies, which are not taken into account at this stage of analysis as they are non-manufacturing entities. In the automotive industry, which is structured mainly in the form of large groups, the share of debt financed by group companies and partners predominates and has increased. The increase in this form of financing has been less significant in the capital goods and intermediate goods sectors. In the food industries, bank loans are still prevalent. In the consumer goods sector, the situation is more even, as some large manufacturing firms, while maintaining operating activities have also developed financing functions for the group.

2|3 In 2006, the weight of financial debt increased for large companies and decreased for SMMEs

The financial debt ratio (financial debt to shareholders' equity) increased in the manufacturing sector, mainly owing to large firms (see Charts 15 and 16). This increase concerns two sectors in particular: the consumer goods sector, in conjunction with the increase in financial debt mentioned above, and the automotive sector, where the increase in debt was accompanied by a decline in shareholders' equity.

Financial debt ratios of companies according to their size have begun to converge over recent years, whereas in 1995 there was a significant differential between SMMEs and very small manufacturing firms. In fact, SMMEs' and very small firms' debt ratios have steadily declined, reaching a historically low level in 2006.

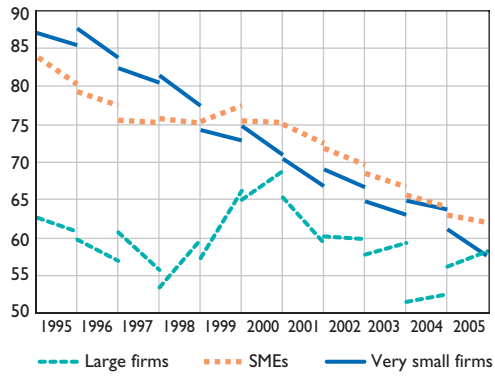
2|4 The cost of debt remained low and short-term solvency was very satisfactory

In 2006, the amount of interest paid increased by 10% in the manufacturing sector due to the increase in debt and the hike in interest rates since end-2005. The impact on the profit and loss account remained limited, however, mainly affecting large firms in certain sectors. The weight of

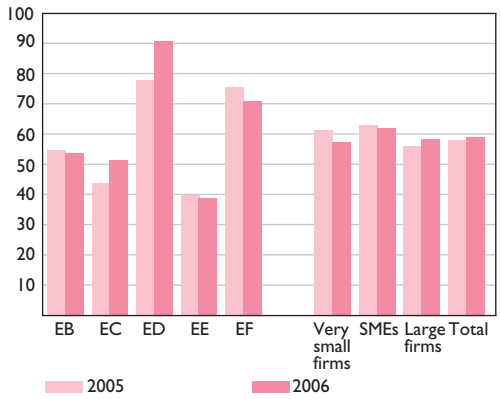
Charts 15 and 16 Financial debt to shareholders' equity

(%)

By company size



By Sector



Scope: Manufacturing sector firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

interest in total gross income stabilised for SMMEs and very small firms and increased slightly for large firms. The apparent cost of financial debt increased slightly in 2006, while remaining at a historically low level.

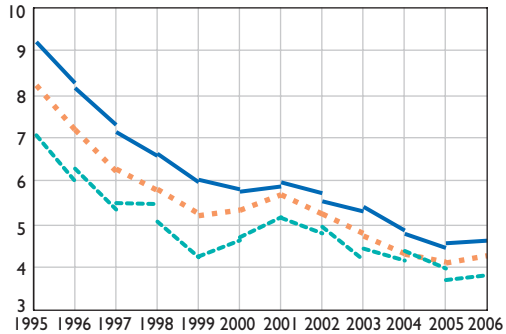
Nevertheless, interest payments increased sharply in the consumer goods and automotive industries, mainly for large firms. In these two sectors, the solvency constraint deteriorated significantly, with the weight of interest in total gross income increasing from 5.6% to 8.5% in the consumer goods sector, and from 4.5% to 11.5% in the automotive industry.

Debt capacity, measured by using the cash flow to financial debt ratio, increased for SMMEs and very small firms and decreased for large firms, notably in the automotive and consumer goods sectors (see Chart 19).

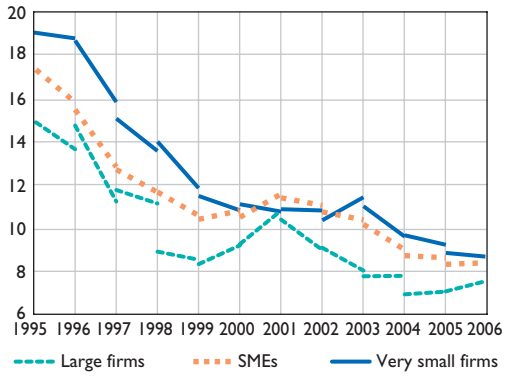
Charts 17 and 18 Short-term solvency

(%)

Apparent cost of debt



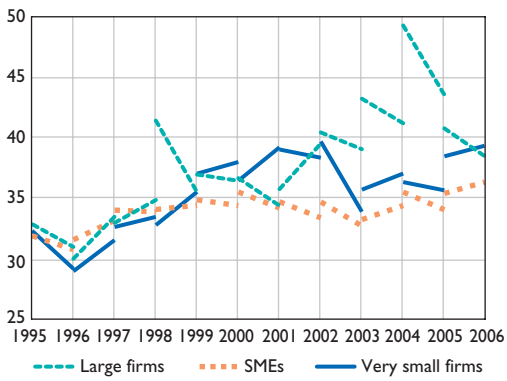
Share of interest in total gross income



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

Chart 19 Debt capacity: cash flow/financial debt

(%)



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

Indeed, SMMEs' and very small firms' debt capacity is at its highest level for the past ten years. Likewise, the share of shareholders' equity in total resources increased in 2006, reaching unprecedented levels for SMMEs. Although the proportion also increased for large firms in 2006, it has not reached its record high of 1998.

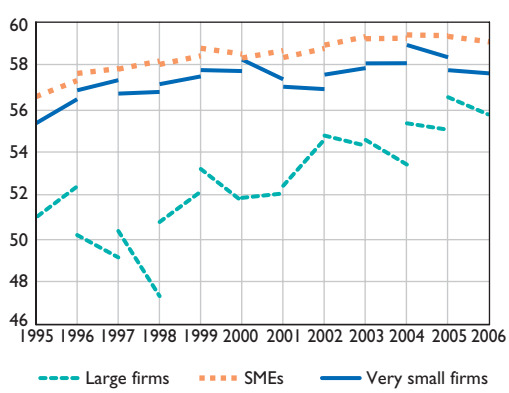
2|5 For large firms, participations are significant and operating working capital requirement has declined

Over the ten years to 2006, the weight of operating fixed assets increased slightly in very small firms and SMMEs and climbed more markedly in large firms, thus reducing the disparity between the different sized firms (see Chart 20). In contrast, large firms have distanced themselves from the other categories via the greater weight of participations and financial fixed assets (around 20% compared to less than 3% in other categories). The level is particularly high in the automotive industry (22% in 2006) and in the consumer goods sector (37%) where a number of large enterprises have developed financing activities – such as holding companies – while maintaining operating activities.

The share of working capital requirement (WCR) in total assets was lower for large firms (11.3% in 2006) than for SMMEs or very small firms (24.5% in both cases, see Chart 21). For large firms, the share of WCR in total assets lost over four points in ten years. The share of WCR is greater in the capital goods and intermediate goods sectors where the long business cycle structurally requires substantial product inventories and a high level of intercompany loan outstandings. In contrast, the automotive industry is

Chart 20 Share of operating fixed assets in total assets

(%)



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

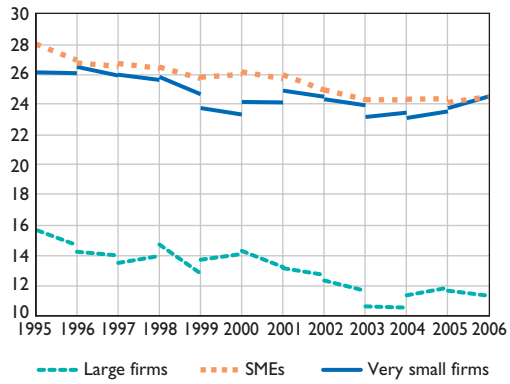
set apart in terms of WCR, thanks to a just-in-time approach to inventory management and negative intercompany credit.

Expressed in terms of days in net turnover, operating WCR declined steadily for large firms, shedding over 15 percentage points in the space of ten years to a level of 35.6 days in 2006. Intercompany credit was not very significant, since bargaining power enables large firms to obtain shorter settlement deadlines. Operating WCR was higher for SMMEs, where their share was stable during 2006, and rose for very small firms. This higher level was due to the weighting of inventories and intercompany credit.

Charts 21 and 22 Share of working capital requirement

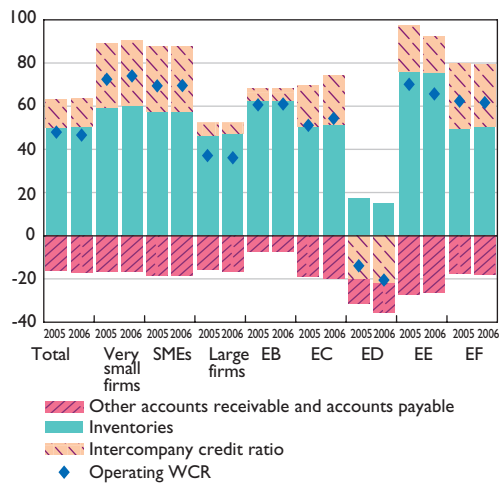
In total assets, by company size

(%)



In each component, by company size and by sector

(in extended days in net turnover)



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

3| In 2006, ROOC trended better for SMMEs than for large firms

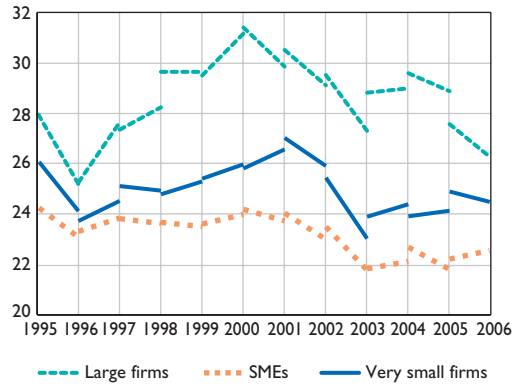
3|1 Large firms' profit margins were eroded and in other categories they stabilised at a low level

Taking all company sizes into consideration, gross operating income declined slightly in 2006 (see Chart 23 and Table 6). On the one hand, personnel costs increased a little faster than value added (by 2.9% and 2.3% respectively). On the other hand, taxes and related payments climbed 5.9%. SMMEs' gross operating income grew by 6%, while that of very small firms climbed by only 1%. In contrast, large firms' gross operating income dropped by 4%, having been hit by the situation in the automotive industry.

The profit margin ratio (share of gross operating income in value added) shed 0.8 points, returning to 25% in 2006, its lowest level since 1995. In line with trends in gross operating income, SMMEs' profit margin ratio increased slightly, while that of very small firms stagnated. In 2006, it reached a long-term low. Large firms' profit margin ratio declined markedly, reaching way below levels observed in 2000, approaching – though remaining higher than – those of the other categories.

Chart 23 Profit margins:
gross operating income/value added, by company size and sector

(%)



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

Table 6 Gross operating income/value added by sector and company size in 2005 and 2006

	2005	2006
Food industries	31.9	30.7
Consumer goods	26.6	24.9
Automotive industry	29.3	20.3
Capital goods	22.1	23.4
Intermediate goods	24.0	24.8
Very small firms	24.9	24.5
SMMEs	22.2	22.5
Large firms	27.6	26.2
Total	**25.8**	**25.0**

Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

Capital goods and intermediate goods sectors' profit margin ratios improved in 2006, while in the other sectors they deteriorated, particularly in the automotive industry (losing nine percentage points). In relation to 1995, the profit margin ratio declined in all sectors with the exception of capital goods, which continued to converge with the other sectors, while in 1995 it was markedly lower. Conversely, profit margins in the food industry remained clearly above those of other sectors.

3|2 In contrast with gross profitability, the various measures of net profitability improved in 2006

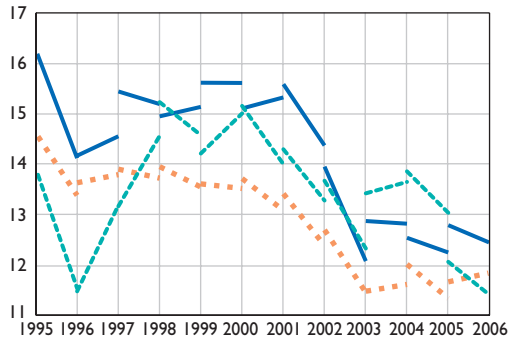
The decline in gross operating income led to a drop in gross return on operating capital (ROOC), i.e. gross operating income/operating capital, for very small firms and large firms (see Chart 24). The latter increased slightly for SMMEs, while remaining at a low level (below 12%). The decline was sharper in the automotive sector (dropping by 4.8 percentage points) but relatively moderate in the food and consumer goods industries. However, in the intermediate goods and capital goods sector there was an increase in gross ROOC.

Owing to the decline in depreciation charges (down 8%), there was an improvement in net operating income, notably for SMMEs (up 13%). However, large firms' net operating income stagnated, owing once again to the automotive industry. Thus net ROOC converged towards 8%, irrespective of company size, in 2006, while nonetheless remaining below the early-2000s level (see Chart 25).

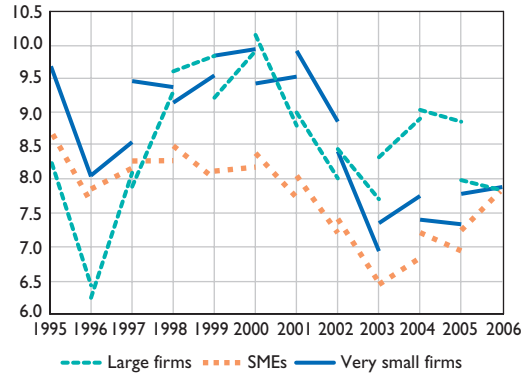
Charts 24 and 25 Operating profitability

(%)

Gross



Net



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

The upturn in activity has not benefited all sectors. Net ROOC improved markedly in the capital goods sector, where all activities were buoyant. The hike was particularly marked in the shipbuilding, aircraft and rail construction industries. In the intermediate goods sector, the situation was more mixed, with a sharp rise in the metalworking and the electrical and electronic components industries, but a decline in the textiles industry. Net ROOC stagnated in the food industry, while it dipped slightly in the consumer goods industry, mainly in the clothing and leather goods and household equipment sectors. Lastly, the automotive sector has been hard hit by sluggish activity, with net ROOC dropping by 4.2 points in 2006.

Overall net income takes into consideration operating and non-operating income. Taking all company sizes into account, overall net income increased by 9.9%. SMMEs posted the sharpest increase (14.8%), ahead of large firms (8.8%) and very small firms (5.9%). Financial income increased

irrespective of the company size (12.1%). Their weighting is now more marked in large firms, notably those in the consumer goods sector. In contrast, in large firms in the automotive sector, financial income declined, exacerbating the drop in ROOC.

Overall net profitability is measured via the overall net income to financial capital (shareholders' equity and financial debt) ratio. In 2006, it stood at its level of early 2000 of 12% for SMMEs and very small firms and 13% for large firms. The ratio deteriorated sharply in the automotive sector, while an increase was observed in the intermediate goods and capital goods sectors.

Net cash flow increased by 13% enabling net ROE (net cash flow/ shareholders' equity) to gain one point in 2006, to 13.4% (see Chart 26). Large firms' ROE increased and remained higher than that of SMMEs and very small firms, in spite of being impacted by difficulties in the automotive sector.

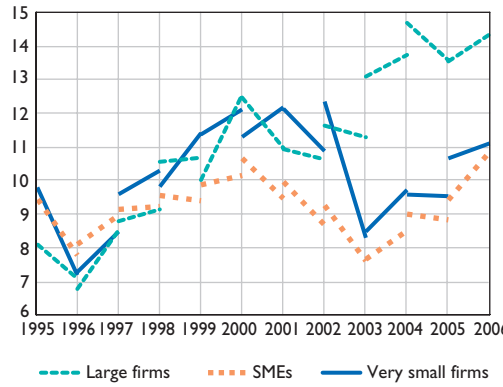
SMMEs' and very small firms' ROE improved significantly, benefiting from favourable performances and a rise in non-operating income. As regards sector variations, ROE increased in the capital goods and intermediate goods sectors, while it slid in the consumer goods sector and deteriorated in the automotive industry.

In 2006, SMMEs' ROE returned to its early-2000s level. Large firms' ROE reached a record high, in spite of stagnating ROOC and a troubled automotive industry.

The explanation can be traced to the financing structures, which differ according to the size of the manufacturing firms, and developments in these financing structures during the period under review. Large

Chart 26 Return on equity: net cash flow/shareholders' equity

(%)



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

Table 7 Net cash flow/shareholders' equity by company size and sector

	2005	2006
Food industries	12.5	13.9
Consumer goods	14.8	12.9
Automotive industry	14.3	-2.9
Capital goods	12.9	15.6
Intermediate goods	10.0	15.1
Very small firms	10.7	11.1
SMMEs	9.4	10.8
Large firms	13.5	14.3
Total	**12.4**	**13.4**

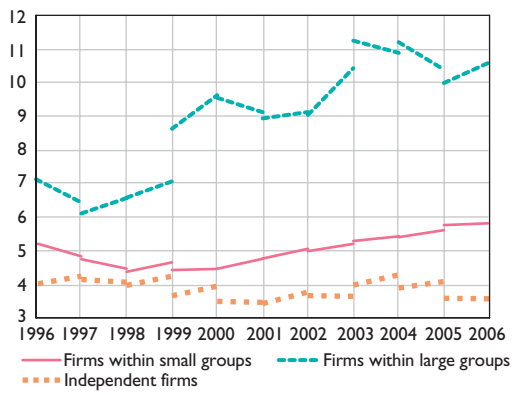
Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

firms' debt ratio in 2006 was close to the 1995 level and has even increased recently. Large firms have taken advantage of the drop in the cost of debt and the gap with ROOC to borrow, notably over the past two years. These firms have benefited from positive gearing, enabling them to increase their ROE. The phenomenon is less marked for SMMEs and very small manufacturing firms, which, in contrast, were committed to reducing their debt ratios. In this case, gearing does not come into play and trends in ROE match those in ROOC.

3|3 Trends in income allocation reflect those of financing structures

Chart 27 Stakeholders' share in total income according to company status

(%)



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

Total income includes all company income, gross operating income and non-operating income. Total income increased at a faster pace for SMMEs than for very small firms and large firms. Total income is shared between the company's different players and stakeholders. Over the ten years to 2006, the employees' share, which is by far the largest, and the state's share remained stable. In contrast, the company's share (cash flow) was more volatile. The creditors' share diminished by over half in ten years, irrespective of company size. The stakeholders' share, i.e. in the form of dividend payouts, increased, reaching almost 11% for large firms and a more modest 6% for small and medium-sized enterprises in 2006. In both cases, the development of group structures contributed significantly (see Chart 27).

3|4 Decline in the self-financing ratio in 2006, except for SMMEs

The decline in the self-financing ratio was significant for very small and large manufacturing firms, particularly in the consumer goods and automotive industries (see Table 8 and Chart 28). SMMEs, on the other hand, maintained a high self-financing ratio, due to better results in 2006 and prolonged modest investment spending. Over the long-term, the self-financing ratio has remained stable for SMMEs while the trend has been more uneven for very small and large manufacturing firms.

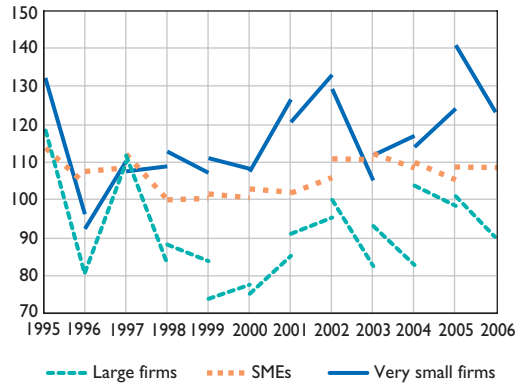
Table 8 Self-financing ratio: self-financing/ investment

	2005	2006
Food industries	113.9	105.6
Consumer goods	145.6	84.0
Automotive industry	103.6	29.6
Capital goods	95.7	159.4
Intermediate goods	87.4	103.2
Very small firms	141.0	123.2
SMMEs	18.6	108.5
Large firms	101.0	90.0
Total	**104.6**	**95.8**

Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

Chart 28 Self-financing ratio: self-financing/ investment

(%)



Scope: Manufacturing sector – firms recorded during two-year successive periods.
Source: Banque de France – Balance Sheet Data Centre, Companies Observatory.

4| A more rounded approach of manufacturing groups thanks to the inclusion of all subsidiaries

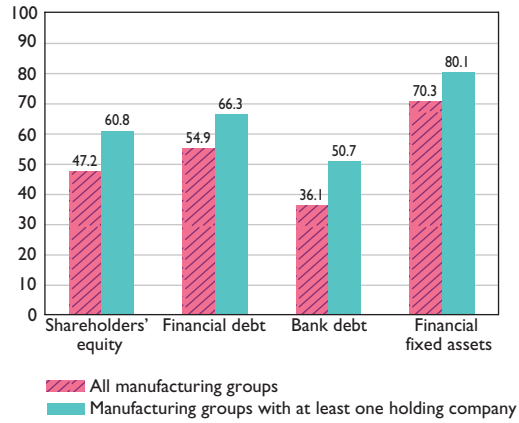
4|1 Holding companies, essential for the assessment of bank debt, are also the source of double counting for financial debt

Group structures are increasingly common in the manufacturing sector. The rise in the number of holding companies within these groups requires particular attention to be paid to the analysis of companies' financial statements, due to the existence of intragroup flows. Though the role of holding companies is to manage most of the financing flows at group level, these entities have little operating activity in the literal sense.

Therefore, a share of the bank debt and the market financing is now borne by these holding companies. The latter must hence be taken into account when analysing certain items. In contrast, for other indicators, such as financial debt or shareholders' equity, analysis is much trickier owing to double counting. The latter is more or less of a problem depending on the complexity of the structures and the potential overlapping of interrelated holding companies. Lastly, a number of ratios of manufacturing groups with most of their employees in the manufacturing sector followed similar trends to the large manufacturing groups.

Chart 29 Weighting of holding companies in manufacturing groups in 2006

(%)



Scope: Groups with over half of their employees in the manufacturing sector.
Source: Banque de France – FIBEN, Companies Observatory.

In 2006, the weighting of holding companies within manufacturing groups stood at 36% as regards bank debt, 50% as regards shareholders' equity and 70% as regards financial fixed assets (see Chart 29). Thus, taking all manufacturing groups into consideration, over one-third of their bank loans involve their holding companies. However, the significant weighting of holding companies also conceals the issue of double counting observed within groups. To give a more precise idea of the extent of the phenomenon, the weighting of holdings within manufacturing groups is only calculated on groups with at least one holding company. In this case, the weighting of holding companies is 80% as regards fixed financial assets, 60% as regards shareholders' equity and 50% as regards bank debt.

4|2 The share of bank debt in value added increased from 2004 to 2006, via holding companies

Holding company structures on average bear a significant share of manufacturing groups' bank debt. The share of bank debt in value added increased by five points from 2004 to 2006, although this share appears to remain stable if these structures are not included in the groups' scope (see Chart 31 and 32). The upturn in debt financing has been observed following a significant decline since 2000. Debt capacity, measured by using the cash flow to bank debt ratio, reached 87% in 2006, up from 60% in 2000. This is the result of a growing increase in debt capacity during the period, in spite of a slight decline in 2005.

Box 4

Manufacturing groups' demographics

The development of group structures in manufacturing

The number of manufacturing groups has more than doubled over the past decade. Due to their increasing numbers, the average size of groups has shrunk since 2000 in comparison to previous years, both in terms of number of employees and turnover. There are more small groups now, breaking with the traditional image of a group.

Holding company structures are increasingly present within groups. In 2006, nearly one-third of manufacturing groups comprised at least one holding company.

Table 9 Developments in manufacturing groups: key figures

(turnover in EUR millions, proportions in percentage points)

	Number of groups	Number of companies	Employees			Turnover			Proportion of groups with at least one holding company
			Q1	Q2	Q3	Q1	Q2	Q3	
1997	6,174	12,038	41	108	409	5.1	16.3	75.4	21.5
2000	8,611	17,586	41	111	439	5.4	17.7	87.7	23.7
2003	10,894	23,260	36	98	404	4.6	15.5	79.6	29.1
2006	11,866	25,596	31	83	338	4.4	14.5	74.9	32.2

Scope: Manufacturing groups' subsidiaries.
Source: Banque de France – FIBEN banking database on companies.

Table 10 All categories of manufacturing groups

(headcount in thousands; turnover, value added, bank debt, financial debt, shareholders' equity in EUR billions)

	Number of groups	Number of companies	Employees	Turnover	Value added	Bank debt	Financial debt	Share-holders' equity
2000	8,611	17,586	2,159	641	163	83	264	369
2001	9,515	19,625	2,243	668	166	82	294	389
2002	10,346	21,786	2,328	698	173	74	309	435
2003	10,894	23,260	2,383	732	180	71	315	429
2004	11,559	24,778	2,364	749	188	66	286	393
2005	11,828	25,590	2,322	772	194	72	269	415
2006	11,866	25,596	2,167	751	187	76	307	474

Scope: Resident manufacturing firms.
Source: Banque de France – FIBEN banking database on companies.

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A large share of manufacturing groups' activity is generated in the retail trade sector

In 2006, over 42% of manufacturing groups had at least one subsidiary outside the manufacturing sector. Subsidiaries in the intermediate goods sector and the automotive industry generated almost half of the total turnover for all manufacturing groups; subsidiaries in the retail trade sector are at the same level as those of the other sectors of manufacturing (11%). This market activity of manufacturing groups is mainly carried out by subsidiaries in the wholesale retail sector. In contrast, the share of staff employed by these groups, outside the manufacturing sector, is lower, at around 7%. The intermediate goods sector is predominant, accounting for one-quarter of manufacturing groups' turnover and one-third of their staff.

Over the past decade, manufacturing groups' non-manufacturing activity has increased: turnover generated via non-manufacturing activity stood at 14% in 2006, versus less than 6% in 1996.

Table 11 Breakdown of turnover and headcount by manufacturing group sector in 2006

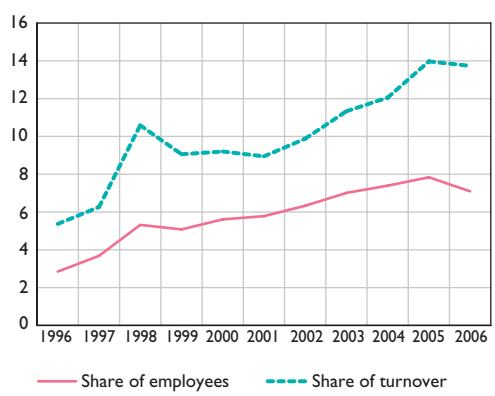
(%)

	Turnover	Headcount
Food industries	13	12
Consumer goods	12	15
Automotive industry	23	12
Capital goods	13	20
Intermediate goods	25	34
Retail	11	4
Business services	2	2
Other	1	1
Total	**100**	**100**

Scope: All manufacturing groups' subsidiaries.
Source: Banque de France – FIBEN, Companies Observatory.

Chart 30 Share of non-manufacturing activity in manufacturing groups

(%)

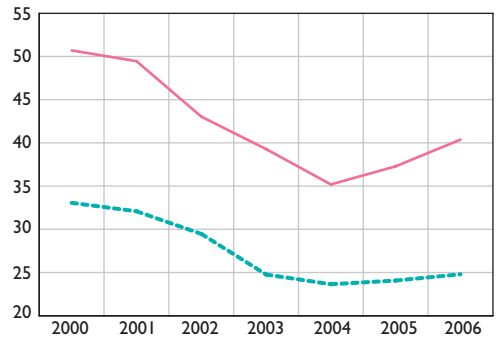


Scope: All manufacturing groups' subsidiaries.
Source: Banque de France – FIBEN, Companies Observatory.

Charts 31 and 32 The inclusion of holding companies in the scope of manufacturing groups

(%)

Share of bank debt in value added



Debt capacity

Scope: All manufacturing groups' subsidiaries.
Source: Banque de France – FIBEN, Companies Observatory.

Financial debt ratios, which are highly distorted by double counting, are trickier to interpret. If the financial debt to shareholders' equity ratio is considered, the data for both are affected by double counting. If the financial debt to value added ratio is considered, the ratio is overestimated in view of the double counting on debt and not on value added. Nevertheless, this ratio's trend seems to be closer to the economic reality, since financial debt increased in 2006 in line with bank debt.

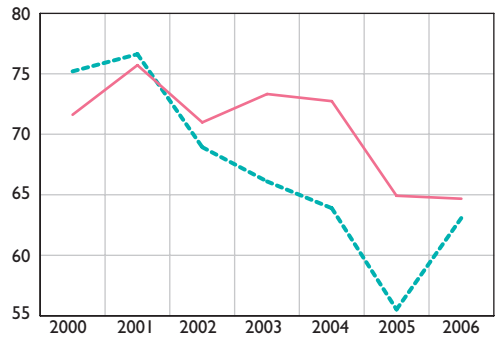
The inclusion of holding companies is less crucial when interpreting ratios such as profit margin and investment ratios. The ratios are comparable whether or not the holding companies are included in the scope of the manufacturing groups. However, for both of these ratios, recent trends are different according to the scope taken into account. Therefore, in

2006, trends in profit margins were less favourable when taking into consideration the extended scope. On the contrary, manufacturing groups' investment ratio including their holding companies accelerated, while the ratio excluding holding companies stagnated.

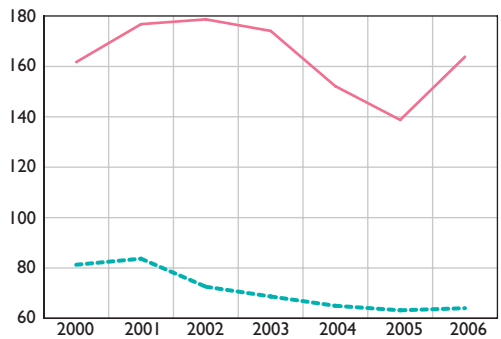
Charts 33 and 34 The inclusion of holding companies in the scope of manufacturing groups

(%)

Share of financial debt in shareholders' equity



Share of financial debt in value added

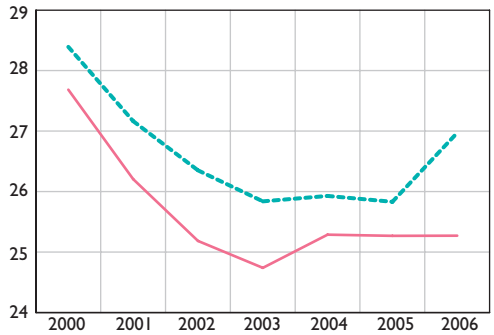


Scope: All manufacturing groups' subsidiaries.
Source: Banque de France – FIBEN, Companies Observatory.

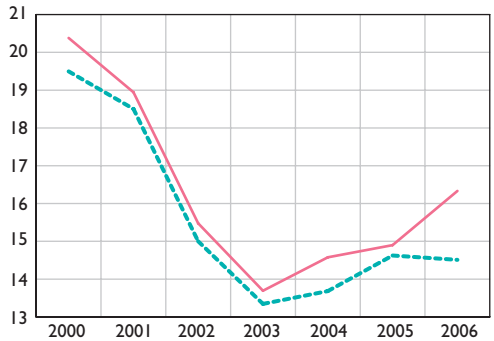
Charts 35 and 36 The inclusion of holding companies in the scope of manufacturing groups

(%)

Profit margin



Investment ratio



With holding companies — Without holding companies

Scope: All manufacturing groups' subsidiaries.
Source: Banque de France – FIBEN, Companies Observatory.

Accounting concepts

Value added: production + sale of goods + operating subsidy for price adjustments – broad consumption

Gross operating income : value added + other income and operating costs – payroll costs – taxes and related payments

Net operating income: gross operating income + transfers of operating costs – charges to provisions, depreciation and amortisation (net provisions). The net operating income to operating capital ratio gives the net return on operating capital (ROOC).

Total gross income: gross operating income + non-operating income

Net cash flow: value added + other income and operating costs + non-operating income – payroll costs – taxes and related payments – interest and related expenses – charges to provisions, depreciation and amortisation – corporate tax

Net cash flow can be used to assess a company's ability to self-finance its growth. The net cash flow to shareholders' equity ratio provides an indicator of financial profitability.

Operating investment: acquisition of tangible fixed assets + new fixed assets acquired under finance leases – lease-back transactions + acquisitions of intangible fixed assets

Operating capital: operating fixed assets + operating working capital requirement

Financial debt: all long-, medium- and short-term resources, lent to the company by its banks, its group and associated companies, or raised on financial markets

Bank debt: bank loans (including finance leases) + bank credit (including discounted trade bills receivable but not matured)

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Labour market flexibility: what does Banque de France research tell us?

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Research Directorate

The purpose of this paper is to take stock, on a preliminary basis, of the findings of a Banque de France internal working group on "Labour market flexibility and monetary policy efficiency" which the author has chaired in the past two years.[1] The motivations that led to the creation of this working group were mainly threefold:

• Firstly, disinflation episodes have typically been costly in the short to medium-term. Which roles did wage rigidities and the conduct of monetary policy play in that regard?

• Secondly, one cannot be fully satisfied with the rather crude modelling of labour market rigidities and had, as many others, the perception that taking better into account institutional features and microeconomic heterogeneity might help in matching and understanding labour market stylised facts.

• Thirdly, participating in a monetary union may affect the incentives to conduct structural reforms.

As will appear in this presentation, this research agenda is still far from being fulfilled. However, it was felt that first results deserved to be presented and discussed already at this stage.

The presentation is structured as follows:

• The first section addresses macroeconomic issues, having heavy recourse to a well-publicised summary indicator, the so-called sacrifice ratio. *That part focuses on the euro area.*

.../...

NB: This paper was prepared for the conference on "Wage bargaining, employment and monetary and economic policies" jointly organised by Banque de France and DARES. The author is grateful to Françoise Drumetz and the members of the working group on "Labour Market Flexibility and Monetary Policy Efficiency" for their comments. The views expressed in this paper are the responsibility of the author and do not necessarily reflect those of the Banque de France.

1 The other members of the working group are Sanvi Avouyi-Dovi (Banque de France and University of Paris Dauphine), Jérôme Coffinet (Banque de France), Patrick Fève (University of Toulouse-GREMAQ, FDEI and Banque de France), Denis Fougère (CNRS, CREST-INSEE, Paris, Banque de France, CEPR, London and IZA, Bonn), Erwan Gautier (Banque de France and GRECTA), Julien Matheron (Banque de France and SDFi-University of Paris-Dauphine), Céline Poilly (Banque de France and THEMA-University of Cergy-Pontoise) and Jean-Guillaume Sahuc (Banque de France and Audencia School of Management).

• *The second section deals with wage bargaining, comparing macro and micro approaches. It focuses on France, using data which were kindly provided by the co-organiser of this conference, the* direction de l'Animation de la recherche et des études statistiques *(*DARES*). It also encompasses part of the Banque de France contribution to a European network, the Wage Dynamics Network (WDN). Franck Smets, who chairs the Network, presents in this conference the organisation and the work of the WDN as well as some related personal research.*

• *The paper concludes with some directions for future work.*

Key words: flexibility, labour market, monetary policy, sacrifice ratio, structural policies, wage bargaining.

JEL codes: C5, E52, E58, J08, J3

I| The sacrifice ratio: empirical and structural analysis

In the mid-eighties, at a time when inflation was high, monetary policies in many countries started embracing price stability objectives more explicitly than had been the case before. In the aftermath of adopting these policies, it became a widespread idea that they might be partly responsible for the dramatic surge in unemployment seen in European countries over the period extending from the early 1980s to the mid1990s (see for example Blanchard, 2003).

Assessing the role of disinflation policies in the surge of unemployment requires that the dynamic effects of disinflation policies be characterised from a structural point of view. That issue has been dealt with in a two-step approach. The first step consists in identifying plausible dynamic effects of disinflation policies from an empirical point of view. The second step consists in developing structural, i.e. dynamic stochastic general equilibrium (DSGE) models, capable of replicating these dynamics. These models can then be used to run counter-factual experiments helpful in interpreting the dynamic consequences of disinflation shocks.

In conducting this two-step approach, to paraphrase Gordon (1982) and as mentioned in section 1, particular attention is paid to a single number, the sacrifice ratio. This ratio is defined as the cumulated output loss required to permanently reduce inflation by one point. This indicator is simple and convenient for the analysis of monetary policy. It is also easy to communicate on for a central bank. Indeed, the higher the sacrifice ratio, the larger the cost of restoring price stability once the economy has deviated from it.

I|1 The sacrifice ratio: empirical characterisations

There are many empirical procedures to characterise the sacrifice ratio. Resort has been made to two of them. The first one, referred to as the ad hoc approach, implements the methodology proposed by Ball (1994). The second one, referred to the SVAR approach, elaborates on and somewhat departs from the strategy outlined by Cecchetti and Rich (2001).

The ad hoc approach

Following Ball (1994) and Zhang (2005), disinflation episodes ex ante are identified in developed countries over the period 1970-2005. The sacrifice ratio, defined here as the ratio of the output loss to the change in trend inflation over the disinflation episode (Coffinet, 2006), is then computed. Using aggregate data, a sacrifice ratio of

around 1.7% is estimated in the euro area in the 1990s. One should note however that the sacrifice ratio is likely to have increased over the recent period due, among other things, to a flattened Phillips curve.

As a direct by-product of this approach, it is possible to roughly assess the contributions of likely determinants of the sacrifice ratio. In accordance with previous studies (Ball, 1994; Zhang, 2005), it was found that a quick disinflation episode and a high initial inflation rate are likely to reduce the cost of disinflation. Among other determinants, nominal rigidities are likely to weigh on the adjustment of the economy during a disinflation episode. To investigate this, various indexes of labour market rigidity – and not only nominal wage stickiness – extracted from the OECD, Forteza-Rama and Blanchard-Wolfers databases are used. Very few indicators prove to be statistically significant. Nevertheless, the results that are obtained tend to show that the higher the wage bargaining centralisation, the greater the sacrifice ratio. Moreover, a stricter labour contract regulation would also lead to higher sacrifice ratios.

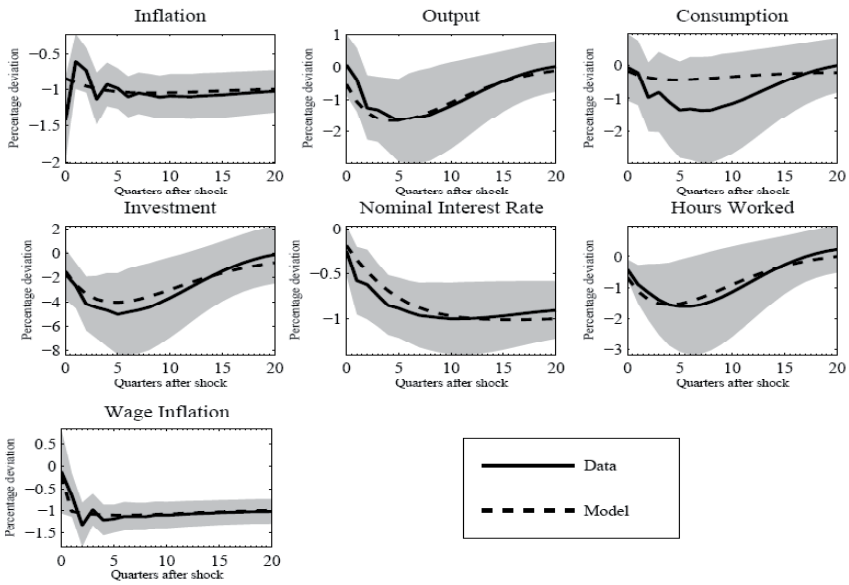
The key limitation to this approach is that the disinflation episodes which have been identified need not coincide with purposeful disinflation policies undertaken by central banks. For example, in the case of a permanent monetary contraction that coincides with a long lasting negative oil price shock, the ad hoc approach could mistakenly report a small sacrifice ratio. It is thus important to insulate the monetary origin to disinflation episodes. The easiest way to do so is to resort to the SVAR approach.

The SVAR approach

Following Bullard and Keating (1995), the key identification assumption is that only disinflation shocks can exert a long-run effect on inflation. In other words, the premise is that if there are permanent movements in inflation, they originate from purposeful actions taken by monetary authorities, which corresponds to a "long-run monetarist dictum". The benchmark SVAR, estimated over the period 1980(1)-2005(4), includes output, consumption, investment, inflation, wage inflation, the short-term nominal interest rate, and total hours worked (Fève et al., 2007). This variables choice is dictated by several considerations inspired by Blanchard's analysis (2003) on the detrimental effects of disinflation policies. First, sluggish nominal or real wage adjustments in Europe may have prevented the economy from experiencing fast adjustment after disinflation policies. Second, by increasing the cost of capital, i.e. the ex ante real interest rate, such a disinflation policy implies a decrease in real investment. To the extent that employment and physical capital are complementary inputs, the fall in investment translates into a persistent decline in hours worked.

Chart 1 Impulse response functions

(percentage deviation; quarters after shock)



Note: The grey areas correspond to the 90% confidence interval obtained by standard bootstrap techniques. For ease of interpretation, the size of the disinflation shock is normalised so as to generate an asymptotic inflation decrease by one percentage point.
Source: Fève, Matheron, Sahuc (2007).

The SVAR shows that, after a disinflation shock (see Chart 1), inflation sharply declines and then surges before slowly converging to its new long-run value. Wage inflation is less reactive on impact than inflation, suggesting important wage sluggishness. At the same time, the short-run nominal interest rate is almost unresponsive on impact. This is also suggestive of an important and persistent rise in the (ex ante) real interest rate. Both effects identified by Blanchard (2003) are thus found.

The disinflation shock has a very long-lasting, negative, and significant effect on output. These dynamic responses imply large sacrifice ratios. Indeed, after five years, the sacrifice ratio amounts to roughly 4.3% of cumulated foregone output, significant at the 10% level.

These patterns of dynamic responses to the disinflation shock are consistent with previous results found in the literature, especially Vlaar (2004).[2] Two differences emerge, though. Deeper and more persistent recessionary effects are obtained.

2 *See also the working paper version of Coenen and Vega (2001).*

Not surprisingly, resorting to different empirical strategies leads to different assessments of the sacrifice ratio. More importantly, the empirical approaches are limited in that they fail to offer a thorough analysis of the mechanisms generating the sacrifice ratio. A deeper understanding of both issues requires that a structural approach be developed.

1|2 What determines the sacrifice ratio? DSGE analyses

In this section, two different new Keynesian models are used to analyse the dynamic effects of disinflation policies. In both settings, a disinflation shock is interpreted as an exogenous permanent reduction in the inflation target.

A small-scale DSGE model

The first step in a structural analysis of the sacrifice ratio consists in formulating the simplest model embedding the key necessary mechanisms accounting for the dynamic effects of disinflation policies (Coffinet et al., 2007). The consensual Giannoni and Woodford (2004) model is thus adopted.

Given the estimated model, the implied sacrifice ratio can be computed and, as a by-product, its statistical significance assessed. A sacrifice ratio of 1.3%, statistically significant at the usual level and consistent with results drawn from the ad hoc approach is obtained.

As argued before, among the sacrifice ratio's determinants, nominal rigidities are likely to play a significant part. Yet, in the related literature, it is very difficult to identify which of price or wage stickiness is the more important factor. The first issue to tackle is thus the relative influence of those two rigidities on the sacrifice ratio. The key advantage of resorting to a DSGE approach is that it enables to run various counterfactual exercises susceptible to shed light on these issues. The objective here is to measure the sensitivity of our results to the degrees of wage and price rigidities. Two main results are obtained. First, a fall in the degree of nominal price rigidity does not necessarily result in a fall in the sacrifice ratio. Second, the sacrifice ratio increases with the degree of nominal wage rigidity. However, in the neighbourhood of the estimated parameters, the ratio is not very sensitive to this parameter.

A possible drawback of this small-scale model is that it pays no attention to investment dynamics. While the model correctly captures the significant rise in the real interest rate following a disinflation shock, it fails to translate it into a drop in investment. To the extent that capital and labor are complementary inputs, a drop in investment is susceptible to magnify

the employment response. Capturing this channel requires that a larger DSGE model be specified.

A medium-scale DSGE model

To capture this additional investment channel, a DSGE model *à la* Smets and Wouters (2003) is formally confronted to the impulse responses drawn from the previous SVAR analysis (Fève et al., 2007). The model parameters are picked so as to match as closely as possible these dynamic responses. As a consequence, the model mechanically reproduces the 4.3% sacrifice ratio obtained in the SVAR analysis.

A series of counterfactual experiments designed to further the understanding of the transmission channels of disinflation shocks is then implemented. In doing so, the analysis is focused on two issues that have been previously discussed in the context of disinflation policies.

As before, particular attention is paid to disentangling the respective roles of nominal price and wage rigidities (low frequency of adjustment and/or high degree of indexation). Furthermore, it is investigated whether the conduct of monetary policy, either in terms of adjustment speed or responsiveness, might have contributed to magnify the sacrifice ratio. The literature has dwelt on the central and controversial issue of the optimal speed of disinflation, i.e. the choice between "gradualism" and "cold turkey". In addition, the responsiveness of monetary policy to the inflation and output gaps are often put forward as key ingredients of a successful disinflation policy.

The counterfactual exercises that are conducted show that the main mechanisms at work are twofold:

- nominal wage rigidities in the form of frequency of no adjustment and the degree of indexation (rather than price rigidities);

- the speed of disinflation policy (rather than responsiveness).

Interestingly, these findings echo results emphasized by Ball (1994) and confirmed by our own empirical analyses mentioned earlier. What is really interesting here is that, despite a large number of frictions that make it look a lot like a backward-looking model, the DSGE setup that has been used is supportive of a "gradualist" explanation of the output cost of disinflations in the euro area.

Importantly, the counter-factual analyses show that omitting the investment channel results in a significant reduction in the sacrifice ratio. This is likely to explain why the small-scale model might have been a

priori doomed to generate relatively small sacrifice ratios. At the same time, it is important to emphasize that in both settings, significant sacrifice ratios are obtained and in both cases, nominal wage rigidities have played a key role in generating this output loss. However, a concern might be whether a proper representation of wage rigidities has been used.

2| Wage bargaining: macro versus micro approaches

In most macroeconomic models, labour market frictions are represented by some synthetic indicators such as a Calvo or a Taylor parameter which do not necessarily capture the potential role of market institutions in the wage-setting process. Conversely, one key advantage of a microeconomic approach is that it can take heterogeneity into account and help to identify robust causal effects. Moreover, labour markets are often characterised by a high degree of complexity and variety that may have to be taken into account in policy analysis and evaluation.

The main microeconomic contributions of the working group focus on wage inflation. Two specific issues are particularly highlighted:

• the degree of wage rigidity in France and how to properly model it;

• the role of a specific set of institutions – i.e. the different wage bargaining levels – in wage setting.

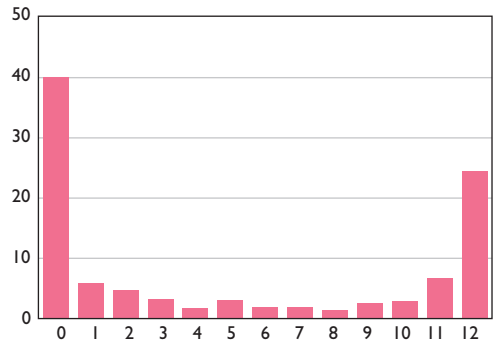
2|1 Measuring and modelling wage nominal rigidity

As indicated in the second section of this presentation, DSGE models show that an important source of rigidity in the economy stems from the labour market especially through wage rigidity. This rigidity can largely explain the real effects of monetary shocks and account for the observed persistence in aggregate output and inflation. Most DSGE models assume that a firm will change its wages randomly (Erceg et al. (2000), Smets and Wouters (2003)). The Calvo assumption is clearly a simplification of reality but it is also an easy way to reproduce wage rigidity. Generally, the value of the Calvo parameter which is retained for the euro area is greater than 4 quarters.

To understand and model wage changes in France, recourse was made to microeconomic data used in the context of the Wage Dynamic Network (WDN). Contrary to most studies on wages, the data used are reported on an infra annual frequency which should be more appropriate to draw monetary policy implications.

Chart 2 Synchronisation of wage changes (across worker categories)

(%)



Source: Heckel, Le Bihan, Montornes (2007).

Using these data, Heckel et al. (2007) estimate the frequency of wage changes and the average wage duration. They find that around 90% of wages are changed within a year and 40% within a quarter (i.e. the average wage duration is closer to 2 quarters than 4). Therefore DSGE models could overestimate wage rigidity in modelling typical wage durations equal to one year or more.

However, some theoretical studies show that staggered wage-setting can replicate a higher degree of persistence compared with synchronised wage changes. With staggering of wage changes, the short run effect on output can be longer than the wage contract duration. On the basis of the data used, it appears that wages are mainly synchronised within firms (see Chart 2)[3] but that they are staggered across firms, which is of course what matters from a macroeconomic point of view.

The residual synchronisation may reflect two factors:

• minimum wage changes, that are binding in France for all employees paid at that wage (i.e. around 15% of all employees in the non-farm market economy); importantly, minimum wage changes are linked to past developments in inflation and blue-collar wages;

• seasonality, as many wage changes occur in the first quarter of the year and the minimum wage is changed at least once a year in July (see Chart 3).

3 *The chart shows the average percentages of quarters in which, during the period under review [1998 (1)-2005 (4)], there was within firms, for the twelve categories of workers that are distinguished according to their skills in the data that we have been used, no wage change (0 bar), or a change for one category of workers (1 bar) or a synchronised wage change for two up to the twelve categories of workers (2 to 12 bars) (only firms in which those twelve categories exist have been considered to construct the figure). The U-shaped distribution of the histogram shows a certain degree of synchronisation: if all wage changes were synchronised, then the whole probability mass would be concentrated on the 0 and 12 bars; on the other hand, if there was no synchronisation at all of wage changes within firms, one would expect the 12 bar to show a percentage close to zero.*

Chart 3 Frequency of wage changes over time

(%)

Source: Heckel, Le Bihan, Montornes (2007).

The degrees of wage rigidity and/or staggering allow to replicate the wage dynamics in macroeconomic models but the nature of the rigidity can also play a crucial role. For instance, Levin et al. (2005) show that the different models used to represent wage rigidity at the micro level may lead to modifications in the optimal monetary policy but also in welfare losses. Apart from the Calvo model, a less frequently used one is the Taylor contract model where wages are set for a constant duration. Heckel et al. (2007) find that with one single simple Calvo model, it is not possible to replicate the whole wage dynamics at the micro level. The reason is that a significant proportion of firms apparently follow a Taylor model.

Finally, predetermination can lead to underestimation of nominal wage rigidity. Heckel et al. (2007) shows that predetermination is a relevant feature of wage changes and is linked with past and future developments in inflation and unemployment.

The bottom line is that, although wage changes would appear rather frequent in France, there are significant elements of staggering – that presumably generate persistence – and of predetermination – that generate rigidity. Furthermore, an heterogeneity of models would seem necessary to replicate wage dynamics properly.

2|2 The role of wage negociations

Can a detailed analysis of the institutional bargaining framework help to understand different wage change patterns? The focus here is on the impact of the different levels of wage bargaining on wage developments.

In their seminal paper, Calmfors and Drifill (1988) suggest that, with a centralized collective bargaining, aggregate wage demand responds more easily to macroeconomic conditions. At the national level, unions are more aware of aggregate developments and their implications for economic performances. At the firm-level, they have less influence and are in a better position to take account of productivity developments. At the industry-level, the bargaining power of unions is higher and they have no clear incentives to take macroeconomic developments into account. This would be the worst case.

As far as the recent years are concerned, macroeconomic empirical research does not confirm unambiguously the Calmfors and Driffill hypothesis on the hump shaped relation between centralization and economic performances. As suggested by Freeman (2007), one reason could be that the cross-country aggregate data at issue is too weak to identify the impact of institutions. Indeed, some economists (especially OECD, 2004) suggest to improve existing indicators.

Microeconomic studies on the effect of wage-setting institutions on economic performances can shed light on this issue. However, they are still scarce. In the United States and in the United Kingdom, some papers have focused on the impact of unionisation on economic outcomes. Cecchetti (1987) used micro data on wage bargaining to describe the main features of the wage setting system in the United States and their impact on the wage dynamics. In continental Europe, and especially in France, most employees are covered by extension mechanisms, which makes the distinction between unionised and non-unionised sectors less relevant. Most microeconomic empirical studies for Europe have thus focused on the impact of the level of wage bargaining on the wage distribution. Several papers conclude that wage negotiations lead to more income inequality, but the impact of the bargaining level varies across countries and is in some cases ambiguous (de la Rica and González de San Román, 2007; Rusinek and Rycx, 2007).

The main contribution of the working group has been to describe quantitatively the wage bargaining system and its main features, using original panel data at the firm and at the industry-levels. Avouyi-Dovi et al. (2007) presented in the conference the main results obtained on these data sets. They showed that decentralization of wage-bargaining is an important feature of the French collective bargaining framework. They found some evidence of coordination at the different levels of the wage bargaining system but no clear links between the different levels of wage bargaining. Finally, they concluded to a strong impact of the firm-level on wage changes whereas the industry-level seems to have an unsignificant effect on wage changes (see Table 1).

Table 1 Average wage changes at the firm-level, according to the type of agreement

(%)

	No firm-level agreement		Firm-level agreement	
	No industry agreement	Industry agreement	No industry agreement	Industry agreement
Industry	3.0	3.2	3.4	3.6
Services	3.2	3.1	3.6	3.4
Total	3.1	3.1	3.5	3.5

Source: Avouyi-Dovi, Fougère, Gautier (2007).

Directions for future research

Mirroring the structure of this presentation, directions for possible future work for the internal working group on "Labour market flexibility and monetary policy efficiency" can be divided in two parts; macro and micro issues.

• Concerning first the macroeconomic aspects, the issue of the heterogeneity of the euro area in terms of labour markets dynamics which was alluded to at the beginning of this presentation has only begun to be dealt with. The paper by Poilly and Sahuc (2007) presented in the conference is a first step in that direction. They calibrate a DSGE model of a currency union with heterogeneous labour markets and highlight the implications in terms of welfare of labour market reforms in one country of the area. More generally, the introduction of heterogeneous labour markets within a model for the euro area could shed light on the transmission channels and differentiated impact of symmetric and asymmetric supply and demand shocks in the euro area.

• Concerning the microeconomic aspects, it seems necessary to go deeper in the analysis of wage bargaining. As an extension of the work that has been done so far, two issues could be investigated by exploring the content of wage agreements: firstly, the duration of wage contracts and its change over the recent years; secondly, the extent to which wage changes are predetermined by wage contract clauses or to which firms unilaterally grant wage increases depending on their own situation, the one of the industry they operate in and the macroeconomic situation. Longer contracts with less indexation would reflect less nominal uncertainty on the part of wage-setters (Christofides and Peng, 2006). Furthermore, the identification of leading firms or industries in terms of wage dynamics may warrant specific monitoring in order to improve Banque de France wage forecasts. Finally, matching micro-data on price and wage dynamics could improve the understanding of the transmission of shocks, including monetary policy ones.

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Autumn 2005

– The single monetary policy and the interest rate channel in France and the euro area
– Fourth Economic Policy Forum: Productivity and monetary policy
– Measuring corporate profitability

Winter 2005/2006

– Some hypotheses regarding an inflation regime change in France
– Inflation dynamics in France
– Price-setting in the French and euro area manufacturing sectors: specific survey results

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– "Productivity, competitiveness and globalisation" – Banque de France international symposium – Concluding remarks
– Interaction between regional economic integration and institutional integration: the European experience
– The weaknesses of Chinese financial markets: reforms essential to diversifying the financing of the economy
– An analysis of business and credit cycles: The cases of Poland, Hungary, the Czech Republic and the euro area

Summer 2006

– Re-examining the money demand function for the euro area
– Target2: From concept to reality
– French households' financial investment: Comparison with Europe (1995-2004)

Autumn 2006

– Are we heading towards a heightening of global inflationary pressures?
– A national central bank within a federal system
– Progress towards the Single Euro Payments Area
– Are house prices in the USA and Europe sustainable?
– Banque de France scores: development, applications, and maintenance

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– Monetary policy making in the Euro area and in the US
– Adjustment scenarios for the US current account balance: an assessment based on different NiGEM calibrations
– Risk contagion through defaults on trade bills

Spring 2007

– The credibility of monetary policy from a New Keynesian perspective
– Perspectives on productivity and potential output growth:
a summary of the joint Banque de France/Bank of Canada workshop, April 2006
– New borrowing post-debt relief: risks and challenges for developing countries

Summer 2007

– Debt retrenchment strategies and control of public spending
– Estimating the sacrifice ratio for the euro area
– The position of industrial firms in 2005

Autumn 2007

– National Financial Accounts in 2006
Further increase in private sector debt, central government debt on the decline
– The geographical breakdown of direct investment: a group-based approach
– DSGE models and their importance to central banks

Digest

From January 2004 to June 2005

– Disinflation and monetary policy strategies in acceding countries
(No. 121 – January 2004)

– Measuring the Balassa-Samuelson effect for the Countries of Central and Eastern Europe?
– The external accounts of the ten European Union new member countries
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– Hourly productivity and *per capita* GDP in the United States and France – Comparisons and Recommendations
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– The concept of attractiveness in the context of Monetary Union
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– Productivity gaps between Europe and the United States
– The valuation of unquoted shares: A European test exercice
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– Inflation persistence in France and the euro area
(No. 128 – August 2004)

– The euro five years on: Achievements and new challenges
– One-off budgetary measures
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– Is there a risk of a property bubble in France?
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– Debt financing of households between 1995 and 2002
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STATISTICS

Contents

Economic developments

Money, investment and financing

Financial markets and interest rates

Other statistics

NB: As of 1 January 2007, the euro area and the European Union were enlarged. Statistical data incorporate these developments from that date onwards.

The revisions of the 2004-2005 accounts in the framework of the compilation of the 2006 annual accounts, published on 21 May 2007, led to significant revisions to the debt security data. The mutual fund reclassification makes better use of the securities survey.

The data in this section are those available in the Banque de France BSME database at the given dates.

Table 1
Industrial activity indicators – Monthly Business Survey – France

(seasonally-adjusted data)

	2007						
	April	May	June	July	Sept.	Oct.	Nov.
Changes in production from the previous month (a)							
Total	**10**	**9**	**11**	**13**	**1**	**20**	**-6**
Intermediate goods	7	8	10	14	-8	19	0
Capital goods	16	12	17	13	6	15	1
Automotive industry	0	-2	-3	2	22	26	-46
Consumer goods	13	2	15	19	6	28	-4
Agri-food industry	14	9	2	8	2	37	-5
Production forecasts (a)							
Total	**6**	**15**	**8**	**2**	**13**	**10**	**9**
Intermediate goods	8	15	5	-6	19	14	9
Capital goods	9	22	13	7	19	15	8
Automotive industry	-11	6	-10	-40	24	15	24
Consumer goods	8	13	11	0	6	2	2
Agri-food industry	11	15	15	10	16	12	15
Changes in orders from the previous month (a)							
Total	**11**	**12**	**12**	**17**	**2**	**24**	**0**
Foreign	12	11	12	13	5	23	5
Order books (a)							
Total	**30**	**29**	**27**	**29**	**25**	**28**	**26**
Intermediate goods	23	23	25	25	20	22	17
Capital goods	71	68	65	63	65	65	61
Consumer goods	25	23	21	25	14	12	18
Agri-food industry	22	26	7	13	14	18	17
Inventories of finished goods (a)							
Total	**1**	**2**	**3**	**3**	**4**	**4**	**4**
Intermediate goods	-4	-2	-2	-3	1	6	3
Capital goods	5	7	12	9	9	5	4
Automotive industry	5	1	8	6	2	-11	-2
Consumer goods	9	8	9	10	8	11	9
Agri-food industry	-5	-3	-5	-1	4	3	5
Capacity utilisation rate (b)							
Total	**85.9**	**85.6**	**85.8**	**85.3**	**85.2**	**86.1**	**84.8**
Staff levels (a)							
Changes from the previous month	1	1	-2	0	-2	-1	0
Forecast for the coming month	-5	-4	-3	-5	0	-2	-1
Business sentiment indicator (c)							
	108	**108**	**108**	**108**	**105**	**108**	**105**

(a) Data given as a balance of opinions.
(b) Data given as a percentage.
(c) The indicator summarises industrial managers' sentiment regarding business conditions. The higher the indicator is, the more positive the assessment. The indicator is calculated using a principal component analysis of survey data smoothed over three months. By construction, the average is 100.

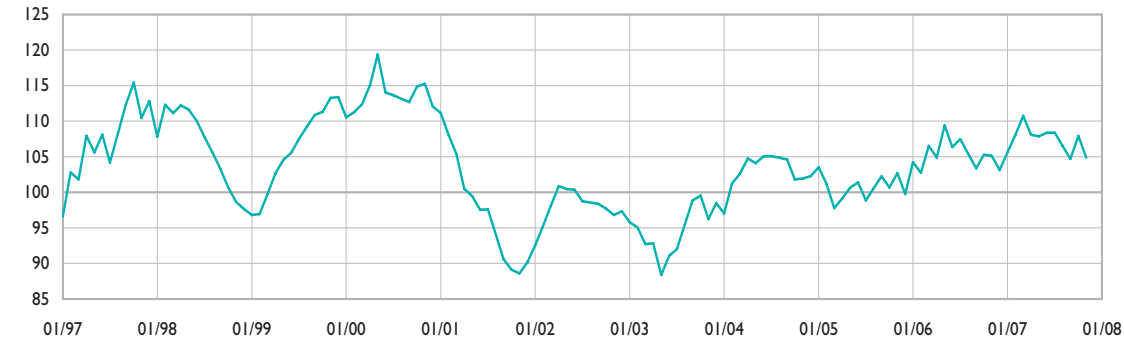
Source: Banque de France.

Produced 19 December 2007

Table 2
Industrial activity indicators – Monthly Business Survey – France (seasonally-adjusted data)

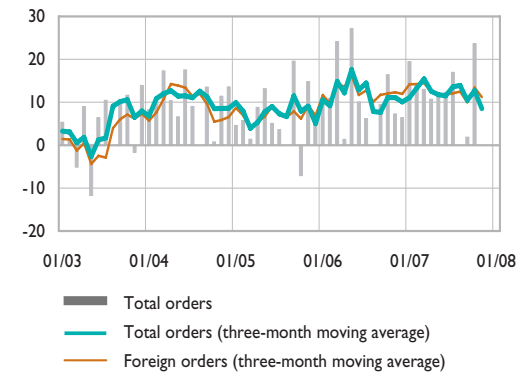
Business sentiment indicator

(100 = 1981-2006)



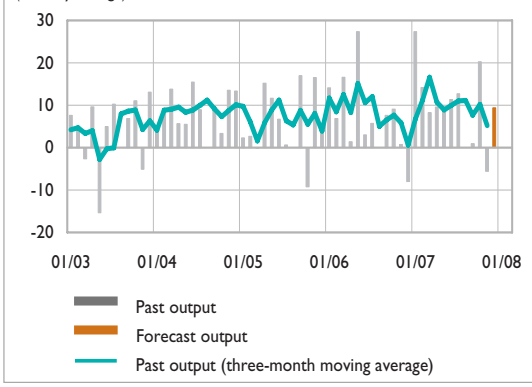
Orders (balance of opinions)

(monthly change)



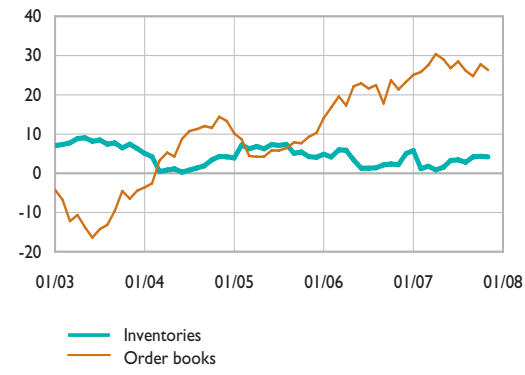
Output (balance of opinions)

(monthly change)



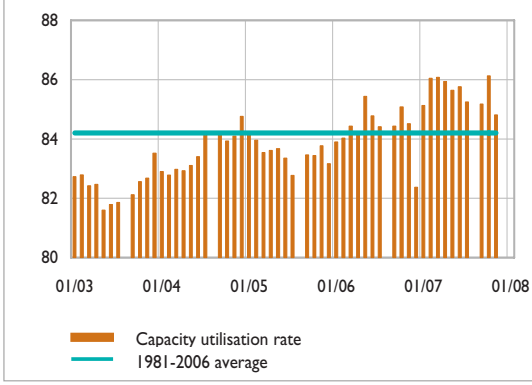
Inventories and order books (balance of opinions)

(compared to levels deemed normal)



Capacity utilisation rate

(%)



Source: Banque de France.

Produced 19 December 2007

Table 3
Consumer price index

(annual % change)

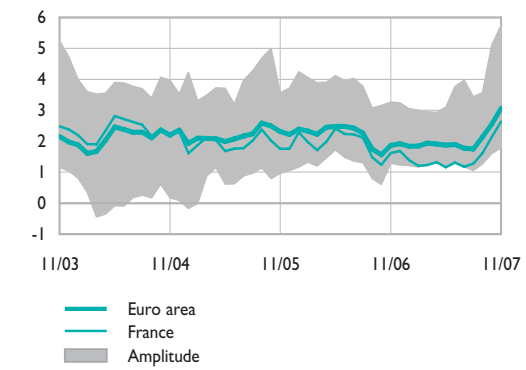
	2007								
	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.
France	1.2	1.3	1.2	1.3	1.2	1.3	1.6	2.1	2.6
Germany	2.0	2.0	2.0	2.0	2.0	2.0	2.7	2.7	3.3
Italy	2.1	1.8	1.9	1.9	1.7	1.7	1.7	2.3	2.6
Euro area	1.9	1.9	1.9	1.9	1.8	1.7	2.1	2.6	3.1
United Kingdom	3.1	2.8	2.5	2.4	1.9	1.7	1.7	2.0	na
European Union	2.3	2.2	2.1	2.2	2.0	1.9	2.3	2.7	3.1
United States	2.8	2.6	2.7	2.7	2.4	2.0	2.8	3.5	4.3
Japan	-0.1	0.0	0.0	-0.2	0.0	-0.2	-0.2	0.3	na

(annual average) *(seasonally-adjusted monthly % change)*

	2004	2005	2006	2007					
				June	July	Aug.	Sept.	Oct.	Nov.
France	2.3	1.9	1.9	0.2	0.1	0.3	0.2	0.3	0.7
Germany	1.8	1.9	1.8	0.1	0.3	-0.1	0.7	0.2	1.0
Italy	2.3	2.2	2.2	0.2	0.0	0.2	0.2	0.4	0.4
Euro area	2.1	2.2	2.2	0.2	0.2	0.1	0.2	0.4	0.6
United Kingdom	1.3	2.0	2.3	0.3	-0.3	0.1	0.1	0.5	na
European Union	2.3	2.3	2.3	na	na	na	na	na	na
United States	2.7	3.4	3.2	0.2	0.1	-0.1	0.3	0.3	0.8
Japan	0.0	-0.3	0.2	-0.1	0.1	0.2	-0.2	0.2	na

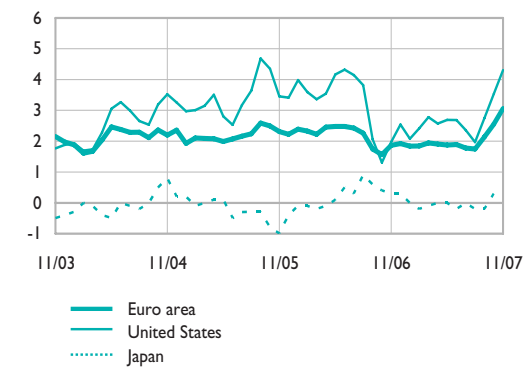
France and the euro area

(annual % change)



International comparisons

(annual % change)



Harmonised indices except for the United States and Japan.
Amplitude = extreme values of the indices of harmonised prices observed in the euro area.

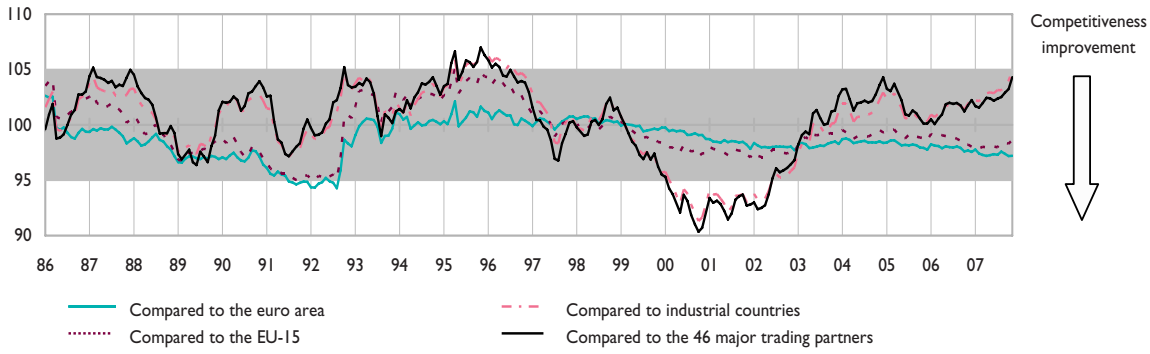
Sources: National data, Eurostat.

Produced 19 December 2007

Table 4
The competitiveness of France's economy

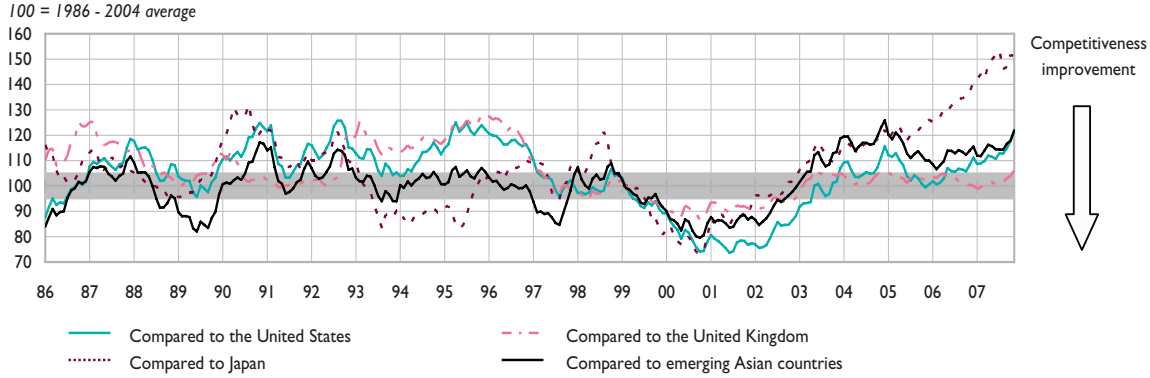
Indicators deflated by consumer prices

100 = 1986 - 2004 average



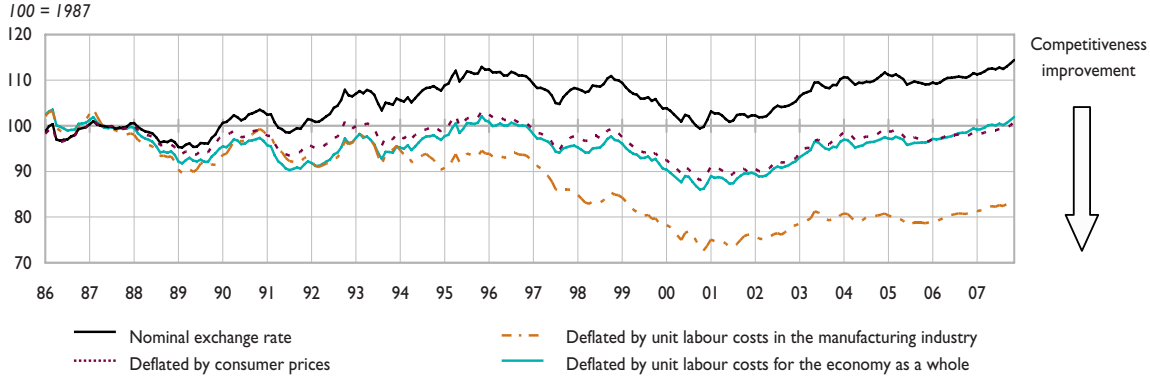
Indicators deflated by consumer prices

100 = 1986 - 2004 average



Indicators of competitiveness compared to 22 OECD countries

100 = 1987



Grey area: change in competitiveness compared to long-term average less than 5%.

Sources: National data, Banque de France, ECB, IMF, INSEE, OECD, Thomson Financial Datatstream.
Calculations: Banque de France.

Produced 19 December 2007

Table 5
Balance of payments – Main components (quarterly data) – France

(unadjusted data, EUR millions)

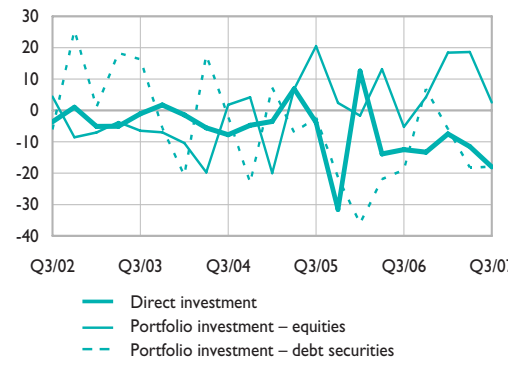
	2005	2006	2006		2007		
			Q3	Q4	Q1	Q2	Q3
	(a)	(a)	(a)	(a)	(a)	(a)	(b)
Current account	**-15,702**	**-22,452**	**-3,714**	**-6,571**	**526**	**-9,306**	**-4,366**
Goods	-22,950	-30,029	-7,734	-7,298	-6,419	-8,468	-10,046
Services	10,644	8,271	4,962	-89	-213	2,799	4,415
Income	18,716	21,040	6,064	7,828	8,365	2,956	8,447
Current transfers	-22,112	-21,734	-7,006	-7,012	-1,207	-6,593	-7,182
Capital account	**511**	**-188**	**182**	**75**	**330**	**1,138**	**137**
Financial account	**-10,503**	**63,912**	**22,879**	**-27,363**	**27,389**	**12,758**	**32,719**
Direct investment	-32,091	-27,071	-12,508	-13,300	-7,471	-11,539	-17,996
French direct investment abroad	*-97,275*	*-91,700*	*-21,617*	*-33,524*	*-27,918*	*-39,269*	*-43,699*
Foreign direct investment in France	*65,184*	*64,629*	*9,109*	*20,224*	*20,447*	*27,730*	*25,703*
Portfolio investment	-13,671	-59,522	-24,199	11,100	12,630	444	-15,414
Assets	*-194,481*	*-270,546*	*-75,958*	*-68,291*	*-45,849*	*-48,403*	*-9,444*
Liabilities	*180,810*	*211,024*	*51,759*	*79,391*	*58,479*	*48,847*	*-5,970*
Financial derivatives	5,205	3,337	2,075	-1,749	-1,778	-1,513	-1,682
Other investment	22,997	155,946	61,156	-20,469	24,408	24,766	71,646
Reserve assets	7,055	-8,775	-3,643	-2,944	-402	600	-3,835
Net errors and omissions	**25,693**	**-41,274**	**-19,348**	**33,858**	**-28,244**	**-4,590**	**-28,490**

Current account balance

(unadjusted data, EUR billions)

Financial account balance

(unadjusted data, EUR billions)



(a) Semi-final figures.
(b) Provisional figures.

Source: Banque de France.

Produced 19 December 2007

Table 6
Balance of payments – Current and capital accounts (quarterly data) – France

(unadjusted data, EUR millions)

	2005	2006	2006		2007		
			Q3	Q4	Q1	Q2	Q3
	(a)	(a)	(a)	(a)	(a)	(a)	(b)
Current account	**-15,702**	**-22,452**	**-3,714**	**-6,571**	**526**	**-9,306**	**-4,366**
Goods	**-22,950**	**-30,029**	**-7,734**	**-7,298**	**-6,419**	**-8,468**	**-10,046**
Exports	*353,516*	*384,873*	*89,564*	*99,741*	*100,307*	*101,465*	*95,264*
Imports	*376,466*	*414,902*	*97,298*	*107,039*	*106,726*	*109,933*	*105,310*
General merchandise	-21,245	-27,868	-7,294	-6,751	-5,835	-7,739	-9,515
Goods procured in ports by carriers	-980	-1,524	-387	-400	-278	-254	-375
Goods for processing and repairs on goods	-725	-637	-53	-147	-306	-475	-156
Services	**10,644**	**8,271**	**4,962**	**-89**	**-213**	**2,799**	**4,415**
Exports	*95,609*	*94,226*	*27,502*	*21,237*	*20,765*	*25,118*	*27,306*
Imports	*84,965*	*85,955*	*22,540*	*21,326*	*20,978*	*22,319*	*22,891*
Transportation	-3,401	-2,573	-433	-307	-203	-280	104
Travel	10,834	12,066	5,786	1,130	1,724	3,911	5,786
Communications services	1,084	1,301	343	367	276	219	271
Construction services	1,613	1,904	451	598	566	578	490
Insurance services	-903	-1,216	-288	-232	-363	-133	-68
Financial services	-761	-1,890	-448	-525	-286	-576	-299
Computer and information services	-63	-21	-82	-69	65	96	-123
Royalties and license fees	2,528	2,334	783	477	715	1,099	497
Other business services	347	-2,746	-955	-1,184	-2,543	-1,949	-1,979
Personal, cultural and recreational services	-535	-758	-176	-251	-183	-140	-235
Government services	-99	-130	-19	-93	19	-26	-29
Income	**18,716**	**21,040**	**6,064**	**7,828**	**8,365**	**2,956**	**8,447**
Compensation of employees	8,507	8,564	2,132	2,147	2,171	2,212	2,168
Investment income	10,209	12,476	3,932	5,681	6,194	744	6,279
Direct investment	*15,828*	*18,969*	*4,404*	*6,477*	*5,895*	*6,352*	*5,693*
Portfolio investment	*-2,095*	*-1,392*	*1,367*	*372*	*2,161*	*-3,150*	*2,802*
Other investment	*-3,524*	*-5,101*	*-1,839*	*-1,168*	*-1,862*	*-2,458*	*-2,216*
Current transfers	**-22,112**	**-21,734**	**-7,006**	**-7,012**	**-1,207**	**-6,593**	**-7,182**
General government	-14,923	-13,663	-4,974	-5,009	797	-4,656	-4,992
Other sectors	-7,189	-8,071	-2,032	-2,003	-2,004	-1,937	-2,190
of which workers' remittances	*-2,084*	*-2,063*	*-561*	*-467*	*-527*	*-442*	*-536*
Capital account	**511**	**-188**	**182**	**75**	**330**	**1,138**	**137**

(a) Semi-final figures.
(b) Provisional figures.

Source: Banque de France.

Produced 19 December 2007

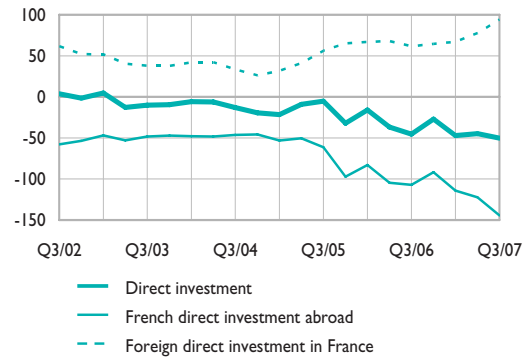
Table 7
Balance of payments – Financial flows (quarterly data) – France

(unadjusted data, EUR millions)

	2005	2006	2006		2007		
			Q3	Q4	Q1	Q2	Q3
	(a)	(a)	(a)	(a)	(a)	(a)	(b)
Financial account	**-10,503**	**63,912**	**22,879**	**-27,363**	**27,389**	**12,758**	**32,719**
Direct investment	-32,091	-27,071	-12,508	-13,300	-7,471	-11,539	-17,996
French direct investment abroad	-97,275	-91,700	-21,617	-33,524	-27,918	-39,269	-43,699
of which equity capital and reinvested earnings	*-45,534*	*-61,329*	*-11,838*	*-22,986*	*-18,043*	*-21,238*	*-29,019*
Foreign direct investment in France	65,184	64,629	9,109	20,224	20,447	27,730	25,703
of which equity capital and reinvested earnings	*29,863*	*29,641*	*2,941*	*10,243*	*5,568*	*10,557*	*7,060*
Portfolio investment	-13,671	-59,522	-24,199	11,100	12,630	444	-15,414
Assets	-194,481	-270,546	-75,958	-68,291	-45,849	-48,403	-9,444
Equity securities	*-42,854*	*-48,290*	*-26,670*	*-19,811*	*7,299*	*15,036*	*-3,528*
Bonds and notes	*-139,881*	*-225,189*	*-44,205*	*-49,994*	*-40,348*	*-79,544*	*-13,890*
Money market instruments	*-11,746*	*2,933*	*-5,083*	*1,514*	*-12,800*	*16,105*	*7,974*
Liabilities	180,810	211,024	51,759	79,391	58,479	48,847	-5,970
Equity securities	*52,608*	*58,841*	*21,441*	*24,074*	*11,173*	*3,640*	*6,072*
Bonds and notes	*109,321*	*165,424*	*38,181*	*62,019*	*36,173*	*28,808*	*-2,298*
Money market instruments	*18,881*	*-13,241*	*-7,863*	*-6,702*	*11,133*	*16,399*	*-9,744*
Financial derivatives	5,205	3,337	2,075	-1,749	-1,778	-1,513	-1,682
Other investment	22,997	155,946	61,156	-20,469	24,408	24,766	71,646
of which MFIs excl. Banque de France (net flows)	*-2,335*	*135,629*	*64,450*	*-32,474*	*33,028*	*25,913*	*51,205*
Reserve assets	7,055	-8,775	-3,643	-2,944	-402	600	-3,835
Net errors and omissions	**25,693**	**-41,274**	**-19,348**	**33,858**	**-28,244**	**-4,590**	**-28,490**

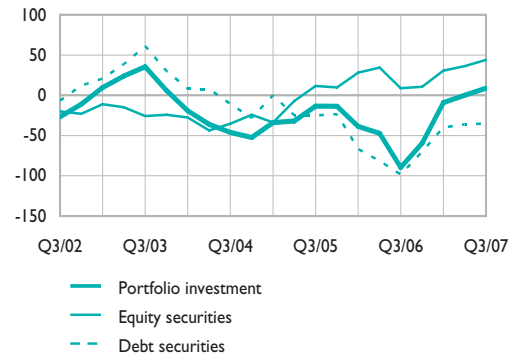
Direct investment account

(cumulated flows over 4 quarters)



Portfolio investment account

(cumulated flows over 4 quarters)



(a) Semi-final figures.
(b) Provisional figures.

Source: Banque de France.

Produced 19 December 2007

Table 8
Balance of payments – Geographical breakdown (quarterly data) – France

(unadjusted data, EUR millions)

	2nd quarter 2007					
	EMU (a)	EU-27 excl. EMU (b)	USA	Japan	Switzerland	China
Current account	**na**	**na**	**na**	**na**	**na**	**na**
Receipts	*82,965*	*29,889*	*15,362*	*3,131*	*6,947*	*2,698*
Expenditure	*na*	*na*	*na*	*na*	*na*	*na*
Goods	-13,272	3,202	1,227	63	249	-1,940
Receipts	*51,368*	*15,340*	*6,615*	*1,513*	*2,646*	*2,162*
Expenditure	*64,640*	*12,138*	*5,388*	*1,449*	*2,397*	*4,101*
Services	-954	1,199	1,380	2	222	-41
Receipts	*7,695*	*4,408*	*3,538*	*302*	*1,408*	*401*
Expenditure	*8,649*	*3,209*	*2,158*	*300*	*1,186*	*442*
Income	na	na	na	na	na	na
Receipts	*22,932*	*9,205*	*4,999*	*1,302*	*2,598*	*130*
Expenditure	*na*	*na*	*na*	*na*	*na*	*na*
Current Transfers	-1,943	-2,581	-6	-1	-259	-29
Financial account	**na**	**na**	**na**	**na**	**na**	**na**
Direct investment	-7,492	794	640	374	-3,695	-185
French direct investment abroad	*-24,126*	*-4,290*	*-3,372*	*172*	*-4,297*	*-190*
Foreign direct investment in France	*16,634*	*5,083*	*4,012*	*202*	*602*	*5*
Portfolio investment (c)	na	na	na	na	na	na
Assets	-28,032	3,255	-15,314	-1,546	4,970	-216
Equity securities	*11,161*	*10,183*	*-6,170*	*51*	*5,169*	*-115*
Bonds and notes	*-54,047*	*-7,619*	*-9,218*	*-1,421*	*28*	*-104*
Money market instruments	*14,854*	*694*	*74*	*-175*	*-227*	*3*
Other investment	-5,556	41,947	-9,458	3,692	-1,933	-4,890
of which MFIs excluding Banque de France (net flows)	*-9,970*	*43,879*	*-12,741*	*4,484*	*-294*	*-4,878*

(a) 13 Member States (including Slovenia as of 1 January 2007).
(b) Denmark, United Kingdom, Sweden, European Institutions and New Member States (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Bulgaria, Romania).
(c) The geographical breakdown is not available for liabilities.

Source: Banque de France.

Produced 19 December 2007

Table 9
Balance of payments (monthly data) – France

(unadjusted data, EUR millions)

	2006	2007			12-month total	
					2006	2007
	Oct. (a)	Aug. (b)	Sept. (b)	Oct. (b)	Oct. (a)	Oct. (b)
Current account	**-2,836**	**-2,074**	**-982**	**-3,096**	**-23,825**	**-19,977**
Goods	-2,034	-4,059	-3,230	-3,173	-30,117	-33,370
Services	-463	1,597	1,228	-6	8,307	7,369
Income	1,906	2,664	3,565	2,451	20,030	28,141
Current transfers	-2,245	-2,276	-2,545	-2,368	-22,045	-22,117
Capital account	**-57**	**4**	**7**	**79**	**-289**	**1,816**
Financial account	**-27,659**	**3,062**	**18,178**	**-31,949**	**41,299**	**41,213**
Direct investment	-1,258	-3,092	-2,562	-2,563	-43,248	-51,611
French direct investment abroad	*-8,960*	*-7,853*	*-16,320*	*-10,581*	*-110,914*	*-146,031*
Equity capital	*-3,970*	*-5,268*	*-5,381*	*-3,563*	*-48,496*	*-67,539*
Reinvested earnings	*-1,714*	*-2,022*	*-2,022*	*-2,022*	*-20,146*	*-23,648*
Other capital	*-3,276*	*-563*	*-8,917*	*-4,996*	*-42,272*	*-54,844*
Foreign direct investment in France	*7,702*	*4,761*	*13,758*	*8,018*	*67,666*	*94,420*
Equity capital	*2,452*	*71*	*2,160*	*1,028*	*17,918*	*18,855*
Reinvested earnings	*963*	*1,140*	*1,140*	*1,140*	*11,658*	*13,326*
Other capital	*4,287*	*3,550*	*10,458*	*5,850*	*38,090*	*62,239*
Portfolio investment	-22,125	-21,616	-397	-886	-110,836	29,999
Assets	*-48,446*	*-13,252*	*4,781*	*-12,326*	*-301,728*	*-135,867*
Equity securities	*-10,940*	*-11,805*	*-3,024*	*2,234*	*-65,375*	*12,170*
Bonds and notes	*-29,510*	*-1,018*	*-1,818*	*-7,807*	*-226,890*	*-162,073*
Money market instruments	*-7,996*	*-429*	*9,623*	*-6,753*	*-9,463*	*14,036*
Liabilities	*26,321*	*-8,364*	*-5,178*	*11,440*	*190,892*	*165,866*
Equity securities	*1,628*	*-3,925*	*-428*	*2,951*	*60,061*	*46,282*
Bonds and notes	*19,383*	*-950*	*-78*	*5,556*	*144,123*	*110,875*
Money market instruments	*5,310*	*-3,489*	*-4,672*	*2,933*	*-13,292*	*8,709*
Financial derivatives	-806	2,108	-2,574	1,000	3,865	-4,916
Other investment	-2,929	26,968	24,241	-28,445	195,969	74,835
of which MFIs excl. Banque de France (net flows)	*-1,384*	*4,836*	*24,404*	*-33,871*	*171,616*	*45,185*
Reserve assets	-541	-1,306	-530	-1,055	-4,451	-7,095
Net errors and omissions	**30,552**	**-992**	**-17,203**	**34,966**	**-17,186**	**-23,052**

(a) Semi-final figures.
(b) Provisional figures.

Source: Banque de France.

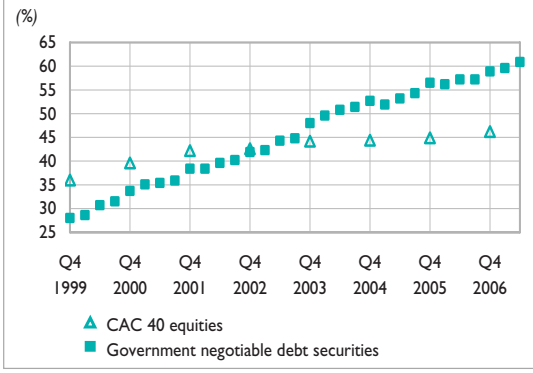
Produced 19 December 2007

Table 10
France's international investment position (direct investment measured at book value)

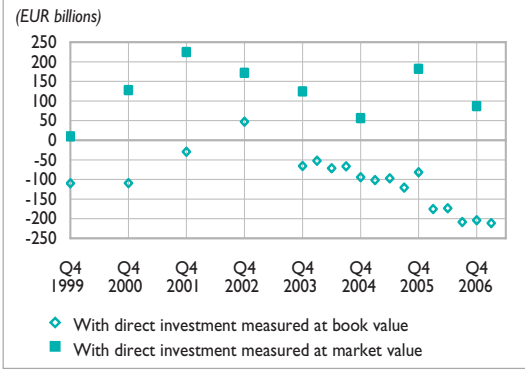
(EUR billions)

	2002	2003	2004	2005	2006	2007
	Dec.	Dec.	Dec.	Dec.	Dec.	Q2
Assets	**2,362.1**	**2,529.0**	**2,867.1**	**3,638.7**	**4,188.5**	**4,643.1**
French direct investment abroad	559.1	573.6	620.7	747.9	820.2	882.7
Equity capital and reinvested earnings	*390.2*	*380.1*	*418.1*	*492.7*	*538.1*	*574.0*
Other capital	*168.9*	*193.5*	*202.6*	*255.2*	*282.1*	*308.7*
Portfolio investment	888.6	1,084.4	1,285.1	1,581.9	1,844.4	1,933.4
(foreign securities held by residents)						
MFIs (resident security-holding sector)	*390.5*	*480.3*	*562.3*	*661.6*	*749.1*	*809.4*
Non–MFIs (resident security-holding sector)	*498.1*	*604.1*	*722.8*	*920.3*	*1,095.3*	*1,124.0*
Financial derivatives	103.1	93.1	99.7	178.4	279.7	420.1
Other investment	752.5	721.9	804.8	1,067.5	1,169.5	1,333.8
MFIs	*516.4*	*492.0*	*578.9*	*840.7*	*945.6*	*1,088.5*
Non–MFIs	*236.1*	*229.9*	*225.9*	*226.8*	*224.0*	*245.3*
Reserve assets	58.8	56.0	56.8	63.0	74.6	73.1
Liabilities	**-2,315.0**	**-2,594.8**	**-2,961.3**	**-3,720.3**	**-4,392.2**	**-4,904.2**
Foreign direct investment in France	-367.3	-417.8	-471.2	-532.3	-594.4	-641.5
Equity capital and reinvested earnings	*-232.3*	*-267.4*	*-295.2*	*-321.1*	*-350.7*	*-366.8*
Other capital	*-135.1*	*-150.4*	*-176.0*	*-211.2*	*-243.7*	*-274.7*
Portfolio investment	-1,054.5	-1,287.8	-1,459.8	-1,766.8	-2,018.8	-2,149.9
(French securities held by non-residents)						
MFIs (resident security-issuing sector)	*-242.9*	*-287.6*	*-325.5*	*-414.7*	*-513.8*	*-551.2*
Non–MFIs (resident security-issuing sector)	*-811.5*	*-1,000.2*	*-1,134.3*	*-1,352.1*	*-1,505.0*	*-1,598.7*
Financial derivatives	-107.1	-117.0	-136.6	-226.6	-337.5	-468.4
Other investment	-786.1	-772.2	-893.7	-1,194.7	-1,441.5	-1,644.4
MFIs	*-632.1*	*-624.2*	*-740.4*	*-1,016.1*	*-1,245.0*	*-1,439.6*
Non–MFIs	*-154.0*	*-148.1*	*-153.3*	*-178.5*	*-196.5*	*-204.8*
Net position	**47.2**	**-65.8**	**-94.2**	**-81.6**	**-203.7**	**-261.1**

Non-resident holdings of CAC 40 equities and government negotiable debt securities



France's international investment position



Source: Banque de France.

Produced 19 December 2007

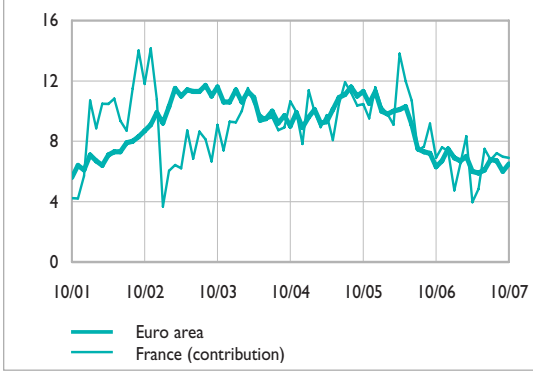
Table 11
Main monetary and financial aggregates – France and the euro area

(annual percentage growth rate)

	2004	2005	2006	2006	2007						
	Dec.	Dec.	Dec.	Oct.	April	May	June	July	Aug.	Sept.	Oct.
M1											
Euro area (a)	8.9	11.3	7.5	6.3	6.0	5.9	6.1	6.8	6.7	6.0	6.5
France (contribution)	7.8	11.6	7.4	6.9	4.0	4.8	7.5	6.8	7.2	7.0	6.9
M2											
Euro area (a)	6.6	8.5	9.3	8.2	8.8	9.3	9.5	10.4	10.5	10.2	11.2
France (contribution)	7.1	8.1	8.4	7.4	8.5	9.8	11.1	11.7	11.8	11.8	13.3
M3											
Euro area (a)	6.6	7.3	9.9	8.5	10.3	10.6	11.0	11.7	11.6	11.3	12.3
France (contribution)	8.2	8.5	10.7	9.6	10.0	12.1	13.2	13.0	12.1	13.0	13.9
Loans to the private sector											
Euro area (a)	7.2	9.2	10.8	11.2	10.4	10.4	10.8	11.0	11.2	11.0	11.2
France (b)	9.0	9.3	12.7	14.2	12.6	13.1	13.5	14.8	14.9	15.4	14.2

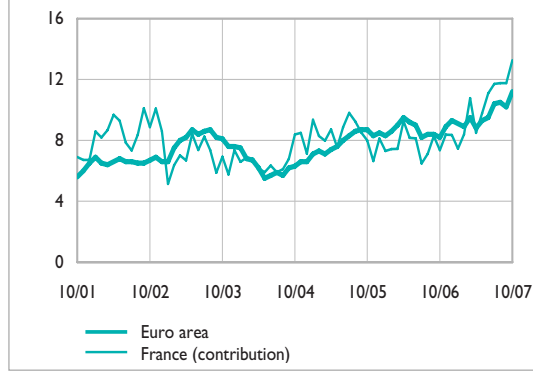
M1

(annual percentage growth rate)



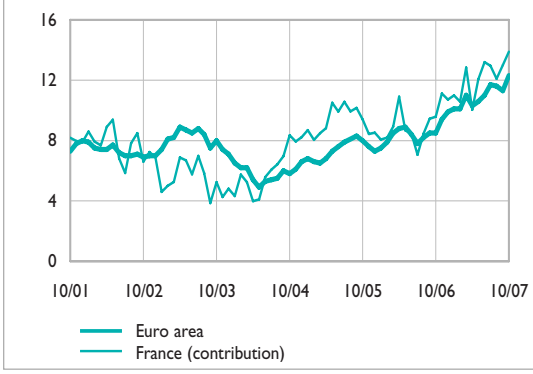
M2

(annual percentage growth rate)



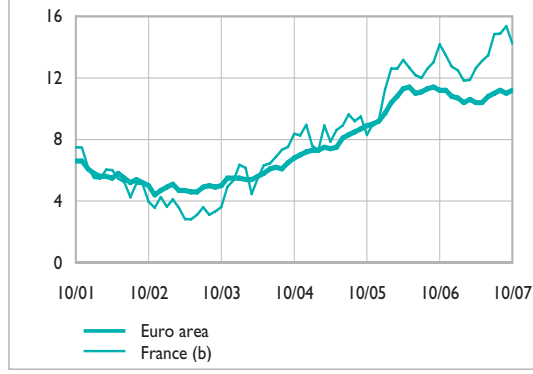
M3

(annual percentage growth rate)



Loans to the private sector

(annual percentage growth rate)



(a) Seasonal and calendar effect adjusted data.
(b) Loans extended by MFIs resident in France to euro area residents excluding MFIs and central government.
Sources: Banque de France, European Central Bank.

Produced 19 December 2007

Table 12
Balance sheet of the Banque de France

(outstanding amounts at the end of the period, EUR billions)

	2004	2005	2006	2006	2007			
	Dec.	Dec.	Dec.	Oct.	July	Aug.	Sept.	Oct.
Assets								
National territory	23.3	34.2	31.7	30.7	63.7	61.3	71.7	72.0
Loans	17.7	27.4	23.6	22.7	49.1	47.9	58.1	57.4
MFIs	*17.3*	*27.1*	*23.3*	*22.5*	*48.9*	*47.7*	*57.8*	*57.2*
Central government	*0.2*	*0.1*	*0.1*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*
Private sector	*0.3*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
Securities other than shares	5.5	6.8	8.1	8.0	14.6	13.4	13.6	14.6
MFIs	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Central government	*5.5*	*6.8*	*8.1*	*8.0*	*14.6*	*13.4*	*13.6*	*14.6*
Private sector	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other euro area countries	23.9	20.4	9.1	21.0	9.1	9.1	9.1	9.1
Rest of the world	22.9	22.8	37.7	34.6	38.7	40.1	39.6	42.5
Gold	30.9	39.5	42.2	42.1	41.4	41.8	44.2	46.2
Not broken down by geographical area (a)	73.9	93.1	114.2	99.5	103.1	108.7	127.3	142.8
Total	**174.9**	**210.0**	**234.9**	**227.9**	**256.0**	**261.2**	**291.9**	**312.5**
Liabilities								
National territory – Deposits	29.3	29.6	30.5	35.1	38.5	28.0	45.2	45.4
MFIs	28.7	28.6	29.8	34.1	37.6	27.2	44.2	44.3
Central government	0.3	0.3	0.0	0.2	0.1	0.1	0.3	0.3
Other sectors (overnight deposits)	0.4	0.8	0.8	0.7	0.7	0.7	0.7	0.8
Other euro area countries – Deposits	0.0	0.0	0.0	0.0	4.8	13.8	10.9	19.1
MFIs	0.0	0.0	0.0	0.0	4.8	13.8	10.9	19.1
Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rest of the world – Deposits	7.3	8.2	16.1	13.3	20.7	23.6	23.4	13.1
Not broken down by geographical area	138.2	172.2	188.2	179.5	192.0	195.6	212.4	235.0
Currency in circulation (b)	97.8	110.2	122.3	115.9	124.1	123.5	123.6	124.4
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital and reserves	32.9	45.7	48.0	48.4	48.6	48.6	51.6	51.6
Other	7.4	16.3	17.9	15.2	19.2	23.4	37.2	58.9
Total	**174.9**	**210.0**	**234.9**	**227.9**	**256.0**	**261.2**	**291.9**	**312.5**

(a) Including adjustments for the new accounting method for banknotes on the liability side of the Banque de France balance sheet since January 2002.
(b) Since January 2002, banknotes in circulation have been treated according to specific euro area accounting conventions. 8% of the total value of euro banknotes in circulation is allocated to the European Central Bank. The remaining 92% is broken down between the NCBs in proportion to their share in the paid-up capital of the ECB.

Source: Banque de France.

Produced 19 December 2007

Table 13
Balance sheet of monetary financial institutions (MFIs) excluding the Banque de France

(outstanding amounts at the end of the period in EUR billions)

	2004	2005	2006	2006	2007			
	Dec.	Dec.	Dec.	Oct.	July	Aug.	Sept.	Oct.
Assets								
National territory	3,202.7	3,291.8	3,593.1	3,558.8	3,926.4	3,942.8	3,995.0	4,059.1
Loans	2,416.4	2,523.4	2,745.1	2,714.9	3,011.4	3,032.2	3,085.6	3,131.8
MFIs	*1,013.1*	*996.3*	*1,062.0*	*1,050.2*	*1,187.3*	*1,201.6*	*1,223.3*	*1,264.6*
General government	*139.5*	*150.8*	*155.7*	*150.8*	*161.7*	*163.9*	*168.7*	*167.1*
Private sector	*1,263.8*	*1,376.4*	*1,527.4*	*1,513.9*	*1,662.3*	*1,666.7*	*1,693.6*	*1,700.1*
Securities other than shares	461.0	455.6	481.2	501.5	518.6	515.9	516.3	528.5
MFIs ≤ 2 years	*162.6*	*140.0*	*172.4*	*180.5*	*184.3*	*187.5*	*193.8*	*202.9*
MFIs > 2 years	*53.3*	*57.4*	*65.7*	*66.9*	*72.8*	*69.4*	*69.6*	*69.9*
General government	*155.8*	*168.6*	*152.7*	*157.5*	*162.2*	*162.1*	*159.4*	*155.0*
Private sector	*89.4*	*89.6*	*90.3*	*96.6*	*99.3*	*96.9*	*93.4*	*100.8*
Money market fund shares/units	67.8	78.1	77.3	78.9	87.8	84.8	83.6	86.7
Shares and other equity	257.5	234.6	289.5	263.6	308.7	309.8	309.6	312.1
Other euro area countries	555.1	727.0	848.9	861.1	983.3	972.7	964.7	992.0
Rest of the world	608.9	850.2	963.4	951.2	1,114.0	1,065.3	1,007.8	1,064.9
Not broken down by geographical area	417.0	602.9	766.8	728.4	906.2	896.8	992.9	975.0
Total	**4,783.8**	**5,471.9**	**6,172.3**	**6,099.5**	**6,929.9**	**6,877.6**	**6,960.4**	**7,091.0**
Liabilities								
National territory – Deposits	2,180.2	2,242.3	2,302.6	2,241.5	2,502.8	2,496.9	2,534.7	2,577.8
MFIs	1,006.6	1,011.3	1,055.4	1,023.3	1,204.7	1,212.5	1,227.9	1,271.8
Central government	43.9	45.2	16.0	11.5	19.1	14.3	26.9	16.4
Other sectors	1,129.6	1,185.8	1,231.2	1,206.8	1,279.0	1,270.0	1,279.9	1,289.5
Overnight deposits	*357.1*	*395.3*	*419.1*	*395.7*	*426.1*	*410.0*	*420.6*	*415.6*
Deposits with agreed maturity ≤ 2 years	*45.5*	*53.4*	*64.2*	*64.3*	*96.5*	*99.7*	*103.1*	*118.0*
Deposits with agreed maturity > 2 years	*306.4*	*307.1*	*297.3*	*293.0*	*282.1*	*281.8*	*278.5*	*277.4*
Deposits redeemable at notice ≤ 3 months	*377.5*	*392.6*	*416.7*	*409.2*	*426.2*	*430.1*	*429.1*	*429.5*
Repos	*43.2*	*37.4*	*33.9*	*44.5*	*48.1*	*48.3*	*48.5*	*49.1*
Other euro area countries – Deposits	238.6	271.1	327.5	335.9	360.4	351.8	369.1	371.1
MFIs	201.5	226.4	265.8	270.8	276.1	265.7	281.0	277.9
Other sectors	37.1	44.7	61.7	65.1	84.3	86.0	88.1	93.3
Rest of the world – Deposits	511.7	757.2	933.3	950.9	1,163.5	1,125.3	1,080.2	1,127.8
Not broken down by geographical area	1,853.2	2,201.3	2,608.9	2,571.1	2,903.2	2,903.7	2,976.4	3,014.3
Debt securities issued ≤ 2 years	*259.4*	*271.3*	*335.6*	*346.2*	*351.9*	*364.6*	*394.7*	*423.1*
Debt securities issued > 2 years	*404.8*	*458.6*	*531.2*	*515.1*	*588.0*	*595.1*	*592.6*	*601.3*
Money market fund shares/units	354.1	387.8	429.6	439.4	484.7	474.1	453.5	451.7
Capital and reserves	313.8	318.7	367.9	344.3	384.8	384.5	385.7	385.8
Other	521.1	765.0	944.6	926.2	1,093.9	1,085.4	1,150.0	1,152.4
Total	**4,783.8**	**5,471.9**	**6,172.3**	**6,099.5**	**6,929.9**	**6,877.6**	**6,960.4**	**7,091.0**

NB: Since July 2003, financial transactions carried out by La Poste have been accounted for in the balance sheet of monetary financial institutions. This has resulted in an increase in the item "Shares and other equity" in Assets, and in "Overnight deposits" and "Capital and reserves" in Liabilities.

Source: Banque de France.

Produced 19 December 2007

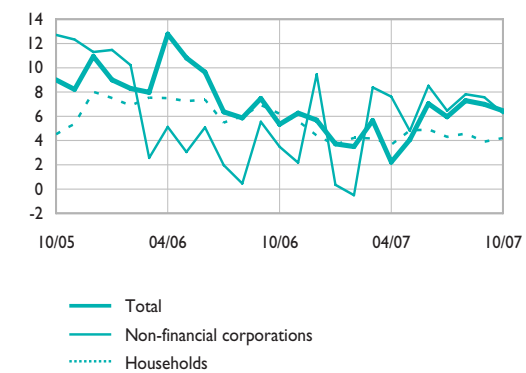
Table 14
Deposits – France

(outstanding amounts at the end of the period in EUR billions – % growth)

	2004	2005	2006	2006	2007			
	Dec.	Dec.	Dec.	Oct.	July	Aug.	Sept.	Oct.
Overnight deposits								
Total non-financial sectors (excluding central government)	384.9	425.6	448.0	414.8	448.3	439.2	446.1	441.9
Households and similar	*212.9*	*230.1*	*240.0*	*234.0*	*247.5*	*243.0*	*243.4*	*243.7*
Non-financial corporations	*124.2*	*139.9*	*151.9*	*133.6*	*143.9*	*139.6*	*146.4*	*141.0*
General government (excl. central government)	*47.8*	*55.6*	*56.1*	*47.2*	*57.0*	*56.7*	*56.3*	*57.3*
Other sectors	17.5	22.6	25.4	26.4	27.8	25.4	28.2	27.6
Total – Outstanding amounts	**402.4**	**448.1**	**473.4**	**441.2**	**476.2**	**464.6**	**474.3**	**469.5**
Total – Growth rate	**5.8**	**10.9**	**5.7**	**5.3**	**6.0**	**7.3**	**7.0**	**6.5**
Passbook savings accounts								
"A" passbooks	113.5	112.1	115.4	112.7	115.5	116.5	116.6	116.7
"Blue" passbooks	16.3	16.9	18.3	17.8	19.1	19.4	19.5	19.6
Housing savings accounts	38.5	39.1	38.4	38.3	37.8	38.0	37.7	37.6
Sustainable development passbook accounts	45.7	47.0	51.1	49.9	59.9	60.6	60.7	61.1
People's savings passbooks	56.7	56.8	58.2	57.2	58.4	58.8	59.1	59.3
Youth passbooks	6.1	6.4	6.7	6.6	6.8	7.0	7.0	7.1
Taxable passbooks	100.7	114.2	128.6	126.7	128.7	129.9	128.5	128.1
Total – Outstanding amounts	**377.5**	**392.6**	**416.7**	**409.2**	**426.2**	**430.1**	**429.1**	**429.5**
Total – Growth rate	**7.3**	**4.0**	**6.2**	**5.5**	**5.6**	**5.4**	**5.2**	**5.0**

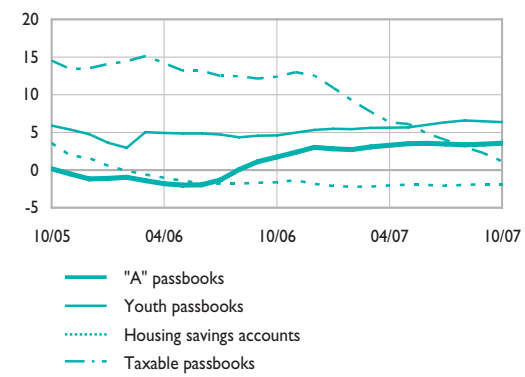
Overnight deposits

(annual growth rate)



Passbook savings accounts

(annual growth rate)



Source: Banque de France.

Produced 19 December 2007

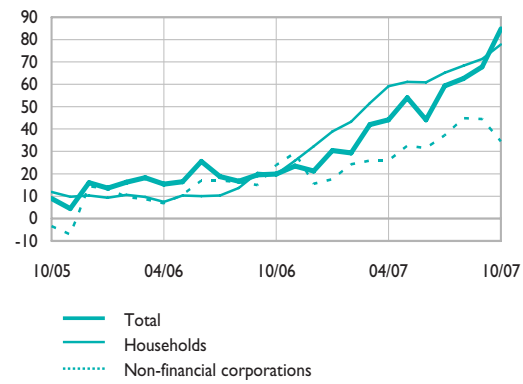
Table 15
Time deposits – France

(outstanding amounts at the end of the period in EUR billions – % growth)

	2004	2005	2006	2006	2007			
	Dec.	Dec.	Dec.	Oct.	July	Aug.	Sept.	Oct.
Deposits with agreed maturity up to two years								
Total non-financial sectors (excl. central government)	41.7	47.6	58.0	57.9	78.6	83.5	84.7	88.3
Households and similar	*18.6*	*20.8*	*27.2*	*25.8*	*38.9*	*41.1*	*42.6*	*45.4*
Non-financial corporations	*22.8*	*26.5*	*30.4*	*31.7*	*39.0*	*41.7*	*41.4*	*42.2*
General government (excl. central government)	*0.3*	*0.3*	*0.5*	*0.4*	*0.7*	*0.7*	*0.7*	*0.7*
Other sectors	3.8	5.8	6.3	6.4	17.9	16.2	18.4	29.7
Total – Outstanding amounts	**45.5**	**53.4**	**64.2**	**64.3**	**96.5**	**99.7**	**103.1**	**118.0**
Total – Growth rate	**-7.6**	**16.1**	**21.3**	**20.0**	**59.3**	**62.6**	**67.8**	**84.8**
Deposits with agreed maturity of over two years								
Total non-financial sectors (excl. central government)	295.8	294.9	273.6	272.3	260.9	260.0	256.9	255.4
Households and similar	*282.6*	*281.4*	*260.1*	*258.3*	*247.2*	*246.1*	*244.7*	*243.3*
PEL	*224.2*	*225.6*	*206.1*	*203.9*	*192.3*	*191.5*	*190.1*	*188.4*
PEP	*42.5*	*39.0*	*35.0*	*34.9*	*32.8*	*32.7*	*32.4*	*32.1*
Other	*15.9*	*16.8*	*19.1*	*19.5*	*22.0*	*21.9*	*22.1*	*22.8*
Non-financial corporations	*13.1*	*13.5*	*13.4*	*13.9*	*13.7*	*13.9*	*12.2*	*12.0*
General government (excl. central government)	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*
Other sectors	10.6	12.1	23.7	20.8	21.2	21.8	21.6	22.0
Total – Outstanding amounts	**306.4**	**307.1**	**297.3**	**293.0**	**282.1**	**281.8**	**278.5**	**277.4**
Total – Growth rate	**2.3**	**0.2**	**-4.7**	**-4.8**	**-4.9**	**-4.7**	**-5.3**	**-5.3**

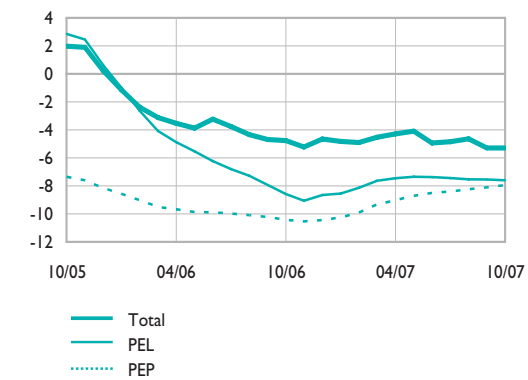
Deposits up to 2 years

(annual percentage growth rate)



Deposits over 2 years

(annual percentage growth rate)



Sources: Banque de France, European Central Bank.

Produced 19 December 2007

Table 16
Loans extended by credit institutions established in France to French residents – France

(outstanding amounts at the end of the period in EUR billions – % growth)

	2004	2005	2006	2006	2007				
	Dec.	Dec.	Dec.	Oct.	June	July	Aug.	Sept.	Oct.
Loans from monetary financial institutions									
Private sector	1,264.0	1,376.6	1,527.6	1,514.1	1,636.2	1,662.5	1,666.9	1,693.8	1,700.3
General government	139.7	150.9	155.8	150.9	164.0	161.8	163.9	168.7	167.1
Total – Outstanding amounts	**1,403.7**	**1,527.5**	**1,683.4**	**1,665.0**	**1,800.2**	**1,824.3**	**1,830.8**	**1,862.5**	**1,867.4**
Private sector	8.3	8.9	11.7	13.1	12.4	13.0	13.3	14.0	13.2
General government	-0.5	7.8	3.3	10.9	8.8	9.7	9.3	9.8	10.9
Total – Growth rate	**7.4**	**8.8**	**10.9**	**12.9**	**12.1**	**12.7**	**13.0**	**13.6**	**13.0**
Loans from credit institutions to non-financial corporations									
Fixed investment	216.3	229.9	250.7	246.9	262.2	265.7	267.4	269.2	272.8
Inventories and working capital	144.4	156.7	171.4	169.9	187.6	191.0	188.9	190.0	194.1
Other lending	180.9	193.0	208.4	207.3	216.0	219.0	219.8	226.0	225.5
Total – Outstanding amounts	**541.5**	**579.6**	**630.5**	**624.1**	**665.9**	**675.6**	**676.1**	**685.2**	**692.4**
Total – Growth rate	**6.0**	**7.2**	**10.0**	**10.9**	**10.1**	**11.2**	**12.4**	**12.6**	**12.3**
Loans from credit institutions to households									
Loans for house purchase	438.1	503.6	578.6	565.2	614.7	622.3	627.6	633.6	638.8
Consumer loans	118.7	128.0	134.7	132.5	136.9	137.4	136.2	136.7	138.1
Other lending	82.8	81.4	79.4	80.4	82.6	84.0	83.9	83.4	84.2
Total – Outstanding amounts	**639.5**	**712.9**	**792.7**	**778.1**	**834.3**	**843.7**	**847.7**	**853.8**	**861.1**
Total – Growth rate	**9.6**	**11.9**	**11.6**	**12.3**	**11.0**	**11.0**	**11.0**	**10.9**	**11.1**

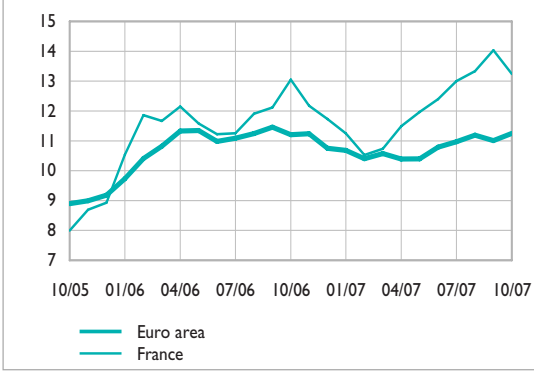
Source: Banque de France.

Produced 19 December 2007

Table 17
Loans from credit institutions broken down by counterpart and by financing purpose – France (a) and euro area

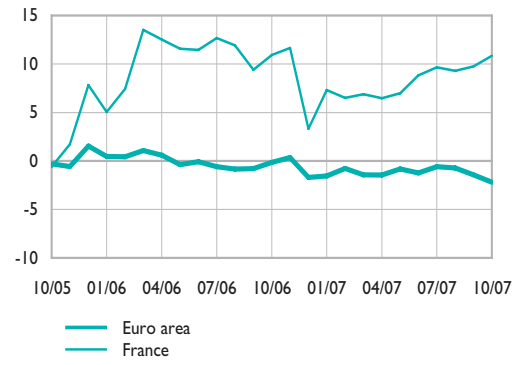
Loans to the private sector

(annual growth rate)



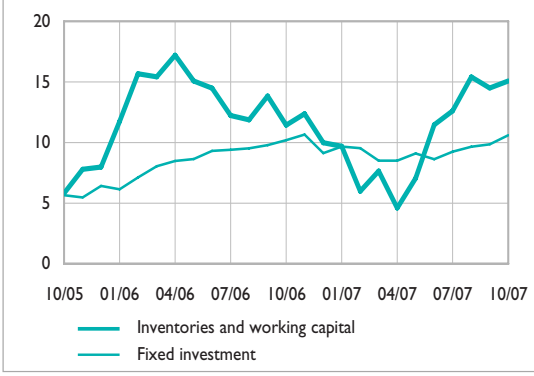
Loans to the public sector

(annual growth rate)



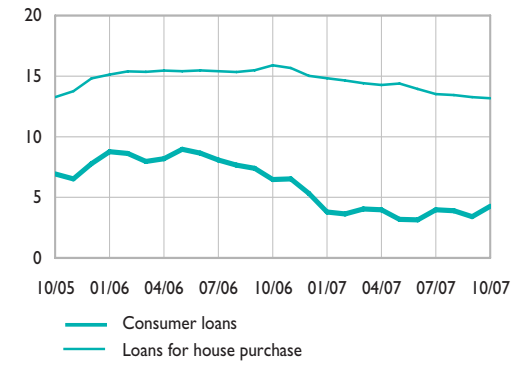
Loans to non-financial corporations – France

(annual growth rate)



Loans to households – France

(annual growth rate)



(a) Loans extended by credit institutions established in France to French residents.

Sources: Banque de France, European Central Bank.

Produced 19 December 2007

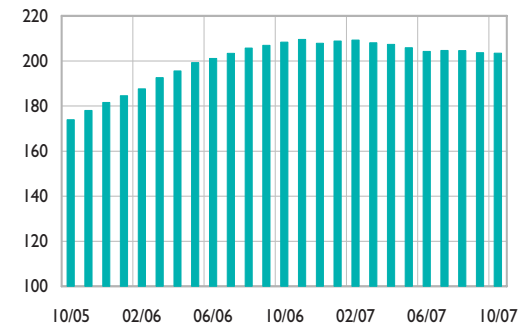
Table 18
New loans to residents – France

(excl. overdrafts, cumulative amounts over 12 months in EUR billions)

	2006			2007		
	Aug.	Sept.	Oct.	Aug.	Sept.	Oct.
Total – new loans	**523.5**	**524.7**	**524.0**	**506.8**	**507.0**	**511.7**
Loans to households	**205.8**	**206.9**	**208.3**	**204.6**	**203.7**	**203.5**
Consumer loans (excl. overdrafts)	51.6	51.9	52.5	55.6	55.6	55.8
Loans for house purchase with an IRFP ≤ 1 year (a)	39.5	38.8	37.9	27.3	26.4	25.5
Loans for house purchase with an IRFP > 1 year (a)	114.6	116.2	117.9	121.7	121.7	122.2
Loans to non-financial corporations	**317.7**	**317.8**	**315.7**	**302.2**	**303.3**	**308.2**
Loans with an IRFP ≤ 1 year (excl. overdrafts) (a)	232.2	229.9	224.7	195.2	196.3	201.2
Loans with an IRFP > 1 year (a)	85.5	87.9	91.0	107.0	107.0	107.1

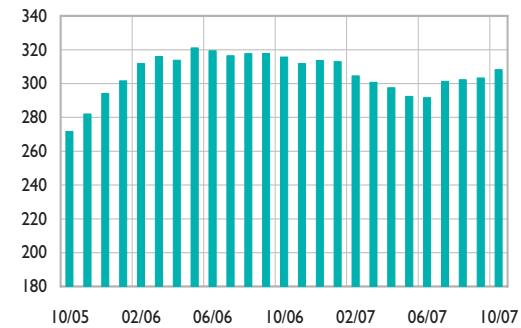
Loans to households

(EUR billions)



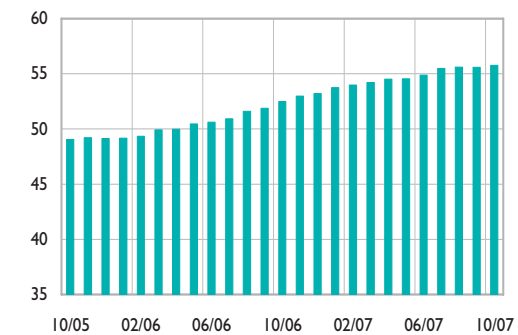
Loans to non-financial corporations

(EUR billions)



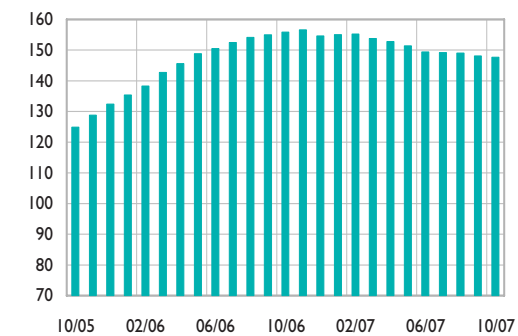
Consumer loans to households (excl. overdrafts)

(EUR billions)



Loans for house purchase

(EUR billions)



Data revised over the entire period.

(a) IRFP: initial rate fixation period i.e. the period for which the rate of a loan is fixed.
IRFP ≤ 1 year: loans for which the rate is adjusted at least once a year + fixed-rate loans with an initial maturity of up to 1 year.
IRFP > 1 year: loans for which the rate is adjusted less than once a year + fixed-rate loans with an initial maturity of over 1 year.

Sources: Banque de France, European Central Bank. *Produced 19 December 2007*

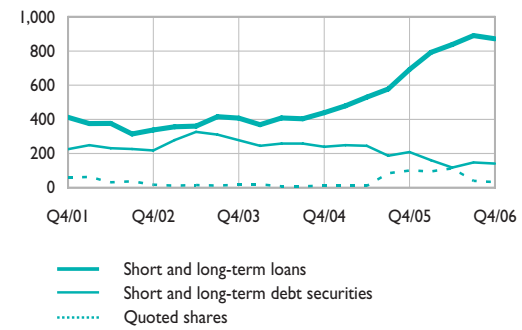
Table 19
Financing and investment – Non-financial sectors – Euro area

(EUR billions)

	Cumulated transaction flows over 4 quarters					Flows	Outstanding amounts
	2005	2006				2006	2006
	Q4	Q1	Q2	Q3	Q4	Q4	Dec.
Financing							
Debt	**924.6**	**989.4**	**977.2**	**1,056.5**	**1,025.1**	**227.4**	**16,371.6**
Short-term loans	91.7	118.3	124.2	158.8	148.8	34.4	1,801.6
Long-term loans	600.4	673.7	713.8	731.5	722.8	222.4	8,647.2
Short-term debt securities	-0.9	-7.3	-17.8	-8.7	4.0	-22.6	824.8
Long-term debt securities	209.6	168.1	136.2	156.4	137.7	-15.4	4,771.3
Deposits received by general government (a)	23.9	36.6	20.8	18.5	11.7	8.6	326.7
Issuance of shares and pension funds							
Quoted shares	101.6	95.9	113.5	40.5	33.0	12.4	4,448.0
Reserves for non-financial corporations' pension funds	12.6	12.8	12.3	12.2	12.3	3.3	326.1
Investment							
Short-term securities and deposits							
Banknotes and coins	53.3	49.8	47.1	46.9	47.8	26.5	513.3
Overnight deposits	230.2	182.3	174.6	164.2	163.8	118.8	2,721.1
Deposits redeemable at notice	45.3	47.1	32.0	23.0	12.7	3.8	1,500.5
Deposits with agreed maturity up to 2 years	26.2	70.1	108.0	152.1	202.4	85.2	1,795.6
Central government deposits	10.9	5.4	-3.4	21.4	-16.2	-46.4	156.9
Deposits with non-financial monetary institutions	21.9	31.7	23.7	19.9	14.5	12.2	373.8
Short-term debt securities	-15.2	19.8	20.5	31.8	47.3	-6.1	163.4
Money market fund shares/units	-1.2	-3.0	-4.5	1.8	2.4	-9.1	350.7
Security repos with MFIs	-8.2	2.1	7.1	16.1	17.7	4.0	97.9
Medium and long-term investment							
Deposits with agreed maturity over 2 years	112.2	126.7	129.6	135.8	138.6	50.5	1,663.6
Medium and long-term debt securities	44.0	52.9	62.8	92.4	110.8	32.6	1,848.1
Quoted shares	30.9	-15.0	15.7	32.0	0.9	-27.9	3,373.3
Life insurance and pension funds	324.1	329.7	314.5	303.9	282.8	71.5	5,050.1
Non money market mutual fund shares/units	91.4	68.8	47.1	-6.3	-25.8	-6.6	1,848.8

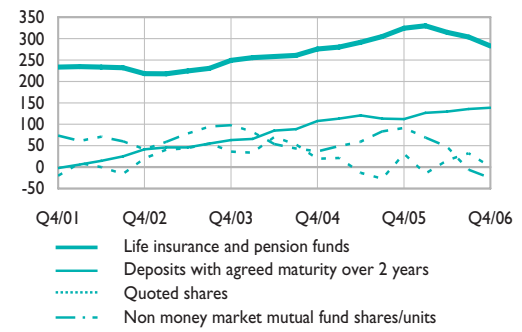
Financing

(EUR billions, cumulated flows over 4 quarters)



Medium and long-term investment

(EUR billions, cumulated flows over 4 quarters)



(a) The series previously available "Deposits received by central government" is replaced by a broader series "Deposits received by general government".

Sources: Banque de France, European Central Bank. *Produced 19 December 2007*

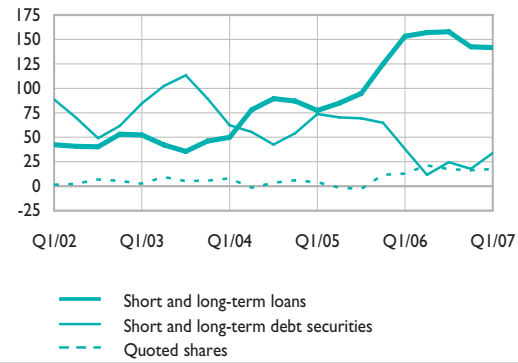
Table 20
Financing and investment – Non-financial sectors – France

(EUR billions)

	Cumulated transaction flows over 4 quarters					Flows	Outstanding amounts
	2006				2007	2007	2007
	Q1	Q2	Q3	Q4	Q1	Q1	March
Financing (a)							
Debt financing according to national accounts	**238.8**	**226.6**	**229.6**	**215.0**	**231.9**	**83.1**	**3,056.7**
Short-term loans	21.8	19.8	21.4	7.8	14.2	9.8	235.3
Long-term loans	131.4	137.3	136.3	134.7	127.5	21.0	1,427.1
Loans to non-residents	47.7	57.9	47.2	54.8	56.4	16.5	377.4
Short-term debt securities	-20.3	-26.3	-24.0	-28.4	-7.8	12.5	120.3
Long-term debt securities	58.3	37.8	48.6	46.1	41.6	23.4	1,224.0
Issuance of shares and other equity	**78.9**	**93.6**	**88.2**	**99.4**	**107.7**	**30.1**	**4,660.2**
Quoted shares	12.9	21.3	17.4	16.4	17.6	1.8	1,434.7
Other types of shares	66.0	72.3	70.8	83.0	90.1	28.3	3,225.6
Investment							
Short-term securities and deposits	**110.2**	**65.0**	**80.4**	**70.5**	**75.2**	**38.9**	**1,371.7**
Banknotes and coins	3.1	4.5	4.2	4.4	5.1	-1.0	43.4
Overnight deposits	24.6	28.3	25.0	23.7	22.6	-23.5	424.4
Overnight investments	17.2	14.9	19.3	24.0	23.5	7.9	419.0
Deposits with agreed maturity up to 2 years	4.2	6.4	8.2	10.9	17.9	8.1	66.0
Central government deposits	13.7	-5.9	-7.8	-28.5	-28.7	6.2	22.2
Other deposits (abroad, etc.)	12.6	-10.4	-10.0	2.0	1.2	15.2	118.7
Short-term debt securities issued by MFIs	17.1	13.1	13.6	12.8	2.8	1.3	28.8
Money market fund shares/units	12.9	8.7	17.7	13.1	26.5	22.6	241.6
Security repos with MFIs	-1.6	-0.6	-0.3	0.0	-0.1	-0.2	0.8
Other short-term securities	6.4	6.0	10.6	8.2	4.4	2.3	6.8
Medium and long-term investment	**137.4**	**142.9**	**136.1**	**141.7**	**154.0**	**36.6**	**5,808.9**
Deposits with agreed maturity over 2 years	-12.6	-16.5	-19.1	-21.4	-16.8	-6.9	266.7
Bond-type investments	16.0	13.3	1.3	5.7	6.1	3.1	173.1
"Shares and other equity" type investments	53.4	55.6	62.2	62.1	79.0	18.8	3,978.1
Life insurance and pension funds	87.7	91.0	90.3	88.8	84.2	26.1	1,152.2
Other non money market mutual fund shares/units (b)	-7.0	-0.5	1.4	6.5	1.5	-4.5	238.7

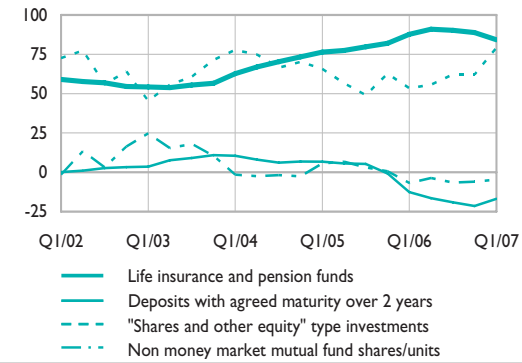
Financing

(EUR billions, cumulated flows over 4 quarters)



Medium and long-term investment

(EUR billions, cumulated flows over 4 quarters)



(a) Given its very weak weight, the item "Monetary financing of the Treasury" is no longer presented and its components are included in the loan items.

(b) Shares/units in the following types of mutual funds: mixed funds, funds of alternative funds, guaranteed-performance mutual funds, structured funds ("fonds à formule").

Source: Banque de France.

Produced 19 December 2007

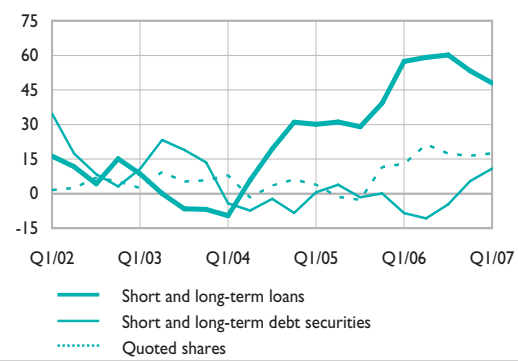
Table 21
Financing and investment – Non-financial corporations – France

(EUR billions)

	Cumulated transaction flows over 4 quarters					Flows	Outstanding amounts
	2006				2007	2007	2007
	Q1	Q2	Q3	Q4	Q1	Q1	March
Financing							
Debt financing according to national accounts	**96.6**	**106.2**	**102.7**	**113.5**	**115.3**	**29.2**	**964.2**
Short-term loans	10.9	10.3	13.2	8.6	9.1	1.6	163.8
Long-term loans	46.5	48.7	47.0	44.7	38.9	10.8	509.1
Loans to non-residents	47.7	57.9	47.2	54.8	56.4	16.5	377.4
Short-term debt securities	-3.8	-5.6	-1.9	2.2	3.9	3.9	34.2
Long-term debt securities	-4.7	-5.1	-2.8	3.3	7.0	-3.6	261.5
Issuance of shares and other equity	**78.9**	**93.6**	**88.2**	**99.4**	**107.7**	**30.1**	**4,660.2**
Quoted shares	12.9	21.3	17.4	16.4	17.6	1.8	1,434.7
Other types of shares	66.0	72.3	70.8	83.0	90.1	28.3	3,225.6
Investment							
Short-term securities and deposits	**32.0**	**29.9**	**42.7**	**42.8**	**43.8**	**7.6**	**383.5**
Banknotes and coins	0.6	0.7	0.6	0.7	0.6	-0.2	6.7
Overnight deposits	3.1	6.5	7.1	13.1	10.8	-13.0	138.9
Overnight investment	-1.0	-1.9	-1.4	-1.3	-1.3	-0.5	2.5
Deposits with agreed maturity up to 2 years	2.2	4.1	3.8	4.1	7.0	3.5	33.9
Other deposits (abroad, etc.)	-0.3	-0.5	-0.5	-0.3	0.0	0.1	0.9
Short-term debt securities issued by MFIs	16.3	12.2	12.3	11.6	2.2	1.1	21.9
Money market fund shares/units	11.7	8.7	15.8	11.1	21.7	17.0	176.0
Security repos with MFIs	-1.6	-0.6	-0.3	0.0	-0.1	-0.2	0.8
Other short-term securities	0.9	0.6	5.3	3.9	2.7	-0.3	2.0
Medium and long-term investment	**48.2**	**54.3**	**52.5**	**65.0**	**67.0**	**12.7**	**2,963.6**
Deposits with agreed maturity over 2 years	-0.5	0.9	1.1	0.1	0.6	0.2	13.7
Bond-type investments	7.6	2.7	-3.7	0.8	3.5	1.0	56.9
"Shares and other equity" type investments	46.8	54.4	60.2	68.1	68.5	13.2	2,859.3
Other non money market mutual fund shares/units (a)	-5.8	-3.7	-5.1	-4.0	-5.7	-1.8	33.8

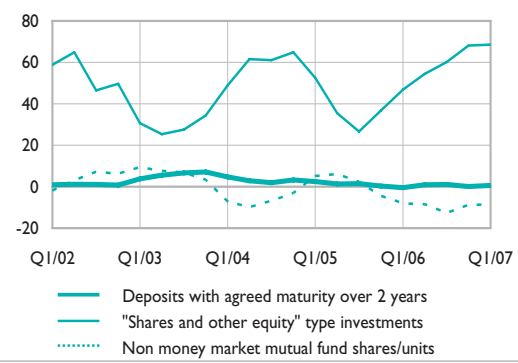
Financing

(EUR billions, cumulated flows over 4 quarters)



Medium and long-term investment

(EUR billions, cumulated flows over 4 quarters)



(a) Shares/units in the following types of mutual funds: mixed funds, funds of alternative funds, guaranteed-performance mutual funds, structured funds ("fonds à formule").

Source: Banque de France.

Produced 19 December 2007

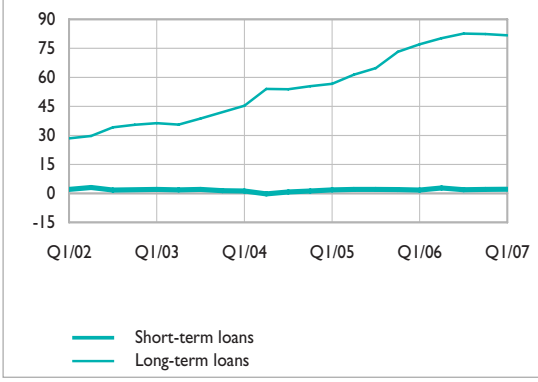
Table 22
Financing and investment – Households – France

(EUR billions)

	Cumulated transaction flows over 4 quarters					Flows	Outstanding amounts
	2006				2007	2007	2007
	Q1	Q2	Q3	Q4	Q1	Q1	March
Financing							
Debt financing according to national accounts	**78.9**	**83.0**	**84.5**	**84.4**	**83.8**	**16.4**	**830.8**
Short-term loans	1.8	2.8	1.9	2.1	2.1	-0.1	41.2
Long-term loans	77.1	80.2	82.6	82.4	81.7	16.5	789.7
Investment							
Short-term securities and deposits	**51.3**	**27.8**	**35.7**	**50.3**	**54.8**	**26.4**	**891.9**
Banknotes and coins	2.5	3.8	3.6	3.7	4.5	-0.8	36.7
Overnight deposits	15.8	16.0	15.2	10.1	9.4	-6.2	233.7
Overnight investment	18.1	16.9	20.7	25.4	24.9	8.5	416.4
Deposits with agreed maturity up to 2 years	1.9	2.0	4.2	6.6	10.8	4.4	31.5
Other deposits (abroad, etc.)	12.8	-9.9	-9.5	2.3	1.2	15.1	117.8
Short-term debt securities issued by MFIs	0.8	0.6	0.9	0.8	0.1	0.0	4.6
Money-market fund shares/units	-0.5	-1.7	0.7	1.2	4.0	5.4	51.2
Other short-term securities	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Medium and long-term investment	**94.5**	**92.4**	**86.2**	**80.2**	**81.1**	**23.5**	**2,447.1**
Deposits with agreed maturity over 2 years	-12.1	-17.3	-20.2	-21.5	-17.5	-7.1	253.0
Bond-type investment	-3.0	-3.2	-3.6	-2.6	-2.6	-1.0	67.9
"Shares and other equity" type investments	22.3	18.7	13.7	9.2	10.6	5.3	791.6
Life insurance and pension funds	87.7	91.0	90.3	88.8	84.2	26.1	1,152.2
Other non money market mutual fund shares/units (a)	-0.3	3.3	6.2	6.4	6.4	0.1	182.4

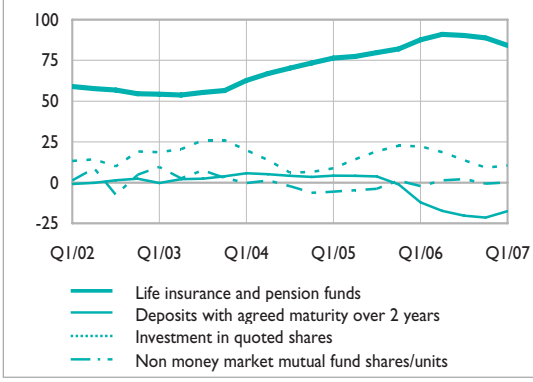
Financing

(EUR billions, cumulated flows over 4 quarters)



Medium and long-term investment

(EUR billions, cumulated flows over 4 quarters)



(a) Shares/units in the following types of mutual funds: mixed funds, funds of alternative funds, guaranteed-performance mutual funds, structured funds ("fonds à formule").

Source: Banque de France.

Produced 19 December 2007

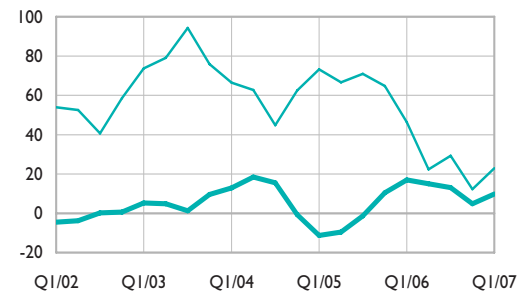
Table 23
Financing and investment – General government – France

(EUR billions)

	Cumulated transaction flows over 4 quarters					Flows	Outstanding amounts
	2006				2007	2007	2007
	Q1	Q2	Q3	Q4	Q1	Q1	March
Financing (a)							
Debt financing according to national accounts	**63.4**	**37.3**	**42.4**	**17.1**	**32.8**	**37.6**	**1,261.6**
Short-term loans	9.2	6.7	6.4	-2.8	2.9	8.3	30.4
Long-term loans	7.8	8.3	6.7	7.7	6.9	-6.3	128.3
Short-term debt securities	-16.5	-20.6	-22.1	-30.6	-11.7	8.6	86.1
Long-term debt securities	62.9	43.0	51.4	42.8	34.6	27.0	962.5
Investment							
Short-term securities and deposits	**26.9**	**7.2**	**2.0**	**-22.5**	**-23.3**	**4.8**	**96.2**
Banknotes and coins	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overnight deposits	5.8	5.7	2.7	0.5	2.5	-4.3	51.8
Overnight investment	0.1	-0.1	-0.1	-0.1	-0.2	-0.1	0.2
Deposits with agreed maturity up to 2 years	0.1	0.2	0.2	0.2	0.2	0.1	0.6
Central government deposits	13.7	-5.9	-7.8	-28.5	-28.7	6.2	22.2
Other deposits (abroad, etc.)	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Short-term debt securities issued by MFIs	0.0	0.3	0.3	0.3	0.5	0.2	2.2
Money market fund shares/units	1.7	1.6	1.2	0.8	0.8	0.1	14.4
Other short-term securities	5.5	5.4	5.4	4.4	1.7	2.6	4.8
Medium and long-term investment	**-5.2**	**-3.8**	**-2.5**	**-3.5**	**5.9**	**0.4**	**398.2**
Deposits with agreed maturity over 2 years	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bond-type investments	11.4	13.8	8.7	7.4	5.3	3.1	48.4
"Shares and other equity" type investments	-15.7	-17.5	-11.6	-15.1	-0.1	0.2	327.2
Other non money market mutual fund shares/units (b)	-0.9	-0.1	0.4	4.2	0.8	-2.9	22.5

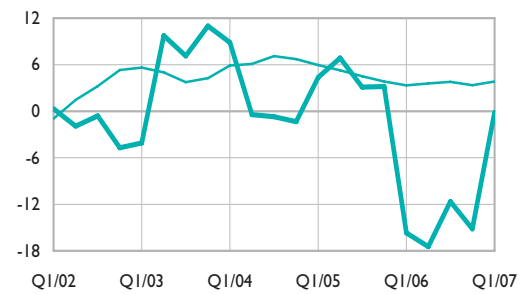
Financing

(EUR billions, cumulated flows over 4 quarters)



Medium and long-term investment

(EUR billions, cumulated flows over 4 quarters)



(a) Given its very weak weight, the item "Monetary financing of the Treasury" is no longer presented and its components are included in the loan items.
(b) Shares/units in the following types of mutual funds: mixed funds, funds of alternative funds, guaranteed-performance mutual funds, structured funds ("fonds à formule").

Source: Banque de France.

Produced 19 December 2007

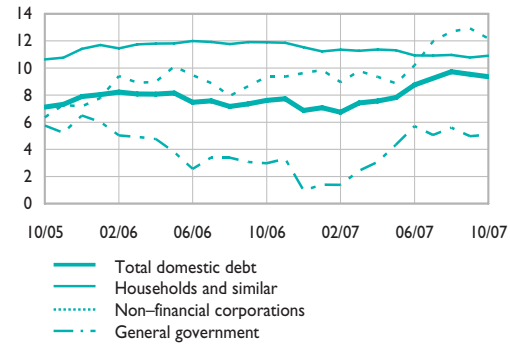
Table 24
Total domestic debt (TDD), breakdown by instrument – France

(growth rate in percentage and outstanding amounts at the end of the period in EUR billions)

	Annual growth rate						Outstanding amounts
	2004	2005	2006	2007			2007
	Dec.	Dec.	Dec.	Aug.	Sept.	Oct.	Oct.
Total domestic debt	**6.6**	**7.9**	**6.9**	**9.7**	**9.5**	**9.4**	**3,502.2**
Households and similar (a)	9.4	11.4	11.5	11.0	10.8	10.9	883.4
≤ 1 year	*3.5*	*5.3*	*5.2*	*-0.7*	*2.4*	*2.5*	*40.6*
> 1 year	*9.8*	*11.8*	*11.9*	*11.6*	*11.2*	*11.4*	*842.8*
Non-financial corporations	4.5	7.2	9.6	12.7	12.9	12.2	1,429.4
≤ 1 year	*8.1*	*11.2*	*11.4*	*15.8*	*17.4*	*15.7*	*550.3*
> 1 year	*2.6*	*4.9*	*8.6*	*10.9*	*10.3*	*10.1*	*879.1*
General government	7.1	6.5	1.0	5.6	5.0	5.1	1,189.3
≤ 1 year	*1.2*	*-3.4*	*-21.5*	*16.1*	*12.3*	*15.3*	*147.1*
> 1 year	*8.2*	*8.1*	*4.2*	*4.3*	*4.0*	*3.8*	*1,042.3*
Loans from resident financial institutions (b)	**6.8**	**9.1**	**9.8**	**11.1**	**11.2**	**11.2**	**1,774.9**
Households and similar (a)	9.4	11.4	11.5	11.0	10.8	10.9	883.4
≤ 1 year	*3.5*	*5.3*	*5.2*	*-0.7*	*2.4*	*2.5*	*40.6*
> 1 year	*9.8*	*11.8*	*11.9*	*11.6*	*11.2*	*11.4*	*842.8*
Non-financial corporations	5.7	6.9	9.4	11.9	12.1	11.8	723.8
≤ 1 year	*4.5*	*5.0*	*8.2*	*14.2*	*16.1*	*12.9*	*176.0*
> 1 year	*6.1*	*7.5*	*9.8*	*11.2*	*10.9*	*11.5*	*547.8*
General government	-0.5	7.4	3.2	8.9	9.4	10.5	167.8
≤ 1 year	*-9.6*	*10.0*	*-11.4*	*16.7*	*12.6*	*29.8*	*38.7*
> 1 year	*1.4*	*6.9*	*6.0*	*6.8*	*8.5*	*5.8*	*129.1*
Loans from non-residents (c)	**9.0**	**14.1**	**17.7**	**20.2**	**21.7**	**20.4**	**423.7**
Market financing	**5.8**	**5.1**	**0.7**	**5.1**	**4.2**	**3.9**	**1,303.5**
Non-financial corporations	-2.4	0.9	2.0	5.3	3.6	2.3	293.0
≤ 1 year	*1.0*	*14.3*	*7.7*	*3.4*	*-1.8*	*-6.8*	*33.4*
> 1 year	*-2.7*	*-0.3*	*1.4*	*5.5*	*4.3*	*3.6*	*259.6*
General government	8.7	6.4	0.3	5.1	4.3	4.4	1,010.5
≤ 1 year	*4.7*	*-6.7*	*-28.3*	*17.4*	*13.5*	*12.9*	*97.4*
> 1 year	*9.3*	*8.3*	*4.0*	*3.9*	*3.4*	*3.5*	*913.1*

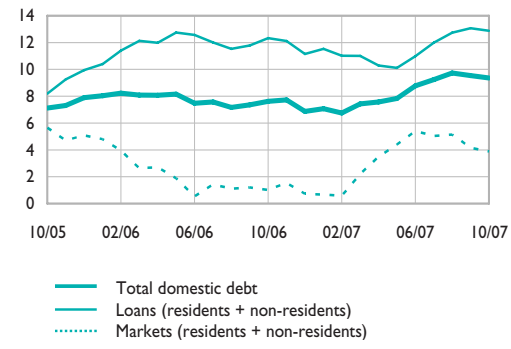
TDD – Sectoral breakdown

(annual growth rate)



TDD – Breakdown by type of financing

(annual growth rate)



(a) Households + Non-profit institutions serving households.
(b) Financial Institutions: monetary financial institutions + other financial intermediaries.
(c) Loans between units of different companies + loans obtained through direct investments + commercial loans + deposits of non-residents held with the French Treasury.

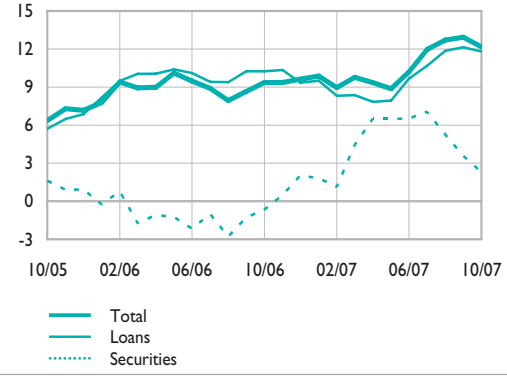
Source: Banque de France.

Produced 19 December 2007

Table 25
Total domestic debt (TDD) – France

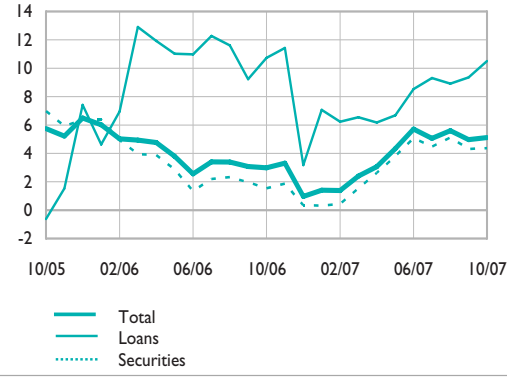
Debt – non-financial corporations

(annual growth rates)



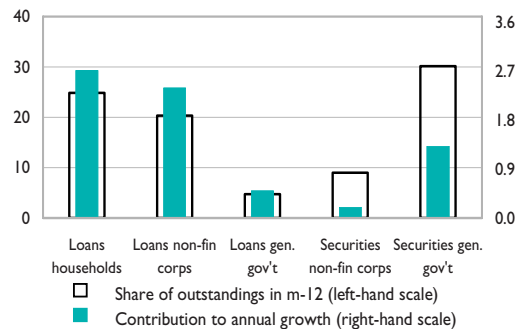
Debt – general government

(annual growth rates)



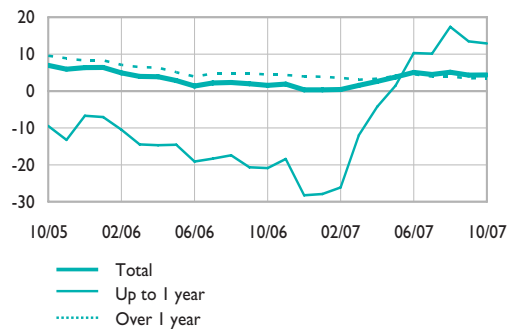
Contributions to the annual growth of total domestic debt – Loans and securities (a)

(unadjusted data, as a %, October 2007)



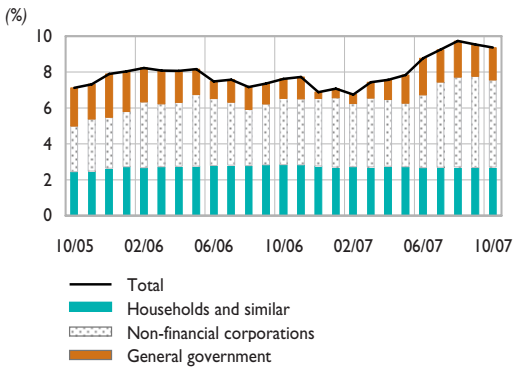
General government market debt

(annual growth rates)



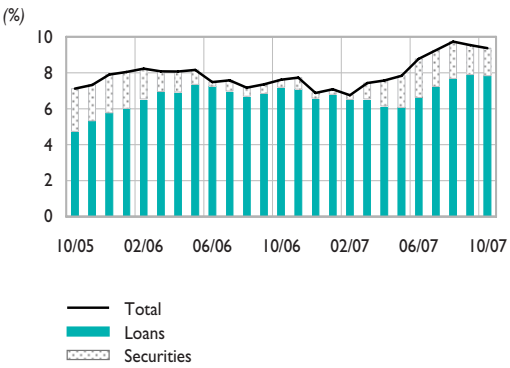
Contributions to the annual growth rates of outstanding amounts – Sectoral breakdown

(%)



Contributions to the annual growth rates of outstanding amounts – Breakdown by type of financing

(%)



(a) Excluding loans granted by non-residents.

Source: Banque de France.

Produced 19 December 2007

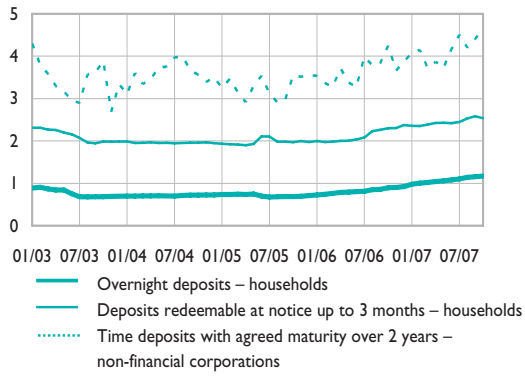
Table 26
Interest rates on deposits – France and the euro area

(average monthly rates – %)

	2005	2006	2006	2007				
	Dec.	Dec.	Oct.	June	July	Aug.	Sept.	Oct.
Euro area								
Overnight deposits – households	0.71	0.92	0.90	1.08	1.10	1.14	1.16	1.17
Deposits redeemable at notice up to 3 months – households	1.97	2.38	2.30	2.42	2.45	2.53	2.58	2.54
Time deposits with agreed maturity over 2 years – non-financial corporations	3.55	3.87	4.24	4.16	4.51	4.20	4.41	4.64
France								
"A" passbooks (end of period)	2.00	2.75	2.75	2.75	2.75	3.00	3.00	3.00
Regulated savings deposits	2.10	2.82	2.82	2.82	2.82	3.07	3.07	3.07
Market rate savings deposits	2.18	2.70	2.64	2.77	2.79	2.75	2.99	2.96
Deposits with agreed maturity up to 2 years	2.65	3.38	3.22	3.65	3.74	3.84	3.81	4.08
Deposits with agreed maturity over 2 years	3.68	3.52	3.57	3.56	3.51	3.52	3.58	3.60

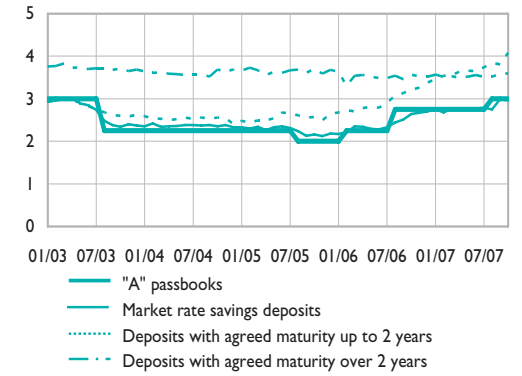
Euro area

(monthly average rates – %)



France

(monthly average rates – %)



Sources: Banque de France, European Central Bank.

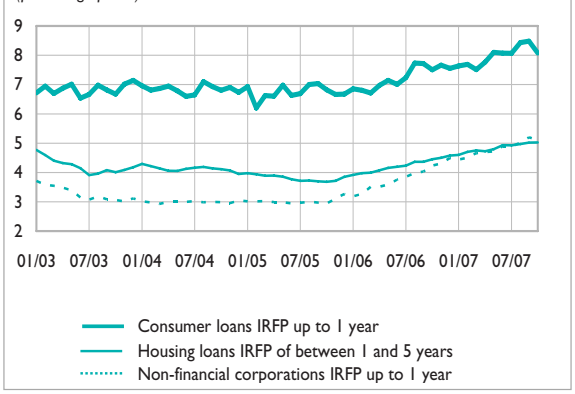
Produced 19 December 2007

Table 27
Cost of credit – France and the euro area

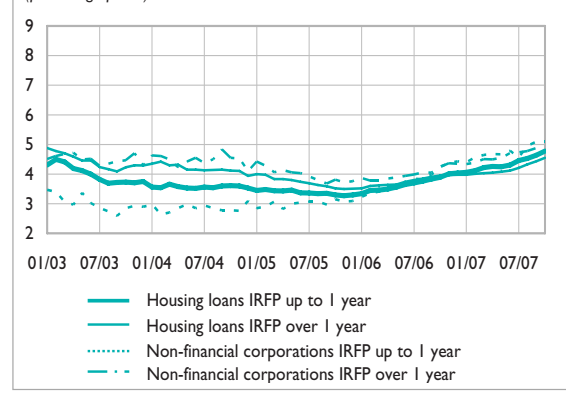
(average monthly rate – %)

	2006		2007									
	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.
Euro area												
Consumer loans												
Floating rate and IRFP of up to 1 year (a)	7.66	7.55	7.63	7.69	7.51	7.77	8.10	8.07	8.06	8.43	8.48	8.08
Loans for house purchase												
Floating rate and IRFP of between 1 and 5 years	4.50	4.58	4.60	4.71	4.76	4.73	4.80	4.93	4.93	4.98	5.02	5.03
Non financial corporations of over EUR 1 million												
IRFP of up to 1 year (a)	4.31	4.50	4.44	4.51	4.66	4.70	4.72	4.89	4.90	5.01	5.20	5.11
France												
Consumer loans	**6.26**	**6.32**	**6.46**	**6.57**	**6.55**	**6.49**	**6.53**	**6.55**	**6.62**	**6.90**	**6.93**	**6.95**
Loans for house purchase												
IRFP of up to 1 year (a)	4.01	4.04	4.06	4.12	4.22	4.26	4.25	4.31	4.46	4.53	4.64	4.78
IRFP of over 1 year (a)	3.97	3.98	3.98	4.01	4.03	4.05	4.08	4.12	4.21	4.33	4.43	4.55
Non-financial corporations												
IRFP of up to 1 year (a)	4.37	4.43	4.40	4.57	4.65	4.68	4.67	4.79	4.56	4.95	5.10	5.12
IRFP of over 1 year (a)	4.37	4.35	4.34	4.39	4.51	4.50	4.55	4.71	4.74	4.78	4.88	4.93

Euro area



France



(a) IRFP: initial rate fixation period i.e. the period for which the rate of a loan is fixed.
IRFP ≤ 1 year: loans for which the rate is adjusted at least once a year + fixed-rate loans with an initial maturity of up to 1 year.
IRFP > 1 year: loans for which the rate is adjusted less than once a year + fixed-rate loans with an initial maturity of over 1 year.

Sources: Banque de France, European Central Bank.

Produced 19 December 2007

Table 28
Cost of credit – France

(%)

	2006		2007		
	Q3	Q4	Q1	Q2	Q3
Households – Average overall effective interest rate					
Consumer loans					
Overdrafts, revolving loans and instalment plans of over EUR 1,524	14.11	14.30	14.44	14.89	14.85
Personal loans over EUR 1,524	6.40	6.33	6.54	6.70	6.78
Loans for house purchase					
Fixed-rate loans	4.62	4.79	4.70	4.81	4.97
Floating-rate loans	4.30	4.59	4.68	4.90	5.04

Usury ceilings in effect from the 1st day of the mentioned period	2006	2007			
	Oct.	Jan.	April	July	Oct.
Households – Usury rate					
Consumer loans					
Overdrafts, revolving loans and instalment plans of over EUR 1,524	18.81	19.07	19.25	19.85	19.80
Personal loans over EUR 1,524	8.53	8.44	8.72	8.93	9.04
Loans for house purchase					
Fixed-rate loans	6.16	6.39	6.27	6.41	6.63
Floating-rate loans	5.73	6.12	6.24	6.53	6.72

	2006		2007		
	Q3	Q4	Q1	Q2	Q3
Business credit, loans to enterprises					
Discount					
up to 15,245 EUR	4.76	5.07	5.39	5.85	6.03
EUR 15,245 to EUR 45,735	5.52	5.49	5.93	6.20	6.57
EUR 45,735 to EUR 76,225	5.35	5.35	5.63	5.88	6.31
EUR 76,225 to EUR 304,898	4.79	4.94	5.20	5.43	5.71
EUR 304,898 to EUR 1,524,490	4.11	4.46	4.72	4.97	5.14
over EUR 1,524,490	3.20	3.82	4.18	4.63	4.85
Overdrafts					
up to 15,245 EUR	10.32	10.12	10.15	9.29	9.53
EUR 15,245 to EUR 45,735	8.15	7.81	7.98	7.63	7.85
EUR 45,735 to EUR 76,225	6.69	6.25	6.58	6.52	7.04
EUR 76,225 to EUR 304,898	5.25	5.49	5.75	5.73	5.93
EUR 304,898 to EUR 1,524,490	4.54	4.71	5.15	5.09	5.31
over EUR 1,524,490	4.02	4.36	4.42	4.96	5.10
Other short-term loans					
up to 15,245 EUR	4.50	4.86	4.97	5.11	5.38
EUR 15,245 to EUR 45,735	4.65	4.94	5.13	5.20	5.53
EUR 45,735 to EUR 76,225	4.73	5.08	5.12	5.38	5.96
EUR 76,225 to EUR 304,898	4.42	4.80	5.07	5.30	5.58
EUR 304,898 to EUR 1,524,490	3.93	4.48	4.79	4.95	5.29
over EUR 1,524,490	3.59	4.03	4.36	4.60	4.84
Medium and long-term loans					
up to 15,245 EUR	4.28	4.43	4.47	4.65	4.89
EUR 15,245 to EUR 45,735	4.18	4.32	4.40	4.56	4.77
EUR 45,735 to EUR 76,225	4.07	4.20	4.29	4.43	4.64
EUR 76,225 to EUR 304,898	3.95	4.14	4.23	4.35	4.55
EUR 304,898 to EUR 1,524,490	3.87	4.15	4.26	4.37	4.61
over EUR 1,524,490	3.94	4.33	4.55	4.73	5.00

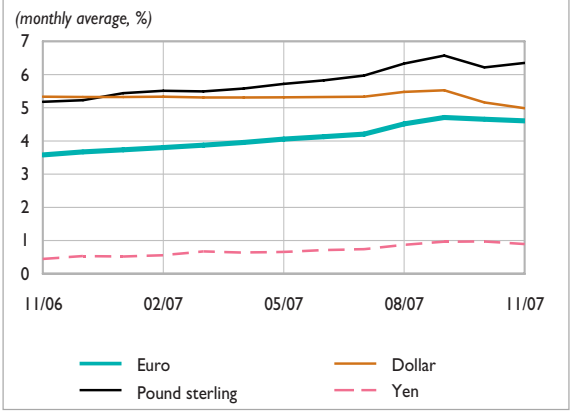
Source: Banque de France. *Produced 19 December 2007*

Table 29
Interest rates

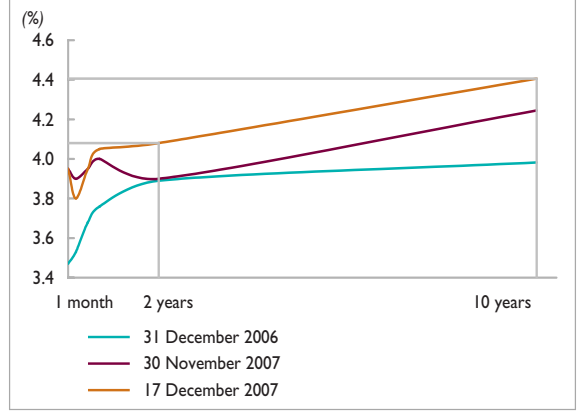
(%)

	Monthly average (a) 2007										Key interest rates at 17/12/07
	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	
Short-term interbank interest rates											
Euro											**4.00**
Overnight	3.55	3.69	3.81	3.79	3.95	4.06	4.04	4.00	3.95	4.01	
3-month	3.80	3.87	3.96	4.06	4.13	4.21	4.51	4.71	4.65	4.61	
1-year	4.08	4.09	4.24	4.36	4.49	4.55	4.63	4.68	4.61	4.55	
Pound sterling											**5.50**
Overnight	5.31	5.31	5.30	5.49	5.60	5.87	5.97	5.88	5.80	5.81	
3-month	5.51	5.49	5.58	5.72	5.82	5.97	6.33	6.57	6.21	6.35	
1-year	5.79	5.72	5.87	6.02	6.20	6.29	6.42	6.40	6.10	5.97	
Dollar											**4.25**
Overnight	5.26	5.27	5.28	5.26	5.28	5.30	5.35	5.14	4.83	4.64	
3-month	5.33	5.31	5.31	5.31	5.33	5.33	5.48	5.53	5.16	4.99	
1-year	5.35	5.17	5.25	5.30	5.41	5.36	5.19	5.06	4.91	4.54	
Yen											**0.75**
Overnight	0.42	0.59	0.46	0.50	0.54	0.55	0.55	0.65	0.62	0.62	
3-month	0.56	0.68	0.64	0.66	0.71	0.74	0.87	0.97	0.97	0.89	
1-year	0.70	0.76	0.79	0.86	0.96	0.98	1.07	1.14	1.12	1.04	
10-year benchmark government bond yields											
France	4.10	4.00	4.21	4.34	4.62	4.58	4.39	4.36	4.40	4.23	
Germany	4.05	3.95	4.16	4.29	4.58	4.51	4.31	4.24	4.30	4.11	
Euro area	4.12	3.98	4.25	4.37	4.66	4.63	4.43	4.37	4.40	4.25	
United Kingdom	4.92	4.80	5.03	5.14	5.42	5.41	5.14	4.99	5.00	4.74	
United States	4.78	4.61	4.74	4.81	5.17	5.07	4.73	4.57	4.58	4.21	
Japan	1.71	1.62	1.67	1.68	1.89	1.89	1.65	1.61	1.66	1.51	

3-month interbank market rates



Yield curve for French government bonds



(a) Short-term: the interbank average of rates situated in the middle of the range between bid and ask rates. Quotes taken from Reuters, posted at 4.30pm for the euro and 11.30am for other currencies.
Benchmark bonds: rates posted by Reuters at 4.30pm.

Sources: Banque de France, European Central Bank.

Produced 19 December 2007

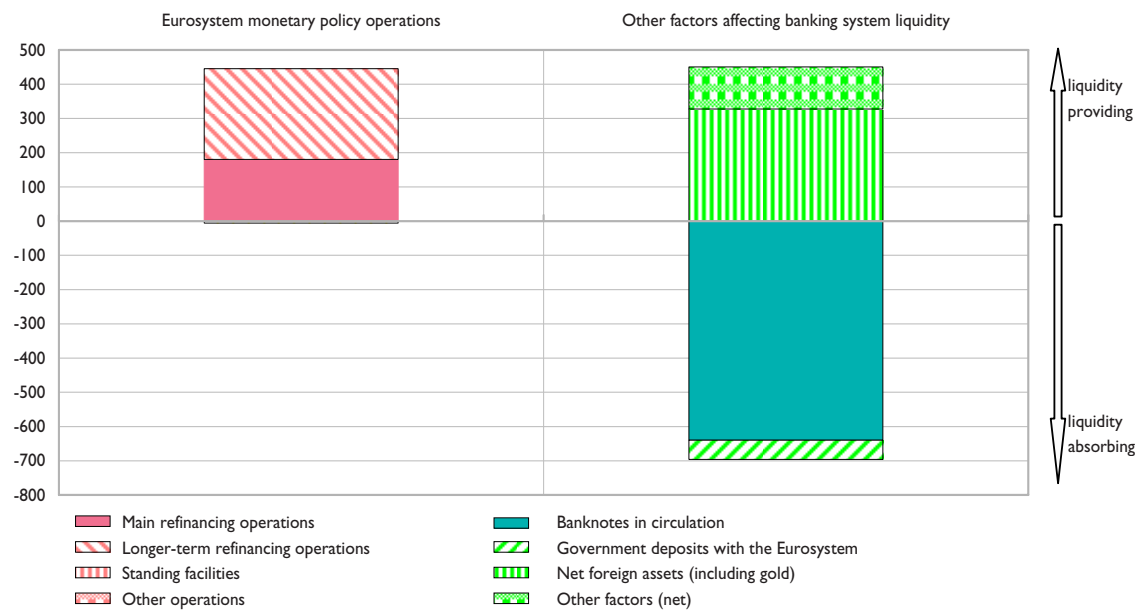
Table 30
Banking system liquidity and refinancing operations – Euro area

(daily average for the reserve maintenance period from 10/10/2007 to 13/11/2007)

	Liquidity providing	Liquidity absorbing	Net contribution
Contribution to banking system liquidity			
(a) Eurosystem monetary policy operations	**445.3**	**5.7**	**439.6**
Main refinancing operations	180.2		180.2
Longer-term refinancing operations	265.0		265.0
Standing facilities	0.1	0.6	-0.5
Other	0.0	5.1	-5.1
(b) Other factors affecting banking system liquidity	**450.9**	**696.0**	**-245.1**
Banknotes in circulation		640.1	-640.1
Government deposits with the Eurosystem		55.9	-55.9
Net foreign assets (including gold)	327.6		327.6
Other factors (net)	123.3		123.3
(c) Reserves maintained by credit institutions (a) + (b)			**194.5**
including reserve requirements			*193.7*

Net contribution to banking system liquidity

(daily average for the reserve maintenance period from 10/10/2007 to 13/11/2007)



Sources: Banque de France, European Central Bank.

Produced 19 December 2007

Table 31
Eurosystem key rates; minimum reserves

(%)

Key rates for the Eurosystem (latest changes)

Main refinancing operations			Standing facilities			
Date of		Minimum bid rate	Date of		Deposit	Marginal lending
decision	settlement		decision	settlement		
07/12/2006	13/12/2006	3.50	07/12/2006	13/12/2006	2.50	4.50
08/03/2007	14/03/2007	3.75	08/03/2007	14/03/2007	2.75	4.75
06/06/2007	13/06/2007	4.00	06/06/2007	13/06/2007	3.00	5.00

(%)

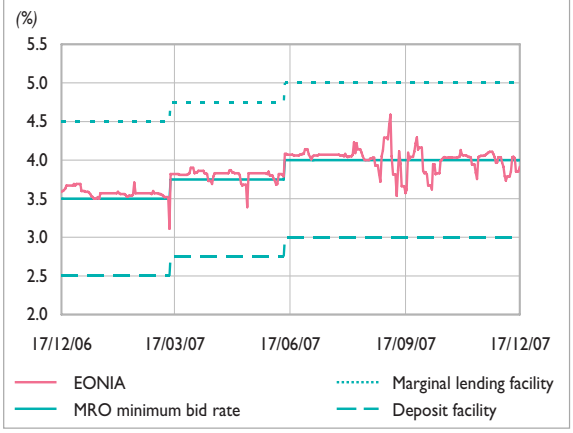
Main refinancing operations				Longer-term refinancing operations		
		Marginal rate	Weighted average rate			Marginal rate
2007	31 October	4.14	4.16	2007	30 August	4.56
	7 November	4.14	4.15		13 September	4.35
	14 November	4.15	4.16		27 September	4.27
	21 November	4.17	4.19		1 November	4.45
	28 November	4.18	4.20		29 November	4.65
	5 December	4.18	4.20		12 December	4.81

(EUR billions – rates as a %)

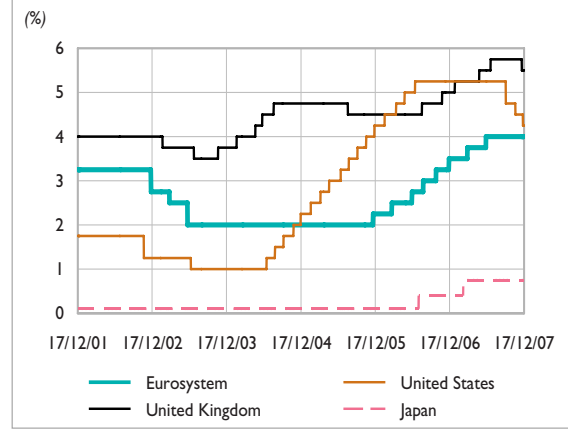
Minimum reserves (daily averages)

Reserve maintenance period ending on		Required reserves		Current accounts		Excess reserves		Interest rate on minimum reserves
		Euro area	France	Euro area	France	Euro area	France	
2007	12 June	185.33	34.69	186.25	34.82	0.92	0.13	3.80
	10 July	188.33	35.99	189.58	36.20	1.25	0.21	4.06
	7 August	191.26	36.82	192.00	36.93	0.74	0.11	4.06
	11 September	191.86	36.32	192.72	36.44	0.86	0.12	4.09
	9 October	192.50	36.83	193.38	36.94	0.88	0.12	4.18
	13 November	193.66	36.06	194.37	36.16	0.71	0.10	4.12

Eurosystem key rates and EONIA



Key interest rates



Sources: European Central Bank, ESCB.

Produced 19 December 2007

Table 32
Negotiable debt securities – France

Certificates of deposit

	EUR billions (a)		Number of issuers
	Issues	Stocks	
08/09/07 to 14/09/07	208.84	334.01	217
15/09/07 to 21/09/07	187.86	333.73	219
22/09/07 to 28/09/07	181.83	345.54	218
29/09/07 to 05/10/07	174.07	344.54	216
06/10/07 to 12/10/07	175.54	346.35	215
13/10/07 to 19/10/07	196.40	360.43	214
20/10/07 to 26/10/07	190.20	371.60	214
27/10/07 to 02/11/07	148.79	362.52	214
03/11/07 to 09/11/07	177.55	360.77	212
10/11/07 to 16/11/07	168.59	360.16	213
17/11/07 to 23/11/07	173.35	376.73	215
24/11/07 to 30/11/07	170.28	377.82	213
01/12/07 to 07/12/07	157.07	376.67	212

Commercial paper

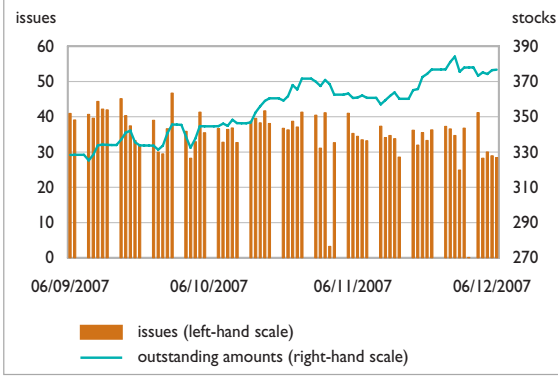
	EUR billions (a)		Number of issuers
	Issues	Stocks	
08/09/07 to 14/09/07	18.70	70.68	82
15/09/07 to 21/09/07	25.86	70.62	82
22/09/07 to 28/09/07	27.38	71.33	80
29/09/07 to 05/10/07	23.84	69.02	79
06/10/07 to 12/10/07	17.46	70.11	79
13/10/07 to 19/10/07	16.97	68.91	78
20/10/07 to 26/10/07	24.53	77.30	81
27/10/07 to 02/11/07	10.06	78.06	81
03/11/07 to 09/11/07	14.17	79.30	83
10/11/07 to 16/11/07	13.79	79.44	84
17/11/07 to 23/11/07	16.14	78.92	81
24/11/07 to 30/11/07	13.78	78.44	83
01/12/07 to 07/12/07	10.73	79.28	84

Negotiable medium-term notes

	EUR billions (a)		Number of issuers
	Issues	Stocks	
08/09/07 to 14/09/07	0.06	70.43	134
15/09/07 to 21/09/07	0.16	70.36	134
22/09/07 to 28/09/07	0.57	70.66	134
29/09/07 to 05/10/07	0.07	70.61	134
06/10/07 to 12/10/07	0.48	70.89	134
13/10/07 to 19/10/07	0.24	70.93	134
20/10/07 to 26/10/07	0.27	71.09	134
27/10/07 to 02/11/07	0.17	71.10	134
03/11/07 to 09/11/07	0.06	71.08	134
10/11/07 to 16/11/07	0.28	71.14	133
17/11/07 to 23/11/07	0.18	71.21	133
24/11/07 to 30/11/07	0.21	71.18	133
01/12/07 to 07/12/07	0.26	71.24	133

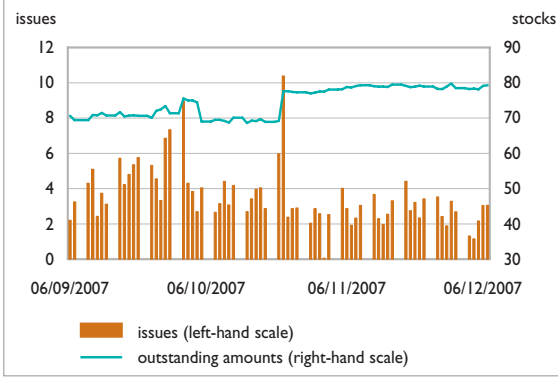
Certificates of deposit

(unadjusted data, EUR billions)



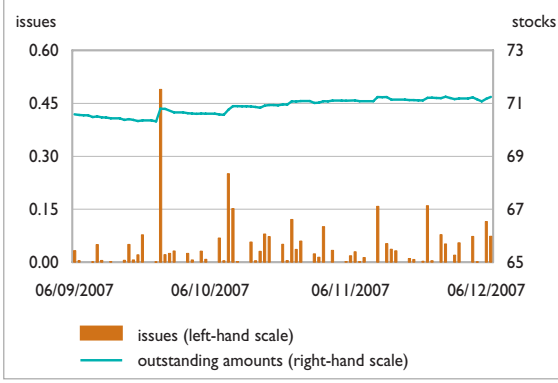
Commercial paper

(unadjusted data, EUR billions)



Negotiable medium-term notes

(unadjusted data, EUR billions)



(a) Issues in euro are cumulative over the reference period. Outstanding amounts are calculated from the cut-off date (the last day of the period under review).

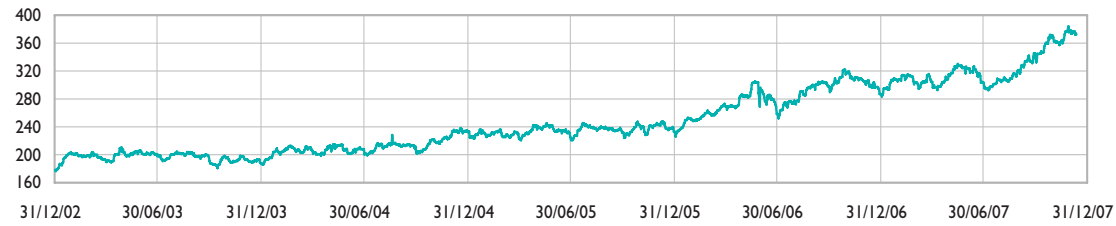
Source: Banque de France.

Produced 19 December 2007

Table 33
Negotiable debt securities – France

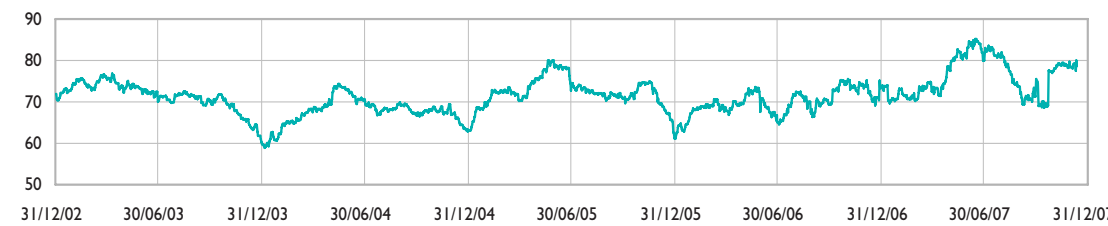
Certificates of deposit

(daily outstanding amounts in EUR billions)



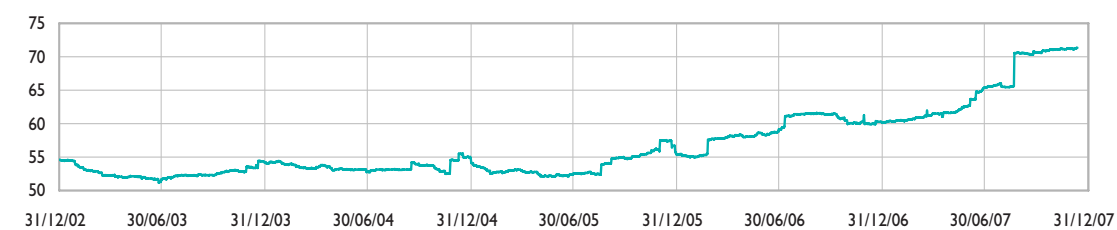
Commercial paper

(daily outstanding amounts in EUR billions)



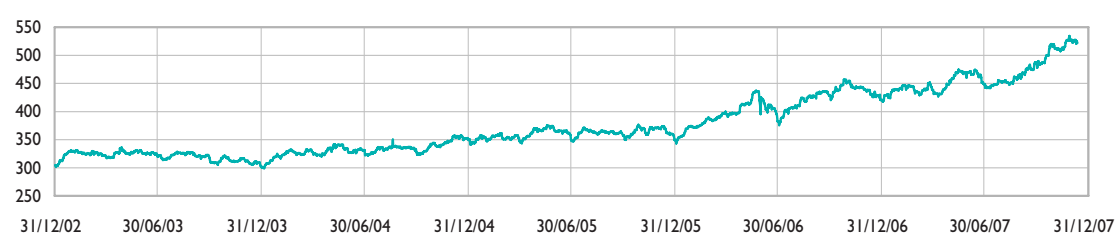
Negotiable medium-term notes

(daily outstanding amounts in EUR billions)



Negotiable debt securities, cumulated outstandings

(daily outstanding amounts in EUR billions)



Source: Banque de France.

Produced 19 December 2007

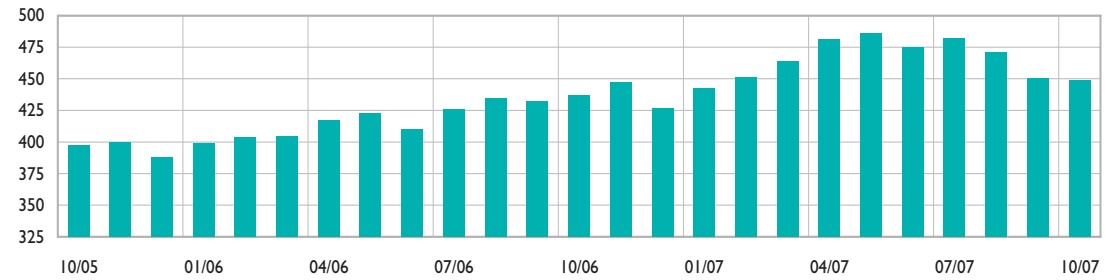
Table 34
Mutual fund shares/units – France

(EUR billions)

	2006	2007		2007
	Dec.	March	June	Oct.
Net assets of mutual fund shares/units by category				
Money-market funds	426.82	463.78	474.81	448.76
Bond mutual funds	191.70	196.94	200.51	
Equity mutual funds	332.36	345.82	363.71	
Mixed funds	297.64	310.73	325.03	
Funds of alternative funds	26.83	32.20	36.93	
Guaranteed-performance mutual funds	0.05	0.04	0.04	
Structured funds ("fonds à formule")	70.98	71.88	75.39	

Net assets of money-market funds

(EUR billions)



Source: Banque de France.

Produced 19 December 2007

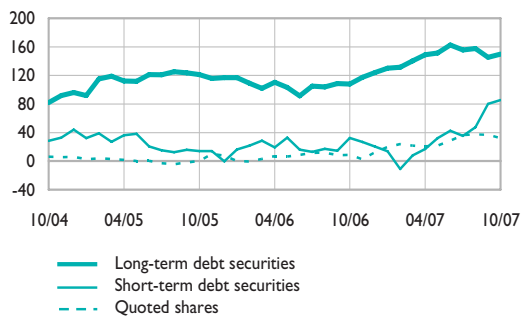
Table 35
Debt securities and equity financing of French residents (domestic and international markets)

(EUR billions)

	Outstanding amounts (a)			Net issues		12-month percentage changes (b)	
	2005	2006	2007	12-month	2007	2006	2007
	Dec.	Dec.	Oct.	total	Oct.	Dec.	Oct.
Debt securities issued by French residents							
Total	**2,005.3**	**2,137.6**	**2,350.7**	**235.6**	**41.1**	**7.2**	**11.1**
Long-term debt securities	1,639.0	1,750.8	1,847.5	149.9	5.6	7.6	8.8
General government	*858.9*	*891.4*	*913.1*	*31.2*	*-11.7*	*3.9*	*3.5*
Monetary financial institutions (MFIs)	*486.6*	*559.6*	*627.8*	*103.5*	*14.4*	*17.0*	*19.5*
Non-MFI corporations	*293.6*	*299.7*	*306.5*	*15.2*	*2.9*	*2.9*	*5.2*
Short-term debt securities	366.2	386.9	503.2	85.7	35.5	5.5	20.5
General government	*108.5*	*77.5*	*97.4*	*11.1*	*1.4*	*-28.3*	*12.9*
Monetary financial institutions (MFIs)	*218.0*	*268.0*	*349.3*	*63.4*	*24.0*	*22.8*	*22.2*
Non-MFI corporations	*39.7*	*41.3*	*56.5*	*11.2*	*10.1*	*3.0*	*24.7*
French quoted shares							
All sectors	**1,375.0**	**1,702.9**	**1,835.1**	**31.9**	**-2.2**	**0.7**	**1.8**

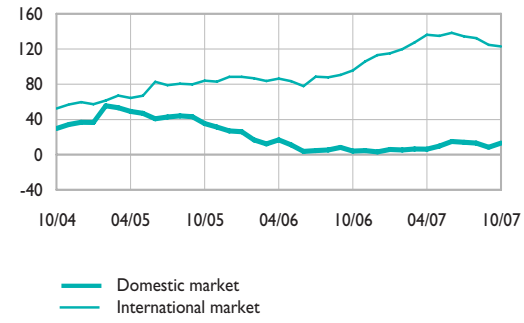
Net issues of securities by French residents

(by type of security, 12-month total, EUR billions)



Net issues of long-term debt securities by French residents

(by type of market, 12-month total, EUR billions)



(a) Nominal value for debt securities, market value for quoted securities.
(b) Excluding the impact of exchange rate variations and any other changes which do not arise from issues or redemptions.

Source: Banque de France.

Produced 19 December 2007

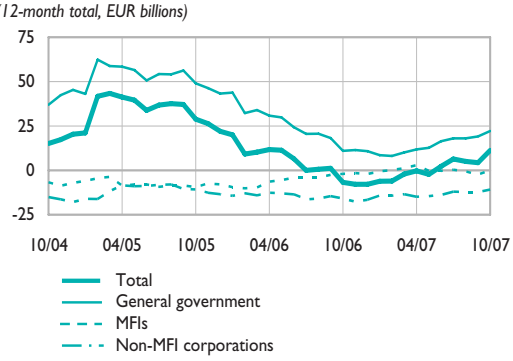
Table 36
Quoted shares and bonds issued by French residents

(EUR billions)

	Outstanding amounts (a)			Net issues		Gross issues	
	2005	2006	2007	12-month	2007	12-month	2007
	Dec.	Dec.	Oct.	total	Oct.	total	Oct.
Bonds issued by residents at the Paris financial centre							
Total	**848.0**	**840.8**	**853.4**	**11.2**	**-12.9**	**77.5**	**7.5**
General government	628.5	639.4	658.8	22.2	-14.2	61.0	3.7
Monetary financial institutions (MFIs)	120.3	118.4	117.6	-0.1	2.1	12.8	3.4
Non–MFI corporations	99.2	83.0	77.0	-10.9	-0.8	3.7	0.4
French quoted shares							
Total	**1,375.0**	**1,702.9**	**1,835.1**	**31.9**	**-2.2**	**46.3**	**1.3**
Monetary financial institutions (MFIs)	160.8	227.3	202.5	2.5	-2.5	5.5	0.2
Non–MFI corporations	1,214.1	1,475.7	1,632.6	29.4	0.2	40.8	1.1

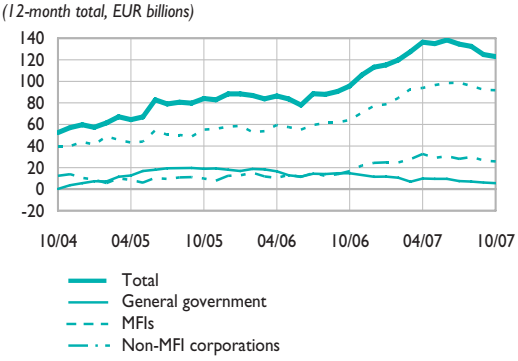
Net issues of bonds
Domestic market

(12-month total, EUR billions)



Net issues of bonds
International market

(12-month total, EUR billions)



(a) Nominal value for bonds, market value for quoted shares.

Source: Banque de France.

Produced 19 December 2007

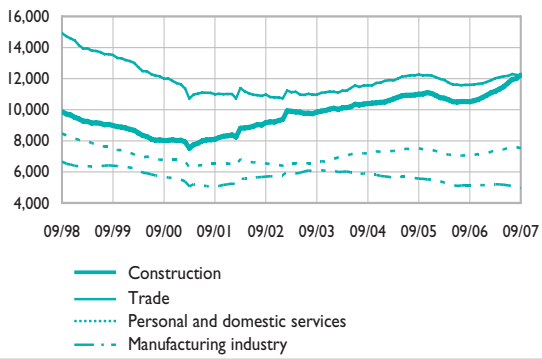
Table 37
Company failures by economic sector – France

(NES 16 Classification, number of companies, non-seasonally adjusted data, 12-month total)

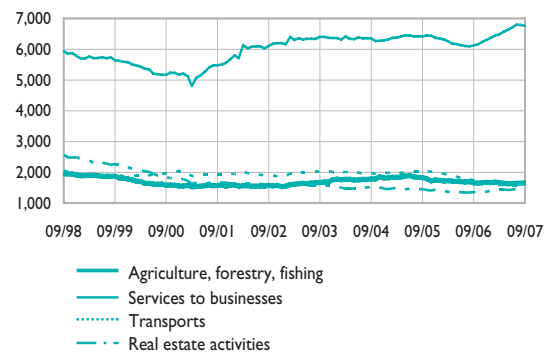
	2006			2007								
	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.
Agriculture, forestry, fishing	1,651	1,662	1,675	1,664	1,683	1,667	1,643	1,626	1,633	1,645	1,646	1,660
Manufacturing industry	5,172	5,164	5,147	5,162	5,214	5,210	5,204	5,180	5,136	5,104	5,049	4,962
Food products, bev. and tob.	*1,188*	*1,200*	*1,180*	*1,214*	*1,245*	*1,265*	*1,293*	*1,292*	*1,294*	*1,302*	*1,302*	*1,308*
Consumer goods	*1,580*	*1,567*	*1,576*	*1,585*	*1,620*	*1,611*	*1,598*	*1,589*	*1,560*	*1,544*	*1,520*	*1,468*
Motor vehicles	*61*	*70*	*66*	*65*	*69*	*69*	*67*	*63*	*55*	*55*	*56*	*51*
Capital goods	*980*	*986*	*1,008*	*989*	*968*	*965*	*960*	*963*	*954*	*947*	*937*	*910*
Intermediate goods	*1,363*	*1,341*	*1,317*	*1,309*	*1,312*	*1,300*	*1,286*	*1,273*	*1,273*	*1,256*	*1,234*	*1,225*
Construction	10,583	10,661	10,797	10,930	11,100	11,190	11,334	11,483	11,726	11,951	12,017	12,223
Trade	11,632	11,663	11,706	11,784	11,894	12,022	12,096	12,152	12,171	12,299	12,238	12,204
Transports	1,705	1,677	1,644	1,621	1,603	1,588	1,593	1,573	1,566	1,562	1,552	1,486
Real estate activities	1,366	1,361	1,369	1,404	1,431	1,443	1,441	1,424	1,432	1,460	1,460	1,487
Services to businesses	6,161	6,233	6,302	6,374	6,448	6,488	6,572	6,629	6,703	6,797	6,794	6,760
Personal and domestic services	7,089	7,156	7,147	7,178	7,301	7,384	7,418	7,458	7,533	7,595	7,602	7,531
Other sectors (a)	1,364	1,434	1,543	1,645	1,735	1,792	1,829	1,861	1,877	1,881	1,881	1,895
Total	**46,723**	**47,011**	**47,330**	**47,762**	**48,409**	**48,784**	**49,130**	**49,386**	**49,777**	**50,294**	**50,239**	**50,208**

Company failures – 12-month total

(NES 16 Classification, number of companies, non-seasonally adjusted)

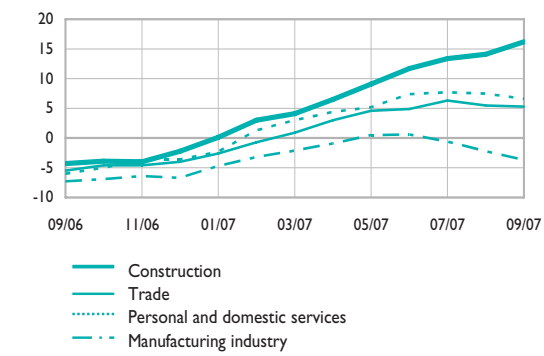


(NES 16 Classification, number of companies, non-seasonally adjusted)

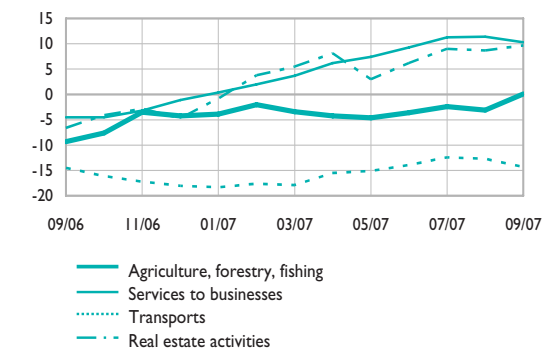


Company failures – year-on-year change

(NES 16 Classification, % change, non-seasonally adjusted)



(NES 16 Classification, % change, non-seasonally adjusted)



(a) Other sectors include energy, financial activities, education and general government.

Source: Banque de France.

Produced 19 December 2007

Table 38
Retail payment systems – France

(daily average in EUR millions, % share for the last month)

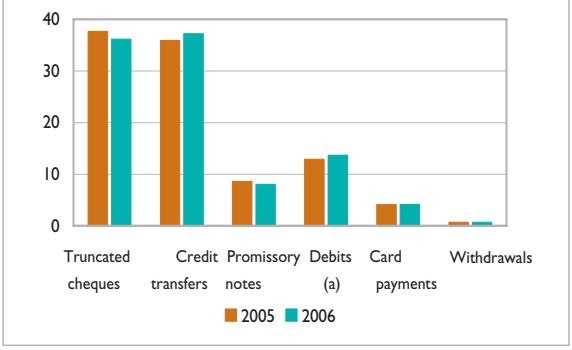
	2003	2004	2005	2006	2007			2007
					Sept.	Oct.	Nov.	Share
Truncated cheques	8,075	6,836	7,084	7,132	6,581	7,404	6,226	32.6
Credit transfers	5,706	6,124	6,753	7,342	7,993	7,882	7,507	39.4
Promissory notes	1,661	1,652	1,620	1,593	1,401	1,432	1,605	8.4
Direct debits	1,453	1,495	1,599	1,705	1,649	1,807	1,724	9.0
Interbank payment orders	165	164	159	155	206	298	225	1.2
Electronic payment orders	457	527	670	842	1,098	863	823	4.3
Card payments	664	705	772	819	800	855	833	4.4
ATM withdrawals	137	133	136	139	136	137	129	0.7
Total	**18,319**	**17,634**	**18,793**	**19,727**	**19,864**	**20,677**	**19,071**	**100.0**

(daily average in thousands of transactions, % share for the last month)

	2003	2004	2005	2006	2007			2007
					Sept.	Oct.	Nov.	Share
Truncated cheques	13,597	13,013	12,784	12,159	10,923	11,943	11,129	24.2
Credit transfers	6,593	6,695	7,038	7,239	7,371	7,369	6,973	15.2
Promissory notes	419	408	401	390	322	331	385	0.8
Direct debits	6,215	6,560	7,179	7,628	7,455	8,185	7,124	15.5
Interbank payment orders	557	554	511	491	494	659	545	1.2
Electronic payment orders	7	10	17	27	48	60	52	0.1
Card payments	14,355	15,159	16,504	17,339	17,041	18,036	17,390	37.9
ATM withdrawals	2,565	2,446	2,476	2,497	2,422	2,444	2,301	5.0
Total	**44,307**	**44,845**	**46,910**	**47,771**	**46,078**	**49,027**	**45,899**	**100.0**

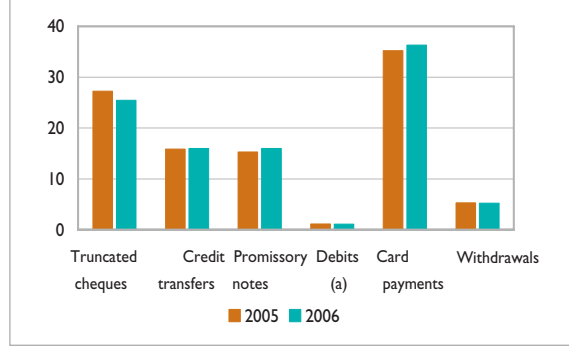
Market share developments for main non-cash means of payment

(% of amounts exchanged)



Market share developments for main non-cash means of payment

(% of volumes exchanged)



(a) Debits: direct debits, interbank payment orders and electronic payment orders.

Source: GSIT (French Interbank Teleclearing Consortium).

Produced 19 December 2007

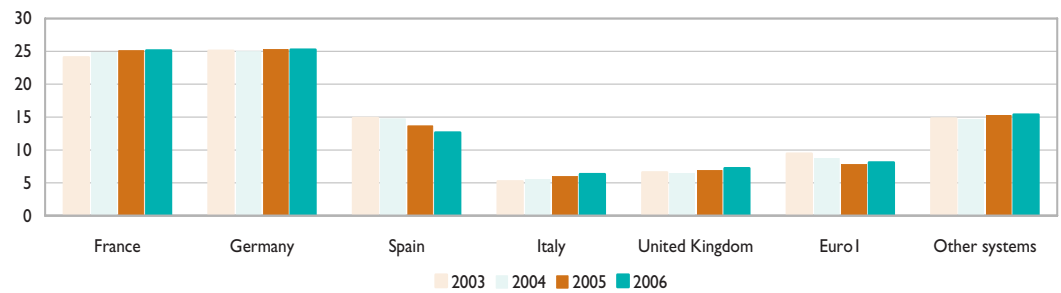
Table 39
Large-value payment systems – EU-15

(daily average in EUR billions, % share for the last month)

	2003	2004	2005	2006	2007			2007
					June	July	Aug.	Share
France	448	486	544	588	661	644	634	23.8
Cross border TARGET	*75*	*81*	*95*	*107*	*129*	*125*	*113*	*4.2*
Domestic TARGET (TBF)	*302*	*338*	*386*	*423*	*458*	*443*	*455*	*17.1*
Net system (PNS)	*70*	*67*	*62*	*58*	*74*	*75*	*66*	*2.5*
Germany (a)	504	488	547	591	682	661	694	26.0
Cross border TARGET	*141*	*143*	*163*	*183*	*222*	*205*	*214*	*8.0*
Domestic TARGET (RTGS+)	*364*	*345*	*384*	*408*	*460*	*455*	*480*	*18.0*
Spain	277	288	296	296	357	359	305	11.4
Cross border TARGET	*20*	*23*	*23*	*27*	*32*	*37*	*30*	*1.1*
Domestic TARGET (SLBE)	*255*	*265*	*273*	*269*	*325*	*323*	*274*	*10.3*
Net system (SEPI) (b)	*1*	*1*	-	-	-	-	-	-
Italy (c)	97	108	130	148	197	167	161	6.1
Cross border TARGET	*33*	*32*	*41*	*47*	*65*	*57*	*60*	*2.3*
Domestic TARGET (BI-REL)	*64*	*76*	*89*	*101*	*133*	*110*	*101*	*3.8*
United Kingdom	122	127	149	169	203	191	193	7.2
Cross border TARGET	*93*	*101*	*114*	*126*	*165*	*155*	*156*	*5.9*
Domestic TARGET (Chaps Euro)	*29*	*26*	*35*	*42*	*38*	*36*	*36*	*1.4*
Euro1 (EBA) (d)	175	170	170	189	236	226	227	8.5
Other systems	275	287	330	360	448	467	452	17.0
Total EU-15	**1,899**	**1,955**	**2,166**	**2,342**	**2,784**	**2,714**	**2,666**	**100.0**
Cross border TARGET	537	564	651	725	906	858	869	32.6
Domestic TARGET	1,113	1,150	1,281	1,368	1,567	1,417	1,502	56.3
Net systems	249	240	233	249	312	439	295	11.1

Market share developments for each financial centre

(% of turnover)



(a) Since January 2006, data have included traffic from Slovenian participants connected to RTGS+.
(b) SEPI: Service español de pagos interbancarios (closed on 15 December 2004).
(c) Data include traffic from Polish participants (since March 2005) and Estonian participants (since November 2006) connected to BI-REL.
(d) Euro1 (EBA): clearing system of the Euro Banking Association. Euro1 data include retail payments recorded in STEP1.
NB: The data concern euro transactions only. They are derived from the various payment systems, whose specific modes of operation they reflect.

Sources: Banque de France, European Central Bank.

Produced 19 December 2007

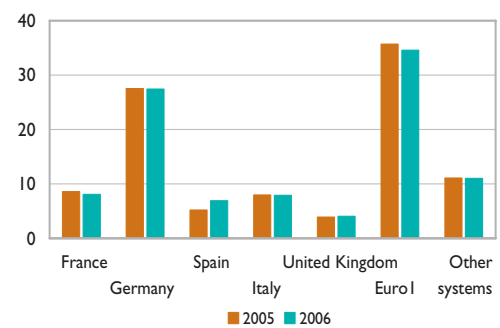
Table 40
Large-value payment systems – EU-15

(daily average in number of transactions, % share for the last month)

	2003	2004	2005	2006	2007			2007
					June	July	Aug.	Share
France	43,905	42,509	44,107	43,890	49,063	47,818	38,978	7.0
Cross border TARGET	*6,804*	*7,384*	*8,500*	*9,631*	*12,254*	*11,936*	*10,012*	*1.8*
Domestic TARGET	*8,348*	*8,071*	*8,589*	*8,321*	*9,586*	*8,272*	*6,904*	*1.2*
Net system (PNS)	*28,753*	*27,054*	*27,018*	*25,937*	*27,223*	*27,610*	*22,062*	*3.9*
Germany (a)	128,597	131,503	141,396	148,613	166,586	164,214	153,542	27.5
Cross border TARGET	*18,028*	*19,231*	*19,847*	*20,186*	*21,130*	*21,004*	*19,071*	*3.4*
Domestic TARGET (RTGS+)	*110,569*	*112,272*	*121,548*	*128,427*	*145,457*	*143,210*	*134,471*	*24.1*
Spain	20,103	18,464	26,723	37,439	43,415	45,628	33,086	5.9
Cross border TARGET	*2,339*	*2,760*	*3,408*	*4,046*	*5,225*	*5,020*	*4,024*	*0.7*
Domestic TARGET (SLBE)	*10,783*	*11,618*	*23,315*	*33,393*	*38,190*	*40,608*	*29,063*	*5.2*
Net system (SEPI) (b)	*6,981*	*4,086*	-	-	-	-	-	-
Italy (c)	36,953	35,060	41,045	42,934	48,800	46,452	38,410	6.9
Cross border TARGET	*6,741*	*7,269*	*7,799*	*8,151*	*9,394*	*8,764*	*7,447*	*1.3*
Domestic TARGET (BI-REL)	*30,212*	*27,791*	*33,246*	*34,782*	*39,405*	*37,687*	*30,963*	*5.5*
United Kingdom	16,832	18,119	20,089	21,871	24,483	24,149	22,408	4.0
Cross border TARGET (Chaps Euro)	*11,391*	*12,799*	*14,223*	*16,144*	*18,597*	*18,390*	*16,987*	*3.0*
Domestic TARGET	*5,441*	*5,320*	*5,866*	*5,728*	*5,886*	*5,759*	*5,421*	*1.0*
Euro1 (EBA) (d)	152,359	161,097	183,450	187,163	219,058	219,142	197,426	35.3
Other systems	52,950	54,895	57,002	59,686	79,080	80,920	75,122	13.4
Total EU-15	**451,700**	**461,647**	**513,812**	**541,597**	**630,484**	**628,322**	**558,972**	**100.0**
Cross border TARGET	59,816	65,040	69,894	74,580	85,813	83,717	74,556	13.3
Domestic TARGET	201,392	202,193	231,097	251,617	294,642	295,420	262,638	47.0
Net systems	190,492	194,413	212,822	215,401	250,029	249,185	221,778	39.7

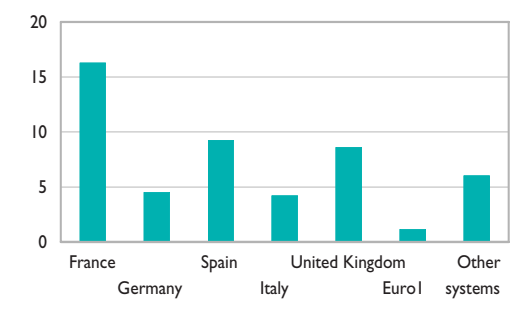
Market share developments for each financial centre

(% of volumes traded)



Average transaction amount in the EUR systems of the European Union (15) in August 2007

(EUR millions)



(a) Since January 2006, data have included traffic from Slovenian participants connected to RTGS+.
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(c) Data include traffic from Polish participants (since March 2005) and Estonian participants (since November 2006) connected to BI-REL.
(d) Euro1 (EBA): clearing system of the Euro Banking Association. Euro1 data include retail payments recorded in STEP1.
NB: The data concern euro transactions only. They are derived from the various payment systems, whose specific modes of operation they reflect.

Sources: Banque de France, European Central Bank. *Produced 19 December 2007*

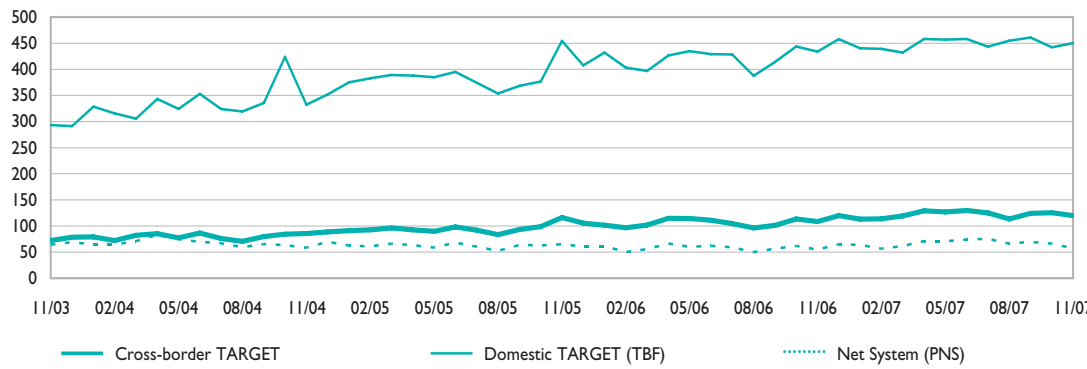
Table 41
Large-value payment systems – France

(daily average in EUR billions, % share for the last month)

	2003	2004	2005	2006	2007			2007
					Sept.	Oct.	Nov.	Share
Collateral used for intraday credit in domestic TARGET (TBF)								
French negotiable securities	10.8	12.3	14.6	14.2	11.3	9.5	13.4	28.0
French private claims	7.0	6.4	6.3	7.4	16.5	15.5	20.6	43.1
Securities collateralised through CCBM	4.2	7.4	7.4	7.2	6.5	6.0	6.6	13.8
Other foreign securities (a)	3.3	4.6	5.6	8.4	6.9	7.0	7.2	15.1
Total	**25.3**	**30.7**	**33.9**	**37.2**	**41.2**	**38.0**	**47.8**	**100.0**

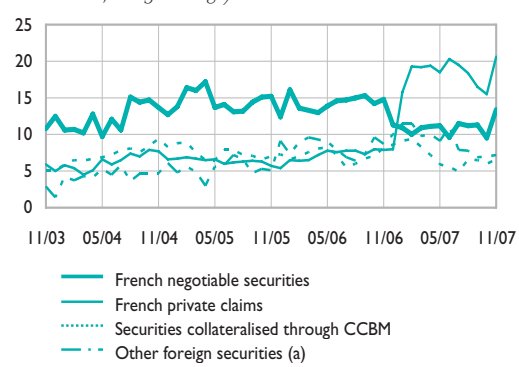
Monthly change in amounts exchanged in French payment systems

(EUR billions, daily average)

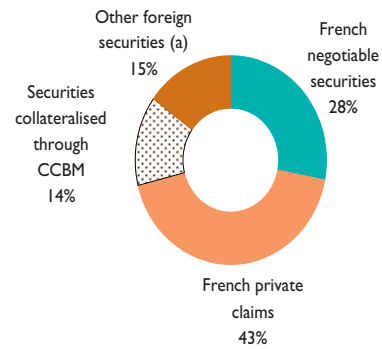


Monthly change in collateral

(EUR billions, daily average)



Collateral used for intraday credit in domestic TARGET in November 2007



(a) Other foreign securities mobilised via links between securities settlement systems.

Source: Banque de France.

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