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Against the backdrop of the economic and financial crisis that has led to a reduction in international and especially European capital flows to Central and Eastern Europe and shed new light on the EU convergence process, it may be useful to recall the development of the cohesion policy, assess it from an economic standpoint and present the strategies being discussed for its future.

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France's national wealth declined in 2009 for the second year in a row

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INSEE

General Summary of Accounts Division

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Banque de France

Monetary and Financial Statistics Directorate

At the end of 2009, the value of France's national wealth stood at EUR 12,115 billion, or the equivalent of 7.4 years of net domestic product. It fell for the second year running, but declined by just 1.8%, compared with -3.2% in 2008. The reversal in 2008, which followed strong growth between 1997 and 2007, came about because of combined falls in the value of non-financial and financial wealth. In 2009, the upturn in net financial assets partly offset the more pronounced contraction in the value of non-financial wealth, which was essentially caused by lower property prices.

Households are the main owners of national wealth. Their net worth was stable in 2009, as the rising value of equities in their portfolios offset the fall in property prices. The net assets of general government shrank sharply, mainly because of deepening borrowing requirements. After contracting in 2008, the value of the own funds of corporations recovered with the stock market rebound.

Keywords: national wealth, net worth, financial assets, non-financial assets, non-financial agents, households, non-financial corporations, general government, financial corporations, housing, land, inventories, financing, investing, debt, capital, deposits, debt securities, loans, equities, Mutual fund shares, life insurance, bonds, home savings plans, euro-denominated/unit-linked policies.

JEL code: G00.

National wealth totalled EUR 12,115 billion at end-2009

National wealth amounted to EUR 12,115 billion at end-2009 (cf. Table 1). This was close to the value of non-financial assets, because outstanding financial assets and liabilities held by residents vis-à-vis non-residents (EUR -33 billion) more or less balance (cf. definitions).

Household wealth levelled off

In 2009, overall household wealth changed little, rising by 0.2% to EUR 9,275 billion (cf. definitions). It had previously fallen in 2008 after a decade of strong growth (cf. Table 2). Assets amounted to 7.3 years of household net disposable income (EUR 1,272 billion), compared with 7.9 years two years before and an average of 4.6 years over the 1978-1997 period (cf. Chart 1). The stabilisation was the result of two opposite forces: the increase in net financial assets (9.8% to EUR 2,507 billion after a 10.4% decline), largely offset by a further decrease in non-financial wealth, which fell by 3.0% to EUR 6,768 billion, after previously contracting by 1.4%.

The decline in households' total non-financial assets, which mainly comprise property assets (cf. definitions), is explained by the ongoing fall in underlying land prices. Over the 1997-2007 period, the value of non-financial wealth increased sharply, by 11.3% on average per year (cf. Chart 2). More than 80% of the increase was attributable to soaring house prices, with the remainder coming from sustained buying of new homes.

After falling in 2008, households' net financial assets recovered in 2009, returning to pre-crisis levels. Buoyed by investment flows and rising prices, the outstanding amount of their holdings of financial assets grew by 8.2% after contracting by 5.4% in 2008. Households also reallocated their financial savings to different types of financial instruments, particularly in response to changes in yields and the worsening economic climate.

Faced with mounting unemployment, households continued to build up precautionary savings in cash and deposits, but did so at a more moderate pace (1.7%) than in past years. The corresponding assets reached EUR 1,115 billion at end-2009. The breakdown of these assets (cf. Table 3) reveals that retail investors focussed on overnight deposits (7.3%), i.e. highly liquid investments, whose accumulation was further driven by lower opportunity costs in connection with the sharp decline in short-term

Table I Wealth of institutional sectors at end-2009

(EUR billions; change as a %)

	National economy, total	Households (a)	Non-financial corporations	Financial corporations	General government	Change in national economic wealth	
						2007-2008	2008-2009
Non-financial assets (NFA)	12,147	6,768	3,748	247	1,385	-0.4	-2.4
Buildings and land	10,061	6,282	2,324	211	1,245	-0.7	-2.6
<i>o/w: Housing</i>	3,794	3,143	547	51	53	4.5	1.9
<i>Other buildings and civil engineering</i>	1,928	185	889	69	784	5.0	1.3
<i>Developed land</i>	4,340	2,954	888	91	408	-6.3	-7.8
Machinery and equipment	610	48	506	15	41	3.2	0.1
Inventories	378	39	323	-	16	3.3	-9.3
Other produced assets	232	131	82	8	11	4.1	1.9
Other non-produced assets	866	268	512	13	73	-2.0	0.2
Financial assets (FA) other than derivative products	20,235	3,832	4,913	10,616	873	-6.0	6.6
Cash and deposits	4,218	1,115	315	2,680	108	11.4	-4.1
Securities other than shares excluding derivative products	2,919	63	100	2,699	57	5.4	2.5
Loans	3,450	24	839	2,527	60	8.3	3.3
<i>o/w loans by financial corporations to NFAs</i>	2,252	-	-	2,252	-	7.4	2.5
Shares and other equity	6,232	915	2,687	2,223	407	-28.8	18.8
Insurance technical reserves	1,506	1,485	20	1	1	0.7	8.5
Total assets (A) = (NFA) + (FA)	32,382	10,600	8,661	10,863	2,258	-3.8	3.0
Financial liabilities (FL) other than derivative products	20,225	1,324	6,847	10,212	1,842	-4.4	6.2
Cash and deposits	4,679	-	-	4,608	71	11.8	-6.8
Securities other than shares excluding derivative products	3,051	-	361	1,337	1,352	12.1	9.5
Loans	3,261	1,023	1,675	334	230	7.4	1.8
<i>o/w bank loans to NFAs</i>	2,066	1,007	864	-	195	7.7	1.9
Shares and other equity (equity liabilities)	5,914	7	3,935	1,972	-	-28.7	19.7
Insurance technical reserves	1,510	-	-	1,510	-	0.7	8.5
Net derivative products (N)	-43	-1	-5	-37	-	ns	ns
Net financial wealth = (FA) - (FL) + (N)	-33	2,507	-1,939	367	-968	(b)	(b)
Wealth (or net worth) = (A) - (FL) + (N)	12,115	9,275	1,809	614	417	-3.2	-1.8
Capital = (Net wealth) + (Equity liabilities)			5,744	2,585			

(a) Including sole proprietors and non-profit institutions serving households.

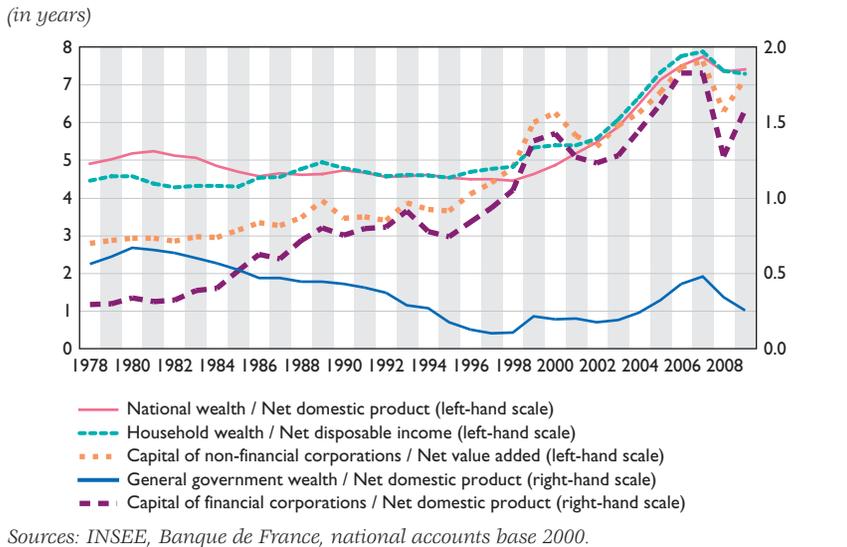
(b) The net financial wealth of the national economy amounted to EUR 247 billion in 2007, EUR -110 billion in 2008 and EUR -33 billion in 2009.

ns denotes not significant.

"- " indicates that the asset is not held.

Sources: INSEE, Banque de France, national accounts base 2000.

Chart I Total wealth of broad institutional sectors relative to macroeconomic flows



interest rates. As a corollary to this, investors trimmed the outstanding amount of their sight investments (passbooks and term deposits, -0.7%) whose returns had become comparatively less attractive.

Even though net buying flows were virtually zero over the year, the outstanding amount of the securities (debt securities, shares and mutual fund shares) held by households increased markedly in 2009 (12.3%). Accounting for approximately one-quarter of total financial assets, they benefited from the market recovery. Within retail portfolios, money market fund (MMFs) shares, whose returns followed the decline in short-term interest rates, were the subject of net sales. Meanwhile, households, fostered by rising stock markets (the CAC 40 index put on 22.3%), were net buyers of shares issued by investment funds other than MMFs and purchased debt securities, notably issued by EDF (a French energy company). Total equities and investment fund shares held amounted to EUR 915 billion (up 12.4%) at the end of 2009, and their debt securities holdings totalled EUR 63 billion (up 10.3%). Households stepped up life insurance investments, which have represented the largest component of their financial assets since 2005. Euro-denominated policies continued to dominate (accounting for over 80% of total outstanding assets), while the appeal of unit-linked policies tended to fluctuate in line with market performances. At end-2009, life insurance accounted for over one-third of household financial assets, or EUR 1,358 billion, up 9.1% relative to end-2008.

Table 2 Change in the wealth of institutional sectors

(as a %)

	Households (a)			Non-financial corporations			Financial corporations			General government		
	97-07 ann. av.	2007- 2008	2008- 2009	97-07 ann. av.	2007- 2008	2008- 2009	97-07 ann. av.	2007- 2008	2008- 2009	97-07 ann. av.	2007- 2008	2008- 2009
Non-financial assets (NFA)	11.3	-1.4	-3.0	8.3	1.6	-1.5	11.5	1.0	-1.9	8.1	-0.7	-2.3
Buildings and land	11.8	-1.1	-2.9	10.1	0.0	-2.2	12.2	-0.2	-2.7	8.4	0.2	-1.9
<i>o/w: Housing</i>	6.2	4.6	2.0	5.5	3.9	1.7	4.9	2.8	0.7	4.4	2.7	0.3
<i>Other buildings and civil engineering</i>	3.8	3.0	-0.8	5.7	5.5	1.6	8.9	6.8	2.2	4.6	4.7	1.5
<i>Developed land</i>	23.8	-6.3	-7.7	23.7	-6.4	-7.9	25.2	-5.9	-7.8	22.6	-7.1	-8.1
Machinery and equipment	2.6	1.5	-2.4	3.7	3.5	0.4	5.6	7.1	-3.1	1.9	0.4	1.7
Inventories	2.6	-0.1	-3.6	3.5	3.9	-10.2	-	-	-	-2.5	-0.2	-2.8
Other produced assets	9.1	3.3	1.7	7.4	4.9	2.1	8.0	7.7	0.7	8.6	6.1	2.8
Other non-produced assets	6.8	-9.5	-7.2	11.2	5.2	6.1	11.3	14.2	14.7	12.1	-13.2	-10.6
Financial assets (FA) other than derivative products	6.7	-5.4	8.2	9.5	-16.2	14.3	9.0	-1.2	2.9	6.6	-4.7	5.5
Cash and deposits	3.1	4.3	1.7	7.1	11.8	9.9	7.8	14.2	-8.5	1.3	13.1	24.4
Securities other than shares excluding derivative products	-3.0	2.2	10.3	1.8	1.4	-1.6	8.4	4.8	3.5	7.6	43.6	-28.1
Loans	-3.5	33.8	-23.4	12.3	12.1	5.9	6.6	6.8	3.0	-2.4	13.7	-7.0
<i>o/w loans by financial corporations to NFAs</i>	-	-	-	-	-	-	5.9	7.4	2.5	-	-	-
Shares and other equity	8.7	-26.0	12.4	10.7	-30.5	23.4	14.6	-29.6	18.3	11.5	-19.2	8.8
Insurance technical reserves	9.5	0.7	8.6	4.2	0.6	4.0	7.3	1.2	3.7	8.0	0.9	5.6
Total assets	9.4	-2.8	0.8	9.0	-8.7	6.9	9.0	-1.2	2.8	7.5	-2.2	0.6
Financial liabilities (FL) other than derivative products	8.4	5.1	5.3	9.7	-18.6	13.7	8.6	2.7	1.3	4.2	10.8	10.0
Cash and deposits	-	-	-	-	-	-	7.8	12.0	-7.0	0.6	-1.8	1.1
Securities other than equities excluding derivative products	-	-	-	6.3	6.2	11.6	7.4	11.3	5.9	5.6	14.6	12.6
Loans	7.5	6.7	3.3	7.7	9.5	1.7	11.6	2.2	-3.2	0.5	4.1	2.8
<i>o/w bank loans to NFAs</i>	7.6	6.9	3.5	5.1	9.9	-1.6	-	-	-	1.1	1.4	10.7
Shares and other equity	11.5	-1.5	6.1	12.0	-32.6	22.2	9.8	-20.0	15.1	-	-	-
Insurance technical reserves	-	-	-	-	-	-	9.5	0.7	8.5	-	-	-
Net derivative products (N)	ns	ns	ns	ns	ns	ns	ns	ns	ns	-	-	-
Net financial wealth	5.9	-10.4	9.8	10.2	-23.8	12.0	18.4	-70.1	100.2	1.8	31.7	14.5
Wealth (or net worth)	9.6	-3.8	0.2	6.0	40.8	-12.8	15.9	-49.5	41.2	21.0	-27.2	-27.1
Corporate capital				10.2	-15.3	8.5	11.2	-28.5	20.4			

(a) Including sole proprietors and non-profit institutions serving households.

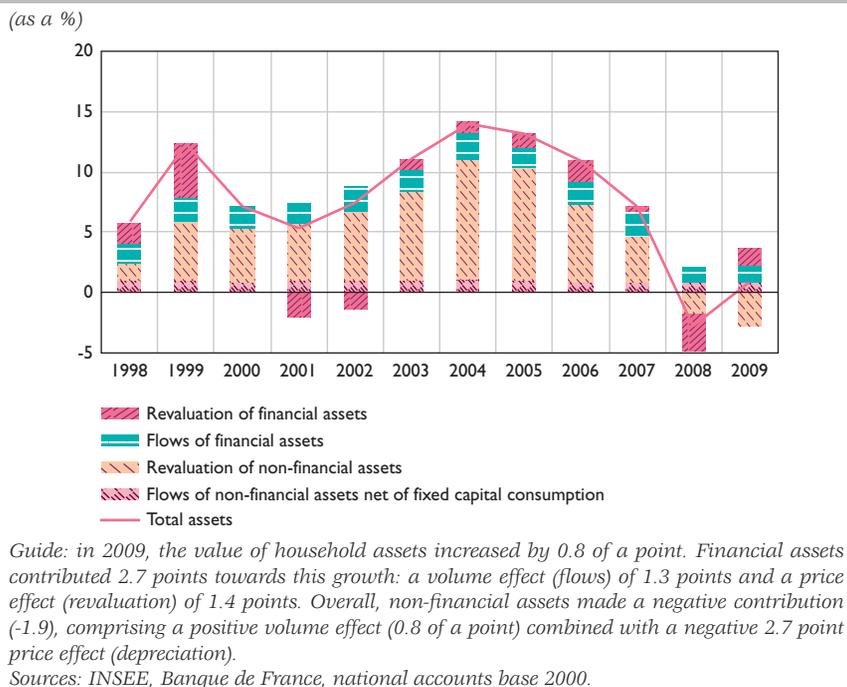
(b) The net financial wealth of non-financial corporations and general government is structurally negative. A positive change thus reflects deterioration in the wealth of these sectors, which becomes even more strongly negative.

"ann. av." denotes annual average, "ns" denotes not significant.

"- " indicates that the asset is not held.

Sources: INSEE, Banque de France, national accounts base 2000.

Chart 2 Change in household assets
Volume and price effects



Household liabilities grew at more or less the same pace as in 2008 (5.3%, vs. 5.1%), compared with an annual average of 8.4% over the 1997-2007 period. Long-term bank loans to finance house purchases accounted for three-quarters of this item. The slower pace of growth in the last two years is linked to the property market reversal and tighter lending conditions in 2007 and 2008. From the second half of 2009, the distribution of home loans to households began growing again.

The own funds of non-financial corporations rose again

In 2009, the net worth of non-financial corporations (NFCs) contracted by 12.8% to EUR 1,809 billion. The decline affected non-financial assets and net financial wealth alike. However, with the stock market rebound, the value of their own funds (cf. definitions) recovered, climbing back to the equivalent of 7.2 years of net added value (EUR 800 billion) in 2009, compared with 6.3 in 2008.

Table 3 Household financial assets and debt*(outstanding amount in EUR billion; change as a %)*

	Outstanding amount			Change	
	2007	2008	2009	2007-2008	2008-2009
Financial assets other than derivative products. o/w:	3,745	3,541	3,832	-5.4	8.2
Cash and deposits	1,051	1,097	1,115	4.3	1.8
o/w: Overnight deposits	270	265	285	-1.6	7.3
Term passbooks and deposits	500	565	561	12.9	-0.7
Home savings plans and popular savings plans	231	205	209	-11.4	2.3
Securities	1,156	871	978	-24.6	12.3
o/w: Debt securities	56	57	63	2.2	10.3
Shares	751	519	617	-30.8	18.9
o/w quoted	185	95	127	-48.3	33.3
Mutual funds shares	349	295	298	-15.6	1.0
o/w money market	58	67	51	15.0	-23.2
Life insurance	1,235	1,244	1,358	0.7	9.1
o/w unit-linked vehicles	245	184	215	-25.0	17.2
Bank loan debt	910	973	1,007	6.9	3.5

Source: Banque de France, national accounts base 2000.

The value of non-financial assets of NFCs declined for the first time in 30 years (by 1.5%, after rising by 1.6% in 2008 and by 1.2% during the 1993 recession). In response to the downturn in the economic environment and the financial crisis, companies slashed inventories and cut investment spending. At the same time, fixed capital consumption, an inherently less volatile item, continued to increase (1.7%). The value of property assets declined by 2.2% in 2009, after stagnating in 2008 and growing sharply in the previous years.

Conversely, NFCs' financial assets grew by 14.3% to EUR 4,913 billion at end-2009. The recession and uncertainty over access to credit led companies to build up precautionary cash reserves. As part of the stimulus plan, the public authorities also took steps to ease pressure on firms' cash holdings, including accelerated processing of VAT refunds and research tax credit claims. Overall, assets in cash and deposits grew by 9.9%. The outstanding amount of credit granted by NFCs (mainly loans to affiliates) increased by 5.9%. Such intra-group lending, which is provided particularly in connection with foreign direct investment, has proliferated in recent years, often as a replacement for capital contributions. The size of equity interests in French and foreign companies also grew, reflecting rising share prices, as well as a handful of major mergers and acquisitions (notably British Energy by EDF and GVT by Vivendi).

On the liabilities side, against the backdrop of a sharp fall in investments, and even though banks began easing their lending standards in the

second half of the year, NFCs scaled back their use of credit, which comprises bank debt and loans between affiliates: the outstanding amount of credit increased by just 1.7%, after growing by around 10% in 2008 and by 7.7% on average over the previous ten years. Meanwhile, as financial markets returned to normal, after being all but paralysed in the final quarter of 2008, companies took advantage to step up their securities issues. Accordingly, their liabilities in the shape of debt securities jumped by 11.6%, bringing their debt to a record level (1.5 years of net added value at end-2009, compared with 1.3 on average between 1997 and 2007). Their equity liabilities also increased with the rebound in share prices and net equity issuance, which returned to levels seen in the early 2000s. However, the recovery in the value of own funds resulting from faster growth in financial assets compared with financial liabilities other than shares failed to cancel out the entire decline of 2008.

The own funds of financial corporations rose markedly

The value of financial corporations' net worth (cf. definitions) picked up in 2009 as growth of financial assets exceeded that of liabilities (2.9%, vs. 1.3%). The sharp increase in equity liabilities also contributed to the rise in their own funds, which did not however return to pre-crisis levels.

The economic downturn, followed by the return to normality on financial markets in 2009, changed the structure of financial corporations' financial assets and liabilities. Total financial assets amounted to EUR 10,616 billion at end-2009. Growth in the outstanding amount of loans granted by credit institutions and equivalent, mainly to non-financial agents, moderated significantly in 2009 (2.5%, after 7.4% in 2008), falling well below the annual average for the last decade (5.9%). The value of securities portfolios (debt, equity and investment fund securities) surged on rising prices. This resulted from the rise in equity markets and, to a lesser extent, in the case of debt securities, from the decline in medium and long-term interest rates. Financial corporations only bought a very small amount of securities in 2009 and even offloaded investment fund shares. However, they did make some equity investments, including BNP Paribas' acquisition of three-quarters of the capital of Fortis Banque in Belgium.

The liabilities of financial corporations amounted to EUR 10,212 billion at end-2009. They grew more modestly than in 2008 (1.3%, after 2.7%) because of the decline in liabilities in the shape of cash and deposits (-7.0%, after 12.0% growth). The return to more normal operating conditions in the interbank market in 2009 allowed banks to scale back their use of central bank refinancing while reducing their debt vis-à-vis non-resident

financial institutions. By contrast, the liabilities of financial corporations in the shape of equities and insurance technical provisions grew markedly. The rebound in market prices caused an increase in outstandings; furthermore, inflows to life insurance companies and investment funds recovered from the trough reached in 2008. In addition, credit institutions shored up their capital base by issuing new shares to make up for the losses incurred in 2008 because of the financial crisis.

Government debt surged

The net worth of general government totalled EUR 417 billion in 2009, falling sharply on increased government debt and a decline in the value of non-financial assets. They accounted for 25.5% of net domestic product in 2009, or 9 points down on 2008 (cf. Chart 1).

The overall assets of general government nonetheless continued to exceed liabilities because of the size of its non-financial assets. These, which totalled EUR 1,385 billion and are mostly held by local government, depreciated at an accelerated rate in 2009 (-2.3%, after a 0.7% slide in 2008). The bearish property market led to a decline in the price of the land on which non-residential buildings, such as offices and hospitals, and public infrastructure (e.g. roads) are built.

Box

“Net” indicators are more relevant than “gross” indicators for measuring economic wealth

Gross domestic product (GDP, EUR 1,907 billion in 2009) measures the aggregate output of resident economic agents during the period.

*Net domestic product (NDP, EUR 1,634 billion in 2009) is obtained by subtracting fixed capital consumption (FCC) from GDP. FCC measures the reduction in the value of capital during the period. A similar relationship exists between **net disposable income** and **gross disposable income**.*

It is more instructive to compare wealth against net macroeconomic flows than against gross flows. Wealth is itself a net stock that reflects capital deterioration and obsolescence. Setting aside other revaluation effects and changes in volume, national wealth increases every year in the amount of agents' net (not gross) savings, i.e. the portion of net national income that agents do not assign to final consumption during the period, and in the amount of net capital transfers from the rest of the world.

The net financial assets of general government, which has been structurally negative since the 1970s, went further to the negative side in 2009, reaching EUR -968 billion. With the economic crisis, receipts were down, and general government covered its borrowing requirements by issuing additional debt securities (cf. definitions). At end-2009, the market value of outstanding debt securities had risen 12.6% to EUR 1,352 billion.

In comparison, general government substantially increased assets in the shape of cash and deposits in 2009 (up 24.4% to EUR 108 billion). In the absence of privatisations, the value of the general government securities portfolio (equities and investment fund shares) also increased markedly because of the rise in financial markets and climbed 8.8% between end-2008 and end-2009 to reach EUR 407 billion.

Definitions

The **balance sheet accounts** of the national accounts record economic assets and liabilities, i.e. over which ownership rights may be enforced and which are capable of procuring economic benefits for their owners. They may be financial (deposits, equities), or non-financial (housing, land). The latter may be natural (land, mineral deposits), or arise from production processes (capital goods, inventories).

Net worth is defined as the difference between the value of financial and non-financial assets and that of liabilities (by financial nature).

National **net financial assets**, which corresponds to the balance of claims and debts vis-à-vis the rest of the world calculated from the national accounts (EUR-33 billion), cannot be compared with the international investment position published by the Balance of Payments Directorate (EUR-208.3 billion at end 2009), mainly because of the different methods used to value unquoted shares (direct investments) and derivative financial products. These methodological differences will be addressed during the next change in the national accounts base in 2011.

The value of **property assets** is divided into the value of **buildings** and that of the underlying land. Existing-building prices follow the construction cost index. For this reason, the land on which residences are built is the main source of real estate capital gains. Some assets are hard to value and are not included in the balance sheet accounts. These include national monuments and artworks held by national museums.

Assets and liabilities are recorded at their year-end market value. This value therefore includes any unrealised capital gains or losses in each asset class. Owing to movements in market prices, the value of wealth may thus vary from one year to the next even if there are no net transaction flows. The value of unquoted shares is estimated based on that of quoted shares.

The difference between general government liabilities as shown in the financial accounts and government debt under the Maastricht definition reflects three factors: the scope of financial transactions, consolidation and valuation methods.

The own funds of financial and non-financial corporations corresponds to the difference between the value of their assets and their liabilities other than shares (cf. http://www.insee.fr/fr/themes/comptes-nationaux/default.asp?page=base_2000/tableaux/ex/comptes_patrimoine_ex.htm).

Households include individuals, sole proprietors and non-profit institutions serving households. **Financial corporations** include the central bank, credit institutions, insurance companies and investment funds.

Bibliography

For a more detailed description over a long period, see "France's national economic assets, 1978-2007", *INSEE Première* No. 1229, March 2009, and Banque de France *Quarterly Selection of Articles*, No. 14, Summer 2009.

The balance sheet accounts in base 2000 and their methodology can be consulted at www.insee.fr, under National accounts – Public finances, Synthesis tables (in French only). Information on the financial portion is also available on the Banque de France website under Statistics and Surveys – Financial accounts – Annual financial accounts and debt of non-financial sectors – The National financial accounts (in French only).

For further information about the difference between general government liabilities in the financial accounts and government debt under the Maastricht definition, see Base 2000 Memo No. 6 (June 2007) "Debt of the general government according to the Maastricht definition" at www.insee.fr, under National accounts – Public finances, Methodology (in French only).

Developments in regulated savings since the reform of the “A” passbook savings account distribution network

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The Law on the Modernisation of the Economy (LME) of 4 August 2008 radically reformed regulated savings, thus granting all banking institutions the right to distribute “A” passbook savings accounts and changing the rules governing the use of the resources collected from these savings deposits. In view of the potential impact of these new provisions on the banking sector and on the savings behaviour of households, the law created the Observatory for Regulated Savings (Observatoire de l'épargne réglementée – OER), which is assigned the task of monitoring the implementation of the reform of the “A” passbook savings account distribution network and the impact this may have on household savings, on the financing of social housing and on the development of banking accessibility.¹ The Observatory, chaired by the Governor of the Banque de France, submitted its first annual report to the Government and Parliament in July 2010.

The regulated savings products that are monitored in particular by the Observatory,² the account holders of which represent a large majority of the French population, are tax-free and generally offer a higher rate than short-term market interest rates. The funds collected on these products are mainly allocated to the financing of social housing and town planning, via their centralisation in the savings fund of the state-owned financial institution in charge of public interest banking services, the Caisse des dépôts et consignations (CDC). The non-centralised share of these funds must be used by the banks principally to finance loans for SMEs and for energy conservation work.

The reform, which was implemented on 1 January 2009, granted all banking institutions the right to distribute “A” passbook accounts, put in place a transitional system for the centralisation of the funds deposited on these accounts and changed the rules concerning the use of non-centralised funds. This gave a significant boost to the collection of “A” passbook funds in the first quarter of 2009 and the equilibrium of the CDC savings fund was maintained, since the total amount centralised at the CDC remained stable. The second stage of the reform, which should take place before 30 September 2011, involves setting the terms of convergence towards a single centralisation rate for all the deposit-taking institutions of both the old and new networks, while factoring in two aims: ensuring the medium and long-term equilibrium of the CDC savings fund and giving the banks the necessary resources to finance SMEs.

Keywords: regulated savings, “A” passbook, Law on the Modernisation of the Economy, CDC savings fund.

JEL codes: E21, G00, G38.

NB: This article constitutes a summary of the Observatory for Regulated Savings 2009 report.

1 Article L221-9 of the Monetary and Financial Code.

2 “A” passbook, blue passbook, people’s passbook and sustainable development passbook savings accounts.

I | Reform of regulated savings

I | I | Products specifically aimed at households

Regulated savings products are exempt from income tax and have an interest rate that is set by the government. In addition to the home savings plan (*plan d'épargne-logement* – PEL) and the home savings account (*compte d'épargne-logement* – CEL), which aim to help households to purchase a home, regulated savings are comprised of "A" passbook, blue passbook, sustainable development passbook (*livret de développement durable* – LDD) and people's passbook³ (*livret d'épargne populaire* – LEP) savings accounts.

Prior to the 2009 reform, the distribution of "A" and blue passbook savings accounts, unlike that of other products, was restricted to three networks: *Caisses d'épargne*, *La Banque Postale* and *Crédit mutuel* (which had the exclusive distribution rights on the blue passbook savings account). Sustainable development passbook savings accounts (formerly Industrial development passbook savings accounts – Codevi) were created in 1983, originally to finance the needs of SMEs and VSEs, before their purpose was extended to finance energy conservation in old buildings. Lastly, people's passbook savings accounts, introduced in 1982, are reserved to low-income households to increase the purchasing power of their savings. The Observatory for Regulated Savings, established by the Law on the Modernisation of the Economy (LME) of 4 August 2008 has been assigned the task of monitoring developments in these three categories of passbook savings accounts.

In order to enable the Observatory to fulfil its tasks, the Banque de France has set up a quarterly survey of the leading 100 banking institutions that distribute "A" passbooks. Their analysis gives an accurate overview of the regulated savings product market (accounting for over EUR 300 billion as at 30 June 2010) in France (see Table 1).

Table 1 "A" passbook accounts at 30 June 2010

(number of accounts in millions; outstandings in EUR billions)

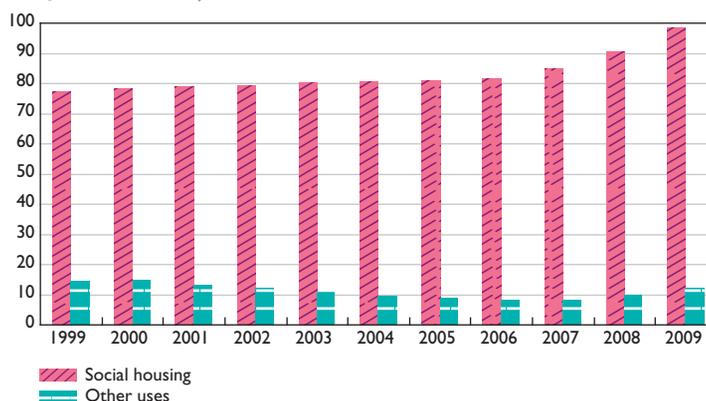
	Number of accounts	Outstandings
"A" and blue passbooks	59.2	185.8
Sustainable development passbooks	24.7	68.2
People's passbooks	11.5	55.8

Source: Banque de France, Observatory for Regulated Savings.

³ Blue passbook savings accounts have the same characteristics as "A" passbook savings accounts. Since 1 January 2009, it is no longer authorised to open new blue passbook accounts, so the name only subsists for blue passbook accounts opened before this date by the *Crédit mutuel*.

Chart 1 Loans on savings funds

(outstandings – EUR billions)



Source: Caisse des dépôts et consignations (CDC).

The success of these products stems from both their attractive returns and advantageous tax status. The interest rate is set by the government, according to a specific mathematical formula that takes into consideration the market rate and ensures a positive remuneration in real terms (see Box hereinafter).

Regulated savings passbook accounts are also set apart from ordinary passbook accounts by the use of the funds collected. Before 1 January 2009, the funds collected by the traditional network from "A" passbooks and blue passbooks were entirely centralised in the savings fund managed by the *Caisse des dépôts et consignations* (CDC). The deposits collected from sustainable development passbook accounts were partially centralised at the CDC (a minimum of 9%) and the non-centralised funds had to be used by the banks to finance the needs of SMEs and VSEs, as well as energy conservation work in old buildings. In the same way, 85% of the funds collected by the people's passbook savings accounts were centralised at the CDC.

The money centralised in the CDC savings fund is mainly used to finance social housing (see Chart 1), but it also contributes to the financing of town planning, particularly urban redevelopment. A proportion is earmarked for granting loans to SMEs, notably via the refinancing of the government-backed SME development fund "OSEO". Other uses are also possible, such as one-off funding for certain public policies announced by the government. These methods of funding were not modified by the law of 4 August 2008.

Box

Calculation of the remuneration rate for regulated savings accounts

The method of calculation for the interest rate on "A" passbooks, on which the interest rate of all of the other regulated savings passbooks is indexed (LDD, LEP, CEL and "business savings passbooks" – Livret d'épargne-entreprise or LEE), was amended by the decree of 29 January 2008 modifying the amended Regulation 86-13 of 14 May 1986 of the Banking and Financial Regulations Committee (Comité de la réglementation bancaire et financière – CRBF). By way of illustration, the interest rate on the "A" passbook applicable for the period from August 2010 to January 2011 is calculated by using the following formula, given in the decree:

$$T_{\text{(August 2010)}} = \max \left(\frac{\left(\frac{(\text{Eonia}_{\text{(June 2010)}} + \text{Euribor}_{\text{(June 2010)}})/2 + \text{CPI}_{\text{(June 2010)}}}{2} \right); \text{CPI}_{\text{(June 2010)}} + 0,25 \right)$$

The formula takes into account the consumer price index (CPI) excluding tobacco, rounded to the nearest decimal place, and the arithmetic mean of the monthly average (for business days only) of the 3-month Euribor and the Eonia, rounded to the nearest second decimal place. The variables included in the formula to determine the rate applicable during the half year from August 2010 to January 2011 are those relating to June 2010.

Moreover, the variation of the interest rate on "A" passbooks between two successive periods cannot exceed 1.5%. If the calculation results in a rate that is over 1.5% higher than the prevailing rate, the new rate is set at 1.5% above the prevailing rate. If the calculation results in a rate that is more than 1.5% lower than the prevailing rate, the new rate is set at 1.5% below the prevailing rate.

Furthermore, according to CRBF Regulation 2003-03 of 24 July 2003, a derogation to the application of one or several of the rates calculated is possible, in exceptional circumstances or when the interest rate on the "A" passbook does not enable savers to generally maintain their purchasing power.

The calculation of the interest rate on "A" passbooks is made by the Banque de France on 15 July and 15 February every year. However, on 15 April and 15 October, the Governor of the Banque de France may propose a revision of this rate to the Minister of the Economy on 1 May and 1 November if he deems that changes in inflation or money market rates are very significant. The Minister then examines the proposition and decides whether or not to change the interest rate on "A" passbooks following advice from the Advisory Committee on Financial Legislation and Regulation (Comité consultatif de la législation et de la réglementation financières – CCLRF).

I | 2 "A" passbook accounts are widespread

Thanks to the quarterly collection of specific information by the Banque de France, the Observatory has quarterly statistics on:

- the number of "A" passbook, people's passbook and sustainable development passbook savings accounts opened and the corresponding outstandings;
- the amount of funds centralised at the CDC, and the amount of loans granted for the creation and development of SMEs and for energy conservation work in old buildings;
- the payments and withdrawals carried out during each quarter.

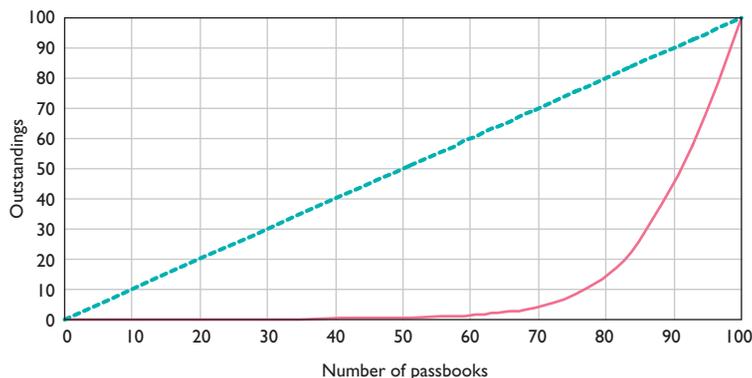
This information is supplemented by annual data on:

- the structure of outstandings by deposit size;
- the age of the account holder;
- the number of years the account has been open;
- the profession and social category of the account holder for all new accounts.

"A" passbook accounts are very widespread in France, but the breakdown of the outstandings shows a high concentration of amounts collected in those passbook accounts with the highest outstanding amounts. (see Chart 2).

Chart 2 Concentration curve of "A" passbook savings account outstandings

(as a %)



Source: Observatory for Regulated Savings.

At 31 December 2009, over half of all "A" passbooks had outstanding amounts of less than EUR 150 and 80% of the total of "A" passbooks accounted for only 15% of the outstandings. Moreover, "A" passbooks with outstandings equal to or above EUR 15,300, i.e. the maximum investment excluding capitalisation of interest, accounted for 7% of "A" passbooks.

The analysis of the number of transactions carried out according to the outstandings deposited on "A" passbooks reveals that passbooks with modest outstandings are subject to frequent transactions of small amounts. Those with outstandings of less than EUR 150 at 31 December 2009 represented only 0.5% of the total amount whilst they accounted for 27% of movements in 2009. On the contrary, passbooks credited with high outstanding amounts generally have little movement: those with outstandings of over EUR 7,500 accounted for only 17% of transactions.

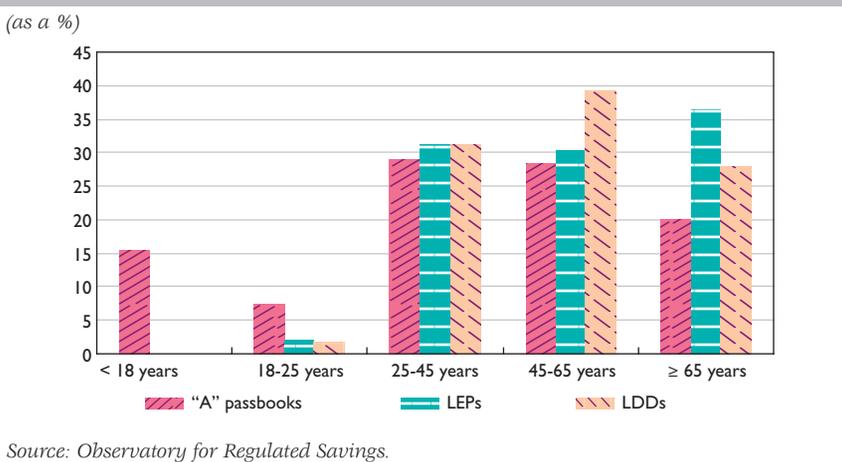
These observations tend to highlight two types of "A" passbook holder behavioural characteristics:

- for most savers, "A" passbooks are used as a substitute for or a supplement to a current account. The average balance of these accounts is low and movements of small amounts are frequent;
- for a minority of savers, however, "A" passbooks are above all a precautionary savings product, whose balance is close to the upper limit and with which they carry out very few transactions.

Since "A" passbooks are accessible to everyone, including children under the age of 18, they are relatively frequently held by the youngest savers, setting these passbooks apart from other regulated savings products. Whilst savers under the age of 25 hold 23% of "A" passbook accounts, they only account for 2% of sustainable development passbook (LDD) and people's passbook (LEP) holders (see Chart 3).

Workers and employees are the main subscribers to the three regulated savings products in terms of numbers. In 2009 they represented 47% of all new people's passbooks, 35% of all new sustainable development passbooks and 25% of all new "A" passbooks. In contrast, the share of retired people in the number of new subscribers (13% in 2009) was smaller than their share in the overall population (30%), although when all commercial banks were granted the right to distribute "A" passbook accounts the number of retired people opening new accounts did double (from 7% in 2008).

Chart 3 Breakdown of account holders by age bracket at end-2009



1 | 3 The reform of 1 January 2009

In line with the task entrusted to Michel Camdessus, Honorary Governor of the Banque de France, on the reform of the distribution of "A" passbooks, the LME authorised all banking institutions the right to offer "A" passbook savings accounts to their customers. This major change in the distribution of the savings passbook accounts that are the most widespread among French households aimed to meet several objectives: first, to ensure better competition between banks, which are now on equal footing as regards the distribution of all regulated savings products, thus bringing the "A" passbook system into line with EU rules;⁴ second, to maintain the traditional role of "A" passbooks as regards banking accessibility; and lastly, to sustain the level of funds collected and their balanced distribution to meet the needs of the CDC savings fund and of the banks for the financing of SMEs.

Several provisions in the LME have modified the conditions of the distribution of regulated savings:

- La Banque Postale has now been given the task of providing banking accessibility to all, which should help to ease the conditions for the opening and use of "A" passbook savings accounts;
- an accessibility charter compels all the deposit-taking institutions to comply with the rules;

⁴ The European Commission's opinion of 10 May 2007 underscored the fact that the freedom to provide services was hampered by the previous system, which amounted to exclusive distribution.

- the commissions paid to the deposit-taking institutions are gradually reduced;
- the centralisation of outstandings in the CDC savings fund is set by reference to the outstandings and the flows collected by the banking institutions;
- the banking institutions have the possibility of keeping part of the funds collected on the condition that they are used for financing the creation and development of SMEs and energy conservation work in old buildings.

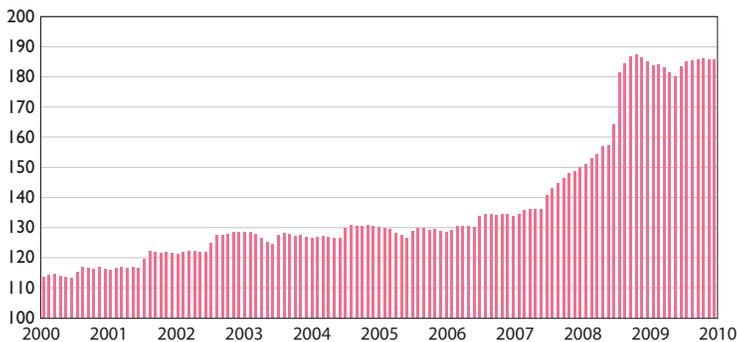
I | 4 Satisfactory results

The reform of the "A" passbook savings account distribution network has had an immediate effect on the volume of funds collected. During the first quarter of 2009, total outstandings of deposits on "A" and blue passbook savings accounts increased by EUR 22.5 billion (see Chart 4).

This rise in outstandings, which was mainly due to the opening of "A" passbook savings accounts in the new networks, was largely anticipated. Banking institutions had already started proposing ordinary passbook accounts with a net interest rate equivalent to that of "A" passbook accounts just before the reform. The automatic transferral of these savings to the new "A" passbook accounts as of 1 January 2009 led to a sharp rise in the outstandings, which then eased off rapidly to a moderate pace of growth.

Chart 4 "A" and blue passbook accounts

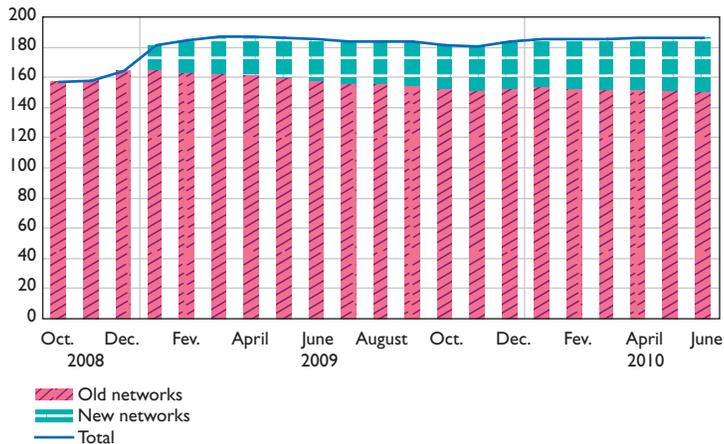
(total outstandings – EUR billions)



Source: Banque de France.

Chart 5 Breakdown of the outstandings of "A" and blue passbook accounts by type of network

(EUR billions)



Source: Banque de France.

During the first half of 2009, outstandings thus gradually stabilised, reaching EUR 185.8 billion in June, with monthly flows even dipping slightly into negative territory as of May.

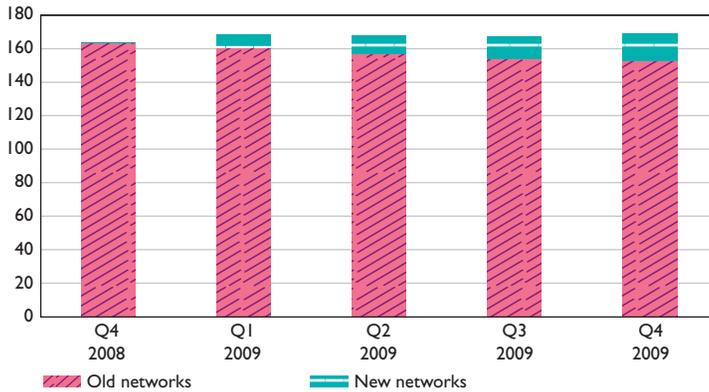
However, the outstandings managed by the incumbent distribution networks were only marginally affected, recording at most a minor decrease. At 30 June 2010, over EUR 150 billion was still deposited on "A" and blue passbook savings accounts in the incumbent network, i.e. around 80% of the total outstandings of the old and new networks together (see Chart 5).

Furthermore, the reform helped to maintain the level of outstandings centralised in the CDC savings fund for the year 2009. The decree of 4 December 2008 introduced in a first stage a transition period for the centralisation method, by setting a target of EUR 160 billion to be earmarked for the CDC savings fund each month. The breakdown between the different passbook-distributing banks is now derived from a key that takes into account a historic component, a share based on the outstandings collected on "A" passbook and sustainable development passbook accounts and a share based on the flows recorded on these products.⁵

⁵ Decree 2008-1264 of 4 December 2008, Article 6.

Chart 6 Breakdown of the centralisation in the CDC savings fund by type of network

(EUR billions)



Sources: Caisse des dépôts et consignations, *Observatory for Regulated Savings*.

At the end of the first year following implementation of the reform, total outstandings centralised in the CDC savings fund stood at EUR 169 billion, of which EUR 152.6 billion from the incumbent network. In fact, the new deposit-taking institutions still centralise less than 20% of the outstandings that they collect. During 2009, since the funds that they centralised gradually increased and those of the incumbent network decreased by a similar amount, the total volume of the centralised funds remained stable (see Chart 6).

2| Issues and prospects

2|1 Issues related to the holding of passbook accounts

The reform of the "A" passbook distribution network went hand in hand with the commitment by all the banking institutions that distribute this product to support banking accessibility. This commitment was written into a charter that aims to strengthen the effectiveness of the right to hold a bank account. According to the law,⁶ La Banque Postale is especially committed to this task. Accordingly, La Banque Postale has agreed to open an "A" passbook account for any individual who invests a minimum of EUR 1.5, as opposed to the other banking institutions, where the minimum is EUR 10. These passbook accounts can also receive deposits from social welfare benefits or pensions and may have standing orders set up for such payments as rents on low-income housing or local residential property tax for example. To fulfil this task, La Banque Postale receives payment, which in 2009 stood at EUR 280 million.

⁶ Article L 518-25-1 of the Monetary and Financial Code.

As a result of these provisions, La Banque Postale will continue, as in the past, to host a large number of passbook accounts with low outstandings and frequent deposits and withdrawals. At the end of 2009, 60% of "A" passbook accounts at La Banque Postale had outstanding amounts of less than EUR 150, compared to a national average of 51%. In practice, half of the citizens that claim minimum social benefits with an account at La Banque Postale use their "A" passbook accounts to receive social benefit payments. "A" passbook accounts thus constitute a tool enabling those with low incomes to hold bank accounts.

Furthermore, the reform provides for the implementation of a provision that aims to prevent individuals from holding more than one "A" passbook account, which is prohibited by law. Before the reform, there were a significant number of infringements of this rule. Most of these were not related to intentional fraud, but the result of accounts being opened during the holders' childhoods unbeknownst to them. Granting all banks the right to distribute "A" passbook accounts significantly increased the risks of individuals opening more than one account. The LME thus provides that when banking institutions receive a request to open an "A" passbook account, they must first check if the person already has one by consulting the national bank account register (*Fichier des comptes bancaires* – FICOBA), which is managed by the tax authorities. Given the time it takes to implement the procedures to consult this register before opening an account, the checks are actually made once the account has already been opened (ex post), the bank then informs their client of the issue and asks them to rectify their situation. The improvement of the verification system is therefore one of the issues to be resolved over the years to come.

2|2 What could the non-centralised funds be used for?

In accordance with a right given to them by the LME, the deposit-taking institutions have kept a large proportion of the outstandings collected on their "A" passbooks and sustainable development passbooks. At 31 December 2009, EUR 85.6 billion of the EUR 250 billion collected on "A" passbook and sustainable development passbook accounts, i.e. 34% of the outstandings, were not centralised. The banks are only obliged to use 80% of the non-centralised funds to finance the cash and investment requirements of SMEs and a further fraction of at least 5% (increased to 10% in 2010) to finance energy conservation work in old buildings. Moreover, when they record an increase in non-centralised deposits they must earmark at least half of this increase for the financing of SMEs.

According to the data collected by the Observatory for Regulated Savings, outstanding loans granted by the banks to SMEs stood at EUR 226.2 billion

Table 2 Use of non-centralised funds*(EUR billion)*

Outstandings	4th quarter 2008 (a)	4th quarter 2009
Funds remaining on the deposit-holding institutions' balance sheets at the end of the quarter	73.2	85.6
Loans to SMEs	219.8	226.2
Loans earmarked to finance energy conservation work in old buildings	0.6	1.8
Total loans to SMEs and the financing of energy conservation work	220.4	227.9

(a) Data at end-2008 corrected by applying the regulation in force as of 1 January 2009, which has notably increased the volume of loans to SMEs eligible for financing from the resources of "A" passbooks and sustainable development passbooks.

Source: Observatory for Regulated Savings.

at the end of 2009, which is EUR 6.4 billion more than at the end of 2008, whilst outstanding loans for the financing of energy conservation in old buildings reached EUR 1.8 billion, up by EUR 1.2 billion on the previous year (see Table 2). In comparison, outstandings of non-centralised funds collected on "A" passbook and sustainable development passbook accounts increased over the same period by EUR 12.4 billion.

At this point it is difficult to assess these developments in view of the exceptional conditions that prevailed in 2009 in terms of the supply and demand of credit in the specific context of the economic crisis.

Nonetheless, the Observatory for Regulated Savings will carry out a timely and in-depth study of the use of the non-centralised funds in comparison with the amounts collected, taking into account the developments in the macroeconomic environment and in the business cycle. In this respect, the financing needs of companies are likely to increase sharply, in a context of recovery from the crisis, implying a pick-up in investment and a build-up of inventories.⁷ Consequently, the use of the non-centralised share of regulated savings for the financing of SMEs and VSEs, which as a rule are unable to turn to bond issuance for financing, will be an important consideration over the coming years.

2|3 Centralisation issues in the CDC savings fund

As of 1 January 2012, centralisation in the CDC savings fund will take place at a single rate for the incumbent network members and the new deposit-taking institutions.

⁷ Furthermore, the largest French banks have committed to earmarking EUR 96 billion in credit for SMEs and VSEs in 2010.

This new centralisation method should help to maintain the equilibrium of the CDC savings fund.

The aforementioned decree of 4 December 2008 provides that this new centralisation method must be put in place by 30 September 2011 at the latest and to this end provides that the following factors must be taken into account:

- a benchmark centralisation level of 70%;
- the effective centralisation level in 2011;
- the level of deposits collected on A passbook and sustainable development passbook accounts in 2011 and its projected developments;
- the projected needs of the CDC savings fund for social housing and town planning;
- the financing needs of SMEs and energy conservation work.

Furthermore, as specified in the LME, in order to maintain sufficient liquidity, the CDC savings fund must respect a ratio of 125% between its resources and the loans financing social housing and town planning. However, these uses have increased sharply in recent years and are likely to continue to rise over the years to come. Due to the increase in price of private housing, to the consequences of certain mechanisms in the functioning of social housing, notably the right to remain in social housing even after the lease has expired and the enforceable right to housing, the construction of 120,000 social housing properties per year is deemed necessary. Moreover, the CDC provides the banking sector with part of the funds collected in the form of very long-term refinancing loans. These loans, which accounted for 2.7% of outstandings of "A" passbook and sustainable development passbook accounts in 2009, could increase to 5.4% of outstandings by 2012, according to CDC. Thus, total outstandings of loans granted by the savings fund could reach EUR 152 billion by the end of 2013, compared with EUR 114 billion at the end of 2009.

As we have seen, the challenges related to centralisation of the collection in the CDC savings fund nonetheless go beyond the sole problem of the fund's medium- and long-term equilibrium. The definition of the definitive system should also take into account its potential impact on banking institutions' capacity to finance SMEs. The implementation of the new framework will therefore require the provision of reliable and complete information to all of the players concerned.

The financial position of SMEs in 2009: a financial structure that has proven resilient to the crisis

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The 2008-2009 economic crisis had an impact on SMEs, causing a slowdown in their business activity as well as a marked decline in their profits and savings rate. Export and manufacturing SMEs were especially hard hit. The increasing vulnerability of the sector resulted in a sharp rise in the number of SME failures in 2009.

SME investment dropped by over 15%, a cause for concern and also a reflection of serious doubts as to SMEs' confidence in the future. Already structurally weak in SMEs, the investment rate unravelled in 2009 to reach a ten-year low.

SMEs have nonetheless maintained their balance sheet structure. Their equity increased despite the drop in profits, while gearing decreased. The decline in debt was mainly a result of dwindling short-term credit, which is closely correlated with business activity. Cash reserves increased and short-term financing requirements, which hinge on inventories and trade credit, were kept under better control.

Monthly data from the Central Credit Register confirm that growth in outstanding credit to SMEs flagged in 2009, without however becoming negative. In June 2010, outstandings of drawn credit posted a 2.6% year-on-year growth.

While SMEs reported low gearing ratios on average, there were significant differences in behaviour between a quarter of companies that had little or no recourse to bank loans and an overall financial debt ratio below 20%, and another quarter that relied more heavily on external financing and had a debt ratio above 250%. The latter group was characterised by low levels of equity.

The level of equity required for SMEs' financial debt to amount to less than 200% of this equity is estimated at EUR 17.4 billion, i.e. roughly 10% of SMEs' total equity capital.

Keywords: SME, business activity, profitability, debt, investment, corporate failures.

JEL codes: E22, G30, G33, L23, L25.

I | A contraction in economic activity, particularly in industry

Analysis of the 2009 financial year is based on the accounts of 128,000 SMEs, as defined by the Law of the Modernisation of the Economy (LME), which had released their 2008 and 2009 accounts by end-July 2010 (see Appendix 2). These SMEs are concentrated in five sectors covering 87% of the value-added of all SMEs: trade, manufacturing, construction, business support services and transport (see Table 1).

I | I Sharp drop in activity in industry and SME subsidiaries of foreign companies...

Even though the economy resumed an upward trend in spring 2009, this did not fully offset the decline over the year, and activity for all non-financial corporations was at a level close to that observed three years before (INSEE, 2010a). SME incomes declined sharply and their turnover

Table 1 Key SME performance variables

(as a %)

	Breakdown of value added	2009/2008 Annual rate of change				
		Turnover	Export turnover	Added value	Staff costs	Gross operating income
Sole legal unit SMEs	48.5	-3.9	-8.9	-2.2	0.5	-11.7
Multiple legal unit SMEs	44.0	-4.9	-11.2	-4.2	-0.3	-17.5
SME subsidiaries of foreign firms	7.5	-8.7	-13.5	-7.6	-2.0	-31.8
All SMEs	100.0	-4.7	-11.0	-3.5	-0.1	-15.7
<i>Main sectors:</i>						
Manufacturing	24.0	-9.2	-14.8	-8.6	-3.3	-27.1
Construction	18.6	-3.0	-1.5	-1.9	0.7	-12.3
Trade	26.7	-3.6	-8.4	-2.2	1.5	-13.1
Transport and warehousing	6.0	-6.9	-14.9	-2.0	-1.0	-6.8
Business support	12.0	-2.8	-3.0	-1.7	1.1	-13.9

Scope: SMEs, as defined by the LME, which reported balance sheets in 2008 and 2009.

Note: As not all accounting balance sheets for the 2009 financial year are available, the comparison between 2009 and 2008 is based on a sample of companies that report data for both financial years. This sampling therefore excludes companies that reported for 2008 but have not yet done so for 2009, those that ceased to exist in 2009 and those that were set up in 2009. The turnover of this sample of companies represents 80% of the combined turnover of all SMEs in 2008.

Source: Companies Directorate – FIBEN database. data available in early August 2010.

receded by 4.7%. In some 10% of SMEs, turnover was down by over 25% from 2008. For a quarter of SMEs, the decrease exceeded 13%.

The manufacturing sector bore the brunt of this downturn: manufacturing turnover shrank by 9.2%, while its value added fell by 8.6%. One quarter of manufacturing SMEs saw their turnover decrease by 19%. While SMEs in other business sectors also experienced a slump, it was much less significant.

1 | 2 ... due mainly to a palpable decline in export turnover

The falloff in business volumes was largely driven by a decline in export turnover, which plunged 11%, at a pace almost three times faster than the drop in non-export turnover. The largest exporters, i.e. manufacturing and transport, multiple legal unit SMEs and SME subsidiaries of foreign firms, were the hardest hit. (see Table 2).

One quarter of the SMEs from the sample exported in 2008 and 2009. But for these SMEs, turnover dropped overall by 7.3% and value added by 6.4% (almost two times more than for all SMEs combined). The export rate fell by 1 percentage point.

Table 2 Export SMEs

	Export rate as a % of turnover		Export SMEs as a % of total SMEs
	All SMEs	Export SMEs in 2008 and 2009	
Sole legal unit SMEs	6	20	21
Multiple legal unit SMEs	8	17	32
SME subsidiaries of foreign companies	24	29	71
All SMEs	9	20	26
<i>Main sectors:</i>			
<i>Manufacturing industry</i>	<i>17</i>	<i>24</i>	<i>51</i>
<i>Construction</i>	<i>1</i>	<i>9</i>	<i>4</i>
<i>Trade</i>	<i>7</i>	<i>17</i>	<i>29</i>
<i>Transport and warehousing</i>	<i>11</i>	<i>20</i>	<i>38</i>
<i>Business support</i>	<i>11</i>	<i>26</i>	<i>26</i>

Scope: SMEs, as defined by the LME, which reported balance sheets in 2008 and 2009.

Source: Companies Directorate – FIBEN database, data available in early August 2010.

I | 3 A decline in staff costs that is slight compared to the drop in value added

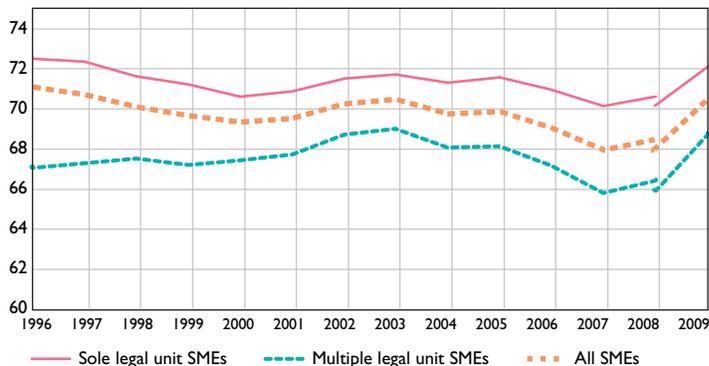
Staff headcounts varied little between 2008 and 2009: in periods of recession, there tends to be a lag in employment adjustment and employment fluctuates less widely than activity. Staff costs were therefore stable and gross operating income was down almost 16% from 2008.

The manufacturing industry stood out from the rest: it saw a significant 2.1% decline in headcounts while staff costs decreased by over 3%. This nonetheless remained smaller than the decrease in activity.

With total income (or allocated income)¹ decreasing by over 3.6%, this resulted in an increase in the share of staff costs² by 2.4 percentage points to 70.3%. In 2009, this share exceeded 72% in sole legal unit SMEs (see Chart 1). Employee productivity dipped 2 percentage points, a departure from the upward trend it had maintained for over ten years (see Chart 2).

Chart 1 Staff costs/Total income

(as a %)



Explanatory notes: As not all balance sheets were available for the 2009 financial year, the comparison between 2009 and 2008 is based on a sample of companies doing business in both years: this explains the last two values of each curve. Multiple legal unit SMEs include SMEs that are subsidiaries of foreign companies.

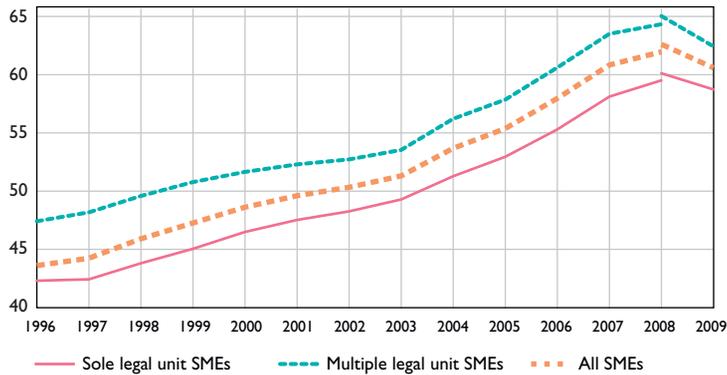
Source: Companies Directorate – FIBEN database, data available in August 2010.

¹ Total income corresponds to the value added produced by the company extended to total operating and non-operating income.

² Including profit-sharing.

Chart 2 Value added/Staff headcount

(EUR thousands)



Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in August 2010.

2| Declining economic and financial profitability

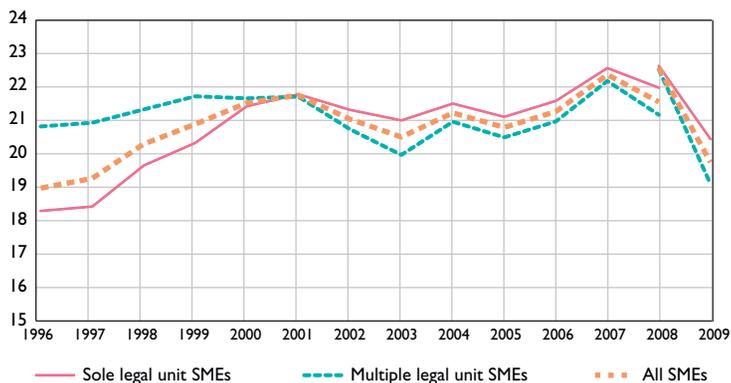
2| I Shrinking profit margins and economic profitability

With a 16% drop in gross operating income, profit margins shrank by close to 3 percentage points to fall below 20%: a ten-year low (see Chart 3). Economic profitability or return on capital employed (ROCE) also decreased by 3 percentage points to a level close to that of 2003 (see Chart 5).

Chart 3 Profit margins

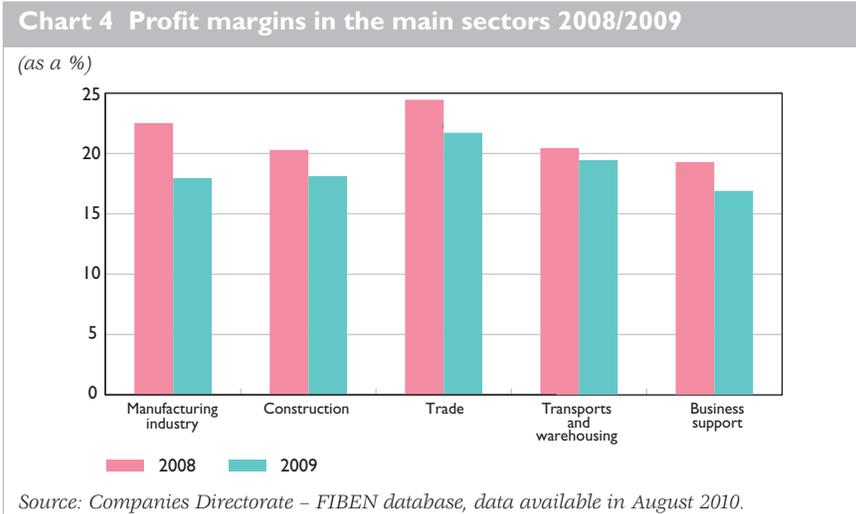
Gross operating income/value added

(as a %)



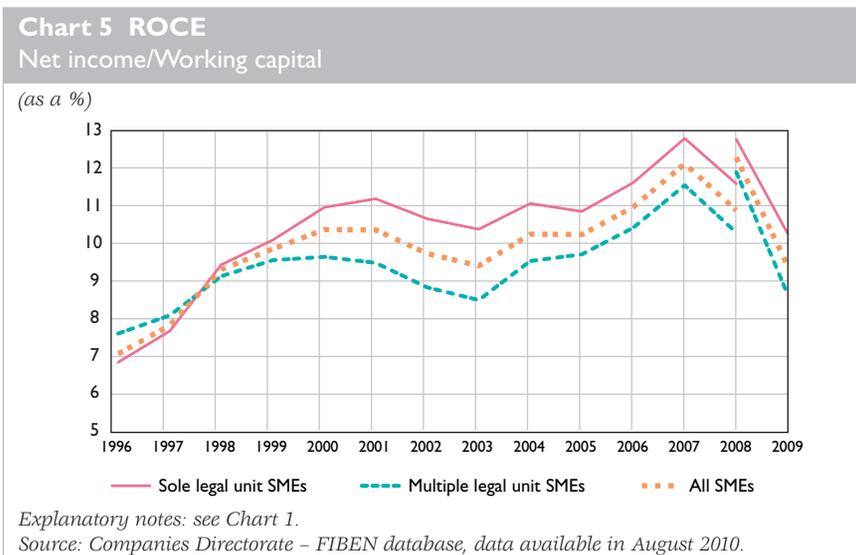
Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in early August 2010.

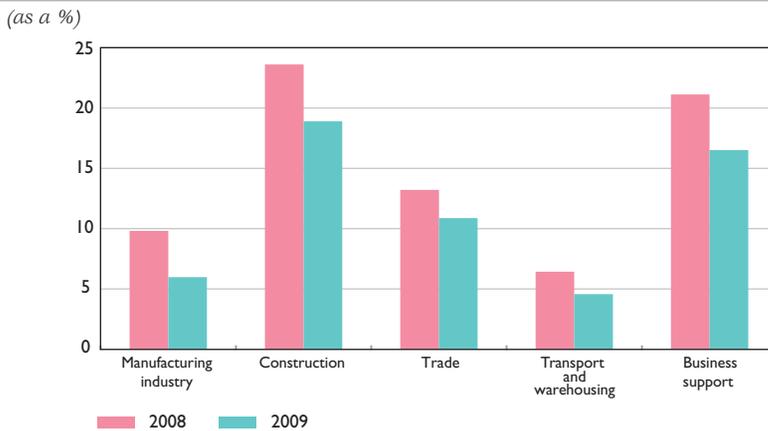


The overall worsening of profit margins in 2009 was all the more significant because the 2008 comparison of European SMEs had already indicated that French SMEs were lagging behind their German counterparts in this regard.³

While no sector was spared, the slide was particularly steep in the manufacturing industry, where gross operating income dropped by 27%, and in transport, where ROCE fell below 5% (see Charts 4 and 6).



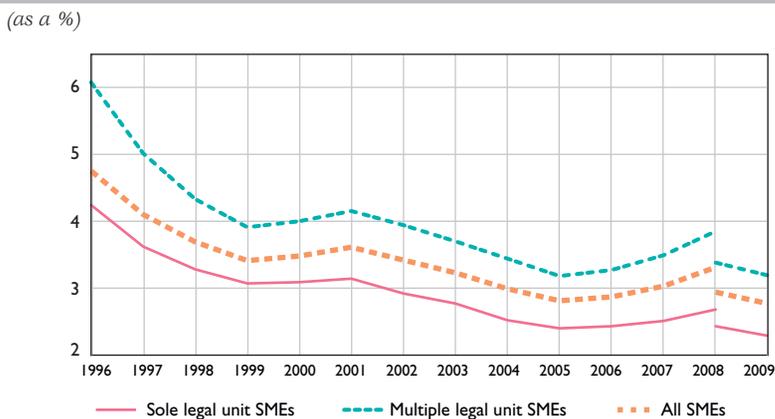
³ See Cayssials and Kremp (2010).

Chart 6 ROCE in the main sectors 2008/2009

Source: Companies Directorate – FIBEN database, data available in August 2010.

2|2 A sharp decline in Return on Equity (ROE) despite shrinking financial charges

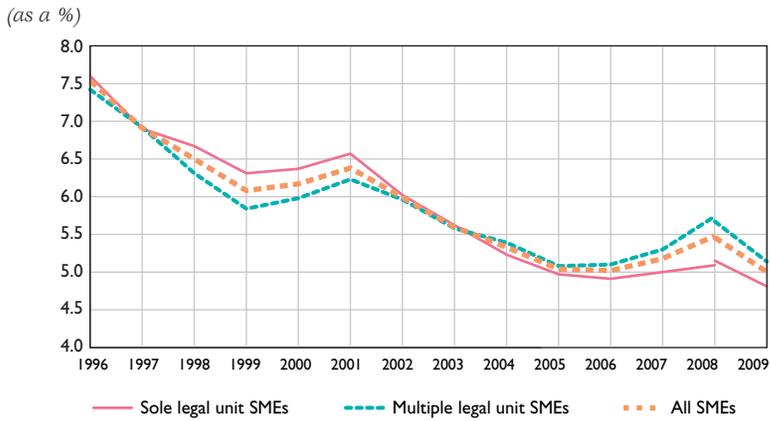
Financial charges decreased by 9.3% for all SMEs. Two factors were behind this trend: reined-in debt levels and the declining cost of credit thanks to falling interest rates. The share of financial charges in total income receded in 2009, deviating from the upward trend established since 2005 (see Chart 7). The apparent cost of debt came to 5% in 2009 (see Chart 8).

Chart 7 Lenders (financial charges) as a share of total income (allocated income)

Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in early August 2010.

Chart 8 Apparent cost of debt (financial charges/financial debt)



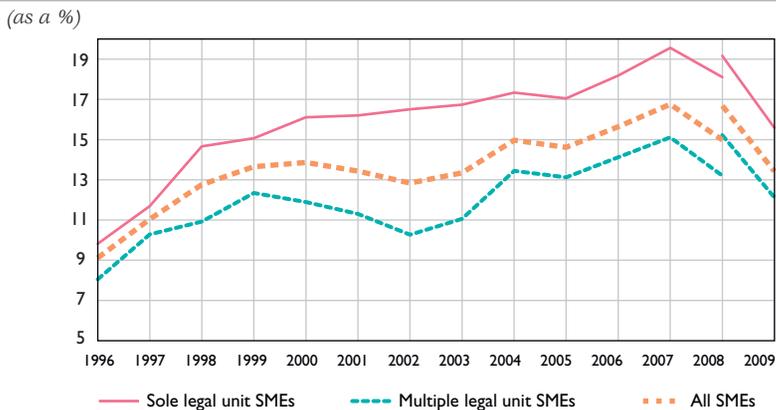
Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in August 2010.

Falling financial charges notwithstanding, net operating cash flow shrank by 15%, causing ROE to drop by over 3 percentage points to 13.6%, its 2003 level (see Chart 9). Here also, the decline was particularly sharp in the manufacturing industry (see Chart 10).

While the overall level of profitability may still appear satisfactory, the ratio distribution shows a general downward trend, for the most as well as the least profitable SMEs (see Chart 11). Furthermore, the disparities were very pronounced, with a quarter of SMEs reporting low profitability ratios of less than 5.2%, which, in addition, had dropped sharply by some 3 percentage points.⁴ The number of companies with negative profitability

Chart 9 Return on Equity (net income/equity)



Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in early August 2010.

⁴ Companies with zero or negative equity were excluded from the distribution calculation.

was much larger than in 2008: in 2009, 10% of companies had a ratio below -6.3%, compared to -0.4% in 2008. The ratio also worsened significantly in the manufacturing industry where 10% of SMEs posted a ratio below -12%.

The very steep rise in SME failures in 2009 testified to the strains that had emerged in an increasing number of companies. The largest number of corporate failures in fact occurred in the SME sector (see Box 1).

Box 1**Large numbers of SME failures in 2009****The rise in corporate failures mainly affected SMEs****Cumulative number of failures over 12 months**

(annual rate of change as a %)

	Dec. 2006	Annual rate of change	Dec. 2007	Annual rate of change	Dec. 2008	Annual rate of change	Dec. 2009	Annual rate of change	May 2010	Annual rate of change
SMEs	43,073	-3.1	46,711	8.4	51,385	10.0	58,820	14.5	58,621	4.6
o/w micro companies	40,337	-0.5	44,085	9.3	48,460	9.9	54,567	12.6	54,448	4.0
o/w SE and ME	2,736	-30.3	2,626	-4.0	2,925	11.4	4,253	45.4	4,173	13.3
Total number of failures	47,919	-2.9	51,343	7.1	55,573	8.2	63,424	14.1	62,672	3.3

Source: Companies Directorate – FIBEN database, data available in August 2010.

The number of corporate failures rose significantly in 2009: over 63,000 companies – 14% more than in 2008 – initiated recovery or liquidation proceedings.

SMEs were the hardest hit by the increase in bankruptcies: they accounted for 93% of business failures in 2009. While most of the failed SMEs were micro enterprises, the rise in failures in 2009 mainly concerned larger SMEs, i.e. small and medium-sized companies. Some 4,253 of these companies failed, a 45% increase from 2008.

In terms of bank loans, the economic impact of failures increased up till autumn 2009 (see Chart)

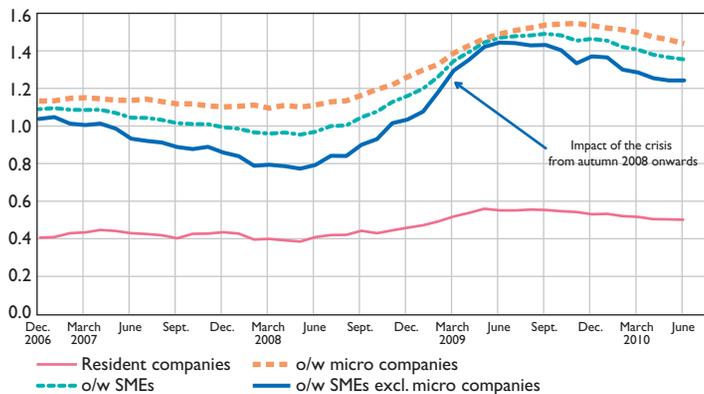
In 2009, outstanding loans drawn by failing SMEs amounted to almost EUR 3.5 billion, a 28% rise from 2008. The economic impact of failures within SMEs increased

.../...

from summer 2008, more sharply and more rapidly for the larger SMEs than for the smallest. Spurred by the economic crisis, the share of failures in loans reported to the Central Credit Register for the June 2008 to June 2009 period increased overall by 0.7 point for SMEs, excluding micro companies, as against the 0.4 point rise observed for micro enterprises from June 2008 to November 2009. It then gradually declined to stand at 1.2% and 1.4%, respectively, in June 2010.

Share of failing companies in outstanding loans to enterprises

(rate cumulated over 12 months)



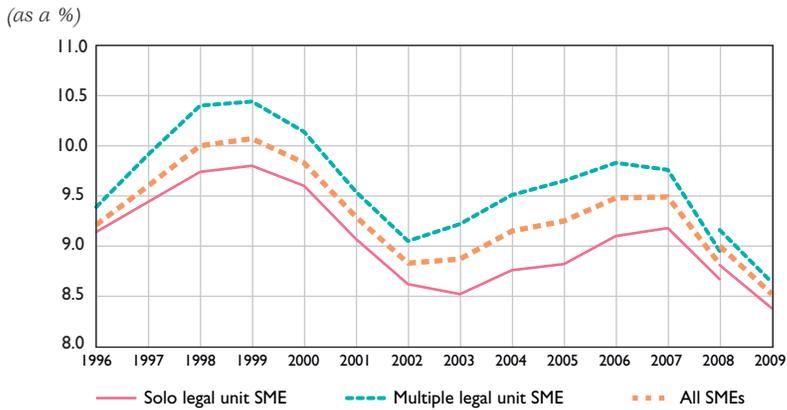
Source: Companies Directorate – FIBEN database, data available in August 2010.

3| Decline in the savings rate and fall off in investment

3| I Rise in the share of dividends paid out and decrease in the share of government taxes

Dividends paid out edged down by 1.9% from 2008. With the more pronounced 3.6% decline in total income, the share of dividends in total income continued to increase and came close to 7% (see Chart 13). These dividends corresponded to income distribution for the 2008 financial year; they accounted for 55% of company earnings for this year. The share of dividends paid out was much higher in multiple legal unit SMEs than in sole legal unit SMEs.

Chart 12 Share of government taxes in total income (allocated income)

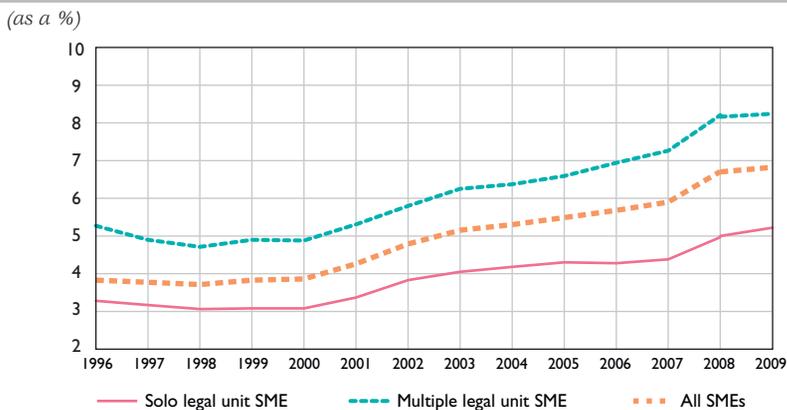


Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in August 2010.

Government taxes and fees however fell by 8.7%, bringing their share down to 8.5% (see Chart 12). The corporate tax paid by all non-financial corporations shrank by a substantial 61% in 2009, notably due to the accelerated repayment to companies of claims on government for R&D tax credits or tax loss carry-backs⁵ (INSEE 2010a).

Chart 13 Share of dividends paid out in total income (allocated income)



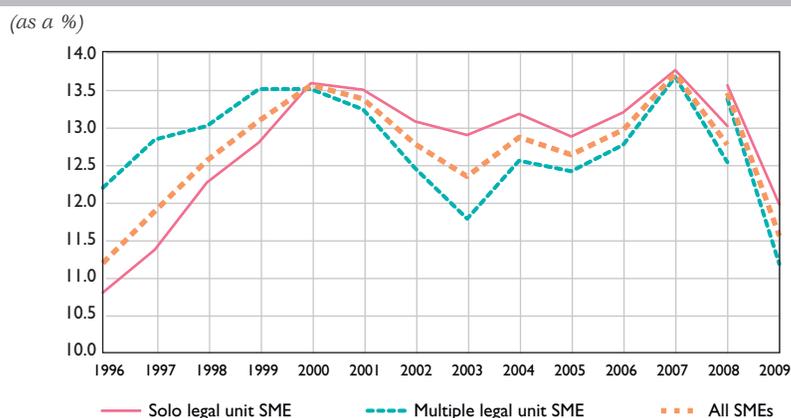
Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in August 2010.

⁵ Claim arising from a tax benefit that allows companies to apply losses incurred against income reported over the three prior years.

3|2 Decline in the savings and investment rates

Chart 14 Saving rate – Net operating cash flow in total income



Explanatory notes: see chart 1.

Source: Companies directorate – FIBEN database, data available in August 2010.

Against a backdrop of relatively stable staff costs and dividends, the decrease in government taxes and financial charges did not prevent deterioration in net operating cash flow. SMEs' savings rate receded to its lowest level in ten years, sliding by close to 2 percentage points to 11.6%, after having already dropped in 2008 (see Chart 14).

In 2009, SME investment⁶ fell by over 15%, with sole legal unit SMEs reporting particularly low levels of investment. The bleak outlook for demand in a persistently difficult financial climate pushed companies to lower their investment expenditure.

Table 3 Investment in SMEs in 2009 (excluding leasing transactions)

(as a %)

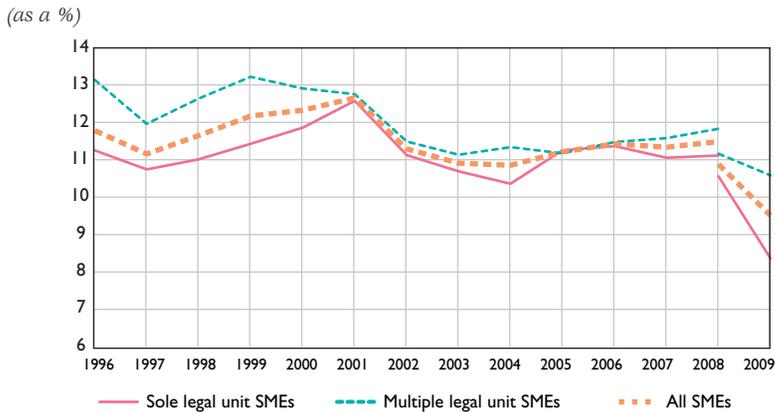
	Breakdown investment	Annual rate of change 2009/2008	Investment rate
Sole legal unit SMEs	42.1	-22.3	8.3
Multiple legal unit SMEs	50.0	-6.8	10.5
SME subsidiaries of foreign companies	7.9	-26.2	10.0
All SMEs	100.0	-15.6	9.4
o/w main sectors:			
Manufacturing industry	24.9	-11.2	9.7
Construction	10.7	-12.7	5.4
Trade	25.0	-20.4	8.8
Transport and warehousing	7.0	-15.8	11.1
Business support	9.1	-16.8	7.3

Scope: SMEs, as defined by the LME, which reported balance sheets in 2008 and 2009.

Source: Companies Directorate – FIBEN database, data available in August 2010.

⁶ Investment: acquisition of tangible and intangible fixed assets, excluding financial leasing acquisitions.

Chart 15 Investment rate
Investment (excluding leasing transactions) to value



Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in August 2010.

SME population posted an investment rate below 2.4% and only one quarter reported a rate above 7.1%. The SME investment rate differs from that of large companies, where investment expenditure is often spread out over several years and focuses on different areas such as renovation, new production capacity, innovation, etc. SMEs invest to renew their equipment, or centralise their investments on a specific year. The proportion of SMEs reporting investment expenditure every year is therefore low.

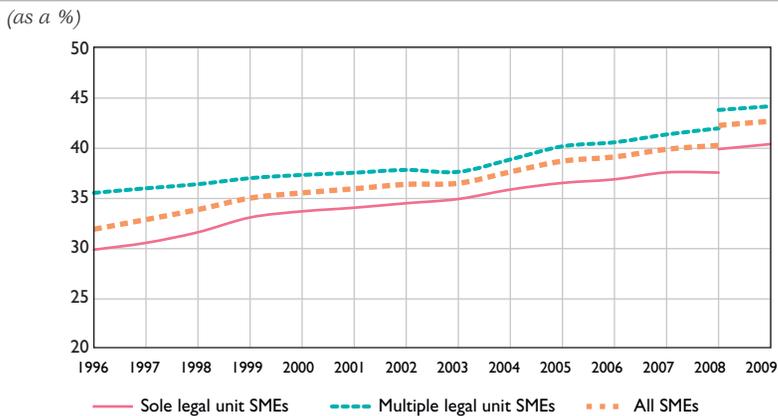
SMEs' investment rate dropped by almost 1.5 percentage points (see Chart 15). While it had been low for several years, the investment rate descended to a ten-year low, particularly in sole legal unit SMEs. Including leasing acquisitions raises this rate slightly but does not fundamentally change the analysis pointing to structural weakness and a slump in 2009.

4| A balance sheet structure that has been preserved in the short term

4| I Increase in equity despite weakened performance

Equity continued to increase in 2009 despite the decline in profits. It grew by 5.2% overall and by over 6% in sole legal unit SMEs. The share of equity to total liabilities climbed to 43% for all SMEs in 2009, prolonging the upward trend observed over the last ten years.

Chart 16 Equity/total liabilities



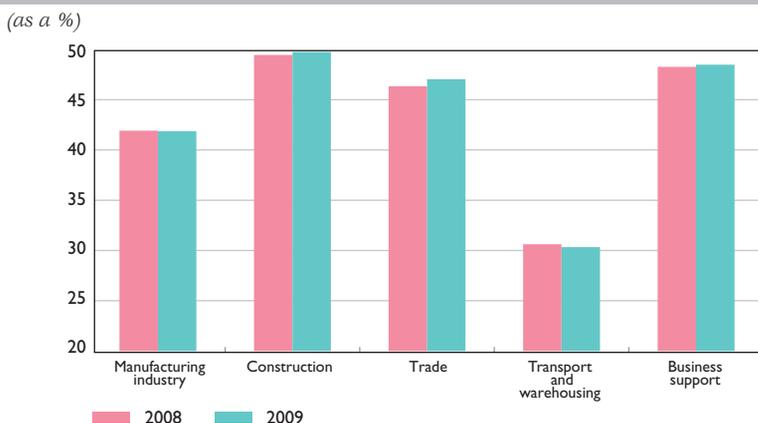
Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in August 2010.

There was a significant gap between multiple legal unit SMEs and sole legal unit SMEs, with growth in equity in the former topping the latter by 4 percentage points⁷ (see Chart 16).

In addition, significant disparities persisted: one quarter of SMEs posted a ratio below 27% in 2009, while at the other end of the spectrum, one quarter reported a ratio above 64% (see Chart 18). While there were still a large number of companies that appeared to have relatively balanced financing sources, others reported a significant shortfall in equity (see Box 2).

Chart 17 Equity/total liabilities 2008/2009

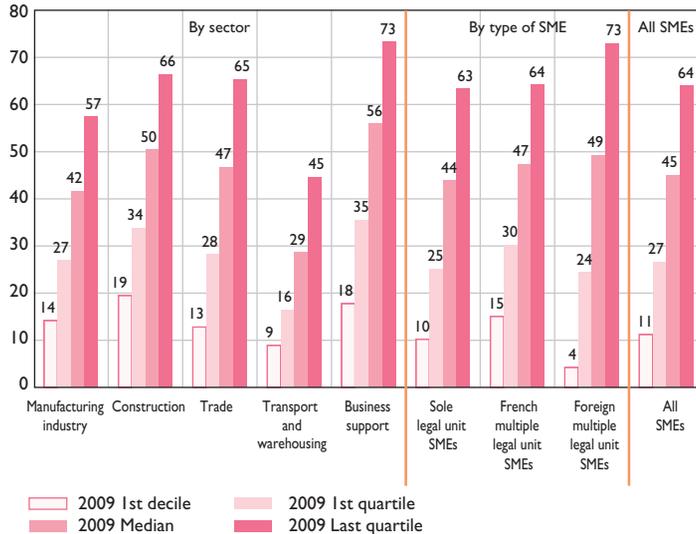


Source: Companies Directorate – FIBEN database, data available in August 2010.

⁷ Part of this gap may stem from double accounting in multiple legal unit SMEs, even though the impact is nowhere near as significant as in larger companies.

Chart 18 Equity/total liabilities in 2009

(as a %)



Explanatory notes: P10 (first decile), Q1 (first quartile), Q2 (median) and Q3 (third quartile) are statistical indicators of dispersion. In 2009, 10% of SMEs had a ratio below 11%, one quarter a ratio below 27%, half a ratio below 45% and one quarter a ratio above 64%.

Scope: SMEs, as defined by the LME, which reported balance sheets in 2008 and 2009.

Source: Companies Directorate – FIBEN database, data available in August 2010.

Box 2

Estimate of SMEs' equity requirements based on 2008 accounts

SMEs' equity capital requirements are assessed based on their gearing (financial debt to equity) ratio, taking into account two thresholds for this ratio: 150% and 200%. The requirements are estimated for SMEs whose group heads are based in France and conform to the new definition for companies laid down in the LME.

- The amount of equity capital required for SMEs' financial debt to account for less than 200% of their equity capital is estimated at EUR 17.5 billion, i.e. a little over 10% of their total equity.
- Lowering the threshold to 150% increases SMEs equity capital requirements by EUR 8 billion to EUR 25.5 billion.
- The EUR 8 billion increase in the amount of equity capital required can be traced primarily to the SMEs that were already falling short at a threshold of 200%. Newly-identified SMEs with a shortfall at the 150% threshold account for only EUR 0.8 billion.

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Numbers of companies and measures, excluding SMEs that are subsidiaries of foreign companies

	SMEs		All companies registered in the FIBEN database
	Sole legal units	Combined legal units	
Number of companies	131,475	33,824	169,104
<i>o/w legal units</i>		103,255	290,043
<i>o/w legal units with balance sheets(a)</i>		69,751	232,147
Balance sheet total (EUR billions)	215.7	222.3	4,187.2
Average (EUR millions)	1.7	6.6	24.8
Median (EUR millions)	0.9	3.4	1.1
Equity capital (EUR billions)	70.3	95.8	1,796.3
Average (EUR millions)	0.5	2.9	10.6
Median (EUR millions)	0.3	1.3	0.3

(a) Some legal units are very small and fall below the data collection threshold. Therefore, there is no available balance sheet data for close to 15,000 SCIs (Sociétés civiles immobilières – investment companies that rent out property) identified as belonging to a group. Ongoing research to supplement data on company size confirms that these companies are micro enterprises (i.e. below the FIBEN balance sheet data collection threshold). Taking these companies into account slightly modifies data for SMEs and ETI. However, the lack of exhaustive data on the smaller companies' financial links leads to an overestimation of the number of independent SMEs and ETI.

Explanatory note: the sample used here is different from that used in the rest of the study because it includes balance sheets for 2008 only and therefore represents a much larger number of companies. Scope: Companies whose turnover exceeded EUR 0.75 million, or whose bank loans exceeded EUR 0.38 million, excluding the public sector, subsidised-housing associations and management companies and subsidiaries of foreign groups.

Source: Banque de France, FIBEN, 2008 accounting database and financial link database – Updated in June 2010.

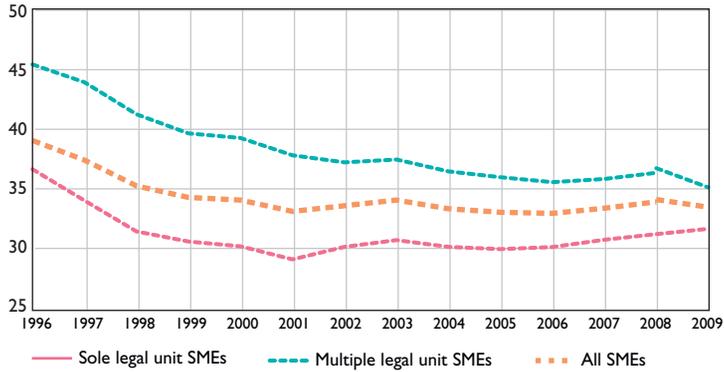
4|2 Increased cash reserves and moderated working capital requirements

Despite a difficult context, cash assets increased by over 8% to amount to close to 22% of all assets. They resumed their upward trend in 2009, to reach their highest level since 1996 (see Chart 20). Disparities nonetheless remained significant: one quarter of SMEs posted a ratio below 5% in 2009, while another quarter reported a ratio above 39%. This dispersion was more pronounced in construction and business support.

The increase in cash reserves was due to the moderation of working capital requirements, which dropped by 6.5% for trade working capital requirements, exceeding the decline in turnover (see Chart 19). Expressed in turnover-days, the share of working capital requirements nonetheless

Chart 19 Working capital requirements

(in turnover-days)



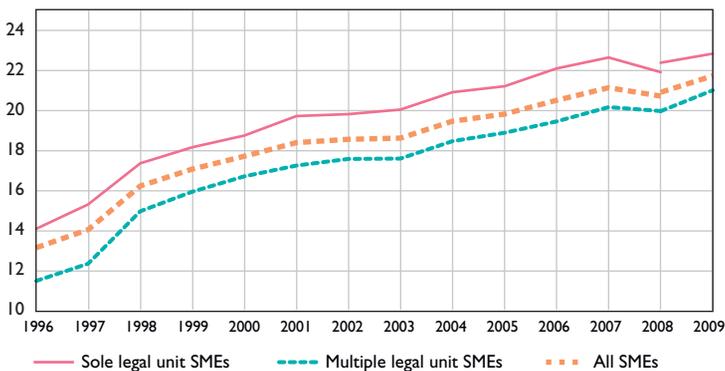
Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in August 2010.

increased slightly in sole legal unit SMEs mainly due to an increase in trade credit. Inventories, on the other hand, shrank, especially in the manufacturing sector. Following the January 2009 implementation of the LME provision that seeks to decrease trade accounts receivable, this sector saw a decline in trade credit, unlike construction and trade SMEs. As a general rule, trade accounts receivable and payable dropped 3 percentage points to amount to 54 turnover days and 57 sales days respectively.

Chart 20 Share of cash assets

(as a %)



Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in August 2010.

Table 4 Working capital requirements in SMEs

	Breakdown (as a %)	2009/2008 change in WCR	Including trade credit	including inventories
Sole legal unit SMEs	45.3	-2.6	3.8	-2.4
Multiple legal unit SMEs	43.9	-7.5	-4.5	-4.4
SME subsidiaries of foreign companies	10.7	-17.4	-18.5	-8.4
All SMEs	100.0	-6.5	-3.4	-3.8
<i>o/w main sectors:</i>				
<i>Manufacturing industry</i>	36.6	-9.1	-13.0	-4.8
<i>Construction</i>	12.5	0.0	9.3	-5.0
<i>Trade</i>	42.9	-4.6	-8.3 (a)	-3.0
<i>Transport and warehousing</i>	1.2	-20.3	-8.0	2.7
<i>Business support</i>	3.4	-9.1	-1,1	-0,3

Scope: SMEs, as defined by the LME, which reported balance sheets in 2008 and 2009.

(a) Trade credit is negative in the trade sector, this source of financing decreased in 2009 compared with 2008, following the enactment of the LME.

Source: Companies Directorate – FIBEN database, data available in August 2010.

These trends show that SMEs contained working capital requirements (inventories and trade accounts receivable and payable) in a difficult environment. They also increased their cash reserves, particularly in order to reduce their dependence on external sources of financing. This cautious, wait-and-see approach could account for the slight drop in debt levels, and particularly bank loans, even though trends in bank loans were also influenced by tighter bank standards.

4|3 A slight drop in debt, mainly short-term bank loans

SMEs' financial debt, and primarily bank loans, shrank slightly. Short-term bank loans receded most notably in manufacturing and trade. Short-term bank loans aside, financial debt increased by 0.7% (see Table 5). These trends are confirmed by the monthly data provided by the Central Credit Register (see Box 3).

This resulted in a drop in the gearing ratio. The decline in the ratio is more pronounced if net financial debt (financial debt less cash and cash equivalents) is used in the calculation. The gross ratio sank by 4 percentage points to 65.2% while the net ratio lost 5.6 points to fall to 14.4%, leaving both ratios at a historic low (see Charts 21 and 22). Debt however increased as a ratio to value added, which itself declined.

Table 5 SME debt levels in 2009

	Breakdown (as a %)	2009/2008 change in financial debt	o/w 1: Bank debt	o/w 1.1.: Short-term bank loans	o/w 2: intra-group and inter- company
Sole legal unit SMEs	40.5	-1.4	-2.7	-9.7	-2.1
Multiple legal unit SMEs	51.3	0.1	-2.5	-13.8	0.7
SME subsidiaries of foreign companies	8.2	-6.3	-11.7	-28.2	-7.6
All SMEs	100.0	-1.1	-3.1	-13.4	-1.5
<i>o/w main sectors:</i>					
Manufacturing industry	22.2	-2.0	-3.6	-20.5	-2.6
Construction	9.7	1.1	-0.7	-4.8	3.9
Trade	31.2	-1.7	-4.1	-13.3	-1.3
Transport and warehousing	6.1	1.4	0.2	-8.3	0.1
Business support	6.6	-0.2	-2.3	-9.0	-1.8

Scope: SMEs, as defined by the LME, which reported balance sheets in 2008 and 2009.

Source: Companies Directorate – FIBEN database, data available in August 2010.

Box 3

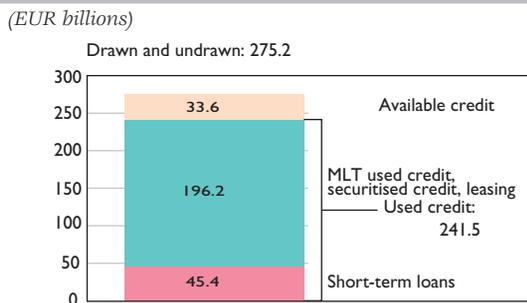
SMEs' bank credit: data from the Banque de France's Central Credit Register

Outstanding credit used by and available to SMEs

Outstanding loans drawn by SMEs came to almost EUR 242 billion in June 2010; a little over EUR 45 billion of these were short-term loans (see Chart A). Unused credit lines (available credit) amounted to EUR 34 billion.

The crisis made its presence felt from the summer of 2008, with a slowdown in growth of outstanding loans, which slipped year-on-year from roughly 7.5% to zero in October 2009. Outstandings have resumed their upward trend since then, climbing 2.6% in June 2010 (see Chart B).

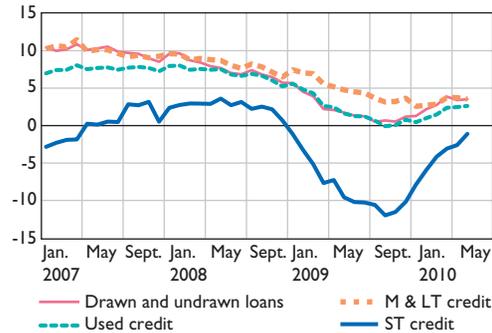
Chart A Outstanding loans in June 2010



Source: Companies Directorate – Central Credit Register, data available in August 2010.

Chart B Annual rate of change

(as a %)



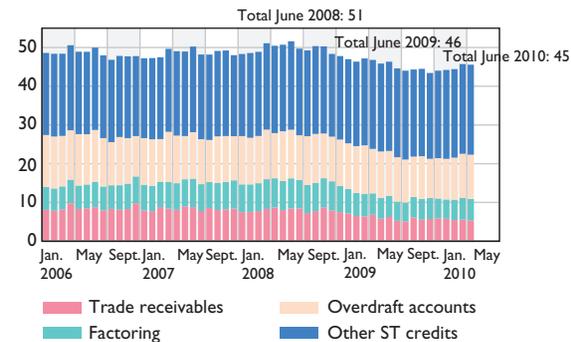
Source: Companies Directorate – Central Credit Register, data available in August 2010.

Outstanding short-term credit to SMEs

The falloff in bank financing is mainly attributable to the drop in short-term credit, which decreased year-on-year by 12% in autumn 2009. While the decline has since slowed, the trend has remained negative, with a 1.1% decrease in June 2010. Trade accounts receivable and factoring, which are both closely correlated to business volumes, registered the sharpest declines. After plummeting by over 30% in summer 2009, factoring has since recovered dramatically, rising by 4.8% in June 2010.

Chart C Outstanding short-term loans

(EUR billions)



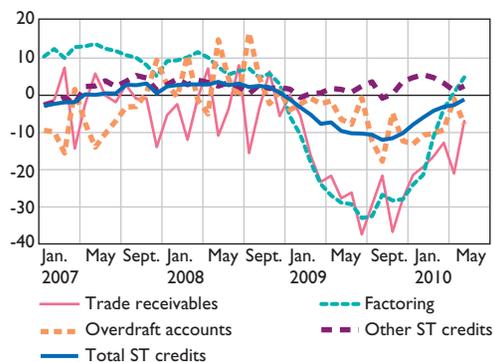
Source: Companies Directorate – Central Credit Register, data available in August 2010.

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This is the sign of a gradual turnaround in business activity (see Chart D). The manufacturing industry and trade bore the brunt of the slump. Medium and long-term credit maintained an upward trend, notwithstanding a slowdown in 2009.

Chart D Annual rate of change

(as a %)



Source: Companies Directorate – Central Credit Register, data available in August 2010.

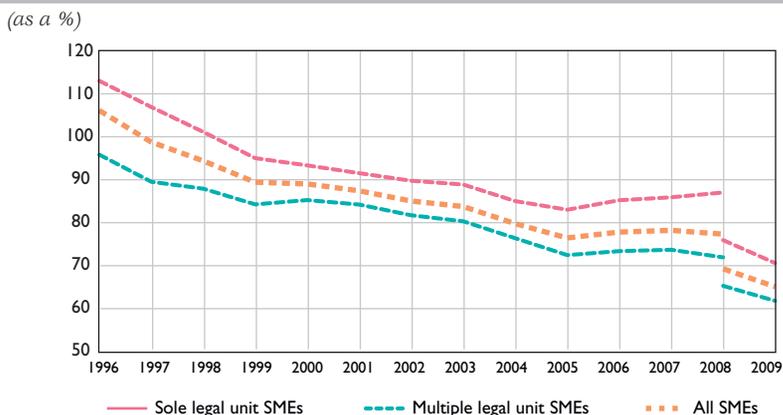
Outstanding amounts of credit drawn by and available to SMEs – Main sectors

(EUR billions, percentage change)

	Used and available credit		Used credit		Short-term credit	
	June 2010	Rate of change from June 2009 to June 2010	June 2010	Rate of change from June 2009 to June 2010	June 2010	Rate of change from June 2009 to June 2010
Manufacturing industry	35.6	-1.2	29.9	-2.7	9.7	-7.2
Construction	19.3	4.0	16.2	1.0	3.9	4.6
Trade	61.4	2.0	53.6	0.9	14.7	-2.2
Transports and warehousing	13.8	2.5	11.3	-1.2	1.4	18.3
Business support	28.4	2.8	23.9	3.2	3.8	-0.1

Source: Companies Directorate – Central Credit Register, data available in August 2010.

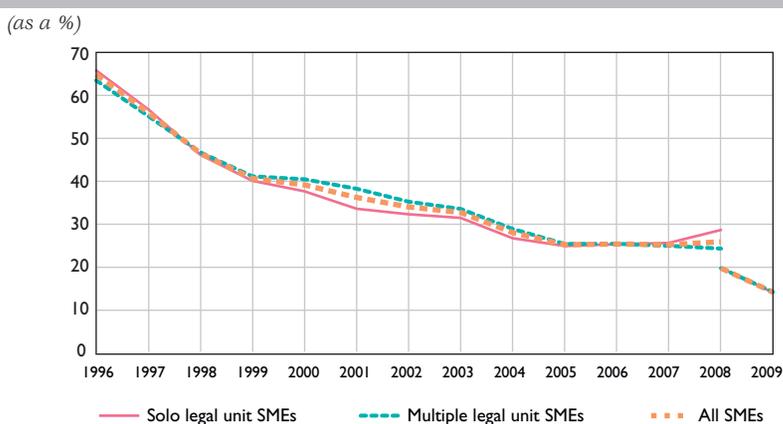
Chart 21 Financial debt/Equity



Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in August 2010.

Chart 22 Net financial debt/Equity



Explanatory notes: see Chart 1.

Source: Companies Directorate – FIBEN database, data available in August 2010.

4 | 4 Diverse financing structures

Drawing up a functional balance sheet, which consists of reclassifying certain balance sheet items, makes it possible to establish a link between the accounting data and the company's main functions, via the analysis of assets and liabilities.⁹

⁹ Essentially, inclusion of leasing transactions, unmatured discounted bills and calculation of working capital requirements.

Table 6 Share of external debt in SMEs liabilities

(indicators of dispersion as a %)

Bank loans/total liabilities						Financial debt/total liabilities					
2008			2009			2008			2009		
Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3
3.0	14.1	32.6	2.4	12.6	30.4	9.0	23.3	43.9	8.0	21.7	41.6

Scope: SMEs, as defined by the LME, which reported balance sheets in 2008 and 2009.

Source: Companies Directorate – FIBEN database, August 2010.

- Assets are made up of operating fixed assets (including assets acquired under leasing contracts), equity holdings and other securities, working capital requirements and cash assets.
- Liabilities include equity, accumulated depreciation and provisions for impairment as well as external financing sources (bank loans, intra-group debt and other debt).

In 2009, one quarter of SMEs reported bank loans that amounted to less than 2.4% of their liabilities. Conversely, for another quarter of SMEs, bank loans accounted for over 30% of these liabilities (see Table 6).

Overall, the small share of bank loans in SMEs' balance sheets was characteristic of French SMEs. This was the case, for example, for French industrial SMEs as compared to their European counterparts.¹⁰ The small share of bank loans was offset by a high proportion of other types of debt, including in particular intra-group debt (this feature is not as pronounced in other European countries).

In addition, in recent years, the government has encouraged the diversification of financing sources and fostered the growth of market financing by facilitating SMEs' access to this source. The *Alternext* market and the B and C segments of Euronext were set up in 2005 to this end.

Broken down into four categories according to the share of bank financing in total liabilities, SMEs were equivalent in size (see Table 7). On average, their total liabilities amounted to EUR 2.5 million. However, their financing structures were radically different:

- SMEs that had the smallest share of bank loans had a high proportion of equity. Financial debt, whose share in liabilities was negligible overall at 10%, was overwhelmingly made up of intra-group debt. These companies reported few fixed assets and substantial cash on the asset side. The share of trade credit was also larger. These SMEs also had the lowest investment rates.

¹⁰ See study using the BACH-ESD database: http://www.banque-france.fr/gb/publications/telechar/bulletin/qa/qa18/quarterly-selection-of-articles-summer-2010-18-etude_3.pdf

Table 7 Features of the 4 categories of SMEs broken down according to the share of bank loans in total liabilities in 2009

	Total	1st quarter least indebted	2nd quarter	3rd quarter	4th quarter most heavily indebted
Average amounts (EUR thousands)					
Total liabilities	2,537	2,475	2,577	2,703	2,392
Equity capital	1,083	1,392	1,308	1,108	525
Financial debt	707	266	390	778	1,393
<i>o/w bank loans</i>	491	12	185	558	1,208
Assets (as a %)					
Operating fixed assets	50.3	39.7	47.0	51.9	62.9
Other fixed assets	14.2	13.9	13.9	16.1	12.5
Trade WCR	14.1	12.1	14.7	15.3	14.4
<i>o/w trade credit</i>	5.4	7.0	7.0	5.1	2.3
Non-operating WCR	-0.3	-1.1	-0.2	0.0	0.1
Cash assets	21.7	35.5	24.6	16.7	10.1
Liabilities (as a %)					
Equity	42.7	56.2	50.8	41.0	21.9
Depreciation and provisions	29.4	33.0	34.1	30.2	19.8
Financial debt (a)	27.9	10.8	15.1	28.8	58.2
<i>Bank loans</i>	19.4	0.5	7.2	20.7	50.5
<i>o/w short-term bank loans</i>	3.1	0.1	1.0	3.4	8.1
<i>Intra-group and inter-company loans</i>	6.0	7.0	5.8	5.8	5.3
<i>Other financial debt</i>	2.5	3.3	2.1	2.3	2.4
Components of financial debt (as a %)					
Bank loans	69.5	4.7	47.3	71.8	86.8
Intra-group and inter-company loans	21.5	64.8	38.6	20.1	9.2
Other financial debt	9.1	30.5	14.2	8.1	4.1
Structural ratios (as a %)					
Financial debt/ equity capital	65.2	19.1	29.8	70.2	265.4
Investment rate	9.4	6.4	7.3	10.3	14.7
Net turnover/ total liabilities	5.7	6.8	6.5	5.5	4.1
Net turnover/ equity capital	13.4	12.0	12.7	13.5	18.7

Scope: SMEs, as defined by the LME, which reported balance sheets in 2008 and 2009.

Explanatory note: SMEs are broken down into 4 categories according to the three quartiles of the ratio of bank loans to total liabilities, set out in Table 6.

Data on asset and liability structure, components of financial debt and structural ratios are average ratios, calculated for each sub-category.

(a) Financial debt = (1) bank loans + (2) intra-group and inter-company debt + (3) other financial debt.

- SMEs that relied the most on bank loans held much less equity. Bank loans were the main component of financial debt. On the asset side, the share of operating fixed assets was much larger. Shares of cash assets and trade credit were smaller. While these SMEs' investment rate was substantially higher, it was also in this category that the investment rate dropped the most, even as, paradoxically, debt continued to climb.

In 2009, SMEs experienced a slowdown in business and a sharp drop in earnings. SMEs in the manufacturing industry were especially hard hit. However, given the gravity of the economic recession, this downturn appears limited, especially since SMEs have preserved their financial structure, at least in the short-term. However, wide divergences remain, with an increasing number of SMEs reporting negative financial indicators. Moreover, the decline in investment does not bode well for the future.

The crisis centred on the period spanning from autumn 2008 to spring 2009. The situation improved in the second half, with the result that accounting balance sheets for 2009 include the more positive end-of-year data, especially for companies that closed their accounts in December 2009.¹¹

Analysis of 2008-2009 accounting data is based on the companies doing business in the last two financial years because at the time of completion of this study, all the companies had not yet released their balance sheets. In times of crisis, the study of a sample of enduring companies presents an image that is more positive than the reality; the most fragile companies, which have initiated bankruptcy proceedings (liquidation or corporate recovery) rarely release accounts and are not included in these findings.

¹¹ Some companies choose dates other than 31 December for the closing of their accounts.

Appendix I

FIBEN data

The corporate financial statement database

Corporate financial statements are collected via Banque de France branches. Reporting firms represent a third of companies taxed on industrial or commercial profits or on actual profits. Data is collected for all companies doing business in France whose turnover exceeds EUR 0.75 million, or whose bank loans top EUR 0.38 million.

Financial links

The Banque de France provides a record of financial links, and identifies the equity capital holdings of other companies, depending on whether the equity holder is itself a non-financial corporation (including holdings), a financial institution (banks, mutual funds and insurance companies), a natural person (individuals or employees), the government or even a non-resident company. It distinguishes independent companies from those that are a part of a group, be it small or large.

Failures

The definition used is that of the initiation of corporate recovery proceedings or court-ordered liquidation when this liquidation is not preceded by a recovery. However, when a business continuity plan or transfer plan is implemented between a recovery proceeding and a judicial liquidation or a new recovery, it breaks off the initial recovery proceedings. The liquidation or second recovery is therefore recorded as the initiation of proceedings, i.e. as a new failure of the company.

The data is collected from the commercial court registries; automatically in 90% of the cases and by manual entry in the remaining 10% (companies that come under the jurisdiction of commercial *tribunaux de grande instance*, i.e. commercial county courts). Once a legal proceeding is registered in the commercial courts' computers, the data is transmitted to the Banque de France within 24 hours. The journals of legal notices and the *tribunaux de grande instance* are used to supplement the data. Legal proceedings that concern only natural persons, such as personal bankruptcies, are excluded.

The Central Credit Register

The Central Credit Register makes monthly records of credit granted by credit institutions to each of their clients above the EUR 25,000 threshold defined in January 2006. The outstandings recorded are grouped into drawn or used credit and available credit. Used credit includes short, medium and long-term credit, leasing and securitised loans.

Scope

All business sectors with the exception of the AZ (agriculture), KZ (financial activities, non holdings) and OQ (government) sectors. Public institutions and mixed public-private enterprises are excluded.

The main ratios used

The financial analysis methodology and the definition of ratios used may be found under the following link: <http://www.banque-france.fr/fr/statistiques/telechar/economie/entreprises/statent/OBS-191-DOSSIER-STAT-SE-2008-14012010.pdf>

Appendix 2

Definition of SMEs and their economic weight depending on data source

Each data source does not in itself provide all the information required to define SMEs in accordance with the Law on the Modernisation of the Economy (LME) of 4 August 2008. Depending on the source, the available information must be marshalled to come as close as possible to this definition.

Definition of SMEs for the analysis of corporate financial statements

A decree implementing the LME promulgated on 20 December 2008 lays down a new statistical definition of a company.¹ It also specifies the categories of companies and the criteria underlying these categories. Building on the European Commission's definition of SMEs, it uses four criteria: staff headcount, turnover, companies' balance sheet total and financial links between the companies.

Calculations combining staff headcount, turnover and balance sheet total are carried out for each company – considered as the smallest combination of legal units that is an organisational unit producing goods and services – which benefits from a certain degree of autonomy in decision-making. The concept of autonomy (sole legal unit) or group membership (multiple legal units) is therefore taken into account and the category calculated based on the perimeter of each group.

Individual corporate financial statements are aggregated taking into account financial links to define “companies”. However, this approach does not address the problem of double counting that can arise from aggregating data from units that belong to the same company.

¹ http://www.legifrance.gouv.fr/affichTexte.do?sessionId=AE22AD6AA9827C20ECBCA70F67427237.tpdjo01v_3?cidTexte=JORFTEXT000019961059&categorieLien=id.

SMEs – Economic weight in 2009 based on data available in August 2010

	Number of companies	Headcount in thousands	Turnover (a)	Value added (a)	Financial debt (a)	Bank debt (a)	Equity capital (a)
All SMEs	127,645	2,508.7	491.9	154.0	90.2	62.7	138.3
Sole legal unit SMEs	88,181	1,249.9	235.5	74.7	36.6	28.2	51.7
Multiple legal unit SMEs	34,855	1,106.5	214.7	67.7	46.2	31.4	76.1
SME subsidiaries of foreign companies	4,609	152.3	41.7	11.6	7.4	3.1	10.4
<i>Main sectors</i>							
<i>Manufacturing industry</i>	22,165	629.3	101.1	37.0	20.1	14.0	37.6
<i>Construction</i>	23,195	465.9	71.4	28.7	8.7	6.2	17.6
<i>Trade</i>	47,804	688.8	223.7	41.2	28.1	19.2	44.9
<i>Transport and warehousing</i>	5,690	170.1	21.9	9.2	5.5	4.6	4.8
<i>Business support</i>	11,487	289.7	35.8	18.5	6.0	4.0	11.4
% Breakdown							
Sole legal unit SMEs	69	50	48	49	41	45	37
Multiple legal unit SMEs	27	44	44	44	51	50	55
SMEs that are subsidiaries of foreign companies	4	6	8	8	8	5	8
<i>Main sectors</i>							
<i>Manufacturing industry</i>	17	25	21	24	22	22	27
<i>Construction</i>	18	19	15	19	10	10	13
<i>Trade</i>	37	27	45	27	31	31	33
<i>Transport and warehousing</i>	4	7	4	6	6	7	4
<i>Business support</i>	9	12	7	12	7	6	8
Average size of each category of SME							
	Number of companies	Average headcount	Average turnover (b)	Value added (b)	Financial debt (b)	Bank debt (b)	Equity capital (b)
Total	127,645	20	3,853	1,207	707	491	1,083
Sole legal unit SMEs	88,181	14	2,671	847	415	319	586
Multiple legal unit SMEs	34,855	32	6,159	1,943	1,326	900	2,184
SMEs that are subsidiaries of foreign companies	4,609	33	9,038	2,518	1,607	680	2,264

(a) EUR billions.

(b) EUR thousands.

Scope: All business sectors with the exception of AZ (agriculture), KZ (financial activities, excluding holdings) and OQ (government). SMEs, as defined by the LME, which compiled balance sheets in 2008 and 2009.

Source: Companies Directorate – FIBEN database, August 2010.

SMEs are defined as follows:

- Fewer than 250 employees, with a turnover not exceeding EUR 50 million and a balance sheet total not exceeding EUR 43 million;²
- SMEs can be based on a single legal unit or made up of several linked legal units under a French or foreign group head.

The business sector is classified according to INSEE's (France's National Institute of Statistics and Economic Studies) aggregated nomenclature of economic activities (*nomenclature agrégée 2008*), itself based on INSEE's *NAF rév. 2*. The sector attributed to a company is that of the legal unit or units within that company (combination of legal units) that contributes the most in terms of turnover.

Definition of SMEs for the analysis of outstanding credit based on Central Credit Register data

The size is determined based on data available for only a sole legal unit, because, currently, while there is an indicator for group membership, there are no indicators for financial links that make it possible to reconstitute multiple legal unit SMEs.

SMEs excluding micro enterprises:

- enterprises whose turnover is either roughly equal to EUR 1.5 million and does not exceed EUR 50 million, or
- enterprises whose turnover does not exceed EUR 1.5 million, is unknown or insufficiently recent, and whose outstanding loans are roughly equal to EUR 1 million and below a sectoral threshold.

Micro enterprises:

- enterprises whose turnover does not exceed EUR 1.5 million, is unknown or insufficiently recent, and whose outstanding loans do not exceed EUR 1 million.

SMEs in the Central Credit Register
Situation in June 2010

	Number of legal units	Outstandings of drawn credit (EUR billions)
Micro enterprises	1,192,943	137.9
SMEs excluding micro enterprises	59,641	49.0
Legal unit SMEs that are part of multiple legal unit enterprises	58,112	54.6
All SMEs	1,310 696	241.5

Source: Companies Directorate – Central Credit Register, data available in August 2010.

² In this study, and in contrast to the decree, the Companies Observatory applies stricter criteria: companies classified in a category must comply with the three ceilings of this category with regard to headcount, turnover and balance sheet total. The decree states that only two out of the three criteria must be met. However, the economic variables (staff headcount, turnover or value added) are consistent with the findings of other studies published elsewhere. This approach may account for discrepancies in terms of numbers.

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Post-crisis monetary policy strategies (Panel discussion at the Banque de France Foundation's 8th Journées, 21-22 June 2010)

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The aim of this paper is to present the main outcomes of the panel discussion that took place during the Banque de France Foundation's 8th Journées held in Paris on 21 and 22 June 2010. The panel, chaired by Jean-Pierre Landau, Deputy Governor of the Banque de France, dealt with the implications of the financial crisis on the design, conduct, implementation and the strategies of monetary policy.

The distinguished panelists included Carl Walsh (professor at the University of California Santa Cruz), Giancarlo Corsetti (professor at the European University Institute in Florence), Pierre-Olivier Gourinchas (professor at the University of California, Berkeley) and Richard Portes (professor at the London Business School, President of CEPR).

The main issues raised during the panel are:

- the extent to which the current monetary policy framework, widely based on inflation-targeting strategies, should be amended to factor in recent financial developments and prevent deflation;*
- the interplay between monetary, fiscal and financial policies implemented in times of financial crisis and the related issue of how and when to exit from these stimulating policies;*
- the opportunity to design new monetary policy instruments in order to address national or regional imbalances in the context of a monetary union;*
- the extent to which there is a scope to set up stand-by arrangements among central banks to ensure the provision of foreign currency in periods of stress;*
- the interaction between monetary policy and exchanges rates at the zero lower bound.*

JEL codes: E4, E5, E6, H6.

NB: We thank Giancarlo Corsetti, Pierre-Olivier Gourinchas, Richard Portes and Carl Walsh for their suggestions and very useful comments.

The Banque de France Foundation's *Journées* provide the researchers who received a grant by the Banque de France Foundation¹ with an opportunity to present the result of their research to the public. The Banque de France Foundation's 8th *Journées* held in Paris on 21-22 June 2010 were devoted to the issue of "the macroeconomic policies in a crisis period". The conference gathered more than 100 participants from academia, central banks, international institutions as well as economists from the private sector. Box 2 below provides a summary of the papers presented during the "*Journées*".

The aim of this paper is to display the main outcomes of the panel discussion that took place on 21 June on "post-crisis monetary policy strategies". The panel set out to draw some policy implications of the recent financial crisis both for the conduct and the strategy of monetary policy. The discussions focused on a set of issues related to: the opportunity to change the current monetary policy framework, widely based on inflation targeting, to better account for financial factors or developments and prevent deflation; the need to reconsider the interaction between monetary, fiscal and financial policies in the context of a financial crisis; the implications of zero lower bound policies for financial stability and exchanges rate developments; the need to extend the set of to design new monetary policy instruments to address financial imbalances, in particular in the context of a monetary union; the articulation between monetary and financial stability objectives.

The panelists included Jean-Pierre Landau, Deputy Governor of the Banque de France and Chairman of the panel session, Carl Walsh, professor at the University of California Santa Cruz, Giancarlo Corsetti, professor at the European University Institute in Florence, Pierre-Olivier Gourinchas, professor at the University of California, Berkeley and Richard Portes, professor at the London Business School, President of CEPR (Centre for Economic Policy Research).

I | **Should the current monetary policy framework be amended?**

Carl Walsh, who introduced the panel, recalled that in the pre-crisis consensus on monetary policy, flexible inflation targeting was widely viewed as best practice for central banks. A consensus also existed that a target within the range of 1-3% represented an appropriate goal for inflation. This range is consistent with formal targets established by many inflation targeting central banks and with the implicit targets of many other major central banks such as the ECB and the Federal Reserve.

¹ See Box 1 for a presentation of the Banque de France Foundation and of its main activities.

Professor Walsh's comments focused on two recent proposals to modify inflation-targeting strategies: raising the average target for inflation; and, more radically, switching to price-level targeting.

On the first suggestion, Blanchard and co-authors² have recently argued that a 4% average rate of inflation would constitute a safer target by providing more room for interest rate cuts when the economy faces an adverse shock. Likewise, John Williams³ estimates in a recent paper that "an inflation target of between 2% and 4% will, on average, be sufficient to avoid the Zero Lower Bound (ZLB) causing sizable costs in terms of macroeconomic stabilization even in a much more adverse macroeconomic climate." Another argument in favour of higher average inflation is that it increases the flexibility of real wages if nominal wages display downward rigidity as pointed out by Akerlof, Dickens and Perry (1996).⁴

These benefits have yet to be balanced against the costs of a higher average inflation rate. First, Bailey (1956)⁵ and Friedman (1969)⁶ long ago noted that higher inflation causes private agents to economise inefficiently on their money holdings. Second, most tax systems are not fully indexed to inflation, leading to increasing distortions as average inflation rises. Third, relative price dispersion created by sluggish price adjustment generates welfare costs, even though these costs might be reduced if indexation were more common. At the same time, more widespread wage indexation might hinder the ability of the economy to adjust to shocks that require a movement in real wages. Fourth, there is some uncertainty as to whether inflation expectations would be more difficult to anchor if average inflation rates were to rise. Finally, the hard obtained stability of inflation expectations which has been a characteristic of the recent crisis would be put at risk if inflation targets are increased. A more effective strategy for avoiding the ZLB would be to reduce the risks of another major negative shock to aggregate demand. Better financial market regulation, as well as a more active policy response to emerging financial imbalances could lower the chances of returning to the ZLB.

A more radical response to the crisis would be to drop inflation targeting in favour of price-level targeting (PLT). The knowledge that prices will return to a target level influences expected inflation in ways that help to stabilise current inflation. Thus, price-level targeting may have advantages over inflation targeting to the extent that it can lead expectations to act like an automatic stabiliser.

2 Olivier Blanchard, Giovanni Dell'Ariccia, and Paolo Mauro (2010): "Rethinking Macroeconomic Policy", IMF position, note, February.

3 John C. Williams (2009): "Daedalus: Optimal Inflation and the Zero Lower Bound", *Brookings Papers on Economic Activity*, draft (10, 11 September).

4 George A. Akerlof, William T. Dickens, and Georges L. Perry (2000), "Near-rational Wage and Price-Setting and the Long-run Phillips Curve", *Brookings Papers on Economic Activity*, vol. 31, pages 1-60.

5 Martin J. Bailey (1956), "The welfare cost of inflationary finance", *Journal of Political Economy* 64, 93-110.

6 Milton Friedman (1969), "The Optimum Quantity of Money", in *The Optimum Quantity of Money and Other Essays* (Aldine, Chicago, IL).

This role for expectations can be particularly important in a deflationary situation at the zero lower bound. As the actual price level falls, the gap widens between the actual price level and the path for prices implied by the target path. Thus, a credible commitment to PLT would cause expected inflation to rise, helping to boost nominal interest rates above the ZLB. This role is strengthened if the target price path incorporates a trend inflation rate.

However, the effects on inflation expectations will depend on when PLT is adopted, which price index is targeted, and how quickly the public expects deviations from target to be eliminated. If the United States had adopted price-level targeting in January 2007 with a 2.0% drift, this would have led to tighter policy throughout 2007 and 2008, and would have generated expectations of deflation, exacerbating the ZLB problem. The choice of price index can also matter. While a target based on the Personal Consumer Expenditure (PCE) index would have generated a destabilising movement of expectations, credible price-level targeting based on the PCE less food and energy would have stabilised inflation expectations but they would have been little different than under a credible inflation targeting regime.

Carl Walsh highlighted three points that caution against adopting PLT. First, the stabilising adjustment of expectations arises only if the public understands the implications of price-level targeting and believes the central bank is committed to this new policy. The experience with inflation targeting was that credibility followed experience, and the gain in anchoring expectations was not something that was achieved immediately. Gaining credibility for PLT in the midst of a liquidity trap may be particularly challenging if the time-varying price path is difficult to communicate to the public. Second, committing to a price-level target while at the ZLB would lead to a rise in long-term nominal interest rates, which may easily lead some to question the central bank's commitment to economic expansion. Third, the impact on expectations depends on the speed with which the public expects the central bank to regain the target path. This may be hard to forecast since there would be no past experience to draw upon. If expectations are for an extended recession, the public may doubt whether the target path will be achieved very quickly. This would reduce the effect PLT would have in raising inflation expectations. Finally, commitment to a price path that involves future inflation is time inconsistent. Once the economy recovers from the ZLB, the optimal policy is not to create the inflation required to restore the price level to the promised target path. Finally, optimal commitment means doing what had previously been promised to do, even if it is not the optimal thing to do at the moment, which is another argument in favour of keeping the inflation-targeting regime adopted by many central banks.

During the discussion with the audience, Michael Woodford (Columbia University) questions the fact that price-level targeting would be more time-inconsistent than inflation targeting. The commitment to an inflation target may on occasion be somehow mitigated to take account of the pace of expansion of the economy. A similar accommodation may apply in a framework of price-level targeting. Carl Walsh admitted that both systems may be somehow time-inconsistent but that it may be easier to commit to an inflation target (say 2% for the year ahead, irrespective of past performance) than a return to a price level implying a wider range of target inflation rates. Jean-Pierre Landau asked Professor Walsh whether liquidity provision by the central bank can be separated from monetary policy in a durable way. Professor Walsh answered that an important variable is which sector should be eligible for central bank refinancing (and the crisis has underlined the need to extend refinancing to the non-banking sector), and, which kind of collateral should the central bank accept.

2| The interplay of monetary and fiscal policies in the aftermath of the financial crisis

Giancarlo Corsetti addressed two sets of issues, one on fiscal consolidation and the other on the consequence of the crisis on the EMU “economic constitution”. He first stated that fiscal consolidation is just a phase of the policy responses to the crisis. In 2007-2008 liquidity provision by central banks was seen as a way to alleviate the tensions within the financial sector, this was seconded in 2008 by budgetary intervention leading to a sizable rise in public debt (40 percentage point increase in government debt according to the IMF). While recognising that there is not a good model of the crisis yet, Giancarlo Corsetti considered that timing and gradualism are of paramount importance as regards fiscal consolidation as shown in a recent joint paper⁷ in which he and his co-authors conclude that a very drastic reversal of spending is not to be recommended and might lead to a strong deterioration of debt ratios through a deflationary effect. He stressed, as highlighted in the paper he presented during the *Journées*,⁸ that fiscal multipliers may reach very high levels in a period of financial distress.

On EMU, Giancarlo Corsetti considered that the initial “European constitution” is over as illustrated by many instances, such as the non-compliance with the no-bail out rules, the failure of the principle of mutual surveillances or the extension of the scope of intervention of the ECB. This failure was to his mind a foreseeable outcome and the logical

⁷ Giancarlo Corsetti, Keith Kuester, André Meier, Gernot Müller (2010): “Debt consolidation and stabilisation of deep recessions”, forthcoming, *American Economic Review, Paper and Proceedings*.

⁸ Giancarlo Corsetti, André Meier, Gernot J. Müller (2009): “What determines government spending multipliers?”

consequence of the lack of fiscal integration.⁹ The euro is entering a new phase. As a preliminary remark, Giancarlo Corsetti discarded two opposite ways of moving ahead. Keeping the same framework, while committing to “seriously” implementing it in the future does not appear credible. Just scrapping the EMU fiscal framework and leaving discipline to the market is equally non-credible because it would leave the way open to bargaining bilateral deals and coalitions. The only reasonable way at the current time seems to be to pursue reforms aiming at setting up an institution to manage contagion; a debt restructuring mechanism; improving the regulation and supervision framework at the euro area level to contain macro risks. All these reforms are technically feasible but require a political agreement. Professor Corsetti addressed a list of general recommendations regarding the reform of the European economic constitution: it is first necessary to make the “no bail-out” clause credible, which will imply a mechanism to manage the spill-over effects. Second, the private sector should have access to transparent information about the state of the fiscal policy. In this respect, Giancarlo Corsetti pointed out that focusing primarily on debt and deficit ceilings may even be distracting. Some kind of policy delegation might help (potentially via the European Commission), the form of which remains to be defined. Third, we need rules which are conducive to Europe-wide political cohesion. In this respect, the system of fines for breaching the excessive deficit appears to him not credible and are bound to be applied discretionarily, and should therefore be abandoned. As a fourth recommendation, Professor Corsetti recommended that it should be ensured that changes in the fiscal framework do not hamper European market integration. In this respect, a final question of a more empirical nature relates to the degree to which the sovereign debt crisis in one country in the euro area has spread to the bonds issued by the private sector in this country. At the current juncture, it has been noted that some corporations currently borrow at lower interest rates than the Greek government, contrary to the empirical evidence on sovereign crisis. To what extent can a single currency help to insulate parts of the economy from a fiscal crisis? Overall, the crisis represents a good opportunity to implement the most needed fiscal reforms, which might differ across countries, in the following domains (more or less important across countries): health, retirement pension schemes, tax evasion, productivity of the public sector. The danger is to take in a hurry fiscal measures for the sake of generating immediate cash surpluses which might not be coherent and durable over the medium term.

⁹ William H. Buiter, Giancarlo Corsetti, Nouriel Roubini (1992): “Excessive deficits: Sense and Nonsense in the Treaty of Maastricht”, CEPR Discussion Paper, December.

3| The opportunity to design new monetary policy instruments in order to address national or regional imbalances in the context of a monetary union

Pierre-Olivier Gourinchas expressed his views on the ECB monetary policy during the crisis, drawing *inter alia* on a forthcoming joint study on the liquidity management of the ECB during the crisis.¹⁰ He discussed two main topics: the provision of liquidity in foreign currency; how to implement monetary policy in a monetary union which is not an optimal currency area.

On the first aspect, the provision of foreign currency in the context of the liquidity crisis reflected an unprecedented level of cooperation among central banks. This took the form mainly of reciprocal credit lines between major central banks (the US Fed, the ECB, the Swiss National Bank, the Bank of Japan, the Bank of England) starting in December 2007. In substance, the amount of USD denominated claims held by European financial institutions grew very rapidly from 2000 to 2007. These claims were financed short term on the US wholesale funding markets. With the crisis, the inter-bank market froze and most of these European institutions lost access to the US wholesale funding market and initially resorted to short-term foreign exchange swaps. The forex swap market started showing elevated levels of stress that translated into significant deviations from covered interest rates parity. Eventually, these institutions resorted to the ECB to get USD funding. This was made possible mainly through the establishment of reciprocal swap lines between the Federal Reserve and the ECB.¹¹ These swap agreements were initially limited to USD 20 billion in December 2007, then increased to USD 50 billion in September 2008, before becoming unlimited after the collapse of Lehman Brothers. The size of the outstanding dollar swaps to the ECB rapidly increased and reached a peak of USD 290 billion by early 2009. This amount of dollar liquidity should be compared to a European dollar funding gap estimated at about USD 0.4 to 2.1 trillion at the end of 2008 in a study by the BIS.¹² These credit lines were structured as a back-stop financing: they were quite expensive so that banks only came to it as a last resort and the outstanding swaps quickly declined when interbank market tensions receded. This calls for a couple of remarks: first, it is clear that in normal circumstances, no central bank is going to agree to establish standing unlimited swap lines with other monetary authorities. This would give other central banks the ability to create high-powered

¹⁰ Charles Goodhart, Pierre-Olivier Gourinchas, Markus Brunnermeier and Raffael Repullo (2010), *Monitoring the ECB n° 7, "Managing the Liquidity and Credit Crunch"*, CEPR, forthcoming.

¹¹ These arrangements also involved the Swiss National Bank, the Bank of England and the Bank of Canada.

¹² Ingo Fender and Patrick McGuire (2010): "European banks' US dollar funding pressures", *BIS quarterly review*, June. These amounts include the total funding gaps, at the end of 2009, of banks which had an excess of claims in dollar against liabilities in dollar at the start of the credit, and which are located in Germany, the Netherlands, Switzerland and the United Kingdom.

money, and to provide liquidity to financial institutions which are not under its direct supervision. Even limited swap facilities may not survive in the medium-term. Fed Chairman Ben Bernanke explicitly stated recently that the Fed swap lines would not be maintained for ever. Instead, he argued that it was incumbent upon each country to identify and manage foreign currency liquidity shortages in a pre-emptive fashion. As a result, there is a clear need for a real time measurement of the potential funding imbalances. From this point of view, the European dollar funding shortage was not properly identified by the European monetary authorities before the crisis, nor was its size properly measured. Even the above-mentioned study by the BIS provides only a very indirect and imprecise estimate of the dollar shortage. Second, if the quick establishment of liquidity facilities is not guaranteed in times of financial stress, monetary authorities need to think of alternative forms of insurance. The first one, "self insurance" through official reserve accumulation would be an expensive proposition for the European Central Bank. To see this, compare the size of the outstanding swap lines at their peak of USD 290 billion, with the total amount of reserves (ex-Gold) available in the European system of central banks (USD 220 billion).¹³ To be able to meet the demand for dollar liquidity would require a major expansion of the official reserves of the ESCB. It is unrealistic to expect that the ECB would embark on such a large-scale programme. The second possibility would be the involvement of the IMF through flexible or contingent credit lines, but this prospect also looks somewhat remote since it would require a much more substantial reform than the establishment of flexible credit lines. Therefore, the most practicable solution at the current juncture seems to be some form of stand-by agreement among a network of central banks (as existed in the 1960s for some countries facing balance of payments difficulties).

On the second topic, which is the conduct of monetary policy in a monetary area which is not an optimal currency area, Pierre-Olivier Gourinchas first agreed, with other observers, that the European sovereign debt crisis is not simply a fiscal issue and also relates to competitiveness. The euro area is not an optimal monetary area, it was not at the time of the Delors¹⁴ report and is still not, which means that ways have to be found to avoid divergence of competitiveness across member countries. Short of realignment of currencies, impossible inside the euro area, restoring competitiveness requires relative price adjustment that can be impeded by the low overall inflation rate in the euro area. The resulting quantity adjustment could be painful and even politically unsustainable. To cope with that difficulty, Pierre-Olivier Gourinchas suggested that the ECB expands the set of instruments that it uses in order to affect differentially credit and monetary conditions in different regions of the euro area. For instance using differentiated collateral rules for assets from different countries could help adjusting the cost of capital

¹³ Based on data reported by the ECB as of April 2010. This figure corresponds to the EUR 149 billion in convertible currencies in the Eurosystem.

¹⁴ European Commission (1991): "One Money, One Market, an evaluation of the costs and benefits of economic and monetary union".

across regions. Jean-Pierre Landau wondered whether the collateral framework was the most appropriate instrument for that purpose and whether enough is known on the transmission mechanism for these new instruments. As an another kind of instrument, Pierre-Olivier Gourinchas suggested that the ECB could cope with excess inflationary pressures in one country (perhaps fuelled by capital inflows or asset price bubbles) by increasing haircuts on assets repurchased by the ECB from that country. This would have the effect of increasing the cost of credit and consequently of moderating credit expansion in that country, cooling off the economy and allowing relative price dynamics to remain stable. He admitted that the transmission mechanism for all these new (not limitative) sets of possible instruments would have to be assessed more accurately through further research. In the discussion, Richard Portes indicated that an indicator of loan-to-value ratio could also be a useful indicator to differentiate central bank refinancing policy. Overall, Pierre-Olivier Gourinchas concluded that extending the scope of instruments used by the central bank is a way to deal with the “trilemma” according to which one cannot combine fixed exchange rates, capital mobility and independent monetary policy, by somehow mitigating capital market integration through some country segmentation of the market.

4| Monetary policy and exchange rates developments at the zero lower bound

Finally, Richard Portes focused on the link between exchange rates and monetary policy in the current context of the zero lower bound. Observing first that there is little literature on this issue, he referred to the work by Lars Svensson.¹⁵ A country faced with a liquidity trap may commit explicitly to a higher future price-level and implement concrete actions to demonstrate this commitment, for instance through quantitative easing and interventions to reduce the exchange rate, a reduction of exchange rate which in turn will be an excellent indicator of expectation of higher inflation rates. However, such a policy may not work if the big economies in the world are all in or near a liquidity trap. Referring to the Mundell-Flemming model, a fiscal contraction would normally reduce interest rates at home, have a contraction effect at home and lead to exchange rate depreciation, then exporting contraction abroad. However, for an economy at or near the zero lower bound, interest rates and thus the exchange rate should not be affected. Yet, there should still be an effect of a fiscal contraction policy on the risk premium, so that all will depend on the effect of this fiscal contraction on agents’ expectations. If confidence is not increased, there would be a “double hit” for the

¹⁵ Lars R.O. Svensson (2003), “Escaping from a Liquidity Trap and Deflation: The Foolproof Way and Others”, *Journal of Economic Perspectives*, 17 (4), Fall.

rest of the world due to a fall in demand in the country experiencing fiscal consolidation and a depreciation of its currency (resulting from the rise in exchange rate risk premium), which might be perceived as a competitive devaluation. As a first qualification, even at zero interest rate policy, fiscal policy might affect the ratio of traded versus non-traded good prices. If a fiscal contraction lowers the relative price of non-traded goods, this will amount to a real exchange rate depreciation which should be expansionary at home. As a second qualification, even in a situation of zero interest rates worldwide, the differences in quantitative easing across countries may trigger different inflation expectations across countries impacting on exchange rates. Finally, unsterilised quantitative easing in one country may trigger similar countering reactions in the rest of the world. Overall, Richard Portes concluded that the world is going towards premature fiscal contraction, which is to entail significant exchange rate movements. Responding to this presentation, Jean-Pierre Landau made a first observation that not every country is at zero lower bound and that there are huge differences in inflationary conditions. He asked to Richard Portes if there is something like a global monetary condition one should account for. The very permissive monetary conditions to respond to the crisis have so far not impacted inflation, but will that be true for ever? Richard Portes argued that there have always been attempts to characterise the global monetary stance (for instance the ratio of M3 to GDP indeed started to take off in the early 2000s relative to trend), but that, according to him, it would be wrong to subordinate domestic monetary policy to a fuzzy evaluation of global monetary conditions.

BOX I

**Banque de France Foundation for Monetary, Financial
and Banking Economic Research:
since 15 years actively promoting economic research**

The Banque de France Foundation is a public Foundation which aims at fostering economic research in the field of money, finance and banking and at promoting synergies between the Banque de France and the academic community. The Foundation received public recognition in August 1995.



Information can be found at the following link:
<http://www.banque-france.fr/fondation/gb/home.htm>

The main activities of the Banque de France Foundation are:

- **Awarding grants for research projects** through an international call for proposals. Around four grants of 30,000 euros each are awarded annually. Since its creation, the Foundation has awarded 61 grants, benefiting to 150 high-level researchers and 80 research centres worldwide.
- **Organising the Foundation's Journées:** held under the auspices of the Governor, the Journées bring together the best projects coming to fruition from the last calls for proposals.
- **Organising a visiting scholar programme** whereby researchers may run their own research for some weeks/months at the Banque de France, while interacting with economists/researchers in the Banque (2 calls for proposals per year in December and June – around 15 researchers invited each year).
- **Providing resources to research institutions** or for different events such as workshop or conference.
- **Encouraging young researchers** through its PhD prize and its special prize for young researchers.
- **Encouraging interchanges between the scientific,** private and institutional communities, by inviting researchers to present a seminar at the Banque de France (around 20 seminars organised per year).

.../...

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Founding members: Christian Noyer, Governor of the Banque de France, President; Pierre Jallet, Director general, Directorate General Economics and International Relations of the Banque de France, Vice-Chairman; Benoît Mojon, Director, Directorate Monetary and Financial Studies of the Banque de France, Secretary; Louis Bê Duc, Banque de France, Treasurer. **Ex-officio members:** Anne Epaulard, Ministry for the Economy, Industry and Employment; Sophie Thibault, Ministry of the Interior, Overseas Territories and Local Authorities; Claude Meidinger, Ministry of Education and Research. **Co-opted members:** Antoine d'Autume, University of Paris I; Cuong Le Van, CNRS; Richard Portes, CEPR. **Honorary member:** Denise Flouzat, former member of the Monetary Committee of the Banque de France.

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¹ Also member of the Evaluation Committee for Research Grants.

BOX 2

The Banque de France Foundation's 8th Journées,
"Macroeconomic policies in a crisis period", 21-22 June 2010 in Paris

The Banque de France Foundation's 8th Journées took place on 21 and 22 June at the Palais Brongniart in Paris. They were devoted to the topic of "Macroeconomic policies in a crisis period." The programme for the Journées as well as the papers presented are available on the Foundation's website at the following link:

<http://www.banque-france.fr/fondation/gb/journees/historique/2010/programme-VIIIth-journees-of-the-Foundation-Banque-de-France.htm>.

The Journées make it possible to present publicly the research projects that have received the Foundation's financial support following its highly selective procedure of calls for proposals.

Christian Noyer, Governor of the Banque de France and the Foundation's President, introduced the Journées by analysing the Eurosystem's recent interventions on the bond market in the context of the sovereign debt crisis in order to ensure the smooth functioning of transmission mechanisms. The speech can be found at the following link: <http://www.banque-france.fr/gb/institut/telechar/discours/2010/keynote-speech.pdf>.

The first session of the conference was devoted to liquidity management in a crisis period and to the roles played by central banks. In a joint contribution with Denis Gromb (INSEAD), Dimitri Vayanos (London School of Economics) highlighted the role of the financial constraints faced by arbitrageurs on financial markets and their impact on investment strategies and asset prices. For her part, Gara Afonso (Federal Bank of New York) presented an analysis of liquidity risks and their systemic implications based on financial flows circulating in real time gross settlement systems.

The second session was devoted to monetary policy. The paper by Pierre Gosselin (University of Grenoble), Aileen Gosselin-Lotz and Charles Wyplosz (Geneva Graduate Institute) analyses the level of transparency that central banks should adopt in the publication of interest rate forecasts in a context of information asymmetries. It shows in particular that transparency is optimal except in certain scenarios where, on the contrary, it distorts communication to the private sector. Carl Walsh (University of California, Santa Cruz) presented a model of frictions in the labour market and assessed their implications for optimal monetary policy.

.../...

The third session addressed economic policies in the global economy. Giancarlo Corsetti (European Institute, Florence) set out the results of an empirical analysis of fiscal multipliers, which measure the impact of increases in public spending on economic activity. He highlighted that, while this impact is positive but small in normal periods, it can reach very high values during periods of financial crisis. Isabelle Méjean (IMF and École polytechnique) shed new light on the measurement of elasticities of substitution between domestic and foreign goods. In practice, she shows that the value of these elasticities is roughly twice as high when calculated using sectoral rather than aggregated data. Ester Faia (University of Frankfurt) investigated the effects of globalisation. She concluded that the sensitivity of domestic inflation to external factors has increased over the past decade. Finally, based on a historical analysis of the sterling crisis in the 1930s, Marc Flandreau (IHEID, Geneva) deemed economically viable the durable coexistence of several international currencies. He thus counted the thesis that there is only room for one international currency because it is used by a larger number of economic agents (“network externalities”).

Cohesion policy and the new Member States of the European Union

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The economic and social cohesion policy, which is a policy of solidarity at the European level, developed gradually, completing the internal market, to become the highest item of expenditure of the European Union (EUR 308 billion) in the current budget period (2007-2013). Its main beneficiaries have changed throughout the successive waves of enlargement: after Italy, Greece, Ireland, Spain, Portugal and new Länder of East Germany, the primary beneficiaries are now the new Member States (NMS) of Central and Eastern Europe. Special arrangements have been put in place to enable the NMS to optimise their consumption of these funds.

It is not easy to weigh up the economic and social cohesion policy from an economic standpoint: its objective is prone to ambiguity and, depending on the assessment method applied, the appraisal of its results differs. Moreover, it is difficult to isolate the direct effects of this policy. At first sight, a relative majority tends towards the idea of “global convergence/local divergence”: European funds have fostered convergence between Member States but not within individual Member States, i.e. no decreases in divergences across regions of given Member States.

The economic and social cohesion policy is therefore faced with a dilemma between efficiency – which requires an allocation of funds to geographically concentrated activities, in order to benefit from the positive externalities stemming from agglomeration effects – and equity, with the more general aim of regional development within the Union.

Current debate surrounding the future direction of the cohesion policy is partly shaped by these difficulties. It focuses in particular on the scope of beneficiaries, the degree of decentralisation for the allocation of funds and the targeting of certain strategic priorities related to the Lisbon strategy renewed under the EU 2020 strategy.

Keywords: structural funds, cohesion policy, new Member States.

JEL Codes: H50, O11, R11.

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Against the backdrop of the current in-depth discussions on the structure of the European Union (EU) budget 2014-2020, the economic and social cohesion policy, which is a policy of solidarity at the European level, has drawn much debate. Questions have arisen concerning both how the beneficiaries of this policy should be determined (only the countries and regions with the largest development lags or all EU regions?), the degree of decentralisation for allocating funds (States or regions?) and what the priorities are for fund allocation.

It may be useful to recall the development of the cohesion policy that has gradually become the EU's most costly, and to attempt to assess it from an economic standpoint and lastly, to present the strategies being discussed for its future. This will be considered against the backdrop of the current economic and financial crisis, which has led to a reduction in international and especially European capital flows to Central and Eastern Europe, underscoring the need for the large-scale transfer of funds to these countries.

I| Momentum checked in 2004 by the challenge of enlargement

I | I The cohesion policy is a solidarity policy at the EU level that developed gradually

**The stages of development of the cohesion policy:
elaborated in successive strata**

Even though the Treaty of Rome does not specifically mention regional policy, it does provide for EU Member States having the task of promoting “economic and social cohesion” and “solidarity” (currently Art. 2 and 3 of the Treaty on European Union (TEU)). The Treaty of Rome also established the European Social Fund (ESF), the first Structural Fund to be created, which aims to improve employment opportunities for workers in the internal market and contribute thereby to raising the standard of living (Art. 162 TFEU). The ESF is a European strategic financial tool for promoting employment and fighting unemployment. The European Agricultural Guidance and Guarantee Fund (EAGGF – whose “guidance” section was at the time considered a Structural Fund), was established in 1962 to co-finance rural development expenditure. Of note, the European Investment Bank (EIB), also instituted by the Treaty of Rome, was assigned the primary task of improving economic and social cohesion. In line with the priorities of the Commission, the EIB provides repayable loans channelled to investment in accordance with the Union's objectives.

After the first enlargement (1973), on noting major regional disparities within the EU, the European Regional Development Fund (ERDF) was set up in 1975. Its task was to correct the main regional imbalances by co-financing productive investment to create jobs, and invest in infrastructure and health and education. While its objectives are to compensate the structural lag of some regions and to fight against deindustrialisation, it also enables the United Kingdom, whose depressed industrial areas are among the first beneficiaries of the ERDF, to obtain a reduction in its net contribution to the Community budget. The ERDF benefits lagging regions, i.e. those whose GDP is below 75% of the EU average. Moreover, in the 1980s, the Integrated Mediterranean Programmes aimed to enable Spain and Portugal to catch up.

However, it was not until 1985, with the Single European Act, that the regional policy became a fully-fledged EU policy, aimed at completing the internal market. The new Title V of the Treaty establishing a Constitution for Europe (renumbered Title XVIII of the TFEU) is devoted to economic and social cohesion: “In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions” (Art. 158 TEC renumbered Art. 174 TFEU). In keeping with the wishes of Jacques Delors, the then President of the European Commission, stimulating demand and developing free trade are thus supplemented by a social and redistributive policy with a geographical dimension, in order to ensure “a balance between market functioning [...] and regulation” as he stresses in his Memoirs.

In 1992, the fourth Structural Fund, the Financial Instrument for Fisheries Guidance (FIFG) was created. In the same year the Cohesion Fund was set up to finance projects to improve the environment and transport infrastructure in Member States whose gross GNP per capita is below 90% of the EU-average, and which have implemented a programme leading to the fulfilment of the conditions of economic convergence as set out in Article 104 of the Treaty establishing the European Community and are not running an excessive public deficit. This rounds off the architecture of the cohesion policy. In addition to the policy's regional aspect financed by four structural funds and for which only poor or deprived regions (under the Community definition) of EU countries are eligible on the basis of certain criteria or objectives, there is a national aspect, financed by the Cohesion Fund and allocated according to national and non-domestic criteria.

Four principles govern the use of cohesion policy financial instruments:

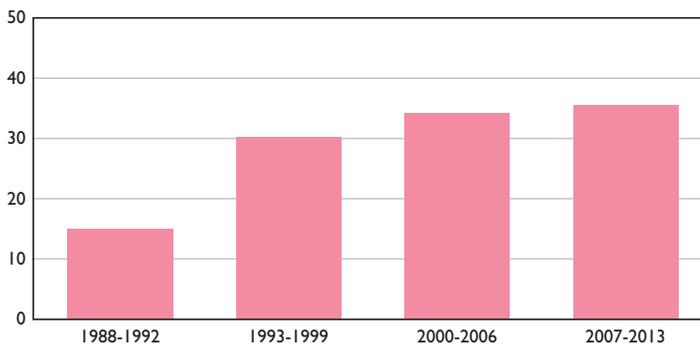
- concentration: identify and demarcate development poles and areas to avoid spreading funds too thinly, which is costly and inefficient;
- programming: incorporate Community action into cohesive long-term development programmes that are centrally managed;
- partnership: ensure that local and regional authorities, social and economic partners and all competent bodies are involved in setting development priorities and in assessing and monitoring actions;
- additionality: the structural funds supplement but do not replace Member States' structural expenditure (co-financing has to account for 25% on average of total investment costs).

Since the 2007 reforms, two more principles have applied. Under the proportionality principle, national eligibility rules replace Community rules, and greater confidence is afforded to the control systems of Member States when they make the largest financial contribution to development programmes. Likewise, under the subsidiarity principle, the way that assistance is managed has been changed to achieve closer cooperation between European and Member States' authorities, with the emphasis on regional and local authorities and urban areas.

As the cohesion policy gradually developed, the financial burden grew considerably. It has risen from 15.1% of the EU budget for the 1988-1993 period to 35.7% for the 2007-2013 period, becoming the largest item of expenditure (EUR 308 billion) ahead of the Common Agricultural Policy.

Chart I Share of the cohesion policy in the Community budget

(% of Community budget expenditure)



Source: European Commission.

Box

The three objectives of the 2007-2013 cohesion policy

- *Objective 1, “convergence”, aims to accelerate the convergence of the least developed Member States and regions by improving growth and employment.*
- *Objective 2, “regional competitiveness and employment”, seeks to improve the competitiveness, attractiveness and employment levels of regions other than the least developed ones. The emphasis is on innovation, sustainable development, accessibility and training. This is a horizontal objective, i.e. open to all areas that are not in “convergence regions”. The absence of zoning creates greater leeway at local level.*
- *Objective 3, “European territorial cooperation” is intended to foster cooperation at cross-border, transnational and interregional levels by promoting common solutions for neighbouring authorities in the fields of urban, rural and coastal development, closer economic relations and the creation of networks of small and medium-sized enterprises. The European Grouping for Territorial Cooperation, a legal instrument that chiefly provides technical assistance, has been set up for this purpose.*

Reforming the cohesion policy for the 2007-2013 programming period: a “strategic” approach centred on the Lisbon strategy

The cohesion policy reform that came into force with the 2007-2013 programming period sought to address claims that interventions had been inconsistently targeted and financing spread too thinly.

Since the reform took effect the policy has pursued three major goals targeted in the Lisbon strategy:¹ convergence, regional competitiveness and employment, and European territorial cooperation.

Furthermore, the rural development policy and the Community fisheries policy are no longer part of the cohesion policy. To ensure effective coordination between Directorates General, some of the support funds for fishery (FIFG, replaced in 2007 by the EFF) and agriculture (EAGGF, replaced in 2007 by the European Agricultural Fund for Rural Development, EAFRD) have not been classified as cohesion policy instruments since 2007.²

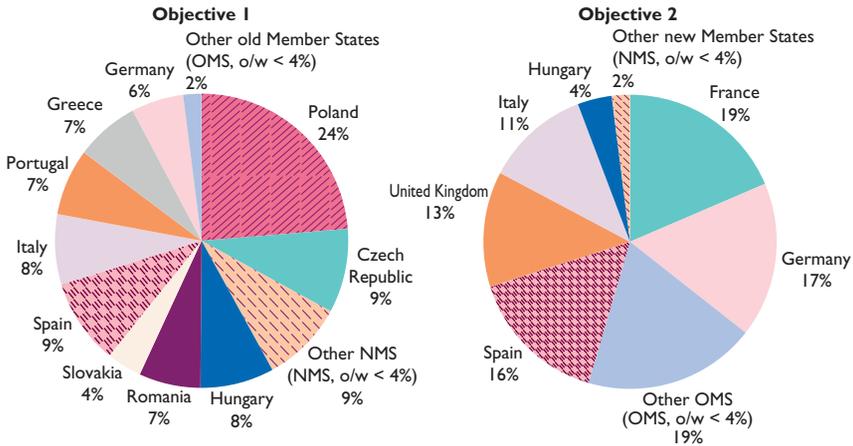
“Convergence” is by far the most important objective, accounting for more than 80% of the financial appropriation for the cohesion policy.

¹ For Objectives 1 (“convergence”) and 2 (“regional competitiveness and employment”), the 15 old Member States are required to earmark 60% or even 75% of total financing for policy interventions aimed at research and innovation, the information society and sustainable development.

² Although the EAFRD has some of the same features as the structural funds, including commitment, decommitment and payment, it has also inherited some EAGGF rules, which distinguish it from these funds (e.g. the need for an authorised payment organisation).

Chart 2 Main beneficiaries of Objectives 1 and 2 for the 2007-2013 period

(EUR)

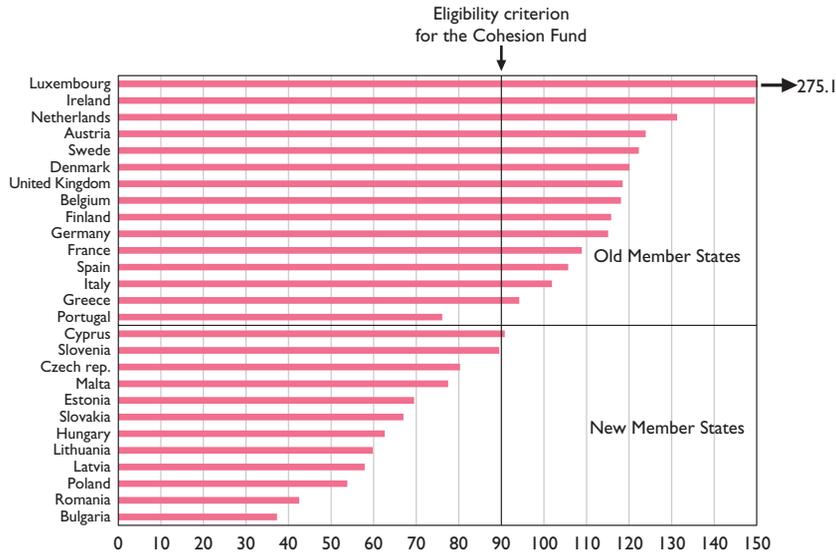


Source: European Commission.

Although the NMS are the main beneficiaries in the current programming period, some former Member States still receive substantial amounts of funds as a result of two mechanisms: phasing-out (the regions that used to benefit from the fund and that exceed 75% of average per capita GDP

Chart 3 Per capita GDP in Purchasing Power Standards (PPS) (2007)

(% of Community average)



Source: Eurostat.

for statistical purposes in 2007-2013 are entitled to special transitional assistance) and phasing-in (transitional support for regions under Objective 1 during the period 2000-2006 but that would no longer meet the eligibility criteria even if the EU had stayed at 15 Member States).

Furthermore, 16% of the financial appropriation is earmarked for the “regional competitiveness and employment” objective, aimed at encouraging regions to play an active part in achieving the Lisbon objectives.

1 | 2 The EU enlargement process (2004, 2007) was an unprecedented challenge for the cohesion policy

Unprecedented challenge for the cohesion policy

As a result of the 2004 and 2007 enlargements, the proportion of inhabitants with per capita GDP less than 75% of the Community average rose from 19% to 27%. The NMS received more than EUR 150 billion of the EUR 308 billion allocated to the cohesion policy for 2007-2013 (Poland alone was due to receive EUR 59.6 billion, the Czech Republic EUR 23.7 billion and Hungary EUR 22.4 billion). Above all they benefited from a new “convergence” objective intended to accelerate convergence between

Cohesion policy 2007-2013: indicative financial allocations

(EUR millions)

	Objective 1 (“Convergence”)		Objective 2 (“Regional competitiveness and employment “)		Objective 3 (“European territorial cooperation“)	Total	
	Cohesion Fund	Convergence	Phasing-in	Regional competitiveness and employment		Amount	% of GDP (2008)
Poland	19,562	39,486			650	59,698	16.5
Czech Republic	7,830	15,149		373	346	23,697	16.0
Hungary	7,589	12,654	1,865		344	22,452	21.3
Romania	5,769	11,143			404	17,317	12.6
Slovakia	3,433	6,231		399	202	10,264	15.8
Lithuania	2,034	3,965			97	6,097	18.9
Bulgaria	2,015	3,873			159	6,047	17.7
Latvia	1,363	2,647			80	4,090	17.7
Slovenia	1,239	2,407			93	3,739	10.0
Estonia	1,019	1,992			47	3,058	19.3
Malta	252	495			14	761	13.2
Cyprus	194		363		25	581	3.4

Source: European Commission.

Member States and the least developed regions by improving employment and growth. More than 81 % of cohesion policy funds are assigned to this objective, with 61 % going to NMS, which will get EUR 129.5 billion.

However, the sharp increase in the funds allocated to the NMS presented them with a problem of “absorption capacity”, deemed too weak because of their limited administrative capabilities. In consequence, application of the “ $n + 2$ decommitment rule” would have resulted in significant under-utilisation of appropriations. (Since 2000, any part of a Community commitment for year n that is not justified by expenditures at 31 December of $n + 2$ is decommitted and is not reallocated to the programme or the country in question.)

The NMS have improved their fund utilisation

Special measures to help NMS utilise appropriations more efficiently

Three initiatives were launched in mid-2006 to improve the quality of projects financed by the structural funds and encourage the use of financial engineering techniques. The aims were to help SMEs gain access to financing, solve the problems of funding urban renewal and development projects and provide technical assistance for the preparation of large-scale projects in European regions. The initiatives went hand in hand with intensive cooperation with international financial institutions such as the EIB, EBRD, the Council of Europe Development Bank, and the European Investment Fund. Another aim was to address shortcomings in project oversight and the NMS' lack of administrative expertise.

In addition, the “ $n + 2$ rule” was relaxed for the period 2007-2013 for countries benefiting from the Cohesion Fund, i.e. NMS, Greece and Portugal, so that decommitment now occurs at $n + 3$.

NMS' fund utilisation has improved significantly

In 2004 and 2005, the NMS utilised just 16% of their allocation for 2004-2006.³ In 2006 and 2007, however, utilisation improved, and NMS had payment appropriations of EUR 33 billion in 2006 and EUR 41 billion in 2007 (the 2007 figure includes EUR 34 billion for the period 2000-2006 and EUR 7 billion for the 2007-2013 budget programming period).

According to the latest European Commission data at end-2009, interim payments as a percentage of commitments for the period 2007-2013 were

³ The best utilisation rates were in Estonia (28.2%) and in Slovenia (27.1%), with above-average performances in Lithuania, Latvia and Hungary. By contrast, Cyprus and the Czech Republic have low rates of absorption.

higher than the EU-27 average (25.35%) in all NMS except the Czech Republic (24.8%). Lithuania (47.91%) and Estonia (41.48%) performed particularly well whereas Slovenia (27.29%), Hungary (28.59%) and Bulgaria (29.24%) were nearer the EU-27 average. The picture is less favourable as regards the ratio of amounts committed to (initially) approved amounts. The NMS in Central and Eastern Europe were all below the EU-27 average (just over 40%), and Romania was the least efficient country (26% in mid-2010).

The NMS seem to have made varying degrees of progress in programme management. In its fourth progress report on cohesion, released in 2007, the Commission noted that Estonia and the Czech Republic in particular had made significant headway in terms of gathering and monitoring data and establishing indicators, databases and objectives. Measures have also been taken to strengthen the administrative organisations responsible for managing funds. This was achieved, among other things, through JASPERS, a technical assistance initiative whose resources were increased by 25% as from 2009 (source: European Commission, 2010). Poland, for example, overhauled its public procurement code by simplifying review procedures, raising the mandatory bid threshold and making the procurement process more transparent. The reforms were adopted in October 2006. In addition, a regional development ministry was set up to implement and coordinate the cohesion policy.

In sum, an ambitious, adaptive system was gradually put in place, reflecting the proactive policy pursued by the European authorities. Huge transfers were made, with a total of some EUR 480 billion allocated to the poorest regions and Member States between 1988 (the Delors I package and the beginning of multi-annual financial perspectives) and 2007. The chief beneficiaries of the cohesion policy during that period were Greece (42.6%), Portugal (35.2%), Ireland (26.7%), the new Länder of East Germany (18.9%), Italy (Mezzogiorno, 17.4%) and Spain (14.7%). The main beneficiaries today are the NMS of Central and Eastern Europe.

2| Contrasting results, promising outlook

Given the vast sums committed by the EU, the key question is whether, despite major methodological problems, the cohesion policy has been effective. It is fair to say that the results are positive, at least in part, and that cohesion still demands an ambitious policy owing to the impacts of the economic crisis.

2 | I Problems with assessment methods

Aside from the ambiguity surrounding the cohesion policy's objectives, its contribution to the convergence process is hard to demonstrate and depends on the choice of assessment method (El Ouardighi and Kahn, 2004).

Under Article 158 of the EC Treaty, the objective is “economic and social cohesion”, while EU institutions readily use the term “convergence”. And although “economic and social cohesion” is the stated objective of the EU's regional policy, its efficacy is measured by the yardstick of economic convergence. However, the two concepts do not really intersect. Convergence (in terms of living standards) can be defined as the reduction of inequalities (particularly income differentials) whereas cohesion (not only economic but also social and cultural) means solidarity between the different parts of a whole, which ensures overall consistency. These objectives are not necessarily identical.

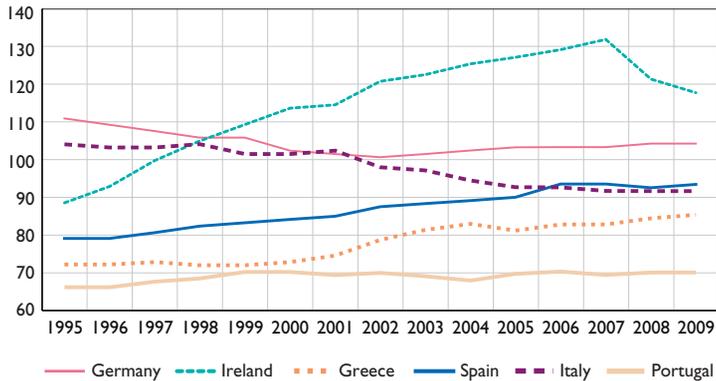
Moreover, when assessing convergence between regions and countries, it is hard to strip out the impact of the cohesion policy from that of other public policies (Fayolle, 2000). Different assessment models produce very different results (Ederveen et al., 2002).⁴

Furthermore, methodological problems arise when measuring convergence. GDP is used as the allocation criterion for the “convergence” objective of the cohesion policy and for the Cohesion Fund, but calculating this metric raises problems of a regional nature because the distribution of value added is hard to measure at regional level, especially for high added value tertiary activities such as financial services. In addition, per capita GDP is not a relevant indicator of the wealth actually available in a region, because this also includes transfer income (Gaubert, 2004). Accordingly, adding other indicators such as life expectancy, long-term unemployment or causes of mortality can produce a more satisfactory picture of a region's situation in terms of well-being, thus making it easier to measure social cohesion on a broader scale (Grasland and Hamez, 2004).

⁴ HERMIN, a Keynesian macroeconomic model designed to allow the European Commission to assess the effects of Community Support Frameworks (Jouen, 2001), tends to paint a flattering picture of short-term impacts. By contrast, the QUEST model or the econometric model used by the Netherlands Bureau for Economic Policy Analysis (CPB) are based on non-Keynesian premises and produce more modest results on a longer time horizon (Magnier, 2004). As for general equilibrium models such as the DSGE, they can measure only the potential effects of the cohesion policy, and their results depend on highly uncertain assumptions for the productivity-enhancing effects of vocational training policies and infrastructure investment (Varga and in 't Veld, 2009).

Chart 4 GDP per capita (PPS) in the main beneficiaries of the cohesion policy among old Member States

(100 = EU-15 average)



Source: Eurostat.

2 | 2 “Global convergence – local divergence”

Despite these methodological problems, the cohesion policy funds have helped the per capita GDP of EU countries to converge. That finding is shared not only by the European Commission⁵ and Eurostat⁶ but also by other economists (Martin, 1999; Sapir, 2004; Martin, 2005), who stress nevertheless that the results are highly uneven (Ireland has apparently gained more than Greece from the cohesion policy).

Even so, inequalities persist among different regions of the same country, and in some cases the gap is widening. Regional differences in GDP in purchasing power parity per capita in the EU-15 increased between 1994 and 2000, when the standard deviation reached 28.9 (Pouvelle, 2005). The main reason for these marked regional disparities, both in the NMS and in the EU-15, would seem to be the growth momentum of capital city regions. Between 2001 and 2006 the largest differences were in Netherlands, Slovakia and the United Kingdom, where there was a difference of some 30 percentage points relative to the EU-27 average for the per capita GDP of the fastest and

⁵ In its second progress report on cohesion (2001), the Commission noted that “Over the period 1989 to 1999, structural intervention had a significant effect in Greece and Portugal”. It confirmed the convergence in 2004: “Structural interventions have boosted growth in the cohesion countries both by adding to demand and strengthening the supply side of the economy. In Portugal, therefore, GDP in 1999 is estimated to have been some 4.5% higher than it would have been without intervention”. And in 2006 it said that the best results in terms of growth between 2000 and 2004 were found “mainly among the least prosperous Member States, in particular the Baltic States and Slovakia, but also in Greece and Ireland, as well as the accession countries of Romania and Bulgaria”. The fourth report, published in 2007, noted that between 1995 and 2005, Greece narrowed then gap with the rest of the EU-27 by raising per capita GDP from 74% to 88% of the EU-27 average in 2005 and that over the same period, Spain’s per capita GDP increased from 91% to 102% of average, while Ireland’s rose from 102% to 145%.

⁶ Eurostat, *Statistics in Focus – Economy and Finance 17/2006: the gap between the extreme values for per capita GDP in EU Member States narrowed from 14.3 in 2001 to 12.8 in 2003.*

slowest growing regions. By contrast, in Ireland and Slovenia, which are smaller, regional disparities were less marked, with ranges of 0.2 and 0.4 percentage points, respectively (Eurostat, 2009). However, the European Commission⁷ emphasises that regional convergence does exist: between 1995 and 2004, the number of regions with per capita GDP less than 75% of the EU average declined from 78 to 70, while the number of those with GDP less than 50% of the EU average reportedly fell from 39 to 32.

2 | 3 Economic explanations

An equity/efficiency trade-off?

To achieve strong growth, a country may have to concentrate economic activity in its central region, forcing it to choose between the goals of equity and efficiency. That choice has been confirmed empirically for both Ireland (Bode et al., 2003) and Spain (de la Fuente and Vives, 1995). And according to economists, if the NMS want to catch up quickly, they may have to channel investments into areas with the highest economies of scale. The danger is that regional inequalities may increase as businesses and labour leave poor regions and move to richer ones, attracted by better infrastructures (Moreno, Lopez-Bazo and Artis, 2006).

At a theoretical level, the “local divergence” diagnosis can be explained with the core-periphery model (Krugman, 1991), which describes how the forces of dispersion, due to the cost of transporting goods, clash with those of agglomeration, linked to market size and scale economies in the production process. When transport costs are relatively low – and Structural Fund investments in infrastructure reduce those costs – then agglomerative forces prevail and regional imbalances worsen.

Importance of the macroeconomic framework

Research has shown that the efficiency of regional policy depends heavily on the macroeconomic framework in which it is applied. In particular, the success of cohesion hinges on the degree of international openness of the country in question (Bradley, 2001; Bradley and Untiedt, 2001). For example, Ireland’s economic opening policy (in 2008, its export/GDP ratio was 84%) apparently explains why structural funds had a much more positive impact than in Greece, which had a ratio of 24% in 2008.

⁷ European Commission, *Fourth progress report on cohesion*, 2007.

The efficiency of the cohesion policy also depends on its being well coordinated with other Community sectoral policies and also with national policies. According to the 2005 ESPON report,⁸ “the amount of Structural Fund money allocated to a country matters as regards the leverage effects that the structural funds have on national regional policies” and “the effects of national regional policies can, to a large extent, be considered together with the effects of structural funds – i.e. the effects of national regional policies may be considered as indirect/leverage effects of the structural funds” (ESPON, 2005).

2 | 4 The 2014-2020 programming period in a post-crisis context

The fact that the cohesion policy remains relevant in a disorderly economic environment has prompted the Commission to adjust its procedures. Likewise, because of the uncertain economic conditions, the policy objectives need to be redefined. In short, the whole thrust of the cohesion policy may be rethought.

Adapting to the crisis

In November 2008, amid the economic and financial crisis, the Commission took several measures to simplify the fund disbursement procedures and enable regions to spend their commitment appropriations for the 2000-2006 period, which was due to close at the end of 2008. This involved:

- making an increased allocation of EUR 6.25 billion to Member States receiving structural funds;
- extending the deadlines for spending funds allocated to the majority of operational programmes for the 2000-2006 period but not used in full;
- streamlining the Commission's acceptance procedure to accelerate disbursements for major projects.

Likewise in July 2009 the Commission decided to increase to 100% the refund of costs reported by Member States for projects financed by the ESF in 2009 and 2010 in an effort to speed up implementation of projects to help those hit hardest by the crisis, e.g. training programmes for young people and the unemployed.

8 ESPON (European Spatial Planning Observation Network) is an EU programme launched as part of the INTERREG III initiative.

In early June 2010, the Council of the European Union adopted a regulation to facilitate access to structural funds. The aims are three-fold: (i) ensure that the Member States worst affected by the crisis have rapid access to the funds: Estonia, Latvia, Lithuania, Hungary and Romania will receive a total of EUR 775 million in additional advance payments; (ii) improve the absorption of funds for certain operational programmes: exceptionally, the deadlines for automatic decommitment will not apply to 2007 commitment appropriations; (iii) and simplify the funds' management rules, in particular by introducing uniform thresholds for defining major projects and creating the possibility for a single major project to be co-financed by more than one programme.

These measures reflect an effort to ensure that the cohesion policy plays a complementary countercyclical role, alongside countries' own fiscal policies.

Questions about the future direction of the cohesion policy

The Commission will submit a budget for 2014-2020 to the December 2010 European Council. The cohesion policy will doubtless continue to play an important part but questions are already being asked about its future direction.

- Would it be better to maintain an across-the-board objective (the current Objective 2) that benefits all EU regions or to focus on the poorest countries or regions? Without a significant increase in the resources allocated to the EU budget, there is unlikely to be a major rise in the regional policy budget, either. In this case, some believe that cohesion policy funds should be concentrated on the poorest countries or regions in order to maximise effectiveness (e.g. Sapir, 2003). By contrast, others believe that a clearer distinction between growth-stimulating interventions and those aimed at reducing inequalities would be useful, not least in order to be able to monitor and evaluate outcomes more easily (Barca, 2009).
- What is the optimum degree of decentralisation for fund allocation? On the one hand, allocating funds directly to regions makes it possible to target those that lag farthest behind. On the other hand, concentrating on the least developed countries and then leaving them to share out the resources among their regions would make fund use more efficient (Santos, 2008; Sapir, 2003), especially in those countries that have very poor regions and limited tax resources and administrative capabilities (Marinov, Bahloul and Slay, 2006).
- What is the link between the cohesion policy and the EU 2020 strategy, which was adopted at the European Council on 17 June 2010 to replace the Lisbon strategy? Targeting expenditures according to the priorities

of Lisbon/EU 2020 strategy, as was attempted for the 2007-2013 cohesion policy, seems to be a coherent approach because those priorities often have a Europe-wide dimension and are likely to encourage growth (Santos, 2009). But two questions remain unanswered: to what extent should the least developed countries/regions target expenditure on the priorities of the EU 2020 strategy? What type of expenditures are, or are not, part of the Lisbon/EU 2020 priorities? Initial answers to these questions may possibly be found in a Commission communication on the contribution of the cohesion policy to the EU 2020 strategy and also in the fifth progress report on cohesion, due out in autumn 2010. The debate is reminiscent of the one that took place in 2009 on the priorities of the new cohesion policy. According to an April 2009 report from an independent group of experts headed by Fabrizio Barca, the new cohesion policy ought to focus more closely on a few strategic priorities such as innovation and adapting to climate change (with a view to economic efficiency), migration and children (to reduce inequalities) or skills and ageing (where the two objectives are equally important).

The cohesion policy is a long-standing policy that harks back to the need, evidenced in the Treaty of Rome, for mechanisms to build solidarity between EU countries. As such it has allowed the poorest regions to catch up. Measuring its impact on convergence is difficult, but it is one of a set of policies that evidence Member States' commitment to reducing regional inequalities.

The strategic orientations set by the EU, in both the Lisbon strategy and the EU 2020 strategy, have highlighted the issue of consistency between horizontal and vertical objectives. This is a difficult debate that is likely to inform discussions about the 2014-2020 budget.

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Nota bene

The data in this section are updated on a monthly basis on the Banque de France's website.

Table I
Industrial activity indicators – Monthly Business Survey – France

(NAF revision 2; seasonally-adjusted data)

	2010						
	April	May	June	July	Aug.	Sept.	Oct.
Changes in production from the previous month (a)							
Total manufacturing	4	6	7	6	2	9	6
Food products and beverages	6	15	12	15	6	10	13
Electrical, electronic and computer equipment and other machinery	18	10	8	9	7	12	9
Automotive industry	-42	-7	0	8	-2	10	19
Other transport equipment	0	5	0	1	12	6	14
Other manufacturing	7	7	7	6	1	8	-2
Production forecasts (a)							
Total manufacturing	4	1	1	4	8	4	11
Food products and beverages	10	9	8	8	7	8	9
Electrical, electronic and computer equipment and other machinery	8	-1	6	13	4	5	9
Automotive industry	-13	-12	-10	5	10	8	13
Other transport equipment	7	27	8	33	16	10	26
Other manufacturing	8	1	1	4	10	5	14
Changes in orders from the previous month (a)							
Total manufacturing	6	7	10	8	9	10	9
Foreign	7	6	13	7	10	8	11
Order books (a)							
Total manufacturing	0	3	6	4	6	10	12
Food products and beverages	-4	2	4	4	7	7	11
Electrical, electronic and computer equipment and other machinery	0	1	5	6	10	12	10
Automotive industry	-25	-16	-19	-22	-10	10	-1
Other transport equipment	26	35	36	43	45	46	53
Other manufacturing	2	3	8	4	3	6	9
Inventories of finished goods (a)							
Total manufacturing	-1	0	-2	1	-1	-1	-2
Food products and beverages	4	3	2	0	2	0	3
Electrical, electronic and computer equipment and other machinery	0	0	-1	3	1	1	2
Automotive industry	0	23	1	5	12	-10	2
Other transport equipment	12	7	-7	1	2	0	-10
Other manufacturing	-3	-4	-3	1	-5	-2	-5
Capacity utilisation rate (b)							
Total manufacturing	75.6	76.3	77.0	76.4	74.4	76.8	76.5
Staff levels (total manufacturing) (a)							
Changes from the previous month	0	0	1	-1	0	0	2
Forecast for the coming month	-4	-3	-2	-2	-2	-2	0
Business sentiment indicator (c)							
	102	101	101	101	101	102	103

(a) Data given as a balance of opinions. Forecast series are adjusted for bias when it is statistically significant.

(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.

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

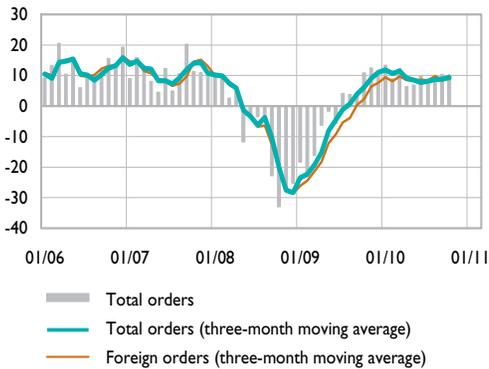
Business sentiment indicator

(100 = 1981 – last value)



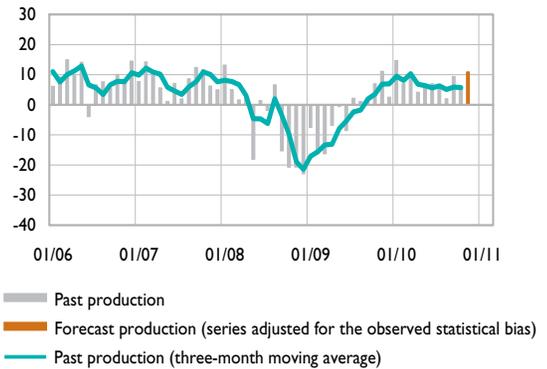
Orders (a)

(balance of opinions; monthly change)



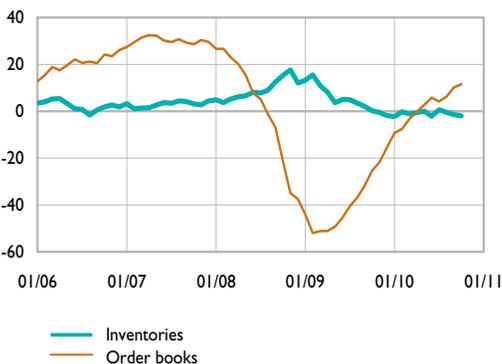
Production (a)

(balance of opinions; monthly change)



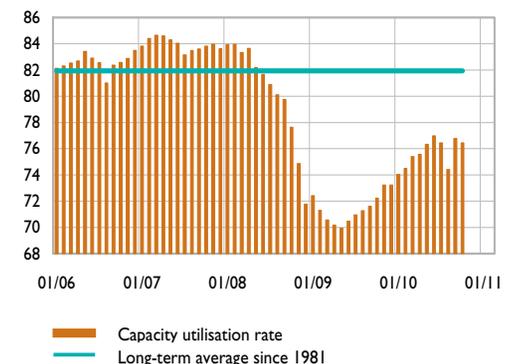
Inventories and order books (a)

(balance of opinions; compared to levels deemed normal)



Capacity utilisation rate (a)

(%)



(a) Manufacturing.

Source: Banque de France.

Produced 18 November 2010

Table 3
Consumer price index

(annual % change)

	2010									
	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	
France	1.4	1.7	1.9	1.9	1.7	1.9	1.6	1.8	1.8	1.8
Germany	0.5	1.2	1.0	1.2	0.8	1.2	1.0	1.3	1.3	1.3
Italy	1.1	1.4	1.6	1.6	1.5	1.8	1.8	1.6	2.0	2.0
Euro area	0.9	1.4	1.5	1.6	1.4	1.7	1.6	1.8	1.9	1.9
United Kingdom	3.0	3.4	3.7	3.4	3.2	3.1	3.1	3.1	3.2	3.2
European Union	1.5	1.9	2.1	2.0	1.9	2.1	2.0	2.2	2.3	2.3
United States	2.1	2.3	2.2	2.0	1.1	1.2	1.1	1.1	na	na
Japan	-1.1	-1.1	-1.2	-0.9	-0.7	-0.9	-0.9	-0.6	na	na

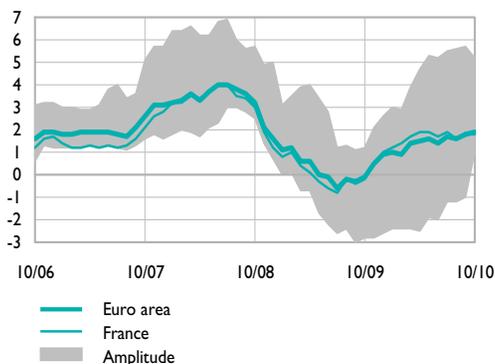
(annual average)

(seasonally-adjusted monthly % change)

	2007	2008	2009	2010					
				May	June	July	Aug.	Sept.	Oct.
France	1.6	3.2	0.1	0.0	0.0	0.1	0.1	0.1	0.2
Germany	2.3	2.8	0.2	0.1	-0.1	0.1	0.1	0.2	0.2
Italy	2.0	3.5	0.8	-0.1	0.1	0.1	0.2	0.2	0.5
Euro area	2.1	3.3	0.3	0.1	0.1	0.2	0.1	0.1	0.2
United Kingdom	2.3	3.6	2.2	-0.1	0.2	0.1	0.3	0.2	na
European Union	2.4	3.7	1.0	na	na	na	na	na	na
United States	2.9	3.8	-0.4	-0.2	-0.1	0.3	0.3	0.1	na
Japan	0.1	1.4	-1.4	-0.1	0.0	-0.3	-0.3	0.3	na

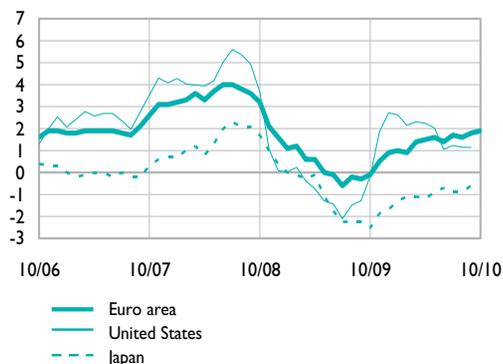
France and the euro area

(annual % change)



International comparisons

(annual % change)



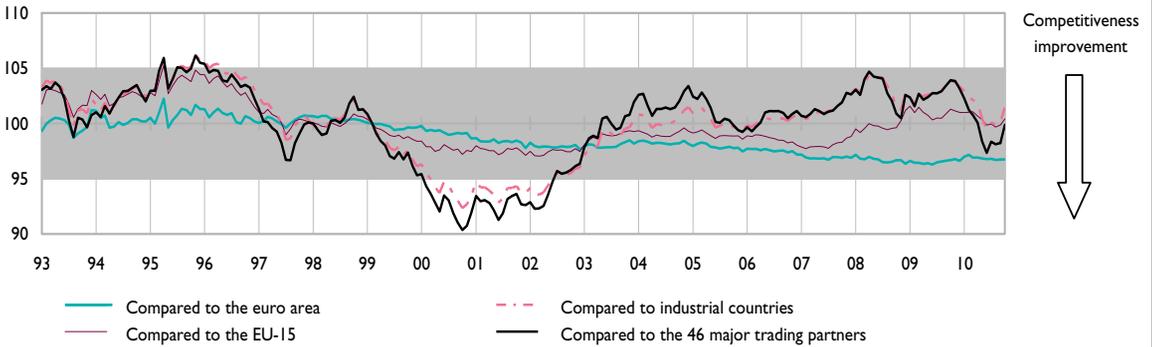
Harmonised indices except for the United States and Japan.

Amplitude = extreme values of the indices of harmonised prices observed in the euro area (changing composition).

Table 4
The competitiveness of France's economy

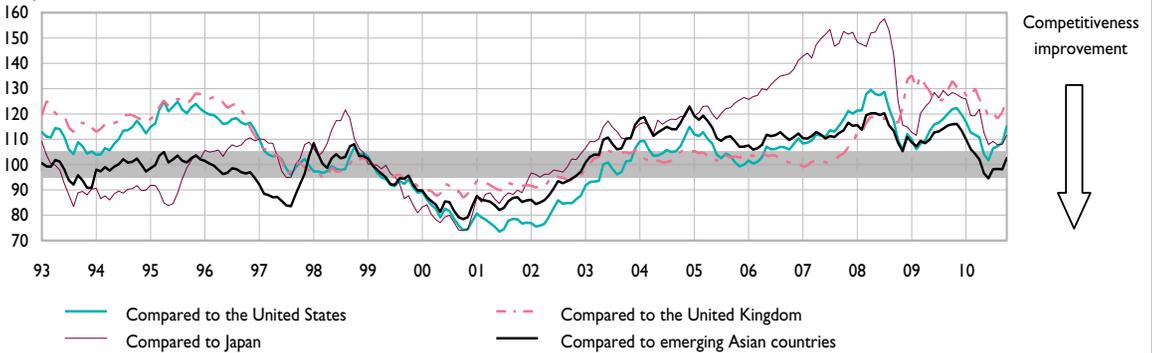
Indicators deflated by consumer prices

1st quarter 1999 = 100



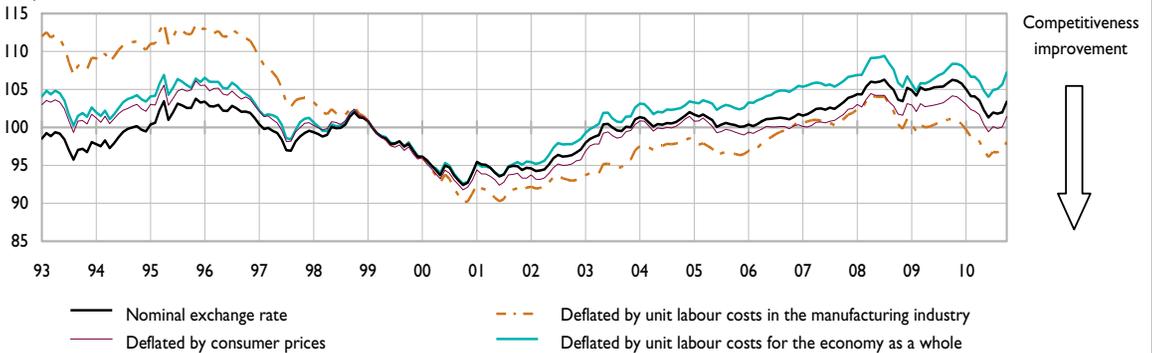
Indicators deflated by consumer prices

1st quarter 1999 = 100



Indicators of competitiveness compared to 24 OECD countries

1st quarter 1999 = 100



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

Sources: National data, Banque de France, ECB, IMF, OECD, Thomson Financial Datastream.

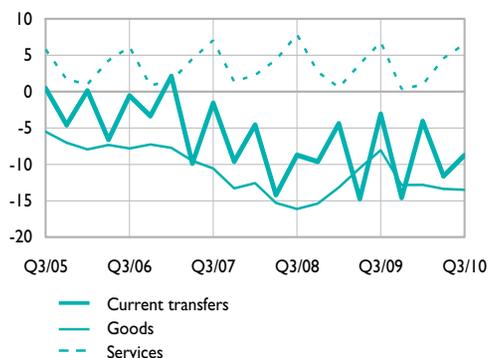
Table 5
Balance of payments – Main components (quarterly data) – France

(unadjusted data, EUR billions)

	2008	2009	2009		2010		
			Q3	Q4	Q1	Q2	Q3
Current account	-37.1	-36.8	-3.1	-14.6	-4.1	-11.6	-8.7
Goods	-59.4	-44.6	-8.1	-12.8	-12.8	-13.4	-13.5
Services	17.2	11.5	6.8	0.3	1.0	4.5	6.6
Income	29.2	23.1	4.6	6.7	11.8	3.3	6.4
Current transfers	-24.1	-26.9	-6.5	-8.8	-4.1	-6.1	-8.2
Capital account	0.7	0.3	0.0	0.0	0.2	0.0	-0.3
Financial account	26.7	59.4	7.5	29.3	2.7	7.4	37.9
Direct investment	-67.5	-63.0	-12.4	-16.3	-21.4	-9.0	-6.7
<i>French direct investment abroad</i>	<i>-110.0</i>	<i>-105.9</i>	<i>-19.4</i>	<i>-27.6</i>	<i>-31.0</i>	<i>-18.4</i>	<i>-20.5</i>
<i>Foreign direct investment in France</i>	<i>42.5</i>	<i>42.9</i>	<i>7.0</i>	<i>11.3</i>	<i>9.6</i>	<i>9.4</i>	<i>13.8</i>
Portfolio investment	40.5	270.0	4.6	87.6	42.8	110.9	-13.6
Assets	-87.1	-60.6	-51.6	17.4	-26.6	52.3	-39.9
Liabilities	127.6	330.7	56.2	70.2	69.4	58.6	26.3
Financial derivatives	-16.4	-2.1	1.8	2.5	9.1	11.7	7.7
Other investment	61.4	-149.4	14.2	-43.7	-26.1	-107.9	54.0
Reserve assets	8.5	3.9	-0.7	-0.7	-1.7	1.7	-3.5
Net errors and omissions	9.8	-22.9	-4.4	-14.8	1.2	4.1	-28.8

Current account balance

(unadjusted data, EUR billions)



Financial account balance

(unadjusted data, EUR billions)

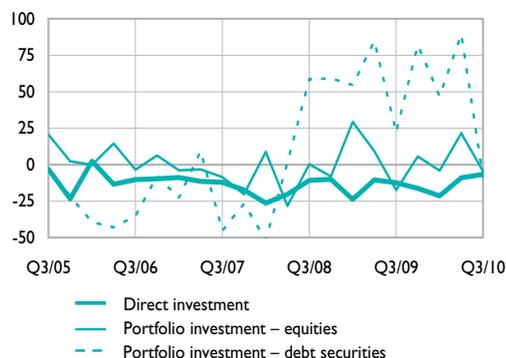


Table 6
Balance of payments – Current and capital accounts (quarterly data) – France

(unadjusted data, EUR billions)

	2008	2009	2009		2010		
			Q3	Q4	Q1	Q2	Q3
Current account	-37.1	-36.8	-3.1	-14.6	-4.1	-11.6	-8.7
Goods	-59.4	-44.6	-8.1	-12.8	-12.8	-13.4	-13.5
Exports	410.8	340.0	83.5	89.0	93.2	99.3	96.0
Imports	470.2	384.6	91.6	101.8	106.0	112.7	109.5
General merchandise	-56.9	-43.6	-7.6	-12.8	-12.2	-13.1	-13.2
Goods procured in ports by carriers	-2.7	-1.4	-0.4	-0.3	-0.4	-0.5	-0.5
Goods for processing and repairs on goods	0.2	0.4	0.0	0.3	-0.2	0.2	0.2
Services	17.2	11.5	6.8	0.3	1.0	4.5	6.6
Exports	113.7	102.9	30.3	23.1	22.2	29.0	31.4
Imports	96.5	91.4	23.4	22.8	21.2	24.5	24.8
Transportation	-0.9	-0.7	0.2	-0.1	-0.2	0.0	-0.2
Travel	10.3	7.8	5.2	-0.8	0.0	2.3	5.2
Communications services	0.9	0.6	0.1	0.1	0.1	0.2	0.1
Construction services	2.8	2.7	0.6	0.7	0.6	0.8	0.5
Insurance services	-0.7	-0.8	0.1	-0.3	0.1	0.0	-0.2
Financial services	0.0	0.5	0.2	0.2	0.1	0.0	0.1
Computer and information services	-0.3	-0.3	-0.1	-0.1	-0.1	0.0	-0.1
Royalties and license fees	3.8	3.0	0.7	0.6	0.8	0.7	0.8
Other business services	2.1	-0.1	-0.1	0.4	-0.3	0.7	0.4
Personal, cultural and recreational services	-1.0	-1.2	-0.3	-0.3	-0.3	-0.3	-0.3
Government services	0.1	0.0	0.0	0.0	0.1	0.0	0.1
Income	29.2	23.1	4.6	6.7	11.8	3.3	6.4
Compensation of employees	9.5	9.5	2.4	2.4	2.4	2.4	2.4
Investment income	19.7	13.7	2.3	4.3	9.4	0.9	4.0
Direct investment	22.6	17.7	1.8	4.5	8.4	7.7	4.2
Portfolio investment	6.8	-0.1	1.3	0.2	1.7	-6.0	0.3
Other investment	-9.7	-4.0	-0.8	-0.5	-0.7	-0.7	-0.4
Current transfers	-24.1	-26.9	-6.5	-8.8	-4.1	-6.1	-8.2
General government	-15.3	-17.3	-4.4	-6.4	-1.7	-4.5	-6.2
Other sectors	-8.8	-9.6	-2.1	-2.3	-2.4	-1.6	-2.0
of which workers' remittances	-2.6	-2.1	-0.6	-0.5	-0.5	-0.5	-0.5
Capital account	0.7	0.3	0.0	0.0	0.2	0.0	-0.3

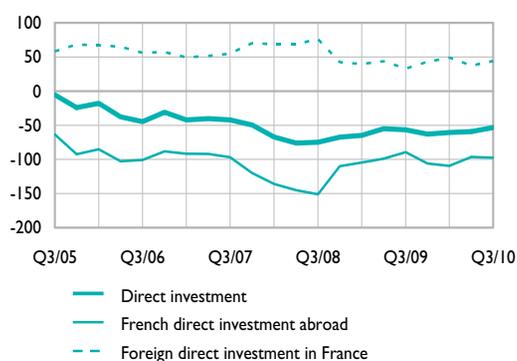
Table 7
Balance of payments – Financial flows (quarterly data) – France

(unadjusted data, EUR billions)

	2008	2009	2009		2010		
			Q3	Q4	Q1	Q2	Q3
Financial account	26.7	59.4	7.5	29.3	2.7	7.4	37.9
Direct investment	-67.5	-63.0	-12.4	-16.3	-21.4	-9.0	-6.7
French direct investment abroad	-110.0	-105.9	-19.4	-27.6	-31.0	-18.4	-20.5
of which equity capital and reinvested earnings	-64.1	-40.2	-4.0	-14.5	-14.6	-10.3	-10.8
Foreign direct investment in France	42.5	42.9	7.0	11.3	9.6	9.4	13.8
of which equity capital and reinvested earnings	14.2	14.1	2.8	1.8	4.3	6.9	3.7
Portfolio investment	40.5	270.0	4.6	87.6	42.8	110.9	-13.6
Assets	-87.1	-60.6	-51.6	17.4	-26.6	52.3	-39.9
Equity securities	-19.3	-21.5	-34.2	-11.8	0.0	15.8	-13.4
Bonds and notes	-4.6	-16.7	-10.1	-7.3	-42.8	19.3	-11.2
Money market instruments	-63.2	-22.4	-7.3	36.5	16.2	17.2	-15.3
Liabilities	127.6	330.7	56.2	70.2	69.4	58.6	26.3
Equity securities	-7.8	48.1	16.7	17.4	-4.1	5.7	8.7
Bonds and notes	84.1	202.9	28.8	36.2	69.2	42.1	17.0
Money market instruments	51.4	79.7	10.7	16.6	4.3	10.8	0.5
Financial derivatives	-16.4	-2.1	1.8	2.5	9.1	11.7	7.7
Other investment	61.4	-149.4	14.2	-43.7	-26.1	-107.9	54.0
of which MFIs excl. Banque de France (net flows)	-101.3	-75.8	-18.4	-30.6	-16.8	-33.0	17.4
Reserve assets	8.5	3.9	-0.7	-0.7	-1.7	1.7	-3.5
Net errors and omissions	9.8	-22.9	-4.4	-14.8	1.2	4.1	-28.8

Direct investment account

(cumulated flows over 4 quarters)



Portfolio investment account

(cumulated flows over 4 quarters)

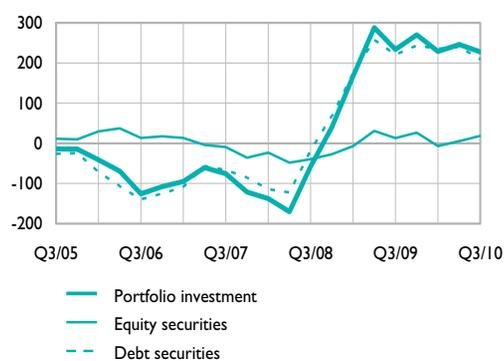


Table 8
Balance of payments – Geographical breakdown (quarterly data) – France

(unadjusted data, EUR billions)

	2nd quarter 2010					
	EMU (a)	EU-27 excl. EMU (b)	USA	Japan	Switzerland	China
Current account	na	na	na	na	na	na
Receipts	81.8	21.4	13.8	2.3	6.6	4.2
Expenditure	na	na	na	na	na	na
Goods	-16.7	0.9	1.0	0.3	0.1	-2.3
Receipts	48.5	12.4	5.8	1.5	2.8	3.2
Expenditure	65.2	11.4	4.8	1.2	2.7	5.5
Services	1.9	0.9	0.7	-0.1	0.1	0.2
Receipts	11.0	4.0	3.1	0.3	1.3	0.9
Expenditure	9.1	3.1	2.4	0.3	1.2	0.6
Income	na	na	na	na	na	na
Receipts	21.6	4.4	4.7	0.5	2.3	0.2
Expenditure	na	na	na	na	na	na
Current Transfers	-1.2	-2.9	0.0	0.0	-0.3	0.0
Financial account	na	na	na	na	na	na
Direct investment	-4.3	-3.6	1.2	-0.4	0.5	-0.2
French direct investment abroad	-9.3	-6.6	1.2	-0.2	0.1	-0.3
Foreign direct investment in France	5.0	2.9	-0.1	-0.2	0.4	0.1
Portfolio investment (c)	na	na	na	na	na	na
Assets	41.4	13.0	-0.1	1.4	-1.0	-0.8
Equity securities	14.1	4.5	-0.3	1.9	-2.5	-0.8
Bonds and notes	13.3	6.7	2.5	-3.3	1.3	0.0
Money market instruments	14.0	1.7	-2.3	2.8	0.2	0.0
Other investment	-76.5	-36.4	-1.5	4.6	0.6	-1.2
of which MFI's excluding Banque de France (net flows)	0.6	-36.9	-3.3	2.6	-0.3	-1.3

(a) 16 Member States (including Slovakia as of 1 January 2009).

(b) Denmark, United Kingdom, Sweden, European Institutions and New Member States (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Bulgaria, Romania).

(c) The geographical breakdown is not available for liabilities.

Table 9
Balance of payments (monthly data) – France

(unadjusted data, EUR billions)

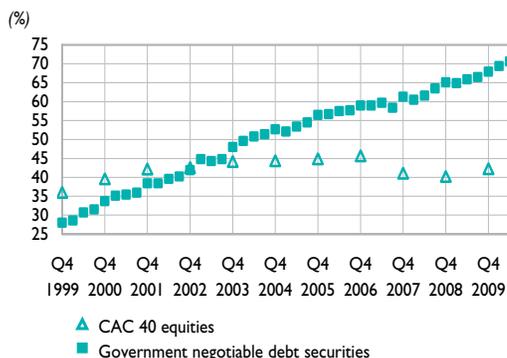
	2009	2010			12-month total	
		Sept.	July	Aug.	Sept.	Sept.
						2009
					Sept.	Sept.
Current account	-2.6	0.5	-4.3	-5.0	-31.9	-39.0
Goods	-3.2	-2.4	-6.3	-4.8	-47.2	-52.5
Services	1.7	3.5	1.9	1.2	13.8	12.4
Income	1.2	2.2	2.5	1.8	28.1	28.3
Current transfers	-2.2	-2.8	-2.4	-3.1	-26.7	-27.2
Capital account	0.0	0.1	0.0	-0.4	0.2	-0.1
Financial account	39.6	24.4	-3.4	16.9	33.6	77.3
Direct investment	0.5	-1.5	-4.1	-1.1	-56.6	-53.5
<i>French direct investment abroad</i>	-7.0	-7.8	-7.4	-5.3	-89.4	-97.6
Equity capital	-0.6	-3.6	-0.9	-1.0	-36.5	-34.0
Reinvested earnings	-0.2	-1.7	-1.7	-1.7	-2.9	-16.2
Other capital	-6.2	-2.4	-4.8	-2.5	-50.1	-47.4
Foreign direct investment in France	7.5	6.3	3.3	4.2	32.8	44.1
Equity capital	1.0	0.5	0.5	0.2	18.4	8.9
Reinvested earnings	0.2	0.8	0.8	0.8	1.3	7.8
Other capital	6.3	4.9	2.0	3.2	13.0	27.4
Portfolio investment	32.3	-9.4	-31.2	27.0	233.5	227.7
Assets	7.7	-19.5	-29.4	9.0	-40.2	3.2
Equity securities	-9.3	-1.4	-3.9	-8.1	-18.2	-9.3
Bonds and notes	0.6	-15.2	-14.3	18.3	20.7	-42.0
Money market instruments	16.3	-2.9	-11.2	-1.2	-42.7	54.5
Liabilities	24.6	10.1	-1.8	18.0	273.7	224.5
Equity securities	5.2	3.6	2.7	2.5	31.1	27.7
Bonds and notes	14.2	1.1	0.1	15.8	171.1	164.5
Money market instruments	5.3	5.4	-4.5	-0.4	71.6	32.3
Financial derivatives	2.0	1.3	4.9	1.5	-44.1	31.0
Other investment	3.9	35.3	29.1	-10.4	-109.0	-123.7
<i>of which MFIs excl. Banque de France (net flows)</i>	-4.0	11.0	23.4	-17.0	-127.4	-63.1
Reserve assets	0.8	-1.3	-2.2	-0.1	9.7	-4.3
Net errors and omissions	-36.9	-25.0	7.7	-11.5	-1.9	-38.2

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

(EUR billions)

	2005	2006	2007	2008	2009	2010
	Dec.	Dec.	Dec.	Dec.	Dec.	Q2
Assets	3,573.4	4,041.2	4,549.2	4,413.9	4,643.6	4,926.8
French direct investment abroad	736.1	793.1	889.8	997.6	1,106.1	1,221.6
Equity capital and reinvested earnings	491.3	548.8	613.9	674.4	717.6	792.8
Other capital	244.8	244.3	276.0	323.2	388.5	428.8
Portfolio investment (foreign securities held by residents)	1,587.9	1,851.0	2,014.1	1,834.7	1,998.2	2,043.2
MFIs (resident security-holding sector)	665.9	755.0	743.2	725.6	724.1	674.2
Non-MFIs (resident security-holding sector)	922.0	1,095.9	1,270.9	1,109.1	1,274.0	1,369.0
Financial derivatives	124.5	159.2	241.0	234.0	237.9	250.7
Other investment	1,061.8	1,163.3	1,325.7	1,273.6	1,209.0	1,294.9
MFIs	840.7	945.6	1,094.7	1,058.6	990.3	1,054.7
Non-MFIs	221.1	217.7	231.0	215.0	218.7	240.2
Reserve assets	63.0	74.6	78.6	74.0	92.4	116.4
Liabilities	-3,641.3	-4,188.3	-4,708.2	-4,612.0	-4,881.5	-5,084.0
Foreign direct investment in France	-532.3	-578.7	-649.1	-685.8	-728.4	-757.7
Equity capital and reinvested earnings	-325.0	-348.7	-386.2	-394.4	-408.5	-419.7
Other capital	-207.3	-230.0	-262.9	-291.4	-319.9	-338.0
Portfolio investment (French securities held by non-residents)	-1,764.8	-1,963.0	-1,987.9	-1,855.0	-2,296.9	-2,449.3
MFIs (resident security-issuing sector)	-414.5	-484.4	-505.4	-491.3	-552.7	-578.1
Non-MFIs (resident security-issuing sector)	-1,350.3	-1,478.6	-1,482.5	-1,363.6	-1,744.2	-1,871.2
Financial derivatives	-147.4	-188.9	-312.6	-289.3	-291.1	-324.6
Other investment	-1,196.8	-1,457.7	-1,758.7	-1,782.0	-1,565.2	-1,552.4
MFIs	-1,016.1	-1,245.0	-1,465.6	-1,345.2	-1,197.3	-1,243.7
Non-MFIs	-180.6	-212.7	-293.1	-436.8	-367.9	-308.7
Net position	-67.9	-147.1	-159.0	-198.1	-237.9	-157.2

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



France's international investment position

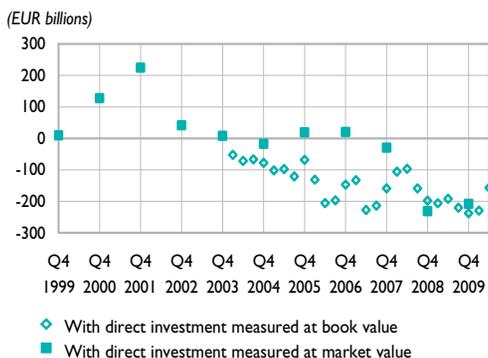
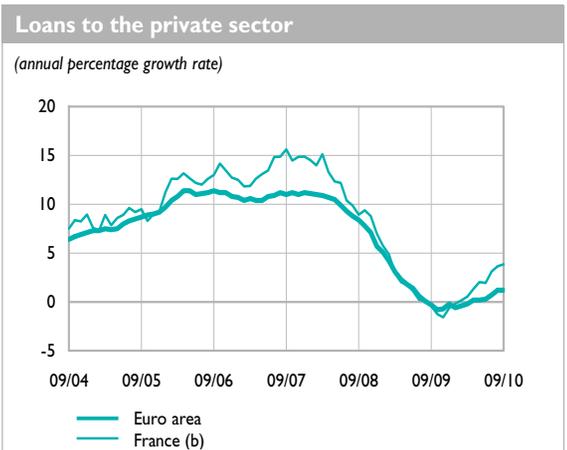
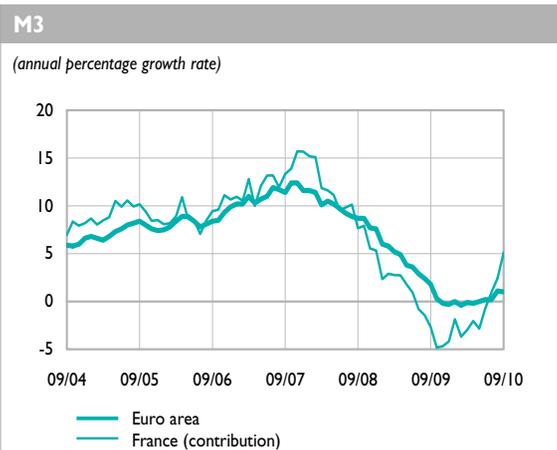
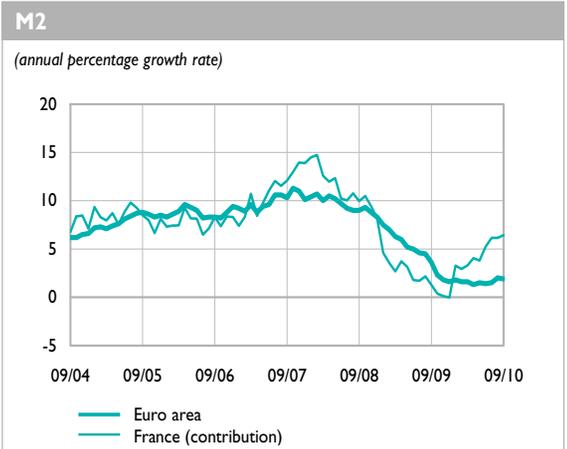
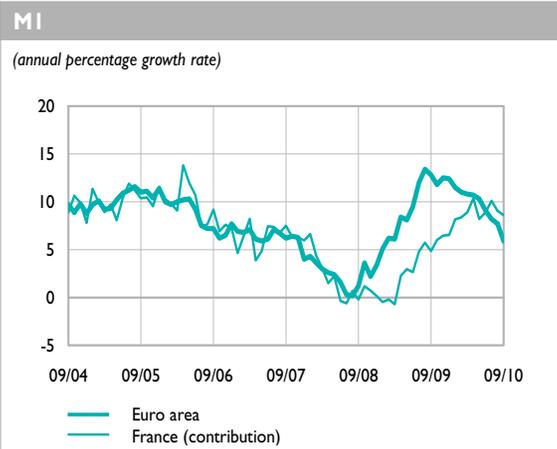


Table I
Main monetary and financial aggregates – France and the euro area

(annual percentage growth rate)

	2007	2008	2009	2009	2010							
	Dec.	Dec.	Dec.	Sept.	March	April	May	June	July	Aug.	Sept.	
M1												
Euro area (a)	4.0	3.4	12.4	12.8	10.8	10.7	10.3	9.1	8.2	7.7	5.9	
France (contribution)	6.0	0.2	6.5	4.8	8.9	10.4	8.2	8.9	10.1	9.1	8.6	
M2												
Euro area (a)	10.1	8.3	1.6	3.6	1.6	1.3	1.5	1.4	1.5	2.0	1.9	
France (contribution)	13.9	8.1	0.0	1.3	3.3	4.0	3.8	5.2	6.2	6.2	6.4	
M3												
Euro area (a)	11.6	7.6	-0.3	1.8	-0.1	-0.2	0.0	0.2	0.2	1.1	1.0	
France (contribution)	15.7	5.3	-4.2	-2.7	-3.0	-2.0	-2.8	-0.7	0.9	2.5	5.1	
Loans to the private sector												
Euro area (a)	11.2	5.7	-0.2	-0.3	-0.2	0.2	0.2	0.3	0.7	1.2	1.2	
France (b)	14.9	7.0	-0.6	-0.4	0.5	1.3	2.0	1.9	3.1	3.7	3.8	



(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 18 November 2010

Table 12
Balance sheet of the Banque de France

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

	2007	2008	2009	2009	2010			
	Dec.	Dec.	Dec.	Sept.	June	July	Aug.	Sept.
Assets								
National territory	101.7	220.2	165.1	144.7	170.6	94.5	90.1	81.1
Loans	83.2	190.7	129.1	109.8	133.3	56.7	52.0	42.4
MFIs	83.0	190.6	129.0	109.6	133.2	56.6	51.9	42.3
Central government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Securities other than shares	18.5	29.5	35.9	35.0	37.4	37.8	38.1	38.7
MFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government	18.5	29.5	35.9	35.0	37.4	37.8	38.1	38.7
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	39.1	60.6	77.1	71.6	85.0	82.1	82.0	83.0
Rest of the world	93.3	110.7	96.3	87.1	90.8	85.7	96.8	97.6
Gold	47.6	49.8	60.0	53.5	79.2	71.0	77.1	75.0
Not broken down by geographical area (a)	82.2	115.8	111.7	104.9	130.7	134.5	118.4	109.0
Total	363.8	557.1	510.1	461.8	556.4	467.9	464.4	445.8
Liabilities								
National territory – Deposits	77.3	105.1	84.5	43.8	170.3	63.0	53.4	41.3
MFIs	76.9	94.3	64.9	43.1	119.9	60.9	52.5	40.3
Central government	0.3	10.3	18.0	0.3	49.9	1.7	0.5	0.6
Other sectors (overnight deposits)	0.1	0.5	1.6	0.4	0.5	0.4	0.4	0.4
Other euro area countries – Deposits	11.9	117.7	62.0	92.3	0.0	19.9	26.4	31.4
MFIs	11.9	117.7	62.0	92.3	0.0	19.9	26.4	31.4
Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rest of the world – Deposits	75.9	99.4	112.7	88.4	113.6	108.2	109.2	103.8
Not broken down by geographical area	198.7	234.9	250.9	237.2	272.5	276.8	275.5	269.3
Currency in circulation (b)	131.1	147.3	153.7	146.3	154.8	156.5	155.2	155.1
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	55.2	58.6	70.6	63.7	78.7	96.0	96.0	89.4
Other	12.4	29.0	26.6	27.2	38.9	24.3	24.3	24.8
Total	363.8	557.1	510.1	461.8	556.4	467.9	464.4	445.8

(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.

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)

	2007	2008	2009	2009	2010			
	Dec.	Dec.	Dec.	Sept.	June	July	Aug.	Sept.
Assets								
National territory	4,128.8	4,517.7	4,527.2	4,502.1	4,743.4	4,700.9	4,655.6	4,640.7
Loans	3,211.3	3,493.6	3,509.9	3,467.4	3,724.8	3,677.4	3,626.1	3,616.4
MFIs	1,310.6	1,480.2	1,486.5	1,463.0	1,631.6	1,585.4	1,530.5	1,512.5
General government	168.5	173.8	196.1	179.9	209.7	199.7	203.4	202.9
Private sector	1,132.2	1,839.6	1,827.4	1,824.5	1,883.5	1,892.3	1,892.1	1,901.0
Securities other than shares	535.2	636.2	622.6	639.7	629.7	635.1	636.1	630.7
MFIs ≤ 2 years	207.3	242.6	229.8	229.8	224.0	225.7	225.1	213.7
MFIs > 2 years	75.8	121.8	113.4	112.6	116.8	120.2	125.6	129.3
General government	150.0	149.7	159.7	177.6	162.9	160.8	158.4	160.8
Private sector	102.2	122.1	119.8	119.7	126.0	128.4	127.0	126.9
Money market fund shares/units	81.4	90.3	79.1	84.6	61.1	59.0	59.1	57.3
Shares and other equity	300.8	297.7	315.5	310.4	327.7	329.3	334.3	336.3
Other euro area countries	1,011.5	1,006.4	1,034.4	1,035.3	1,039.0	1,062.3	1,062.3	1,048.6
Rest of the world	1,004.3	926.0	848.2	848.8	949.5	960.5	1,001.3	958.8
Not broken down by geographical area	975.8	1,260.4	1,247.1	1,325.1	1,458.6	1,424.0	1,624.1	1,503.0
Total	7,120.4	7,710.6	7,656.7	7,711.2	8,190.5	8,147.8	8,343.2	8,151.0
Liabilities								
National territory – Deposits	2,649.7	3,043.5	3,099.0	3,033.5	3,251.6	3,197.3	3,136.0	3,131.0
MFIs	1,303.2	1,605.1	1,571.3	1,543.6	1,686.7	1,619.2	1,575.0	1,543.6
Central government	16.3	23.4	28.3	27.5	32.4	36.5	19.5	42.7
Other sectors	1,330.2	1,415.0	1,499.4	1,462.4	1,532.4	1,541.6	1,541.5	1,544.7
Overnight deposits	445.8	434.4	463.1	435.6	474.2	484.2	471.7	474.9
Deposits with agreed maturity ≤ 2 years	127.8	185.3	131.3	132.9	131.1	128.0	130.1	131.2
Deposits with agreed maturity > 2 years	277.2	260.9	362.4	347.7	372.2	372.7	374.0	370.7
Deposits redeemable at notice ≤ 3 months	437.6	486.0	501.1	500.2	502.0	504.5	509.9	510.0
Repos	41.7	48.5	41.5	46.0	53.0	52.2	55.8	57.8
Other euro area countries – Deposits	396.1	377.6	338.3	347.7	353.1	375.0	381.8	379.6
MFIs	296.9	277.6	229.3	234.6	219.4	234.9	234.8	226.1
Other sectors	99.2	100.1	109.0	113.2	133.6	140.1	146.9	153.5
Rest of the world – Deposits	1,088.4	985.3	880.9	878.6	948.3	958.0	1,012.9	958.7
Not broken down by geographical area	2,986.2	3,304.1	3,338.6	3,451.3	3,637.6	3,617.4	3,812.6	3,681.8
Debt securities issued ≤ 2 years	447.5	458.6	381.4	384.9	420.3	412.1	418.5	407.7
Debt securities issued > 2 years	604.1	689.3	715.2	710.6	749.5	748.7	749.3	752.3
Money market fund shares/units	428.5	483.3	479.2	510.8	428.2	424.2	435.0	419.7
Capital and reserves	392.5	416.1	454.7	444.6	466.7	466.2	465.6	471.9
Other	1,113.5	1,256.8	1,308.1	1,400.4	1,572.9	1,566.3	1,744.3	1,630.2
Total	7,120.4	7,710.6	7,656.7	7,711.2	8,190.5	8,147.8	8,343.2	8,151.0

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.

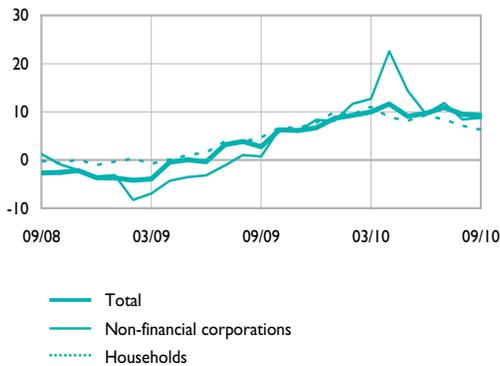
Table I4
Deposits – France

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

	2007	2008	2009	2009	2010			
	Dec.	Dec.	Dec.	Sept.	June	July	Aug.	Sept.
Overnight deposits								
Total non-financial sectors (excluding central government)	463.0	447.8	481.1	445.5	477.1	489.1	478.6	481.2
Households and similar	246.2	243.7	262.4	253.6	270.5	277.5	271.5	269.7
Non-financial corporations	160.0	154.5	167.0	148.1	160.8	160.1	157.0	161.5
General government (excl. central government)	56.8	49.6	51.7	43.8	45.8	51.5	50.0	50.0
Other sectors	36.9	33.6	32.0	30.4	38.7	42.0	39.5	39.7
Total – Outstanding amounts	499.9	481.4	513.2	475.8	515.8	531.1	518.1	520.9
Total – Growth rate	6.0	-3.7	6.7	2.7	9.7	10.9	9.5	9.3
Passbook savings accounts								
"A" and "Blue" passbooks	140.8	164.4	183.4	183.1	185.8	187.2	189.5	190.0
Housing savings accounts	38.1	36.7	36.6	36.8	35.9	35.8	36.1	35.9
Sustainable development passbook accounts	63.1	70.2	69.1	69.5	68.3	68.3	68.4	67.9
People's savings passbooks	60.6	62.0	58.3	59.6	55.8	55.6	55.8	55.7
Youth passbooks	7.1	7.4	7.2	7.3	7.0	7.0	7.1	7.1
Taxable passbooks	128.0	145.4	146.5	143.9	149.1	150.5	153.0	153.5
Total – Outstanding amounts	437.6	486.0	501.1	500.2	502.0	504.5	509.9	510.0
Total – Growth rate	5.0	11.1	3.1	8.2	-0.2	0.6	1.3	2.0

Overnight deposits

(annual growth rate)



Passbook savings accounts

(annual growth rate)

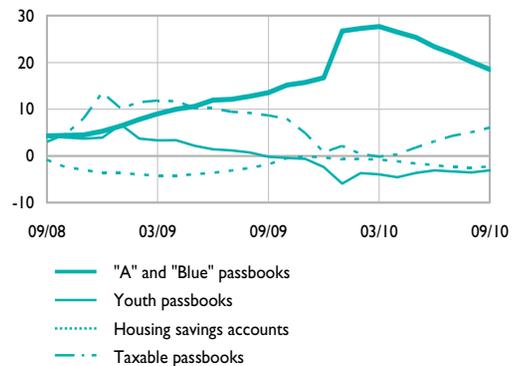


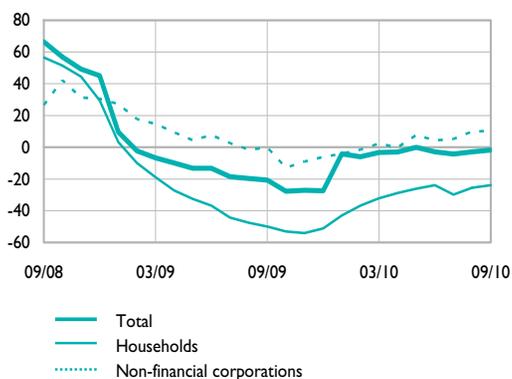
Table 15
Time deposits – France

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

	2007	2008	2009	2009	2010			
	Dec.	Dec.	Dec.	Sept.	June	July	Aug.	Sept.
Deposits with agreed maturity up to two years								
Total non-financial sectors (excl. central government)	94.0	121.9	86.1	86.2	84.5	82.2	84.2	84.1
Households and similar	48.2	62.4	30.4	33.2	28.7	25.3	26.1	25.4
Non-financial corporations	45.1	58.8	55.1	52.3	55.2	56.1	57.3	57.9
General government (excl. central government)	0.6	0.8	0.6	0.6	0.7	0.8	0.8	0.8
Other sectors	33.8	63.4	45.1	46.7	46.5	45.8	45.9	47.1
Total – Outstanding amounts	127.8	185.3	131.3	132.9	131.1	128.0	130.1	131.2
Total – Growth rate	100.4	45.1	-27.4	-20.6	-2.8	-4.3	-2.9	-1.8
Deposits with agreed maturity of over two years								
Total non-financial sectors (excl. central government)	255.0	236.5	264.3	255.4	270.9	272.8	273.4	274.5
Households and similar	245.2	223.2	241.4	234.0	242.8	242.4	242.5	242.8
PEL	190.4	168.7	173.8	168.0	176.6	176.5	176.9	177.1
PEP	32.4	29.3	29.0	28.7	27.5	27.0	26.9	26.7
Other	22.4	25.1	38.6	37.4	38.8	39.0	38.7	39.0
Non-financial corporations	9.8	13.3	22.5	21.0	27.5	29.8	30.3	31.1
General government (excl. central government)	0.0	0.1	0.4	0.3	0.5	0.6	0.6	0.6
Other sectors	22.2	24.4	98.1	92.3	101.2	99.9	100.6	96.3
Total – Outstanding amounts	277.2	260.9	362.4	347.7	372.2	372.7	374.0	370.7
Total – Growth rate	-6.7	-5.9	38.1	33.6	9.8	7.9	8.2	6.1

Deposits up to 2 years

(annual percentage growth rate)



Deposits over 2 years

(annual percentage growth rate)

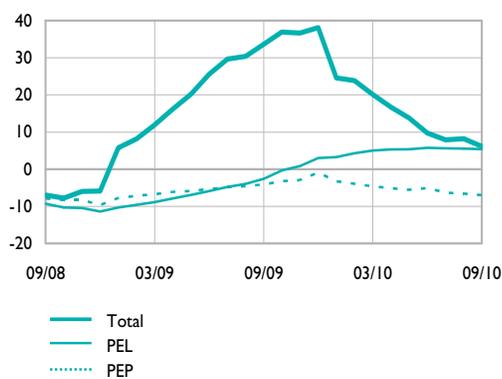


Table 16
Loans extended by credit institutions established in France to French residents – France

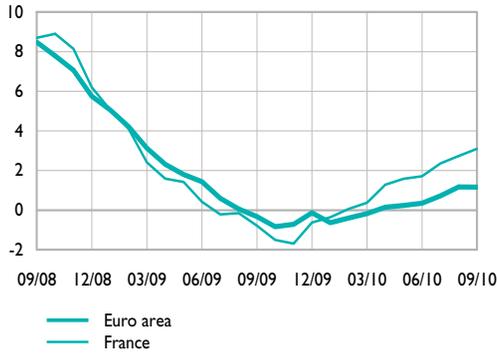
(outstanding amounts at the end of the period in EUR billions – % growth)

	2007	2008	2009	2009	2010				
	Dec.	Dec.	Dec.	Sept.	May	June	July	Aug.	Sept.
Loans from monetary financial institutions									
Private sector	1,732.4	1,839.8	1,827.5	1,824.7	1,884.1	1,883.7	1,892.5	1,892.2	1,901.2
General government	168.5	173.8	196.1	179.9	200.1	209.7	199.7	203.4	202.9
Total – Outstanding amounts	1,900.9	2,013.5	2,023.6	2,004.6	2,084.2	2,093.4	2,092.1	2,095.7	2,104.0
Private sector	14.0	6.2	-0.6	-0.8	1.6	1.7	2.4	2.7	3.1
General government	8.2	3.1	12.8	-3.9	17.3	18.5	14.5	12.8	12.7
Total – Growth rate	13.5	5.9	0.5	-1.1	2.9	3.2	3.4	3.6	4.0
Loans from credit institutions to non-financial corporations									
Fixed investment	279.5	312.6	323.9	320.3	329.1	328.6	330.9	331.4	329.8
Inventories and working capital	199.1	216.2	184.5	185.1	179.6	178.9	179.6	174.4	174.8
Other lending	234.7	252.9	260.9	256.6	265.7	264.9	265.4	265.5	267.3
Total – Outstanding amounts	713.3	781.6	769.3	762.0	774.4	772.4	775.9	771.3	771.9
Total – Growth rate	13.7	9.5	-1.2	-0.7	-0.8	0.0	0.2	0.4	1.0
Loans from credit institutions to households									
Loans for house purchase	652.9	710.0	737.6	725.0	750.7	756.5	764.1	767.8	773.3
Consumer loans	141.2	145.5	152.9	148.2	152.1	152.5	152.4	151.6	152.0
Other lending	83.0	84.7	84.2	84.4	85.2	87.5	84.9	86.8	87.3
Total – Outstanding amounts	877.1	940.1	974.7	957.6	987.9	996.5	1,001.4	1,006.2	1,012.6
Total – Growth rate	11.0	7.3	4.0	3.5	5.0	5.0	5.2	5.5	5.8

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

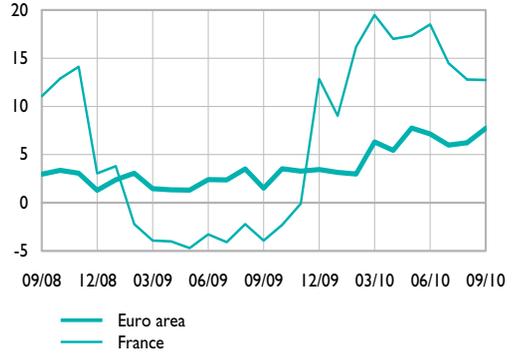
Loans to the private sector

(annual percentage growth rate)



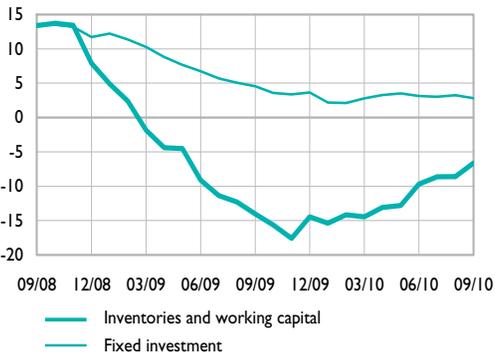
Loans to the public sector

(annual percentage growth rate)



Loans to non-financial corporations – France

(annual percentage growth rate)



Loans to households – France

(annual percentage growth rate)



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

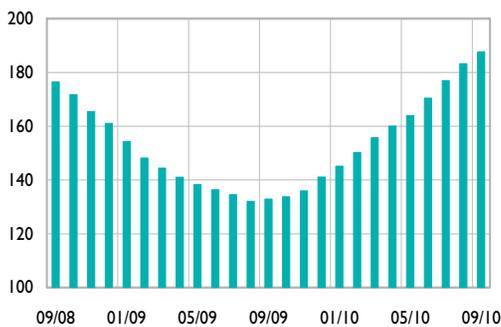
Table 18
New loans to residents – France

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

	2009			2010		
	July	Aug.	Sept.	July	Aug.	Sept.
Total – new loans	387.9	373.9	370.6	410.8	418.4	422.0
Loans to households	134.5	132.1	132.9	177.0	183.2	187.6
Consumer loans (excl. overdrafts)	50.7	50.8	50.9	52.9	52.9	52.4
Loans for house purchase with an IRFP ≤ 1 year (a)	8.0	7.7	7.8	15.4	16.3	17.0
Loans for house purchase with an IRFP > 1 year (a)	75.8	73.6	74.2	108.7	114.0	118.3
Loans to non-financial corporations	253.4	241.8	237.7	233.9	235.3	234.4
Loans with an IRFP ≤ 1 year (excl. overdrafts) (a)	173.9	166.7	163.5	152.7	154.3	154.4
Loans with an IRFP > 1 year (a)	79.4	75.1	74.2	81.1	81.0	80.0

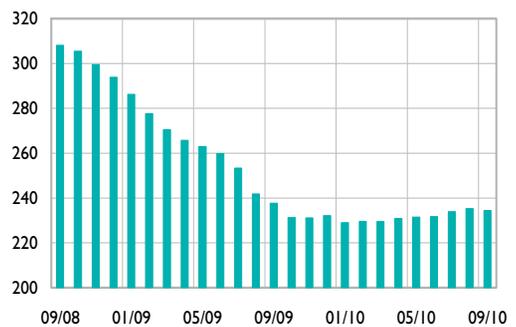
Loans to households

(EUR billions)



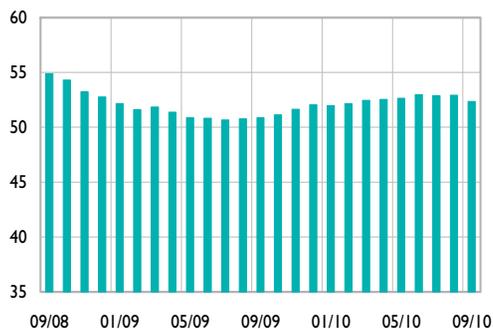
Loans to non-financial corporations

(EUR billions)



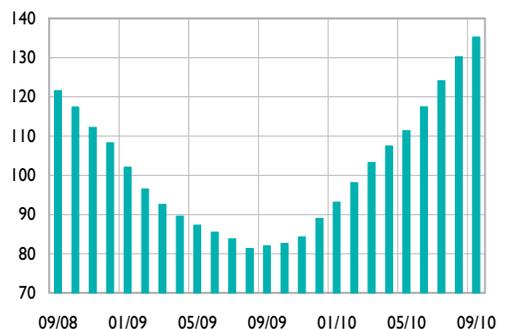
Consumer loans to households (excl. overdrafts)

(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.

Table 19
Investment and financing – Insurance corporations and pension funds – Euro area and France

(EUR billions)

Euro area	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2009			2010		2010
	Q2	Q3	Q4	Q1	Q2	June
Financial assets						
Currency and deposits	26.6	27.9	-14.7	-20.0	-3.7	860.6
<i>of which deposits included in M3 (a)</i>	11.7	-0.8	-33.2	-20.9	1.3	203.5
Short-term debt securities	20.3	38.3	55.2	36.8	27.2	397.8
Long-term debt securities	3.0	-5.5	50.4	84.6	145.8	2,186.5
Loans	30.2	26.7	15.0	12.8	13.3	459.3
Shares and other equity	76.2	96.7	131.4	175.4	119.4	2,345.5
<i>of which quoted shares</i>	-28.5	-99.2	-87.8	-82.5	-83.8	409.5
Remaining net assets	13.1	8.7	5.4	25.6	11.7	270.7
Financing						
Debt securities	9.9	10.0	1.0	0.0	5.2	57.6
Loans	20.4	12.1	-25.4	-16.5	-12.1	247.8
Shares and other equity	6.1	4.8	3.3	2.6	3.7	480.1
Insurance technical reserves	167.7	200.7	271.9	317.9	299.2	5,796.7
<i>Life insurance</i>	160.2	194.5	258.6	303.6	289.9	5,035.1
<i>Non-life insurance</i>	7.5	6.2	13.4	14.3	9.4	761.5
Net lending/net borrowing (B9B)	-34.6	-34.9	-8.3	11.3	17.7	

(EUR billions)

France	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2009			2010		2010
	Q2	Q3	Q4	Q1	Q2	June
Financial assets						
Currency and deposits	-1.0	-0.7	-0.9	-0.8	2.6	27.9
<i>of which deposits included in M3 (a)</i>	-1.2	-1.4	-1.4	-0.6	1.2	13.2
Short-term debt securities	19.3	40.5	60.8	50.1	32.8	368.9
Long-term debt securities	22.2	19.3	23.1	51.5	55.2	749.3
Loans	3.0	3.1	2.7	3.1	2.4	41.8
Shares and other equity	1.0	-5.7	-12.4	-5.4	10.9	654.9
<i>of which quoted shares</i>	-6.8	-5.0	-0.8	1.3	-1.9	68.6
Remaining net assets	-4.1	1.5	4.3	9.2	5.5	27.2
Financing						
Debt securities	4.7	3.1	-2.0	-1.1	3.1	34.9
Loans	4.1	-1.5	-12.1	-13.5	-9.8	73.7
Shares and other equity	2.0	2.2	3.8	4.6	4.7	137.4
Insurance technical reserves	67.7	74.7	92.9	108.4	103.6	1,552.9
<i>Life insurance</i>	65.7	71.3	88.4	103.6	99.0	1,398.8
<i>Non-life insurance</i>	2.0	3.3	4.4	4.8	4.7	154.1
Net lending/net borrowing (B9B)	-38.2	-20.6	-4.9	9.2	7.9	

(a) Deposits with agreed maturity up to 2 years and redeemable at notice up to 3 months of insurance corporations held with MFIs and central government.

Sources: Banque de France, European Central Bank.

Produced 18 November 2010

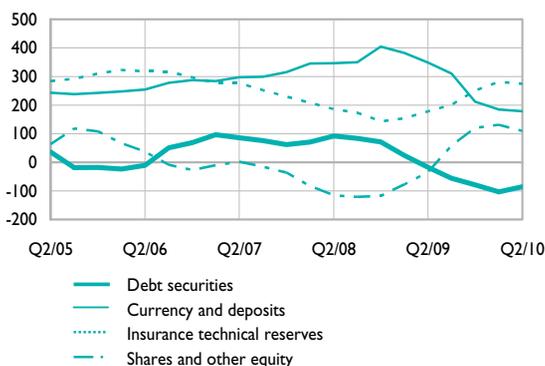
Table 20
Investment and financing – Households – Euro area

(EUR billions)

	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2009			2010		2010
	Q2	Q3	Q4	Q1	Q2	June
Financial assets						
Currency and deposits	348.8	310.7	212.0	184.7	178.7	6,512.2
<i>of which deposits included in M3 (a)</i>	284.4	206.8	93.0	33.0	30.8	4,955.5
Short-term debt securities	-40.1	-65.2	-75.6	-68.3	-54.3	43.1
Long-term debt securities	23.1	9.7	-2.7	-35.1	-31.1	1,338.5
Shares and other equity	-34.5	58.8	120.4	131.2	109.6	4,175.0
Quoted shares	15.6	45.1	39.5	38.5	22.9	709.0
Unquoted shares and other equity	33.8	44.3	55.7	65.0	73.1	2,064.1
Mutual fund shares	-83.9	-30.7	25.2	27.8	13.7	1,401.9
<i>of which money market fund shares</i>	-18.7	-22.3	-50.1	-86.2	-85.7	214.1
Insurance technical reserves	178.2	201.5	250.9	281.4	274.3	5,678.5
Remaining net assets	-14.0	-34.8	-6.3	19.1	15.3	-136.7
Financing						
Loans	129.8	102.9	110.7	130.8	136.2	5,970.7
<i>of which from euro area MFIs</i>	10.4	-15.7	63.2	74.2	101.8	5,105.1
Revaluation of financial assets						
Shares and other equity	-569.5	-129.3	250.5	504.1	125.7	
Insurance technical reserves	-115.2	52.4	179.4	270.4	176.2	
Other flows	23.3	72.7	47.7	96.4	54.3	
Change in net financial worth	-329.6	373.3	865.7	1,253.1	712.6	

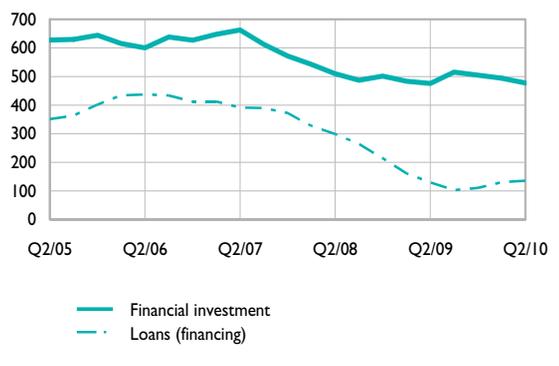
Investment flows

(EUR billions, cumulated flows over 4 quarters)



Investment and financing flows

(EUR billions, cumulated flows over 4 quarters)



(a) Deposits with agreed maturity up to 2 years and redeemable at notice up to 3 months of households held with MFIs and central government.

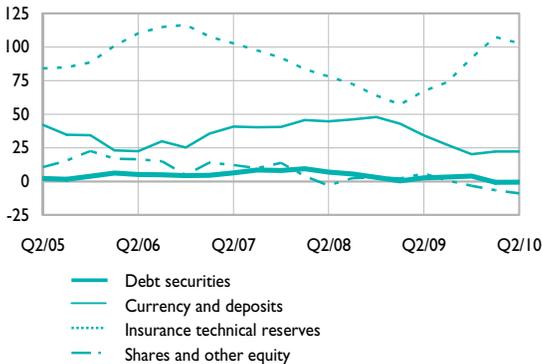
Table 21
Investment and financing – Households – France

(EUR billions)

	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2009			2010		2010
	Q2	Q3	Q4	Q1	Q2	June
Financial assets						
Currency and deposits	34.3	27.2	20.2	22.1	22.2	1,127.6
<i>of which deposits included in M3 (a)</i>	31.6	17.1	2.8	6.1	14.5	842.7
Short-term debt securities	1.0	-0.4	-0.5	-1.8	-0.2	13.6
Long-term debt securities	1.6	3.6	4.4	1.0	-0.4	46.8
Shares and other equity	5.7	0.7	-3.4	-6.5	-8.9	907.4
Quoted shares	5.0	5.6	2.8	-0.9	0.0	136.3
Unquoted shares and other equity	10.7	8.2	7.7	9.4	8.6	483.0
Mutual fund shares	-9.9	-13.1	-13.9	-15.1	-17.4	288.1
<i>of which money market fund shares</i>	-3.0	-6.7	-15.5	-19.5	-18.6	45.6
Insurance technical reserves	67.2	73.9	91.9	107.4	102.7	1,527.8
Remaining net assets	22.3	11.0	14.6	-4.5	0.5	-42.7
Financing						
Loans	38.2	30.6	36.5	44.5	47.8	1,045.8
<i>of which from resident MFIs</i>	25.1	17.4	32.3	38.5	48.8	988.3
Revaluation of financial assets						
Shares and other equity	-129.4	0.6	109.4	174.3	84.7	
Insurance technical reserves	-23.7	4.0	25.3	37.0	12.8	
Other flows	17.0	12.4	-1.0	5.1	9.6	
Change in net financial worth	-42.1	102.4	224.6	289.7	175.3	

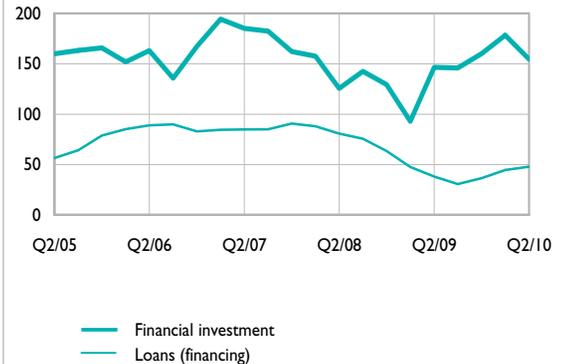
Investment flows

(EUR billions, cumulated flows over 4 quarters)



Investment and financing flows

(EUR billions, cumulated flows over 4 quarters)



(a) Deposits with agreed maturity up to 2 years and redeemable at notice up to 3 months of households held with MFIs and central government.

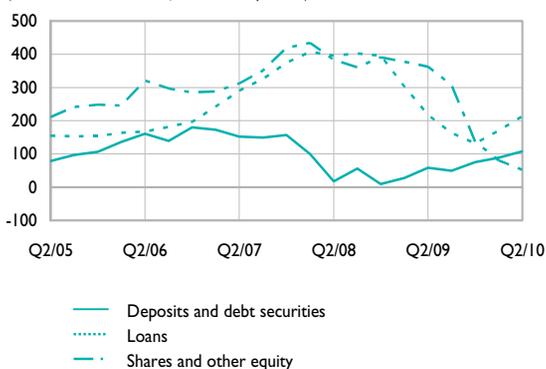
Table 22
Investment and financing – Non-financial corporations – Euro area

(EUR billions)

	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2009			2010		2010
	Q2	Q3	Q4	Q1	Q2	June
Financial assets						
Currency and deposits	70.0	74.8	110.4	102.8	72.5	1,830.2
<i>of which deposits included in M3 (a)</i>	0.0	26.0	78.4	89.2	49.8	1,504.2
Debt securities	-11.8	-25.8	-34.7	-14.1	35.3	400.9
Loans	217.7	162.8	131.7	170.4	213.2	3,240.4
Shares and other equity	362.8	307.0	137.3	80.2	52.1	7,353.2
Insurance technical reserves	3.1	4.3	4.8	2.3	1.6	146.0
Remaining net assets	-132.1	-76.0	-47.2	46.2	3.4	259.5
Financing						
Debt	404.7	262.6	126.7	173.0	164.1	9,673.5
Loans	324.7	169.5	42.0	69.0	82.3	8,464.4
<i>of which from euro area MFIs</i>	126.3	-10.2	-104.8	-112.3	-81.9	4,699.5
Debt securities	77.8	90.5	81.8	100.5	77.9	872.4
Pension fund reserves	2.3	2.6	2.9	3.5	3.9	336.7
Shares and other equity	309.8	290.7	188.9	183.2	168.1	11,939.1
Quoted shares	57.7	73.3	67.2	65.6	45.6	3,316.3
Unquoted shares and other equity	252.1	217.4	121.7	117.6	122.5	8,622.7
Net lending/net borrowing (B9B)	-204.9	-106.1	-13.3	31.6	46.0	

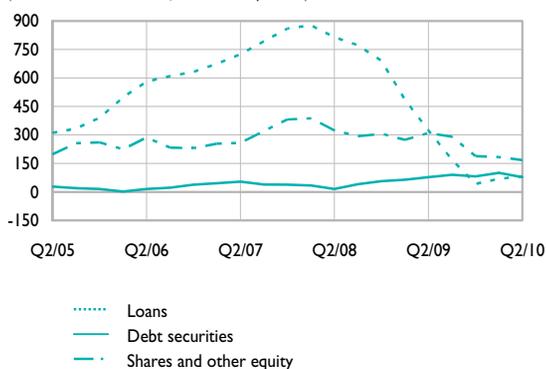
Investment flows

(EUR billions, cumulated flows over 4 quarters)



Financing flows

(EUR billions, cumulated flows over 4 quarters)



(a) Deposits with agreed maturity up to 2 years and redeemable at notice up to 3 months of non-financial corporations held with MFIs and central government.

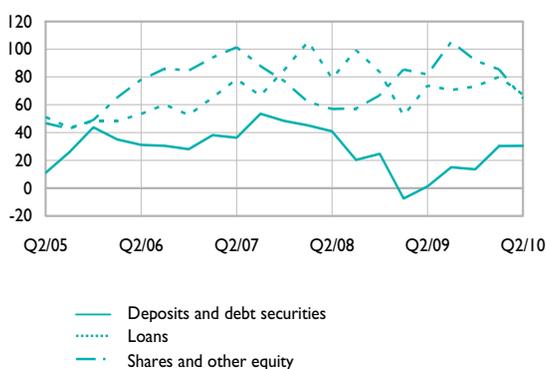
Table 23
Investment and financing – Non-financial corporations – France

(EUR billions)

	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2009			2010		2010
	Q2	Q3	Q4	Q1	Q2	June
Financial assets						
Currency and deposits	15.3	22.8	24.0	27.9	25.0	319.2
<i>of which deposits included in M3 (a)</i>	2.5	5.8	11.4	20.8	19.5	232.3
Debt securities	-14.0	-7.7	-10.4	2.5	5.4	105.8
Loans	73.7	70.6	73.2	80.0	67.3	874.4
Shares and other equity	81.8	105.4	91.9	85.4	64.6	2,630.9
Insurance technical reserves	0.4	0.6	0.8	0.8	0.7	20.1
Remaining net assets	-9.9	-14.6	-14.9	-17.5	-19.7	72.9
Financing						
Debt	108.3	93.0	78.1	78.8	70.2	2,099.2
Loans	64.7	33.9	27.0	26.7	33.0	1,703.7
<i>of which from resident MFIs</i>	19.5	-2.9	-9.8	-13.1	0.3	780.1
Debt securities	43.6	59.1	51.0	52.1	37.3	395.5
Shares and other equity	99.3	113.4	105.5	106.2	101.4	3,758.1
<i>Quoted shares</i>	17.7	16.8	19.2	19.8	11.1	1,014.6
<i>Unquoted shares and other equity</i>	81.6	96.6	86.3	86.3	90.3	2,743.4
Net lending/net borrowing (B9B)	-60.3	-29.2	-19.1	-6.0	-28.2	

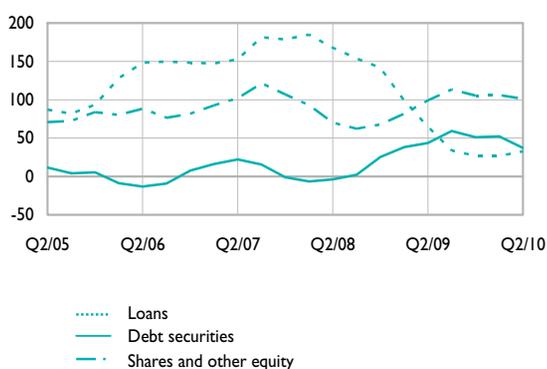
Investment flows

(EUR billions, cumulated flows over 4 quarters)



Financing flows

(EUR billions, cumulated flows over 4 quarters)



(a) Deposits with agreed maturity up to 2 years and redeemable at notice up to 3 months of non-financial corporations held with MFIs and central government.

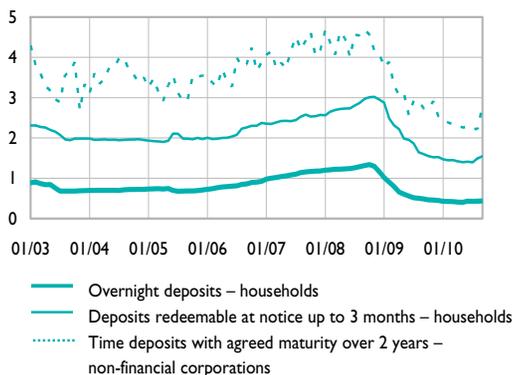
Table 24
Interest rates on deposits – France and the euro area

(average monthly rates – %)

	2008	2009	2009	2010				
	Dec.	Dec.	Sept.	May	June	July	Aug.	Sept.
Euro area								
Overnight deposits – households	1.16	0.45	0.49	0.40	0.43	0.43	0.43	0.43
Deposits redeemable at notice up to 3 months – households	2.95	1.53	1.60	1.40	1.41	1.39	1.50	1.55
Time deposits with agreed maturity over 2 years – non-financial corporations	4.08	2.53	2.74	2.26	2.29	2.23	2.22	2.80
France								
"A" passbooks (end of period)	4.00	1.25	1.25	1.25	1.25	1.25	1.75	1.75
Regulated savings deposits	3.96	1.28	1.28	1.28	1.28	1.28	1.78	1.78
Market rate savings deposits	3.73	1.37	1.39	1.31	1.31	1.27	1.37	1.55
Deposits with agreed maturity up to 2 years	4.44	2.39	2.71	2.23	2.06	2.16	2.11	2.11
Deposits with agreed maturity over 2 years	3.50	3.41	3.53	3.21	3.17	3.20	3.20	3.25

Euro area

(average monthly rates – %)



France

(average monthly rates – %)

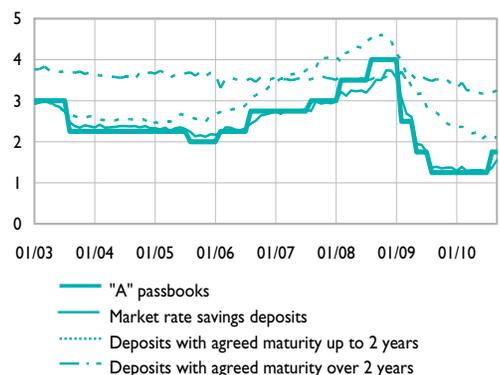


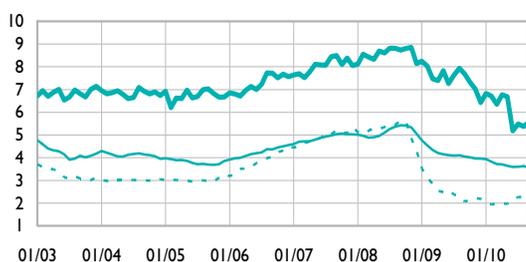
Table 25
Cost of credit – France and the euro area

(average monthly rate – %)

	2009			2010								
	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.
Euro area												
Consumer loans												
Floating rate and IRFP of up to 1 year (a)	7.32	7.03	6.42	6.83	6.72	6.35	6.77	6.69	5.18	5.49	5.38	5.56
Loans for house purchase												
Floating rate and IRFP of between 1 and 5 years	4.02	3.97	3.96	3.94	3.83	3.72	3.71	3.64	3.59	3.60	3.63	3.57
Non-financial corporations of over EUR 1 million												
IRFP of up to 1 year (a)	2.14	2.22	2.19	2.02	1.94	1.99	2.00	1.96	2.17	2.26	2.28	2.26
France												
Consumer loans	6.46	6.44	6.34	6.52	6.31	6.26	6.18	6.20	6.18	6.13	6.08	5.95
Loans for house purchase												
IRFP of up to 1 year (a)	3.49	3.33	3.33	3.33	3.39	3.38	3.27	3.20	3.15	3.17	3.12	3.05
IRFP of over 1 year (a)	4.06	3.99	3.91	3.88	3.85	3.79	3.73	3.69	3.65	3.60	3.54	3.52
Non-financial corporations												
IRFP of up to 1 year (a)	1.85	1.83	2.00	1.69	1.67	1.91	1.92	1.86	1.89	2.00	2.17	2.09
IRFP of over 1 year (a)	3.61	3.46	3.51	3.51	3.47	3.36	3.32	3.27	3.28	3.37	3.47	3.42

Euro area

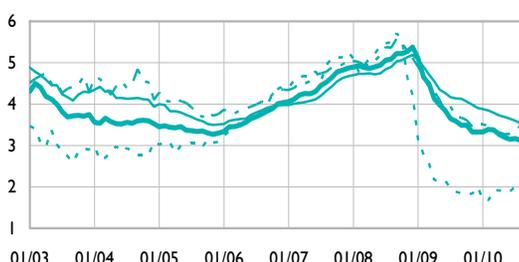
(percentage points)



— Consumer loans IRFP up to 1 year
- - - Housing loans IRFP of between 1 and 5 years
..... Non-financial corporations IRFP up to 1 year

France

(percentage points)



— Housing loans IRFP up to 1 year
- - - Housing loans IRFP over 1 year
..... Non-financial corporations IRFP up to 1 year
- . - . Non-financial corporations IRFP over 1 year

(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.

Table 26
Cost of credit – France

(%)

	2009		2010		
	Q3	Q4	Q1	Q2	Q3
Households – Average overall effective interest rate					
Consumer loans					
Overdrafts, revolving loans and instalment plans of over EUR 1,524	15.15	14.78	14.59	14.45	14.49
Personal loans over EUR 1,524	6.90	6.66	6.64	6.46	6.11
Loans for house purchase					
Fixed-rate loans	5.04	4.93	4.72	4.57	4.20
Floating-rate loans	4.59	4.44	4.29	4.01	3.79
Usury ceilings in effect from the 1st day of the mentioned period	2009	2010			
	Oct.	Jan.	April	July	Oct.
Households – Usury rate					
Consumer loans					
Overdrafts, revolving loans and instalment plans of over EUR 1,524	20.20	19.71	19.45	19.27	19.32
Personal loans over EUR 1,524	9.20	8.88	8.85	8.61	8.15
Loans for house purchase					
Fixed-rate loans	6.72	6.57	6.29	6.09	5.60
Floating-rate loans	6.12	5.92	5.72	5.35	5.05
	2009		2010		
	Q3	Q4	Q1	Q2	Q3
Business credit, loans to enterprises					
Discount					
up to EUR 15,245	1.75	1.52	1.74	1.75	2.01
EUR 15,245 to EUR 45,735	2.90	2.37	2.84	2.36	2.51
EUR 45,735 to EUR 76,225	2.79	2.34	2.57	2.56	2.57
EUR 76,225 to EUR 304,898	2.81	2.28	2.49	2.12	2.29
EUR 304,898 to EUR 1,524,490	2.12	1.81	1.95	1.97	2.05
over EUR 1,524,490	1.48	1.19	1.22	1.29	1.63
Overdrafts					
up to EUR 15,245	9.77	9.82	9.76	9.69	10.03
EUR 15,245 to EUR 45,735	7.21	6.85	6.85	6.78	7.45
EUR 45,735 to EUR 76,225	4.42	4.19	4.37	4.22	4.64
EUR 76,225 to EUR 304,898	3.06	2.76	3.03	2.83	3.09
EUR 304,898 to EUR 1,524,490	2.15	1.81	1.93	1.88	2.13
over EUR 1,524,490	1.82	1.56	1.27	1.38	1.73
Other short-term loans					
up to EUR 15,245	4.03	3.84	3.60	3.41	3.61
EUR 15,245 to EUR 45,735	3.91	3.46	3.39	3.25	3.32
EUR 45,735 to EUR 76,225	3.50	3.17	3.12	2.98	3.00
EUR 76,225 to EUR 304,898	2.75	2.59	2.52	2.39	2.47
EUR 304,898 to EUR 1,524,490	2.02	1.80	1.85	1.75	1.87
over EUR 1,524,490	1.67	1.43	1.46	1.49	1.69
Medium and long-term loans					
up to EUR 15,245	4.06	3.95	3.37	3.78	3.54
EUR 15,245 to EUR 45,735	4.11	3.81	3.27	3.52	3.40
EUR 45,735 to EUR 76,225	4.12	3.82	3.56	3.54	3.36
EUR 76,225 to EUR 304,898	4.04	3.86	3.64	3.58	3.33
EUR 304,898 to EUR 1,524,490	3.70	3.40	3.36	3.31	3.06
over EUR 1,524,490	2.81	2.64	2.58	2.73	2.64

Source: Banque de France.

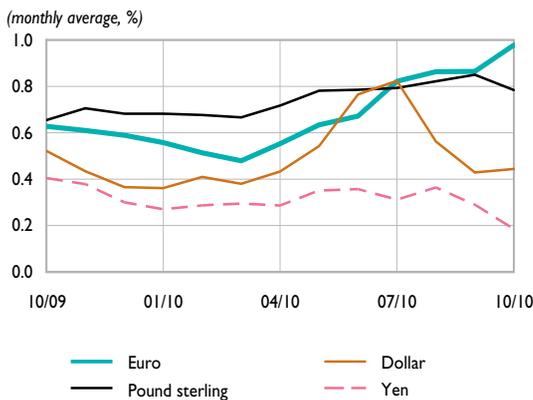
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Table 27
Interest rates

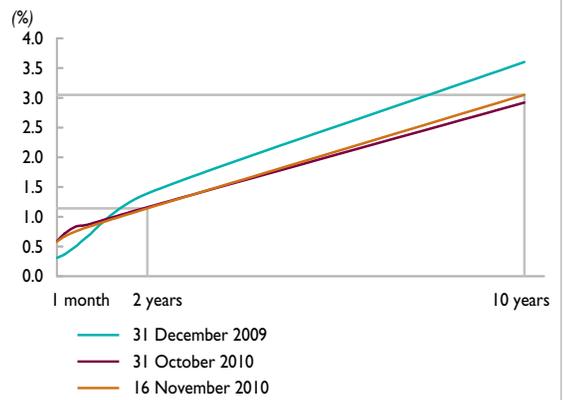
(%)

	Monthly average (a)										Key interest rates at 16/11/10
	2010										
	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	
Short-term interbank interest rates											
Euro											1.00
Overnight	0.35	0.34	0.31	0.33	0.34	0.36	0.47	0.39	0.45	0.69	
3-month	0.56	0.51	0.48	0.55	0.63	0.67	0.82	0.86	0.86	0.98	
1-year	1.18	1.14	1.10	1.11	1.13	1.19	1.33	1.39	1.33	1.43	
Pound sterling											0.50
Overnight	0.48	0.48	0.51	0.50	0.55	0.52	0.53	0.48	0.56	0.56	
3-month	0.68	0.68	0.67	0.72	0.78	0.79	0.79	0.82	0.85	0.78	
1-year	1.32	1.15	1.15	1.23	1.30	1.62	1.57	1.56	1.51	1.48	
Dollar											0.25
Overnight	0.18	0.19	0.21	0.24	0.29	0.30	0.29	0.23	0.21	0.23	
3-month	0.36	0.41	0.38	0.43	0.54	0.77	0.82	0.56	0.43	0.44	
1-year	0.97	0.93	0.91	1.11	1.34	1.38	1.20	1.09	1.06	0.94	
Yen											0.10
Overnight	0.20	0.22	0.18	0.15	0.15	0.15	0.15	0.10	0.11	0.11	
3-month	0.27	0.29	0.30	0.29	0.35	0.36	0.31	0.36	0.29	0.19	
1-year	0.54	0.56	0.57	0.57	0.70	0.73	0.63	0.70	0.61	0.48	
10-year benchmark government bond yields											
France	3.52	3.50	3.44	3.40	3.08	3.07	2.99	2.68	2.68	2.72	
Germany	3.28	3.19	3.13	3.09	2.80	2.63	2.65	2.37	2.34	2.38	
Euro area	4.10	4.11	3.98	4.16	3.68	3.70	3.62	3.44	3.50	3.34	
United Kingdom	3.97	4.03	4.02	4.00	3.71	3.48	3.38	3.07	3.02	2.97	
United States	3.74	3.71	3.75	3.86	3.44	3.22	3.01	2.70	2.66	2.52	
Japan	1.34	1.34	1.35	1.35	1.28	1.21	1.10	0.98	1.07	0.89	

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.

Table 28
Banking system liquidity and refinancing operations – Euro area

(EUR billions, daily average for the reserve maintenance period from 8 September to 12 October 2010)

	Liquidity providing	Liquidity absorbing	Net contribution
Contribution to banking system liquidity			
(a) Eurosystem monetary policy operations	686.1	133.8	552.4
Main refinancing operations	164.5		164.5
Longer-term refinancing operations	392.6		392.6
Standing facilities	0.7	68.9	-68.3
Other	128.3	64.8	63.5
(b) Other factors affecting banking system liquidity	571.4	910.5	-339.1
Banknotes in circulation		814.1	-814.1
Government deposits with the Eurosystem		96.4	-96.4
Net foreign assets (including gold)	531.3		531.3
Other factors (net)	40.0		40.0
(c) Reserves maintained by credit institutions (a) + (b)			213.2
<i>including reserve requirements</i>			<i>211.9</i>

Net contribution to banking system liquidity

(EUR billions, daily average for the reserve maintenance period from 8 September to 12 October 2010)

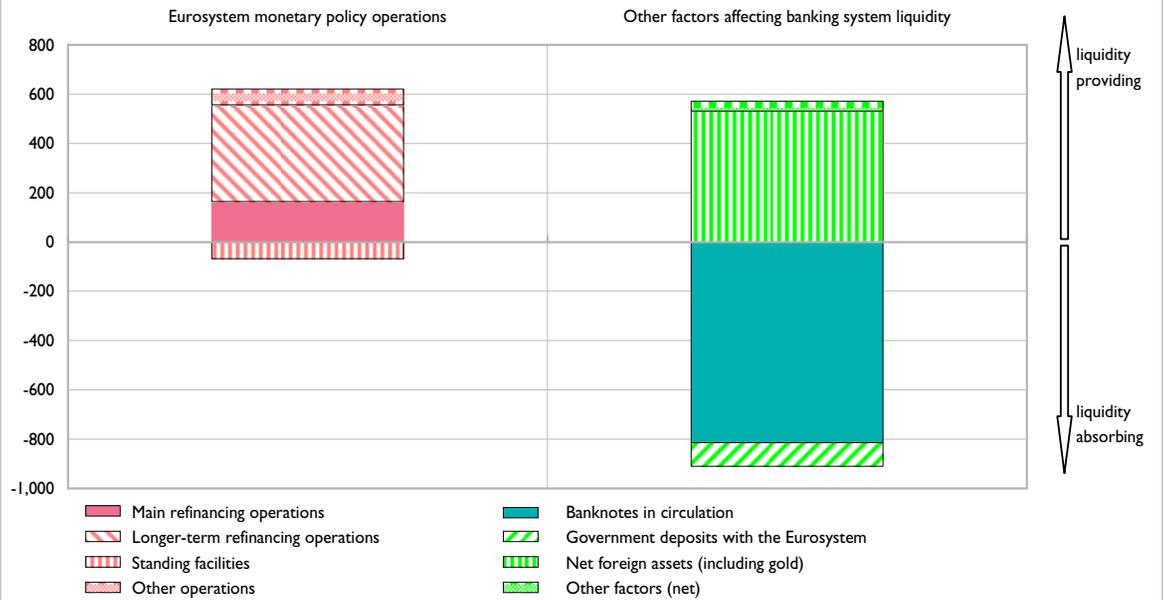


Table 29
Eurosystem key rates; minimum reserves

(%)

Key rates for the Eurosystem (latest changes)						
Main refinancing operations			Standing facilities			
Date of		Fixed rate	Date of		Deposit	Marginal lending
decision	settlement		decision	settlement		
05/03/09	11/03/09	1.50	05/03/09	11/03/09	0.50	2.50
02/04/09	08/04/09	1.25	02/04/09	08/04/09	0.25	2.25
07/05/09	13/05/09	1.00	07/05/09	13/05/09	0.25	1.75

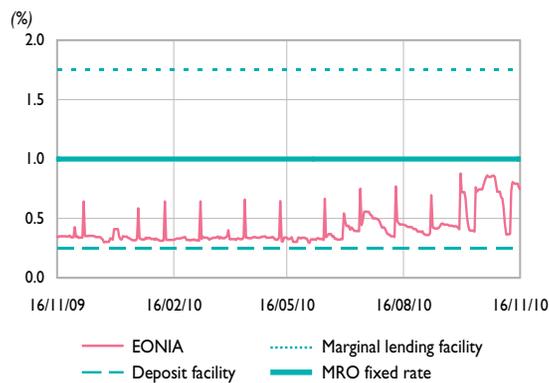
(%)

Main refinancing operations				Longer-term refinancing operations		
		Marginal rate	Weighted average rate			Marginal rate
2010	6 October (a)	1.00	1.00	2010	26 August	1.00
	13 October	1.00	1.00		9 September	1.00
	20 October	1.00	1.00		30 September	1.00
	27 October	1.00	1.00		13 October	1.00
	3 November	1.00	1.00		28 October	1.00
	10 November	1.00	1.00		10 November	1.00

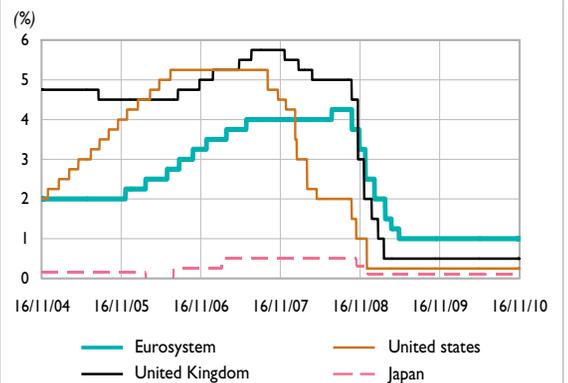
(EUR billions – rates as a %)

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		
2010	11 May	211.22	38.95	212.40	39.07	1.18	0.12	1.00	
	15 June	211.27	39.71	212.52	39.84	1.25	0.13	1.00	
	13 July	213.00	40.56	214.38	40.87	1.38	0.31	1.00	
	10 August	214.27	40.51	215.71	40.79	1.44	0.28	1.00	
	7 September	213.81	40.46	215.28	40.78	1.47	0.32	1.00	
	12 October	211.91	40.89	213.13	41.10	1.22	0.21	1.00	

Eurosystem key rates and EONIA



Central bank key rates



(a) Fixed rate tender procedure.

Sources: European Central Bank, ESCB.

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Table 30
Negotiable debt securities – France

Certificates of deposit			
	EUR billions (a)		Number of issuers
	Issues	Stocks	
14/08/10 to 20/08/10	86.33	356.56	190
21/08/10 to 27/08/10	88.32	357.97	189
28/08/10 to 03/09/10	90.54	347.47	191
04/09/10 to 10/09/10	91.81	346.95	191
11/09/10 to 17/09/10	96.89	350.08	193
18/09/10 to 24/09/10	94.54	352.09	191
25/09/10 to 01/10/10	95.48	326.70	189
02/10/10 to 08/10/10	89.67	334.63	190
09/10/10 to 15/10/10	90.99	332.18	191
16/10/10 to 22/10/10	94.80	336.44	192
23/10/10 to 29/10/10	96.34	333.94	192
30/10/10 to 05/11/10	86.91	340.08	191
06/11/10 to 12/11/10	88.34	334.64	191

Commercial paper			
	EUR billions (a)		Number of issuers
	Issues	Stocks	
14/08/10 to 20/08/10	11.95	60.65	84
21/08/10 to 27/08/10	9.97	62.68	83
28/08/10 to 03/09/10	11.61	61.14	87
04/09/10 to 10/09/10	6.58	60.51	86
11/09/10 to 17/09/10	10.80	63.50	86
18/09/10 to 24/09/10	7.46	62.53	83
25/09/10 to 01/10/10	6.41	62.77	83
02/10/10 to 08/10/10	9.18	59.71	85
09/10/10 to 15/10/10	13.18	64.52	86
16/10/10 to 22/10/10	8.14	59.70	87
23/10/10 to 29/10/10	14.19	64.18	88
30/10/10 to 05/11/10	7.35	63.74	83
06/11/10 to 12/11/10	8.75	64.62	84

Negotiable medium-term notes			
	EUR billions (a)		Number of issuers
	Issues	Stocks	
14/08/10 to 20/08/10	0.04	69.31	131
21/08/10 to 27/08/10	0.01	67.65	131
28/08/10 to 03/09/10	0.10	67.56	131
04/09/10 to 10/09/10	1.54	68.19	131
11/09/10 to 17/09/10	0.07	68.00	131
18/09/10 to 24/09/10	0.15	68.11	131
25/09/10 to 01/10/10	0.10	68.05	131
02/10/10 to 08/10/10	0.32	68.27	131
09/10/10 to 15/10/10	0.23	68.43	131
16/10/10 to 22/10/10	0.06	68.43	131
23/10/10 to 29/10/10	0.21	68.45	129
30/10/10 to 05/11/10	0.08	68.48	129
06/11/10 to 12/11/10	0.50	68.85	129

(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.

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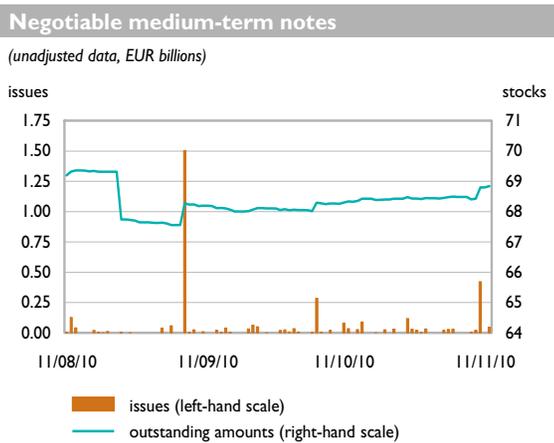
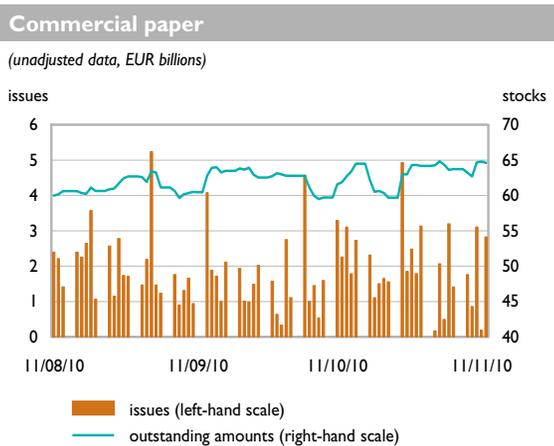
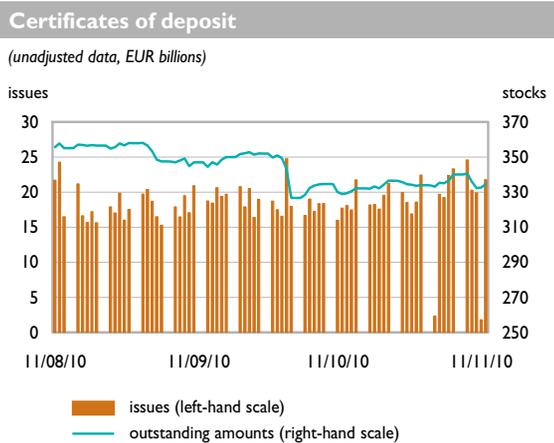
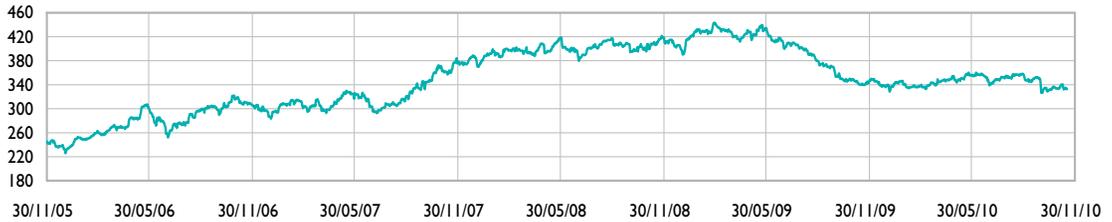


Table 3 I
Negotiable debt securities – France

Certificates of deposit

(daily outstanding amounts in EUR billions)



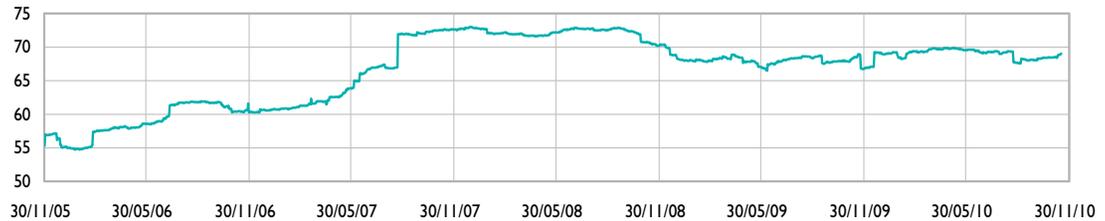
Commercial paper

(daily outstanding amounts in EUR billions)



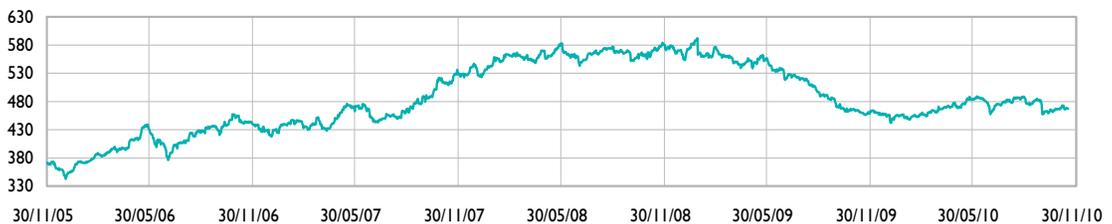
Negotiable medium-term notes

(daily outstanding amounts in EUR billions)



Negotiable debt securities, cumulated outstandings

(daily outstanding amounts in EUR billions)



Source: Banque de France.

Produced 18 November 2010

Table 32
Mutual fund shares/units – France

(EUR billions)

	2009	2010		2010
	Dec.	March	June	Sept.
Net assets of mutual fund shares/units by category				
Money-market funds	479.20	458.05	428.14	419.66
Bond mutual funds	178.57	205.91	201.00	
Equity mutual funds	255.97	267.97	246.38	
Mixed funds	261.13	262.28	257.87	
Funds of alternative funds	16.40	16.68	16.33	
Guaranteed-performance mutual funds	0.01	0.01	0.01	
Structured funds ("fonds à formule")	67.06	67.22	64.82	

Net assets of money-market funds

(EUR billions)

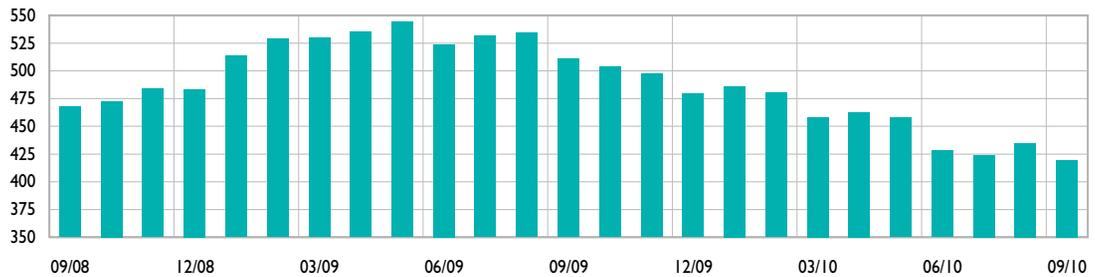


Table 33
Debt securities and quoted shares issued by French residents

(EUR billions)

	Outstanding amounts (a)		Net issues (b)			
	2009	2010	12-month total	2010		
	Sept. (c)	Sept. (c)		July (c)	Aug. (c)	Sept. (c)
Debt securities issued by French residents						
Total	2,846.6	3,080.4	211.3	24.2	11.1	27.9
Non-financial corporations	342.0	377.9	30.5	1.7	2.9	3.1
Short-term (≤ 1 year)	23.4	22.6	-0.8	0.9	0.7	0.5
Long-term (> 1 year)	318.6	355.2	31.3	0.8	2.3	2.6
General government	1,236.4	1,341.8	101.9	9.2	-0.9	13.0
Short-term (≤ 1 year)	236.1	241.6	3.9	3.5	-1.4	5.4
Long-term (> 1 year)	1,000.3	1,100.2	98.0	5.6	0.5	7.6
Monetary financial institutions	1,072.6	1,149.9	66.3	12.0	7.4	9.3
Short-term (≤ 1 year)	303.3	306.8	3.5	4.7	5.0	-3.3
Long-term (> 1 year)	769.3	843.0	62.8	7.4	2.4	12.6
Non-monetary financial institutions (d)	195.5	210.9	12.7	1.4	1.7	2.5

(EUR billions)

	Outstanding amounts (e)		Net issues (b)			Gross issues (f)	Repurchases (f)
	2009	2010	12-month total	2010		12-month total	12-month total
	Sept.	Sept.		Aug.	Sept.		
French quoted shares							
Total	1,242.3	1,277.9	25.7	0.5	0.9	28.1	2.4
Non-financial corporations	1,037.9	1,088.5	11.0	0.6	1.3	13.4	2.4
Monetary financial institutions	146.7	143.5	12.2	-0.1	-0.3	12.2	0.0
Non-monetary financial institutions	57.7	46.0	2.6	0.0	-0.1	2.6	0.0

(a) Nominal values for outstanding amounts of debt securities.

(b) Monthly data are seasonally adjusted. The 12-month total is unadjusted.

(c) Data possibly revised.

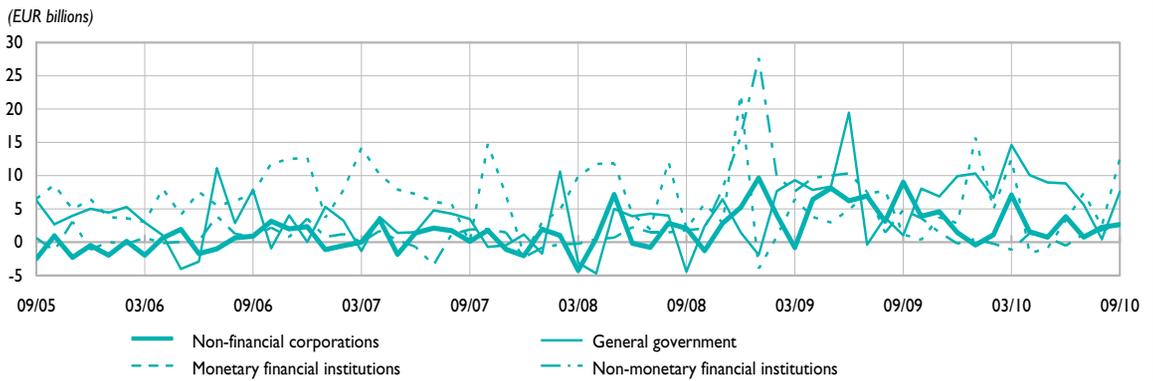
(d) Including units issued by SPVs.

(e) Market values for outstanding amounts of quoted shares.

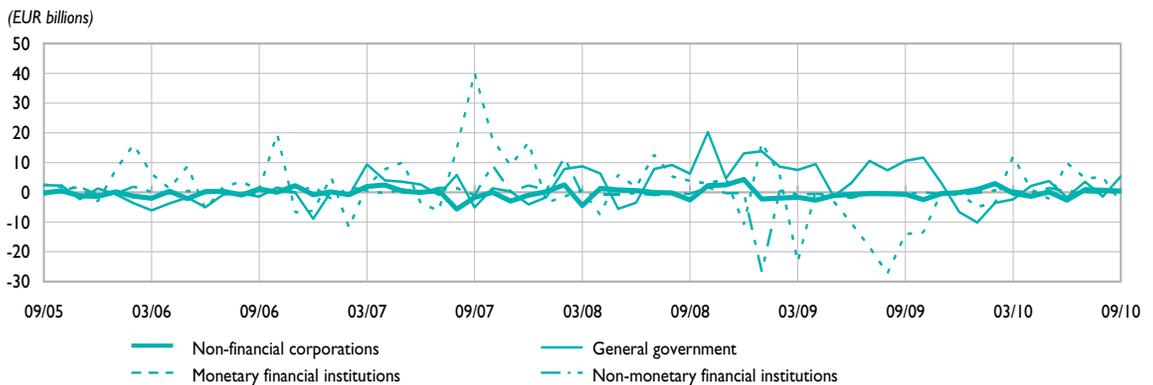
(f) Non-seasonally adjusted data.

Table 34
Debt securities and quoted shares issued by French residents, by sector

Net issues of long-term debt securities by French residents (seasonally adjusted)



Net issues of short-term debt securities by French residents (seasonally adjusted)



Net issues of quoted shares by French residents (seasonally adjusted)

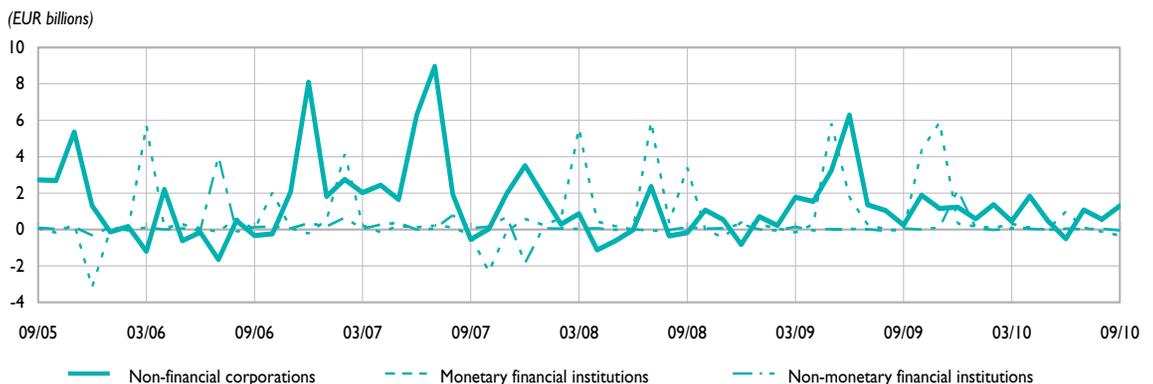


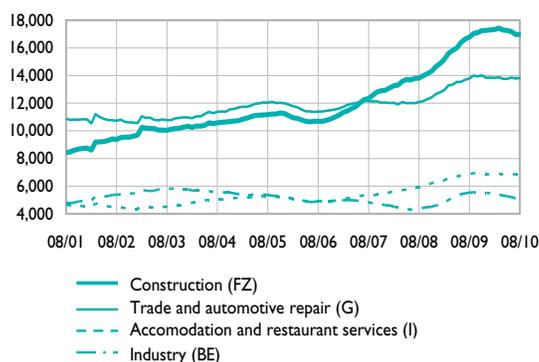
Table 35
Company failures by economic sector – France

(number of companies, unadjusted data, 12-month total)

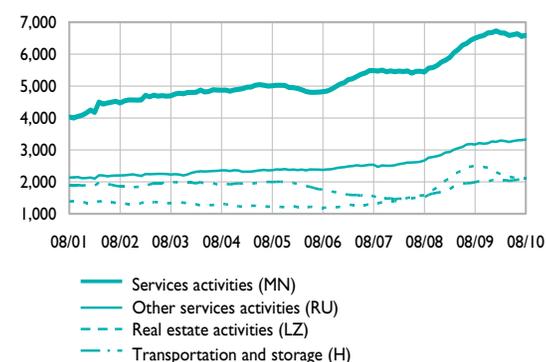
	2009					2010							
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.
Agriculture, forestry and fishing (AZ)	1,338	1,359	1,369	1,354	1,341	1,361	1,383	1,372	1,353	1,356	1,349	1,344	1,342
Industry (BE)	5,518	5,550	5,502	5,518	5,502	5,488	5,458	5,389	5,311	5,264	5,192	5,099	5,091
Construction (FZ)	16,782	17,050	17,116	17,265	17,278	17,308	17,337	17,439	17,294	17,259	17,182	16,984	16,977
Trade and automotive repair (G)	13,788	14,002	13,946	14,012	13,828	13,858	13,829	13,869	13,774	13,754	13,847	13,788	13,817
Transportation and storage (H)	1,988	2,022	2,020	2,009	2,050	2,058	2,060	2,062	2,031	2,051	2,067	2,090	2,092
Accommodation and restaurant services (I)	6,844	6,947	6,873	6,855	6,846	6,867	6,881	6,901	6,835	6,812	6,858	6,854	6,837
Information and communication sector (JZ)	1,606	1,627	1,626	1,649	1,677	1,677	1,713	1,698	1,667	1,688	1,692	1,658	1,656
Financial and insurance activities (KZ)	1,121	1,115	1,127	1,133	1,135	1,141	1,116	1,099	1,092	1,090	1,101	1,105	1,098
Real estate activities (LZ)	2,499	2,493	2,463	2,443	2,364	2,299	2,238	2,226	2,162	2,135	2,104	2,109	2,102
Services activities (MN)	6,504	6,550	6,589	6,668	6,675	6,732	6,669	6,664	6,589	6,610	6,641	6,561	6,590
Education, health and social work (OO)	1,371	1,382	1,341	1,301	1,296	1,295	1,321	1,331	1,319	1,334	1,329	1,342	1,345
Other services activities (RU)	3,169	3,214	3,193	3,208	3,264	3,253	3,293	3,278	3,250	3,277	3,299	3,307	3,322
Sector unknown	126	123	119	119	110	104	110	108	105	105	104	106	105
Total sectors	62,654	63,434	63,284	63,534	63,366	63,441	63,408	63,436	62,782	62,735	62,765	62,347	62,374

Company failures – 12-month total

(number of companies – unadjusted data)



(number of companies – unadjusted data)



NB: The two-letter codes correspond to the aggregation level A10, and the one-letter codes to revised NAF sections 2 A21.

Source: Banque de France.

Produced 18 November 2010

Table 36
Retail payment systems – France

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

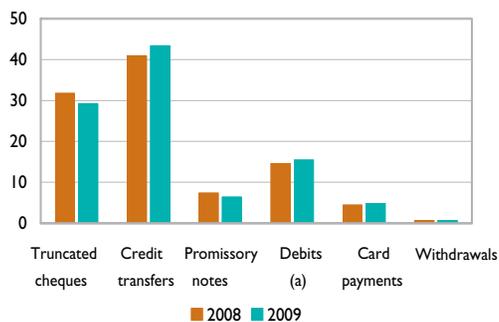
	2006	2007	2008	2009	2010			2010
					Aug.	Sept.	Oct.	Share
Cheques	7,132	6,974	6,533	5,700	4,589	5,256	6,060	28.9
Credit transfers	7,342	7,904	8,413	8,473	7,939	8,760	9,163	43.7
of which SEPA credit transfers	–	–	29	95	809	856	949	4.5
Promissory notes	1,593	1,555	1,523	1,250	1,138	1,097	1,055	5.0
Direct debits	1,705	1,739	1,814	1,801	1,632	1,773	1,999	9.5
Interbank payment orders	155	150	147	143	63	194	309	1.5
Electronic payment orders	842	975	1,061	1,082	892	1,269	1,237	5.9
Card payments	819	864	921	957	985	957	1,015	4.8
ATM withdrawals	139	140	142	143	153	135	139	0.7
Total	19,727	20,300	20,554	19,550	17,390	19,440	20,978	100.0

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

	2006	2007	2008	2009	2010			2010
					Aug.	Sept.	Oct.	Share
Cheques	12,159	11,561	10,996	10,287	7,911	9,093	10,004	19.4
Credit transfers	7,239	7,344	7,425	7,527	6,444	7,310	7,726	15.0
of which SEPA credit transfers	–	–	13	38	301	317	351	0.7
Promissory notes	390	370	355	334	302	281	298	0.6
Direct debits	7,628	7,863	7,864	8,163	8,105	7,982	8,525	16.5
Interbank payment orders	491	458	425	394	270	411	575	1.1
Electronic payment orders	27	38	47	56	44	64	108	0.2
Card payments	17,339	18,146	19,219	20,542	21,380	20,736	22,001	42.6
ATM withdrawals	2,497	2,467	2,462	2,454	2,456	2,330	2,377	4.6
Total	47,771	48,248	48,794	49,757	46,913	48,209	51,613	100.0

Market share developments
for main non-cash means of payment

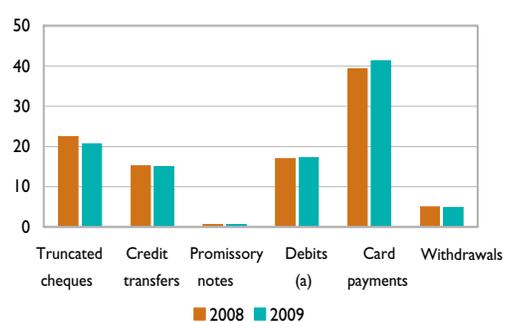
(% of amounts exchanged)



Market share developments

for main non-cash means of payment

(% of volumes exchanged)



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

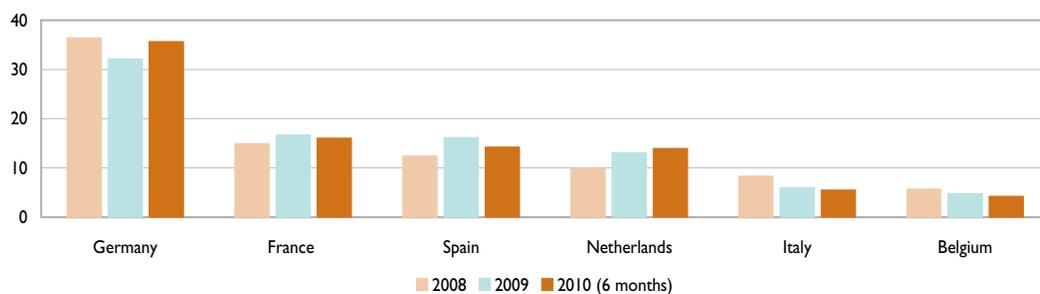
Table 37
Large-value payment systems – EU

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

	2006	2007	2008	2009	2010			2010
					July	Aug.	Sept.	Share
France	530	569	398	367	381	330	366	16.2
Germany	591	711	972	707	893	786	821	36.4
Austria	31	35	59	28	27	27	27	1.2
Belgium	76	104	152	106	94	83	92	4.1
Cyprus	–	–	1	2	2	1	1	0.1
Spain	296	344	331	356	345	319	323	14.3
Finland	15	24	33	28	37	30	33	1.5
Greece	27	33	30	29	32	23	29	1.3
Ireland	26	29	32	30	28	29	33	1.5
Italy	148	165	221	133	134	123	133	5.9
Luxembourg	31	39	60	40	41	38	38	1.7
Malta	–	–	0	0	0	0	0	0.0
Netherlands (a)	100	121	264	287	327	295	282	12.5
Portugal	13	13	16	17	23	19	22	1.0
Slovakia	–	–	–	3	2	3	2	0.1
Slovenia	–	2	2	2	2	2	2	0.1
EPM-ECB	20	27	43	47	37	34	33	1.5
Total TARGET2 euro area (b)	1,904	2,217	2,614	2,182	2,405	2,142	2,238	99.3
Non-euro area	188	202	53	16	16	13	15	0.7
Total TARGET2 EU (b)	2,092	2,419	2,667	2,198	2,421	2,155	2,253	100.0
Euro1 (c)	189	228	287	255	242	221	229	

Market share of each financial centre in the TARGET2 system

(% of turnover)



The sum of the components may not be equal to the total (or to 100) due to rounding.

Since January 2009, a new methodology for collecting and reporting statistics has been established on the TARGET2 data to improve data quality. This must be taken into account when comparing 2009 data with previous data.

(a) Since 19 May 2008, the operations of the United Kingdom pass in transit by this country.

(b) Variable composition according to the countries which participate in the systems of payment in euro.

(c) Euro1 (EBA): clearing system of the Euro Banking Association. Euro1 data include retail payments recorded in STEP1.

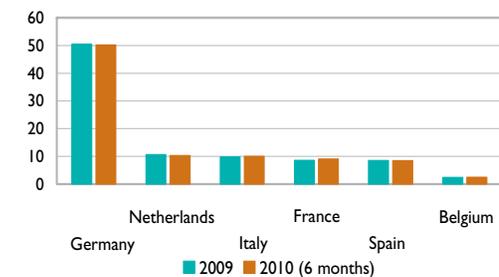
Table 38
Large-value payment systems – EU

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

	2006	2007	2008	2009	2010			2010
					July	Aug.	Sept.	Share
France	17,953	19,192	25,992	29,773	32,600	27,957	31,879	9.7
Germany	148,613	164,187	181,625	174,695	173,733	161,351	166,885	50.8
Austria	13,073	15,222	14,199	6,539	5,348	5,260	5,188	1.6
Belgium	6,802	7,993	9,884	8,517	8,889	7,926	9,169	2.8
Cyprus	–	–	392	389	520	426	490	0.1
Spain	37,439	41,792	36,167	29,580	30,280	23,569	27,565	8.4
Finland	1,223	1,392	1,587	1,652	1,527	1,491	1,552	0.5
Greece	5,951	6,334	5,117	5,692	5,752	4,970	5,428	1.7
Ireland	4,775	5,334	5,139	4,824	5,152	4,727	4,700	1.4
Italy	42,934	45,111	36,491	33,943	33,382	27,528	31,638	9.6
Luxembourg	2,631	3,399	3,037	2,847	3,028	2,744	3,012	0.9
Malta	–	–	50	59	66	64	58	0.0
Netherlands (a)	17,849	27,685	37,745	36,930	31,635	28,884	29,719	9.0
Portugal	4,190	4,774	5,072	4,191	4,288	3,994	4,183	1.3
Slovakia	–	–	–	606	547	552	537	0.2
Slovenia	–	3,152	3,018	3,073	3,004	2,784	2,941	0.9
EPM-ECB	156	169	176	312	331	338	334	0.1
Total TARGET2 euro area (b)	303,589	345,738	365,690	343,621	340,082	304,565	325,279	98.9
Non-euro area	22,607	20,442	4,277	2,364	3,394	3,176	3,474	1.1
Total TARGET2 EU (b)	326,196	366,179	369,967	345,985	343,476	307,740	328,754	100.0
Euro1 (c)	187,163	211,217	250,766	227,674	233,593	210,703	226,394	

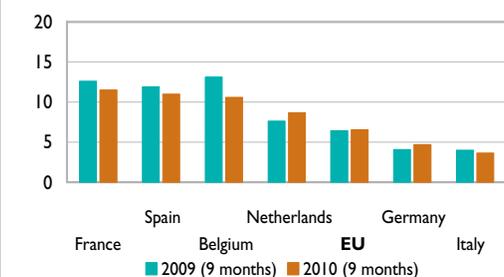
Market share of each financial centre in the TARGET2 system

(% of volumes exchanged)



Average transaction amount in the TARGET2 system

(EUR millions)



The sum of the components may not be equal to the total (or to 100) due to rounding.

Since January 2009, a new methodology for collecting and reporting statistics has been established on the TARGET2 data to improve data quality. This must be taken into account when comparing 2009 data with previous data.

(a) Since 19 May 2008, the operations of the United Kingdom pass in transit by this country.

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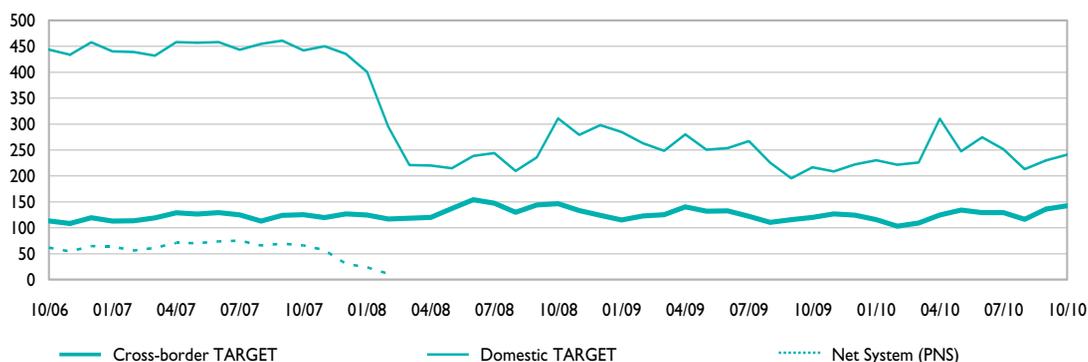
Table 39
Large-value payment systems – France

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

	2006	2007	2008	2009	2010			2010
					Aug.	Sept.	Oct.	Share
Collateral used in domestic TARGET (b)								
French negotiable securities	14.2	11.5	51.2	114.6	106.5	108.4	93.3	29.6
Private claims	7.4	18.6	79.9	129.0	152.8	152.9	152.2	48.2
Securities collateralised through CCBM	7.2	7.2	62.8	79.9	72.3	68.0	66.1	21.0
Other securities (c)	8.4	8.8	8.2	7.9	7.8	6.6	3.9	1.2
Total	37.2	46.1	202.1	331.3	339.4	335.9	315.5	100.0

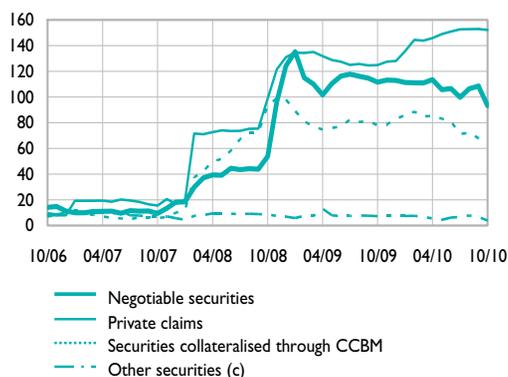
Monthly change in amounts exchanged in French payment systems (a)

(EUR billions, daily average)

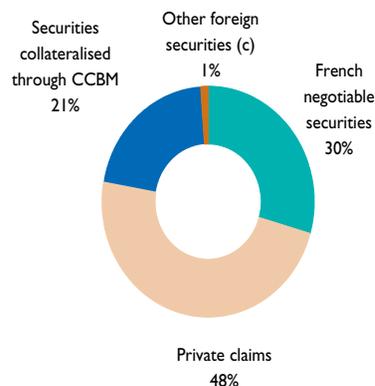


Monthly change in collateral (b)

(EUR billions, daily average)



Collateral used in October 2010 (b)



(a) Since 18 February 2008, TBF (the French component of TARGET) and PNS systems have been replaced by TARGET2-Banque de France, the single French large-value payment system.

(b) Until 15 February 2008, the indicated amounts corresponded to collateral used for intraday credit in TBF. Since the go-live of the "3G" system (Global management of collateral) and TARGET2-Banque de France on 18 February 2008, the amounts represent the collateral posted in a single pool of assets and that can be used for monetary policy and/or intraday credit operations.

(c) Other foreign securities submitted via links between securities settlement systems.

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