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The Banque de France company rating system: a tool to facilitate companies' access to bank credit

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The rating of non-financial corporations forms a central part of the Banque de France's missions as it relates directly to its role in analysing the economic environment, implementing monetary policy and ensuring prudential oversight. Given the importance of these tasks, the rating system has to comply with highly specific regulations governing the conduct of credit rating activities, especially those regarding the default rate by rating grade.

Based on a "human" approach, with assessments carried out by its network of local branches, the Banque de France's rating system covers a large number of companies, making it unrivalled both in France and Europe. In spite of this, it remains largely unknown to the general public, notably due to the confidential nature of the ratings attributed.

The Banque de France's rating activities are governed by strict legal and regulatory frameworks which provide a guarantee of quality. However, the Bank also needs to reconcile these requirements with its own demands for efficiency, and is constantly seeking ways to provide the best possible service at the lowest possible cost. As part of this approach, it regularly reassesses its model to ensure its relevance and identify possible areas for improvement. It has also equipped itself with a statistical analysis system to complement its existing "expert assessment" approach, in order to shore up its ratings in response to changes in the economic and regulatory environment since 2008.

Over the years, the Banque de France has thus developed its own specific approach to the assessment of credit risk, one that is geared towards facilitating relationships between banks and the business sector, and which differs from that of the credit rating agencies both in terms of objectives and underlying model.

Keywords: rating, Banque de France, monetary refinancing operations, ICAS, ECAF, Eurosystem, banks, non-financial corporations, credit risk, default.

JEL codes: E5, D81.

I | Company ratings: a credit risk assessment that serves as the foundation for bank-company relationships

I | I A credit risk assessment designed for both rated companies and credit institutions

The ratings attributed by the Banque de France reflect its opinion of a company's ability to meet its financial commitments over the next three years. They consist of a turnover rating, which indicates the company's level of turnover, and a credit rating, which indicates the company's credit risk on a scale of thirteen levels of exposure (see Box 1).

The Banque de France has rated around 7 million non-financial corporations. It is important to note, however, that it carries out two different types of assessment. On the one hand, companies with turnover in excess of EUR 0.75 million and domiciled in France are rated on the basis of their accounting documents and can therefore be assigned the full range of credit risk and turnover ratings. This "expert assessment" approach, which is the focus of this article, is used for 270,000 companies (including around 4,700 groups with consolidated financial statements).

Box 1

How to use the Banque de France's company ratings

The Banque de France's company ratings are synthetic indicators made up of two components:

- A turnover rating, indicated by the letters A (EUR 750 million or more) to M (less than EUR 0.10 million). A rating of N, meaning "not significant", is assigned to companies with no direct industrial or commercial activity; as a result, their level of turnover cannot be taken as a measure of their real economic activity (e.g. holdings). The rating X corresponds to companies whose turnover is unknown or out of date (i.e. it corresponds to a financial year which closed more than twenty-one months ago).*
- A credit rating, which can be one of thirteen values (0, 3++, 3+, 3, 4+, 4, 5+, 5, 6, 7, 8, 9, P). A rating of 0 indicates that the Banque de France has received no unfavourable information on the company. The next four ratings, in descending order of quality, are: 3++, 3+, 3 and 4+. The ratings 7, 8 and 9 indicate an increasing frequency of payment incidents and, for 9 in particular, very weak cash flow. A rating of P is given to companies undergoing insolvency proceedings (turnaround procedure or receivership).*

The remaining non-financial companies are given a rating based solely on information collected by the Banque de France from sources such as court registries and the national payment incidents database, and not on their financial statements. If no accounting documents or unfavourable information are collected, the company is automatically assigned a credit rating of 0.

Company ratings are strictly confidential. They are governed by the French Monetary and Financial Code, Article L144-1 of which lists the institutions/entities which may have access to the information. These are primarily:

- the rated companies themselves, which can only access their own rating;
- banks.

In addition, the banking and financial law of 22 October 2010 specified that credit insurers and guaranty insurers may also consult the FIBEN database – a fee-paying service providing access to company accounting statistics and to the list of Banque de France ratings.

Once a company has been assigned a rating, its managers are automatically informed of the score. Under the Data Privacy Act of 6 January 1978, managers can also request a one-on-one meeting with the Banque de France to obtain a full explanation of the rating awarded to their company.

I | 2 Banque de France ratings and agency ratings: different models with a shared objective

On the surface, the Banque de France's expert assessment approach is very similar to the activities of the credit rating agencies (CRAs). Both have the same goal: to evaluate the potential risk faced by a lender advancing funds to a borrower, that is the risk that the borrower may default on its financial commitments. However, the underlying economic model for the Bank's rating system is markedly different from that used by CRAs:

- the Bank does not rate financial instruments, but focuses exclusively on the credit risk of non-financial companies domiciled in France;
- its ratings are not made public and are only communicated to the banking, credit insurance and guaranty insurance professions, which are bound by strict confidentiality rules;

- the rating process is usually carried out at the Banque de France's instigation, and the Bank receives no remuneration from the companies it analyses. This significantly reduces the risk of conflicts of interest. The cost of the rating service is recouped through the subscriptions paid by FIBEN subscribers.

As a result, **the Banque de France cannot be classified as a CRA**. Due to its specific characteristics, it is exempt from Article 2.2 d) of European Regulation No. 1060/2009 of 16 September 2009 and is not registered as a rating agency with the European Securities and Markets Authority (ESMA). Moreover, unlike credit scoring agencies, its ratings are based on individual expert assessments.

However, given that the Banque de France's company ratings constitute financial information which can be used by banks in their financing activities, they face intense competition from the CRAs and from other specialised agencies attributing their own credit scores. This places an even greater onus on the Bank to provide high quality ratings, adding to the requirements already laid down under the regulatory framework.

2| Company ratings: a tool to facilitate corporate financing

The Banque de France is sometimes asked why a central bank should carry out rating activities when this role is usually reserved for CRAs. One response is that it is in the interest of competition, as banks thus have access to a diversified offering and are not overreliant on CRAs. However, this provides only a partial picture, as the Bank did not develop its ratings service simply as an alternative to the agencies. In fact, credit assessment is one of the Bank's long-standing activities, and is integral to its other core missions. Its rating process is also very different from that of the agencies: while the Banque de France's credit ratings serve some of the same functions as those of the CRAs, they are based on a very different economic model and are primarily intended as a cost-effective tool to facilitate companies' access to bank credit.

2 | I The role of ratings in the provision of credit to companies

The Banque de France's ratings are used by credit institutions both to inform their decision-making and to evaluate their exposure to counterparty risk. For company managers, they provide a gauge of how the company is viewed externally by an independent institution, and can thus be used as a benchmark in negotiations with banks.

Consequently, the information collected and assessed by the Banque de France is an important tool in bank-company relationships, one which helps both parties evaluate the challenges and risks associated with the provision of credit. More specifically, the Banque de France's ratings:

- provide credit institutions with information on the quality of the financial commitments they are about to make or have already made;
- help company managers to identify the factors affecting the external evaluation of their financial position, and notably their credit risk;
- facilitate dialogue between banks and companies by providing a shared and universally recognised point of reference, at no charge to the companies themselves.

As the Banque de France has been recognised as an External Credit Assessment Institution (ECAI) since 2007, its ratings can be used by credit institutions to calculate the amount of regulatory capital required to cover the risks linked to their business lending activities. The *Autorité de contrôle prudentiel et de résolution* (ACPR – French Prudential Supervision and Resolution Authority) keeps an up-to-date list of approved ECAIs, and maps each of their credit assessment grades to the corresponding credit quality steps (Article L511-44 of the French Monetary and Financial Code).

Although the principal banks have chosen to develop their own in-house credit assessment tools, the Banque de France's status as an ECAI means its ratings can provide a useful complement to help banks better assess the credit risk posed by existing or potential clients. The ratings can also be used as a reference and a source of information to help ensure the banks' internal models are reliable.

2|2 The role of ratings in facilitating banks' access to Eurosystem refinancing

In order to grant loans to businesses, banks need to be able to refinance themselves via the European Central Bank (ECB). As the Banque de France is a member of the Eurosystem with an approved in-house credit assessment system (and not by virtue of its recognition as an ECAI), its ratings can be used to gauge the credit standard of assets pledged as collateral in refinancing operations. Central bank refinancing can be secured against various types of collateral, including credit claims; however the bank pledging the collateral must be able to furnish a corresponding credit risk assessment issued by one of the four sources recognised by the Eurosystem (see Box 2).

Box 2

Operational framework for Eurosystem monetary policy operations

Following the application on 1 January 2007 of the Single List of eligible collateral, the ECB set up the ECAF (Eurosystem Credit Assessment Framework), a harmonised framework for assessing the credit standard of eligible assets. The ECAF defines the procedures, rules and techniques which ensure that all assets pledged as collateral in monetary policy and overnight lending operations meet the Eurosystem requirement of high credit standards.

In determining the credit standard of eligible assets, the Eurosystem takes into account information from credit assessment systems belonging to one of four sources, namely:

- external credit assessment institutions (ECAIs);
- national central banks' in-house credit assessment systems (ICASs), such as that of the Banque de France;
- counterparties' internal ratings-based (IRB) systems, which have been approved by the banking regulator;
- third-party providers' rating tools (RTs).

To guarantee the consistency, quality and comparability of these four credit assessment sources, the Eurosystem has defined validation criteria for each of the sources, and regularly verifies that their performance meets its pre-defined credit standard thresholds.

The in-house credit assessment systems (ICASs) which have been approved for non-financial corporations are those of the Deutsche Bundesbank, the Banco de España, the Banque de France, the Oesterreichische Nationalbank, the Banca d'Italia and, since 2013, the Banque Nationale de Belgique and Banka Slovenije.

In order to be eligible as collateral for monetary policy operations, loans to non-financial corporations must meet the criteria defined by the Eurosystem (see Box 3). The assets must notably be of a high credit standard, assessed using ECAF rules.

Central banks which have been approved as ICASs within the Eurosystem are not in competition with each other as they only assess companies domiciled in their own country. Their credit assessment systems do, however, provide a strong competitive advantage to their domestic banks

Box 3**ECAF credit quality eligibility criteria**

The minimum credit quality requirement for credit claims is step 3 in the Eurosystem's harmonised rating scale, which corresponds to a maximum probability of default over a one-year horizon of 0.40%. Credit quality step 3 is equivalent to a Banque de France rating of 4+, or a long-term rating of BBB- from Fitch Ratings or Standard & Poor's, Baa3 from Moody's or BBBL from DBRS.

However, to increase the ability of euro area banks to finance the economy, the ECB Governing Council decided, on 9 February 2012, to approve specific eligibility criteria so that NCBs can temporarily accept additional credit claims as collateral in Eurosystem credit operations. As a result, the Banque de France has temporarily lowered its minimum credit quality requirement for additional credit claims to step 4 in the Eurosystem harmonised scale. This corresponds to a maximum probability of default over a one-year horizon of 1.5% instead of 0.40%, and is the equivalent of a Banque de France ECAF rating of 4.

The extension of the scope of eligible credit claims in no way modifies the eligibility criteria for assets in the Single List of collateral (the "permanent framework"); the step 4 additional credit claims temporarily accepted by the Banque de France are part of a separate, complementary list (the "temporary framework"). The main feature of the operations which can be guaranteed by this temporary list of assets is that the credit risk is ultimately borne by the Banque de France whereas, for operations guaranteed by assets on the Single List, the risk is shared across the Eurosystem.

and, by extension, domestic companies, as they increase the volume of collateral eligible for use in refinancing operations. The Banque de France has the particular advantage of covering a large number of companies on the basis of their accounting documents in comparison with the other ICAS-recognised national central banks (which cover between 100 and 17,000 each).

At end-2013, some 36% of the 270,000 companies assessed by the Banque de France were rated between 3++ and 4+, while 26% were rated 4. The Bank also covers small and medium-sized companies, as well as large corporations, as the minimum turnover threshold for assessment is set at EUR 750,000 – 95% of the companies with a rating that makes them eligible for refinancing operations have annual turnover of less than EUR 50 million. Banks that use Banque de France ratings to grade their credit claims thus have access to a very large pool of eligible collateral, which in turn helps finance the business sector.

The availability of this vast pool of eligible assets probably explains why French banks have pledged such a large share of credit claims in monetary refinancing operations. In 2013, some 36% of the collateral pledged by French banks took the form of credit claims that met the permanent framework eligibility criteria. In comparison, throughout the broader Eurosystem, non-marketable instruments, which essentially comprise credit claims and term deposits, accounted for an average 25% of all assets pledged as collateral in 2013.¹

3| Legal framework and regulatory requirements

The Banque de France's company rating activities are subject to both national and European legal requirements: at national level, they must comply with Article L141-6 of the French Monetary and Financial Code and the 2nd public service contract signed with the government; at European level they are subject to the regulatory requirements applicable to ICASs and ECAIs. Together, these stipulations form a strict framework that provides a guarantee of quality and efficiency.

3| I A stabilised national framework

There are no legal or regulatory provisions specifically mandating the Banque de France to carry out rating activities. As a result, the task, which can be traced back to a General Council order of 10 September 1987, falls under the scope of the general provisions of Article L141-6 of the French Monetary and Financial Code, which entitle the Bank to ask industrial and commercial companies for all documents and information necessary for the fulfilment of its core tasks.

The public service contract signed by the Banque de France and the government makes the following reference to company rating activities: *"The Banque de France's regional directorates, which maintain relationships with businesses – notably those benefiting from a credit rating – local authorities and decentralised government services, are centres of expertise for the analysis and diagnosis of the economic situation in the regions."*

¹ Source: European Central Bank Annual Report 2013; Eurosystem.

The public service contract specifies that all the Banque de France's activities, and therefore its rating activities, should be based on the following four principles:

- expertise: the Bank should limit its work to those areas in which it has unquestionable and publicly recognised technical expertise, such as activities which rely on its skills in the economic and financial analysis of companies and their environment;
- neutrality: as a national central bank, the Banque de France may not participate in any management activities or represent any particular interests;
- confidentiality: under Article L142-9 of the French Monetary and Financial Code, all Banque de France staff are bound by professional secrecy;
- cost control: this is a constant concern for the Bank as its capital belongs to the French government. Under this principle, certain tasks that incur high costs for the Bank can be re-invoiced to their beneficiaries.

To provide an appropriate framework of compliance for its company rating service, that meets the rules specified in the public service contract, the Banque de France has established a code of conduct² which acts as a guarantee of quality, integrity and transparency. The code sets out the legal and regulatory requirements which Banque de France analysts must observe to avoid conflicts of interest and guarantee their independence. It notably comprises:

- the compliance rules that analysts must observe, as well as specific standards of conduct applicable to rating activities;
- procedures to ensure the quality and integrity of the rating process (formal chain of decision-making, traceability of the rating process, quality control and collegiality);
- the measures taken to ensure transparency, both in terms of rules for accessing the ratings and publication of the methodology.

This body of rules is inspired largely by the principles defined by the International Organisation of Securities Commissions (IOSCO) for CRAs.

² The code of conduct for the Banque de France's company rating activities is available at https://www.banque-france.fr/fileadmin/user_upload/banque_de_france/publications/DR2011-19.pdf

3 | 2 An increasingly detailed and strict European framework

To ensure the consistency and comparability of its approved credit assessment sources, the Eurosystem regularly examines their performance and carries out back-tests to verify that the rate of default of eligible borrowers does not exceed pre-defined thresholds.

The Banque de France's rating activities are thus subject to extremely stringent rules: pools of eligible ratings must meet, ex post, the targets set by the Eurosystem, and failure to do so means that the rating system will not be eligible for use in the assessment of credit claims pledged in refinancing operations.

Moreover, to further reduce the risk of monetary policy operations and harmonise the measurement tools used by ICASs to assess their rating systems, the Eurosystem decided, as of January 2012, to replace the notion of "failure" with that of "default" as defined in the Basel II Accord, but without modifying the underlying credit quality thresholds. A "Basel default" is mainly considered to have occurred when payments on a bank loan are past due. To retain its status as an ICAS, the Banque de France is now required to comply with the annual default rate threshold, rather than the failure threshold – i.e. 0.10% and 0.40% for eligible ratings (equivalent to Banque de France ratings 3 and 4+ respectively). In the case of rating 4, which is temporarily eligible, the threshold is 1.50%.

As with its ICAS status, the Banque de France's ranking as a Eurosystem ECAI is conditional on it meeting strict performance criteria. Each of its credit ratings has to comply with a target rate of default over a three-year horizon, to ensure that the assessments provided are justified and consistent with the credit quality steps defined under European prudential regulations.

As an ECAI, the Bank also has to comply with the international criteria applicable to credit risk assessment systems, that is:

- objectivity of the rating method and results;
- independence of the rating production process;
- regular review of ratings;
- transparency and disclosure with regard to methodology;
- credibility and market acceptance, i.e. the credit ratings of ECAIs must be regarded as reliable and credible by the users.

The ratings are regularly assessed by the competent authorities to ensure they are valid, notably by verifying the associated default rate. In line with its regulatory obligations, the Banque de France also publishes performance indicators on its website, in the form of the default rate over a one-year, two-year or three-year horizon for each category of risk.

The different regulations form a stringent framework which obliges the Bank to pay constant attention to the quality and performance of its credit assessment system.

4| The Banque de France company rating system: an individual expert assessment

Rather than using automated rating systems or focusing exclusively on financial data, the Banque de France rating process consists of a qualitative assessment of each company, carried out in person by its own analysts. The evaluation is usually conducted at the Bank branch in the area where the company is located, to ensure greater insight; a number of scores may be incorporated, but these are only used as complementary information and do not form the basis of the assessment. This personal approach, which is repeated each year and covers some 270,000 companies, is unique both in France and Europe.

4| I Elements taken into account

The information used to calculate the ratings (accounting data, bank loans, payment incidents, descriptive and qualitative data, etc.) is managed in a specific information system known as FIBEN (the company banking database).

4| I | Corporate accounting data

Each year, the Banque de France uploads the balance sheets and income statements of the companies it covers into the FIBEN accounting database. Except in specific cases, accounting data is only collected for companies with pre-tax turnover of EUR 750,000 and above. The data are mainly taken from the standardised documents contained in company tax returns; tax returns are among the principal elements taken into account in assessing a company's financial situation.

4|1|2 Non-accounting data

This consists of information obtained from a variety of sources, which is added to the accounting documentation in order to produce a more complete analysis. It is uploaded into the following FIBEN databases:

- the descriptive database, containing data from national statistics office Insee and from commercial court registries, and which describes in detail the identity of the company: sector of activity, economic and financial links with other entities, judicial incidents or other incidents concerning the company (e.g. loss of more than half its capital);
- the banking risk database, which lists all credit facilities (drawn and undrawn credit, guarantees) granted by credit institutions to companies and sole traders;
- the national database of trade bill payment incidents (CIPE).

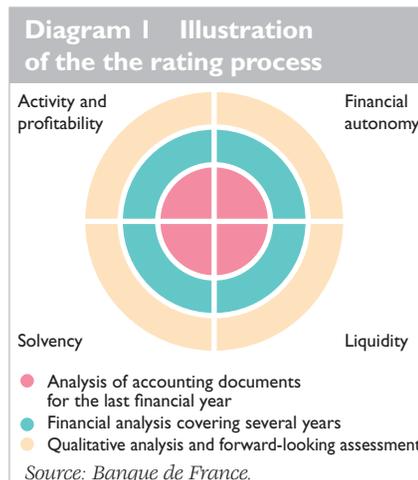
In addition to this information, analysts at the Banque de France contact thousands of business leaders directly, either as part of the rating process or through their monthly monitoring of the business environment. This provides them with in-depth knowledge of the companies they cover and of their respective markets; it also gives them access to additional non-accounting data and qualitative information liable to have an impact on each company. This includes:

- changes in the market in which the company operates;
- its positioning in that particular market;
- the robustness of its share ownership structure;
- its management strategy;
- its medium-term outlook;
- its transparency with regard to communication.

In 2013, Bank analysts conducted rating interviews with some 53,000 companies.

4|2 The rating process

The rating process consists of a dual financial and qualitative analysis, which looks closely at the elements collected from the company while also taking account of its outlook. The Bank's analysts need to use their judgement in their assessment, and weight each risk factor and outlook according to the information at their



disposal. In addition, all assessments based on accounting data are double-checked by another analyst (four-eyes principle).

4|2|1 Analysis of the company's financial position

The Banque de France's ratings are primarily constructed by applying the rules of financial analysis to each company, and thus assessing its profitability, financial autonomy, liquidity and financial structure. These rules take into account the specific characteristics of each company's sector of activity – the Banque de France has identified 17 main areas of activity for companies rated on the basis of their financial statements, and 11 for groups assessed using their consolidated statements, and has calibrated the main financial rules and ratios for each of these sectors.

The Banque de France's rating system also incorporates specific financial rules applicable to the analysis of consolidated balance sheets. This is due to the complexity of the information available (no standardised documentation, specific accounting items, application of more than one accounting framework – French accounting standards and IFRS – more complex financial engineering, etc.), and to the fact that groups are more resilient as they have greater financial flexibility and risk exposure is shared more broadly. However, in the interests of homogeneity, wherever possible, the same rules as for individual company accounts are used.

The financial analysis is carried out on a case-by-case basis, which means that companies within a particular sector are never downgraded en masse, even when that sector is encountering difficulties. To add to this individualised approach, assessments are carried out first-hand by an expert analyst, with in-depth knowledge of the fabric of the local economy.

4|2|2 Qualitative analysis

Qualitative information (see paragraph 4|1|2) is collected from the annual rating or pre-rating interviews held with company managers. These interviews, conducted over the telephone or face-to-face, have taken on an increasingly important role in the rating process over recent years and, as a result, have been made more formal. The interviews are used to clarify points which are difficult to ascertain merely from the accounts, to identify difficulties or risks linked to the company's operating environment and to gain an impression of the company's overall growth prospects.

The interviews are also a means of increasing company managers' awareness of the financial and non-financial factors affecting the sustainability, growth and performance of their business. This advisory role is especially useful for SMEs and their managers, particularly for negotiating financing conditions with banks.

5| A ratings approach that has remained consistent, despite changes in the technical, economic and regulatory environment

Mindful of the need to maintain a high standard of quality and adapt to technical, economic and regulatory changes, the Banque de France has gradually renewed and modernised its rating system, almost imperceptibly, while remaining faithful to its “human” approach and keeping its ratings largely stable.

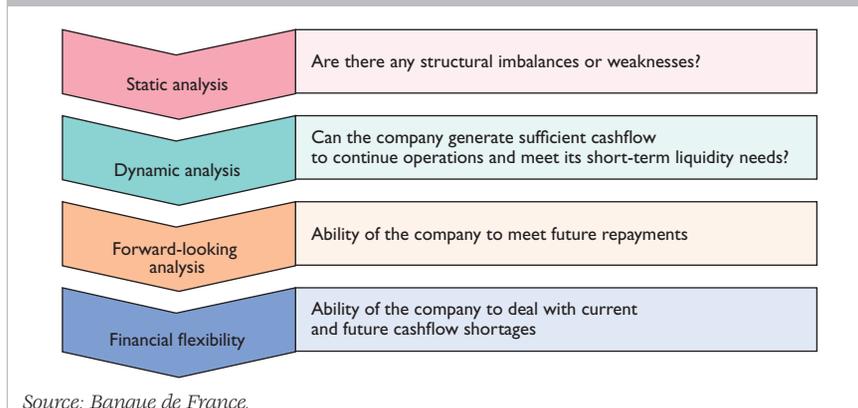
5|1 Increased digitisation of the rating system

In order to modernise the data collection process, make it easier for companies and accountants to submit documents, and respond to environmental concerns, the Banque de France created its own IT platform at the end of 2009 which enables balance sheets to be transferred in digital format. Prior to this, all documents were submitted in paper form, by post, then adjusted (if necessary) and entered into the database manually. The new digital transfer platform, BilanDirect FIBEN, simplifies this procedure and makes data more reliable and easier to trace. It has been tied in with the existing IT system for the transfer of tax returns implemented for the Directorate General Public Finance (DGFIP). In 2013, 54% of the balance sheets uploaded into FIBEN were submitted via BilanDirect, and efforts are underway to increase this share over the coming years (target of 60% in 2014).

5|2 Integration of new regulatory requirements

The regulatory standards governing the Banque de France’s company ratings are constantly being updated to adapt to changes in the economic environment, the needs of users, and the expectations of the competent authorities. The Banque de France is obliged to incorporate these new requirements into its system, but also uses them as an opportunity to reassess the suitability of its rating system.

By way of example, following the introduction of the concept of “Basel default” in the Eurosystem as a way of measuring rating system performances, the Bank began to look for ways to meet the growing need, exacerbated by the financial crisis, for companies to improve their cash flow management and for banks to ensure the repayment of their loans. Drawing on its observation of defaults, which are often caused by a lack of liquidity or of financial flexibility, the Bank adapted its existing rating system in 2011 to make it more efficient at predicting loan defaults. The new system

Diagram 2 A more structured, four-step analysis of liquidity

comprises a more in-depth examination of a company's liquidity, consisting of static, dynamic and forward-looking analyses and an analysis of financial flexibility (see Diagram 2).

This increased focus on liquidity as a financial indicator has helped reinforce the Bank's expert assessment approach; the companies it covers are analysed from all angles, and over a long-term horizon, paying particular attention to qualitative data and not just to the accounting documents.

5|3 Constant search for areas for improvement

To ensure it meets its obligations in terms of quality and performance, the Banque de France has put in place an effective quality control system, both at national level and within each region or branch.

The Companies Directorate examines the results of these periodical quality controls, and regularly conducts its own analyses and studies. It uses these as the basis for regular reassessments of its methodology, in order to find ways of improving its rating system. One particular concern is to find ways of making the system more effective at predicting difficulties, and thus reduce the default rate for the higher ratings. In addition, the directorate looks for ways of improving the granularity of the rating scale and making the assessment model more robust.

An example of this was the introduction of a 7 rating in 2011. This was designed to smooth the rating scale and make the rise in the default rates more gradual, as there was felt to be too large a gap in the one-year default rate between a rating of 6 and a rating of 8. A rating of 7 is attributed when one trade bill payment incident of at least EUR 1,524 has been reported over the last six months on the grounds of "inability to pay".

Other examples of improvements include the remodelling of the subsidiary rating system in 2012. This was designed to meet three objectives: to provide a more perceptive rating of consolidated entities without undermining the overall robustness of the system; to better reflect the direct link between the rating of a consolidating group and that of its subsidiaries; and to clarify the method used to assess subsidiaries for users of the ratings.

The Banque de France also plays close attention to the new challenges being faced by companies. For example, in response to the rise of corporate social responsibility concerns in France and the rest of the world, the Bank opened a new field of investigations to find ways of incorporating social and environmental criteria into its rating process. This investigation work should be finalised in 2015.

It should nonetheless be stressed that these changes have been or will be calibrated to ensure they are consistent with the Bank's existing rating principles, and do not affect the performance of its system. Indeed, the ratings issued by the Banque de France have proved particularly stable over the years, demonstrating its skill in identifying the strengths and weaknesses of a company, and its ability to downgrade or upgrade them appropriately, avoiding erratic movements or swings in individual ratings. In fact only limited changes are made to ratings: at 31 December 2013, for example, more than 90% of ratings were unchanged compared with 1 January, or had only been raised or lowered by one notch.³

This stability, which can also be observed over a period of several years, testifies to the Banque de France's success in adapting its rating system to the changing environment, while at the same time limiting any repercussions on the companies it covers.

³ See Banque de France Ratings – A Performance Assessment, updated in May 2014, on the Banque de France website, available at https://www.banque-france.fr/fileadmin/user_upload/banque_de_france/La_Banque_de_France/The-Banque-de-France-rating-reference-guide.pdf

The decline in profitability has affected the investment of SMEs

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Companies Directorate

Companies Observatory

Using 2013 balance sheet data collected in the first seven months of 2014 we conducted a retrospective analysis of the behaviour of SMEs during the crisis. During the pre-crisis period, 2001-2007, SMEs kept profit margins stable, at around 23%, increased their equity and consolidated their cash positions. This put them in a relatively strong position to weather the financial crisis. Naturally, the crisis made this situation much worse. After falling sharply in 2009, the activity of SMEs picked up in 2010 and above all in 2011, before declining again in 2012 and 2013. At the same time, in 2013, the value added of SMEs increased by 1.6%. While in 2009 this decline was largely attributable to lower exports, the recent slowdown is mainly due to domestic factors.

In particular, the rise in staff costs and taxes on production affected SMEs' profit margins that, already strongly impacted by the crisis, had just started to recover. Lower profit margins affected profitability, which in turn weighed on investment. In 2012-2013, the decline in investment was almost as great as in 2009-2010, falling to the lowest rate observed in the 2001-2013 period, i.e. almost 15% of value added.

Despite weak profitability, SMEs continued to shore up their equity, which rose by 5.4% in value terms in 2013, in line with developments observed since 2010.

At the sectoral level, SMEs in the manufacturing sector with international activities were exposed to all domestic and international contingencies. During the crisis, they saw a more marked fall in their profit margins than companies in other sectors. While they benefited from the recovery in 2011, they are now worse affected than others by the sluggishness of the domestic economy.

The construction sector has been particularly badly impacted since the crisis due to the fact that it is almost solely exposed to the domestic economic environment. Contrary to the other sectors, the construction sector did not benefit from the 2010-2011 recovery and profit margins have fallen steadily since the crisis. The profit margins in this sector are close to 14%, compared with 21% for SMEs as a whole.

These preliminary trends observed in the sample of balance sheets available in July 2014 will be finalised at the end of the year when all 2013 balance sheets have been collected.

Keywords: SMEs, profitability, investment, competitiveness, equity.

JEL codes: E22, E23, G30, G33, L25.

NB: The authors would like to thank Franck Lemaire for his help in producing this article.

I | The activity of SMEs has been sluggish

I | I An unfavourable domestic environment

While the economy did not shrink like in 2009, when real GDP fell by 2.9%, domestic growth in 2012-2013 stood at a modest 0.3% per annum. This growth appears particularly weak compared with not only the pre-crisis average growth rate (2.1% from 2000 to 2007, and 4.1% in nominal terms over the same period), but also with the 2010-2011 post-crisis years, where it stood at 2%.

In this context, the growth in the activity of SMEs declined sharply in 2012-2013 and remained well below the pre-crisis rates. In 2012, turnover rose by only 2.8%, compared with 7.9% in 2011, and by just 1.8% in 2013. While value added growth fell by just 0.4 percentage point, from 2.0% in 2012 to 1.6% in 2013 (similar to developments observed for nominal GDP growth that stood at 1.5% and 1.1% respectively), its growth rate was nevertheless far below the average annual increase of 6% observed before the crisis (see Table 1).

Production trends are particularly sensitive to cyclical developments in the manufacturing industry. In this sector, the production of SMEs fell by 10% in 2009 but recovered significantly by 9.2% in 2011. It is one of the sectors worst hit by the current slowdown: the turnover of SMEs grew by just 1.2% in 2013, and value added growth was a mere 0.9%.

The construction sector, for its part, has a specific profile. This sector, which was very dynamic before the crisis with a double-digit annual turnover growth rate, was relatively unaffected in 2009. It was however slow to

Table 1 SMEs' activity (2006-2013)

(breakdown and year-on-year percentage change)

	Breakdown of turnover	Change in turnover								Change in value added							
		2013	2006	2007	2008	2009	2010	2011	2012	2013	2006	2007	2008	2009	2010	2011	2012
All SMEs	100.0	6.5	7.5	5.6	-5.3	3.5	7.9	2.8	1.8	6.7	7.6	3.9	-3.5	3.3	5.7	2.0	1.6
O/w main sectors																	
Manufacturing industry	18.6	6.5	7.9	4.6	-10.0	3.9	9.2	2.2	1.2	5.2	6.4	2.7	-9.4	3.3	6.1	1.5	0.9
Construction	11.6	11.1	11.2	6.5	-3.6	-0.5	7.3	2.4	0.9	9.9	9.4	5.1	-2.9	-1.7	4.2	0.9	0.7
Trade	47.6	5.0	6.0	5.5	-4.8	3.1	7.7	2.7	1.9	4.8	6.5	3.4	-2.9	3.4	5.1	1.3	1.3
Transport and warehousing	3.9	7.3	8.6	5.9	-7.2	6.0	7.7	2.8	2.0	7.3	9.6	2.2	-2.3	2.8	5.1	1.8	2.9
Business support services	7.3	7.0	8.8	6.9	-3.4	4.9	8.5	4.0	2.6	8.8	8.2	4.7	-1.9	5.0	7.2	3.5	2.6

Scope: Non-financial SMEs as defined by the law on the modernisation of the economy (LME); see Appendix 2; all business sectors except sectors KZ (finance, excluding holding companies) and O (administration) – see Appendix 1.

Note on interpretation:

Variations are calculated based on a sample of SMEs whose balance sheets are recorded in FIBEN for two consecutive years (sliding sample). Companies that entered or left the sample due to mergers, failures or business start-ups are not taken into account. The size and sector used are those of year n-1, irrespective of the company's situation in year n: therefore, 2012 size and sector are used when comparing 2013 to 2012, and those of 2011 used when comparing 2012 to 2011.

Source: Banque de France – FIBEN database (July 2014).

Table 2 Domestic and export turnover (2006-2013)*(breakdown and annual percentage change)*

	Breakdown of turnover	Change in domestic turnover								Change in export turnover							
		2013	2006	2007	2008	2009	2010	2011	2012	2013	2006	2007	2008	2009	2010	2011	2012
All SMEs	100.0	6.2	7.2	5.7	-4.5	2.7	7.3	2.6	1.5	9.3	10.1	5.1	-12.0	10.8	13.7	4.3	4.2
O/w main sectors																	
Manufacturing industry	18.6	5.7	7.7	4.9	-8.7	2.4	8.3	1.8	0.7	9.7	8.8	3.5	-15.5	10.7	12.8	3.9	3.2
Construction	11.6	10.9	11.1	6.5	-3.6	-0.5	7.2	2.2	1.0	35.4	18.9	6.8	-5.5	2.8	20.5	15.9	-6.5
Trade	47.6	4.7	5.4	5.4	-4.3	2.4	6.9	2.7	1.6	8.8	11.9	6.3	-10.7	10.6	15.9	2.5	5.3
Transport and warehousing	3.9	7.8	9.6	6.0	-5.9	4.8	7.5	1.6	3.0	5.0	2.7	5.2	-15.2	15.1	9.0	10.7	-4.5
Business support services	7.3	7.2	8.7	7.7	-3.5	5.2	8.3	3.4	1.9	6.1	9.2	1.7	-2.5	3.3	9.9	8.8	8.3

Scope: Non-financial SMEs as defined by the LME; all business sectors except sectors KZ (finance, excluding holding companies) and O (administration).

Note on interpretation: see Table 1.

Source: Banque de France – FIBEN database (July 2014).

recover and posted slightly negative growth in 2010. In value added terms, its growth rate has been the lowest of the five main sectors since 2011, and stood at 0.7% in 2013.

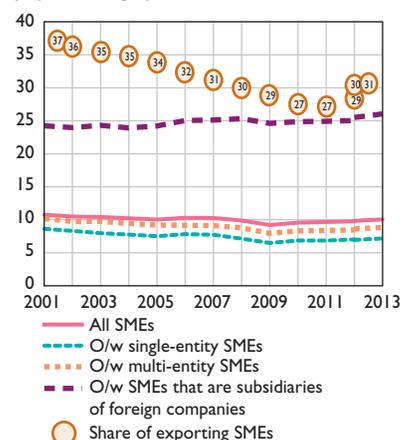
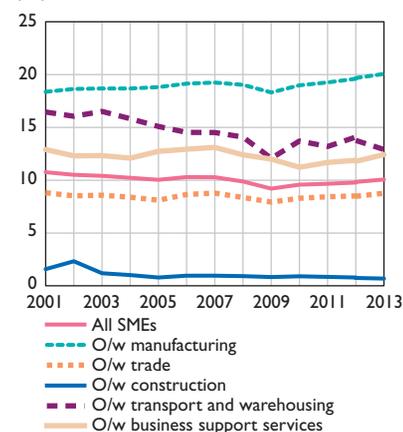
I | 2 Exports under pressure

Driven by world growth, the export turnover of SMEs generally grows faster than their domestic turnover. However, during the crisis, the former was particularly badly affected.

Charts I SMEs' export rate (2001-2013)

Exports/turnover

(%)

a) By SME category**b) By sector**

Scope: Non-financial SMEs as defined by the LME.

Note on interpretation: As all 2013 balance sheets are not available, the rates calculated for 2012 and 2013 are based on a sample made up of companies whose balance sheets are recorded for both years. This explains the break before the last two data points in each series.

Source: Banque de France – FIBEN database (July 2014).

In 2009, SMEs' domestic turnover fell by 4.5% while export turnover declined by 12% and by over 15% in the manufacturing and transport sectors. Export turnover then recovered in 2010 and 2011, but fell again in 2012 and 2013.

Although annual growth in export turnover was well below the double-digit figure observed before the crisis and in 2010-2011, it nevertheless stood at 4.3% in 2012 and 4.2% in 2013, rising above that of domestic turnover (2.6% in 2012 and 1.5% in 2013).

2| The profitability of SMEs continued to decline

2|1 Profit margins were impacted by staff costs and taxes

The reason for the decline in SMEs' profit margins in 2012-2013 was not the same as in 2008-2009.

In 2009, the gross operating profit of SMEs plummeted by 15.1% due to the fall in their production and their value added. SMEs were not able to offset this decline by a reduction in staff costs, which remained stable in 2009. Taxes on production, for their part, played their role as automatic stabilisers, inching up by 0.5% in 2009 before falling by 10.4% in 2010.

With the recovery of activity, stable staff costs and lower taxes contributed to the 7.7% rebound in gross operating profit as of 2010.

In 2012-2013, production and value added did not decline: the fall in gross operating profit can rather be attributed to the rise in staff costs and taxes on production. In 2012, staff costs and taxes on production rose by 3.8% and 5.6% respectively, compared with 2.0% for value added (see Tables 1 and 3). The rise in taxes on production is mainly due to the increase in the *forfait social* (employer social contribution) from 8% to 20% in August 2012. Against this backdrop, gross operating profit fell by 4.7%.

In 2013, the rise in staff costs and taxes on production slowed down (to 2.0% and 3.0% respectively), but remained greater than that of value added (1.6%). In this context, gross operating profit in level terms was almost stable (-0.1%).

These developments in level terms affect profit margins (net operating profit over value added). SME's profit margins stood at around 22-23% before the crisis 2008-2009, reaching a high of 24% in 2007. They fell sharply in 2009 (20.8%), then rose slightly in 2010 and 2011 – without returning to their pre-crisis levels – before declining again to 20.8% in 2012. Partial data for 2013 show a more moderate fall but nevertheless significant of around 0.4 percentage point, irrespective of the category of SME (see Charts 2).

Table 3 Staff costs and production taxes (2009-2013)*(breakdown of staff costs and annual percentage change)*

	Breakdown of staff costs	Annual change														
		Staff costs					Production taxes					Gross operating profit				
		2013	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	2009	2010	2011	2012
All SMEs	100.0	0.0	3.1	5.7	3.8	2.0	0.5	-10.4	3.3	5.6	3.0	-15.1	7.7	5.8	-4.7	-0.1
O/w main sectors																
Manufacturing industry	22.1	-3.5	2.0	5.9	3.1	0.9	-1.7	-14.5	1.3	5.3	2.7	-29.8	15.0	7.7	-5.8	-0.1
Construction	16.6	0.6	1.4	5.2	3.4	1.5	2.3	-18.8	-2.4	5.3	1.5	-15.6	-11.0	-0.1	-11.9	-3.4
Trade	26.1	1.1	2.6	4.4	3.5	2.1	-1.2	-8.3	4.2	5.0	2.1	-14.6	8.8	7.3	-6.5	-1.8
Transport and warehousing	5.3	-1.1	4.5	6.3	3.2	1.9	2.0	-16.6	-0.4	3.6	3.9	-7.0	2.7	3.9	-2.8	5.9
Business support services	12.9	0.6	4.6	7.4	5.1	3.4	0.7	-8.8	5.5	8.1	4.1	-14.3	11.4	4.8	-3.1	-1.7

Scope: Non-financial SMEs as defined by the LME all business sectors except sectors KZ (finance, excluding holding companies) and O (administration).

Note on interpretation: see Table 1.

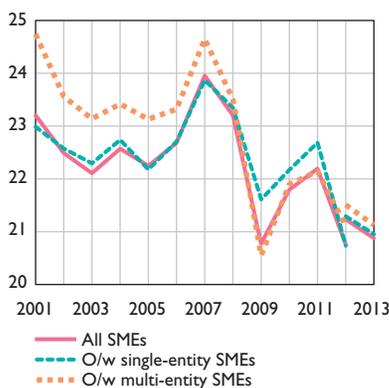
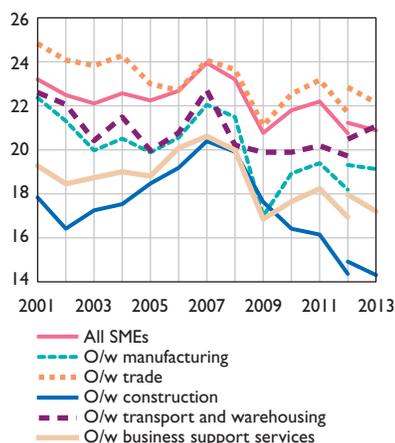
Source: Banque de France – FIBEN database (July 2014).

Like in 2008 and 2009, the decline in profit margins in 2012 and 2013 affected all the main sectors, except transport, where they rose by 0.6 percentage point in 2013. Profit margins have fallen steadily since 2008 in the construction sector where the decline was particular marked in 2012 (from 16.2% to 14.4%). In this sector, like in trade and business support services, available partial data for 2013 show that profit margins did not recover. In manufacturing, they remained higher than at the trough of the crisis, but have not returned to their pre-crisis levels: they exceeded 20% at that time and currently stand at around 18% (unbalanced sample) (see Chart 2b).

Charts 2 SMEs' profit margins (2001-2013)

Gross operating profit/value added

(%)

a) By SME category**b) By sector**

Scope: Non-financial SMEs as defined by the LME.

Note on interpretation: See charts 1.

Source: Banque de France – FIBEN database (July 2014).

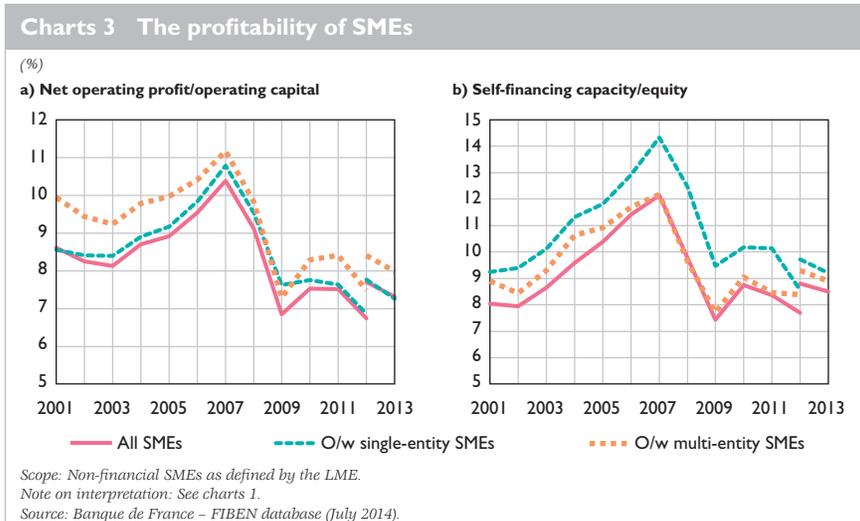
2|2 The fall in profit margins has affected profitability

The decrease in profit margins had an automatic knock-on effect on SMEs' profitability. Net operating profit (NOP) is calculated by deducting net allocations to depreciation and provisions from gross operating profits. After sliding by 11% in 2012, NOP fell by a further 1.9% in 2013.

The economic profitability of SMEs, which is calculated as the ratio of NOP to operating capital (made up of operating fixed assets and operating working capital requirements), increased steadily before the crisis and had reached 10.4% in 2007.

It plummeted to 6.9% in 2009, and then rose only marginally to 7.5% in 2010 and 2011, before sliding back to 6.7% in 2012. In 2013, on the basis of data available in July 2014, it appears to have fallen by 0.4 percentage point.

This analysis is confirmed when incorporating other non-operating income and expenses (financial items and corporate tax). The net cash flow of SMEs declined by 1.8% in 2013, after dropping by 9.2% in 2012. The net cash flow to equity ratio fell from 12.1% in 2007 to 7.4% in 2009. After rising slightly to 8.8% in 2010, this ratio declined in 2011 and 2012 to stand at 7.7%. In 2013, it fell by a further 0.3 percentage point (see Chart 3b).



Box I

Characteristics of the sample available in July 2014

This study provides information for assessing the economic and financial situation of SMEs using data available in early August 2014. As the collection of company accounts is not completed until the autumn, at the time at which this study was conducted in July 2014, the 2013 sample was incomplete (142,050 SMEs). This results in a loss of roughly 5% of the number of legal entities and of 3% of value added insofar as annual accounts must be available for both 2012 and 2013 in order to be incorporated into the study (balanced sample), and leads to an underestimation of the gearing ratio, due to the fact that adjustments have not yet been made for double counting.

In addition, it is likely that SMEs analysed in July have accounts that are generally more robust than those available at the end of the collection period. The balance sheets recorded the most rapidly in the FIBEN database are those of companies with the best credit ratings, thus presumably the soundest ones (see Table below).

Average time taken for SMEs to submit balance sheets to the Banque de France

(calculated in days)

	3++	3+	3	4+	4	5+	5	6	7	8	9	0	P	All
2011	154	157	160	165	177	183	193	204	208	207	232	244	225	191
2012	146	148	151	155	164	169	174	179	186	189	200	205	200	171

Balance sheets are filed by account closing date. For example, a year extending from March 2012 to February 2013, with a closing date in February 2013, will be recorded in 2013 even though most of the year took place in 2012. SMEs whose accounts closing date was moved forward to the start of the next year were overrepresented at the time at which the study was conducted: overall, balance sheets closed in H1 2013 accounted for 25% of the turnover; the financial statements of these SMEs therefore cover a period starting in H1 2012 and finishing in H1 2013.

Breakdown of turnover by accounts closing date

(%)

	2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All SMEs	12.7	10.1	16.1	61.1	13.9	11.1	17.6	57.3
SMEs single-entity SMEs	13.0	11.9	18.3	56.8	14.2	13.3	20.0	52.5
SMEs multi-entity SMEs	13.1	9.2	16.2	61.5	14.3	10.0	17.7	58.0
Foreign SMEs	10.1	7.2	7.6	75.0	11.3	8.1	8.5	72.0
O/w main sectors:								
Manufacturing	10.7	9.0	16.5	63.9	11.5	9.7	17.5	61.3
Construction	15.2	10.0	21.0	53.9	16.2	10.8	22.6	50.5
Trade	15.3	10.9	15.4	58.4	16.7	12.1	16.9	54.3
Transport and warehousing	10.5	9.7	17.2	62.5	11.1	10.9	19.1	58.9
Business support services	6.9	9.4	16.2	67.6	7.4	10.6	18.1	63.8

Scope: Non-financial SMEs as defined by the LME.

Source: Banque de France – FIBEN database (July 2014).

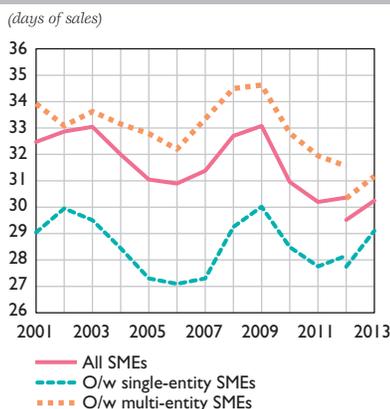
3| Working capital requirements increased and investment waned

3| I Working capital requirements remained high

The working capital requirements (WCR) of SMEs have been relatively stable overall in the past decade and only contracted slightly during the crisis, declining by 3.7% in 2009 and 0.2% in 2010 (see Table 4). They then rose again in 2011 by 5.6%. Despite a slowdown in SMEs' activity, WCR continued to grow at almost the same pace in 2012 and 2013, increasing by 5.0% and 4.3% respectively.

Expressed in days of sales, they fluctuated between 30 and 33 days. This ratio behaved countercyclically, rising as the economic situation worsened, in particular in 2009. This behaviour stems from the fact that the volatility of WCR was lower than that of activity.

Chart 4 SMEs' working capital requirements (WCR)
Total WCR



Scope: Non-financial SMEs as defined by the LME.
Note on interpretation: See charts 1. WCR is given as a ratio to turnover. In 2009, WCR declined less than turnover, therefore this ratio increased slightly.
Source: Banque de France – FIBEN database (July 2014).

Table 4 WCR and investment (2006-2013)

(breakdown of investment and annual percentage change)

	Breakdown of investment	Changes in working capital requirements									Changes in investment						
		2013	2006	2007	2008	2009	2010	2011	2012	2013	2006	2007	2008	2009	2010	2011	2012
All SMEs	100.0	5.7	10.8	9.7	-3.7	-0.2	5.6	5.0	4.3	6.1	6.9	1.5	-15.6	-6.8	11.4	-9.4	-9.5
O/w main sectors																	
Manufacturing industry	18.8	7.7	7.8	6.6	-8.2	0.3	5.3	1.9	3.3	10.2	5.2	-0.9	-13.2	1.0	11.5	-0.9	-8.8
Construction	10.0	17.9	18.6	12.0	0.3	3.5	3.5	7.8	3.4	4.5	10.5	8.4	-11.3	-12.6	10.6	-3.4	-1.7
Retail and Wholesale Trade	19.8	4.6	10.4	12.3	-4.2	0.8	8.9	4.1	5.0	0.9	-6.2	1.9	-17.1	-8.6	0.4	-11.8	-10.8
Transport and warehousing	7.9	-34.2	-19.8	6.3	-28.0	-24.8	102.2	3.0	7.4	6.9	13.2	12.2	-23.8	-8.8	7.2	15.2	-7.0
Business support services	9.9	-5.8	42.3	16.0	10.4	7.5	7.6	25.7	26.5	7.6	25.8	-5.2	-9.0	-10.2	21.9	-10.5	-4.0

Scope: Non-financial SMEs, as defined by the LME; all business sectors with the exception of the KZ (financial activities, excluding holding companies) and O (general government) sectors.

Note on interpretation: See Table 1.

Source: Banque de France – FIBEN database (July 2014).

3 | 2 The decline in profitability has affected the investment of SMEs

While it rose almost continuously before the crisis, the investment of SMEs fell sharply during the crisis period, collapsing by 15.6% in 2009 and by a further 6.8% in 2010 (see Table 4). Following a strong recovery in 2011, it plummeted by 9.4% in 2012 and by 9.5% in 2013.

The 18.0% contraction in investment in 2012-2013 is therefore fairly similar to the 21.3% decline observed in 2009-2010, despite the higher GDP growth in the former period. Recent

developments in investment and activity can also be analysed using the investment rate (see Chart 5). Indeed, this ratio stabilised at a high level during the crisis, and reached the exceptional level of 19.1% for all SMEs in 2011. However, it then fell sharply in 2012 and 2013, in which it hit a low for the period under review of below 15%.

From this, we can deduce that investment was impacted by factors other than the weakness of activity in 2012 and 2013, and notably lacklustre profitability.

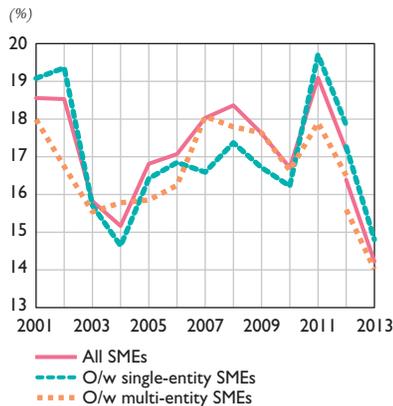
This decline in investment, which spared the transport sector in 2012, became more broad-based in 2013. Aside from the sectors presented in Table 4, it also fell by 27.5% in the utilities sector, 26.7% in the hotel and catering sector and 11.8% in the real estate sector.

3 | 3 Self-financing rebounded spurred by a temporary fall in dividends

The self-financing of SMEs, which is calculated by subtracting dividends and other distributions from net cash flow, measures in particular the potential to finance investment and the growth of the company, without raising external funds. It stood at around 13% of total income, which comprises value added and non-operating income, in particular financial income.

While this ratio increased to 13% in 2010, it started falling to reach a low of 11.5% in 2012. It rose again in 2013 thanks mainly to the sharp decline in dividends paid.

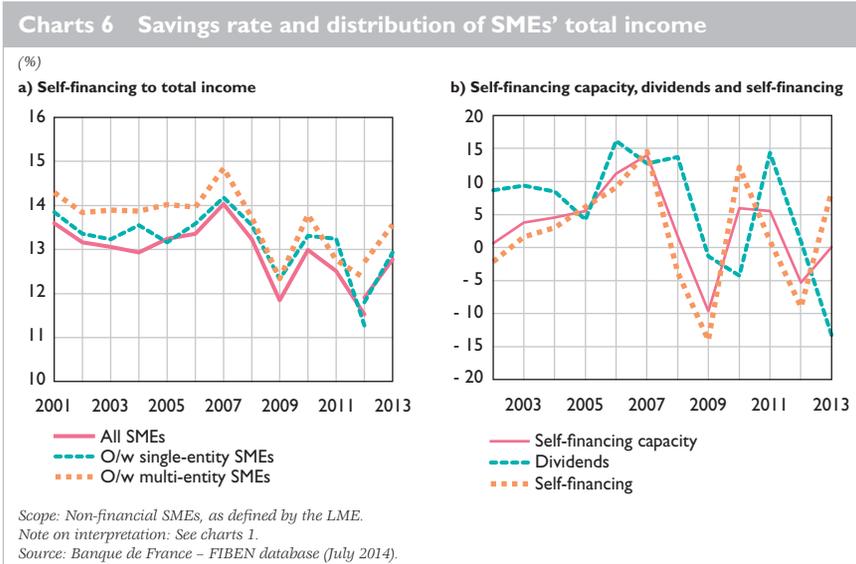
Chart 5 Investment rate
Investment/value added



Scope: Non-financial SMEs, as defined by the LME.

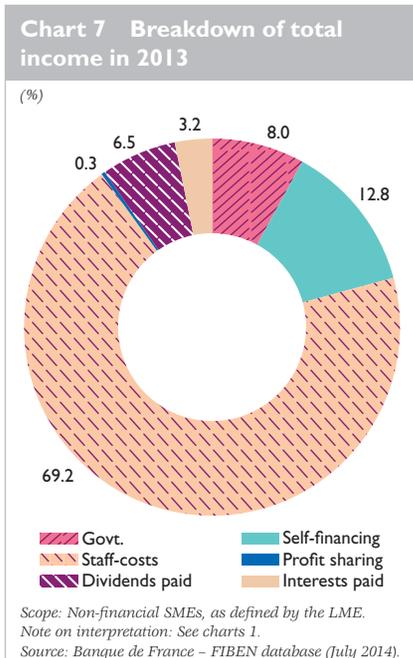
Note on interpretation: See charts 1.

Source: Banque de France - FIBEN database (July 2014).



It is difficult to analyse these annual developments. Indeed, since the crisis, changes in dividends appear to mirror those in cash flow with a lag of one year, which increases the volatility of self-financing (see Chart 6b). Furthermore, the self-financing to total income ratio has fallen steadily since the start of the 2000s, whereas dividends have risen.

The dividend to self-financing ratio stood at around 40% in the first half of the 2000s and has reached over 50% today.

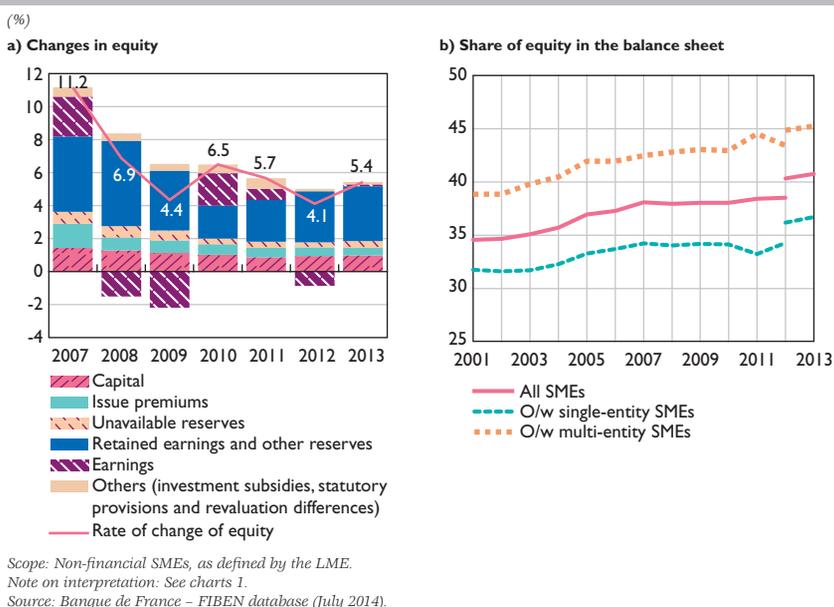


4| SMEs continued to bolster their financial structure

4| I Equity continued to grow

SMEs' equity rose significantly before the crisis, which is one of the reasons why they were able to weather the crisis and anticipate the recovery. The pace slowed down in 2009, with a rise of 4.4%, and a further increase of 6.5% in 2010. This rise then decelerated in 2011 and above all in 2012, with an

Charts 8 Equity



increase of just 4.1%. In 2013, equity grew by 5.4%, close to the pace observed in 2011 of 5.7%.

The changes in the pace of equity growth can mainly be attributed to fluctuations in the contribution of earnings (see Charts 8).

4|2 Bond issuance picked up, contrary to bank debt

Before the crisis, both the bond issuance and the bank debt of SMEs increased strongly, even though the growth in the former was less even.

Table 5 Debt and factoring

(amounts in thousands of euro; % breakdown)

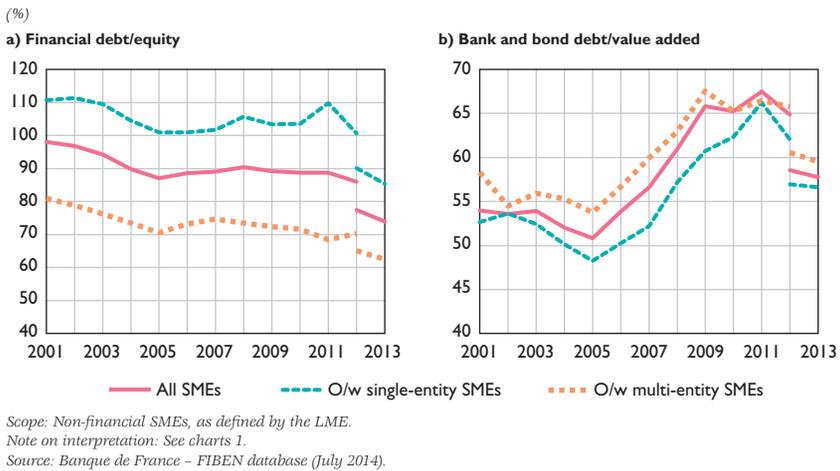
	Amounts		Breakdown						
	2013	2006	2007	2008	2009	2010	2011	2012	2013
Bonds	3 881 381	19.4	1.1	8.2	-4.3	4.0	5.6	14.8	9.1
Bank debt	112 883 206	4.4	5.1	5.5	-0.8	0.1	1.8	0.1	-0.1
O/w bank loans	86 461 316	3.1	3.6	4.1	1.6	0.6	0.8	-0.6	-0.8
O/w leasing commitments	13 330 974	8.9	8.1	10.1	-1.0	-2.2	5.0	1.0	-2.0
O/w short-term bank borrowings	13 090 916	6.3	9.2	8.7	-13.2	-1.0	5.7	4.7	7.3
Factoring	10 447 802	11.2	10.1	11.8	12.9	7.0	10.6	9.8	6.8

Scope: Non-financial SMEs, as defined by the LME; all business sectors except sectors KZ (finance, excluding holding companies) and O (administration) – see Appendix 1.

Note on interpretation: See Table 1.

Source: Banque de France – FIBEN database (July 2014).

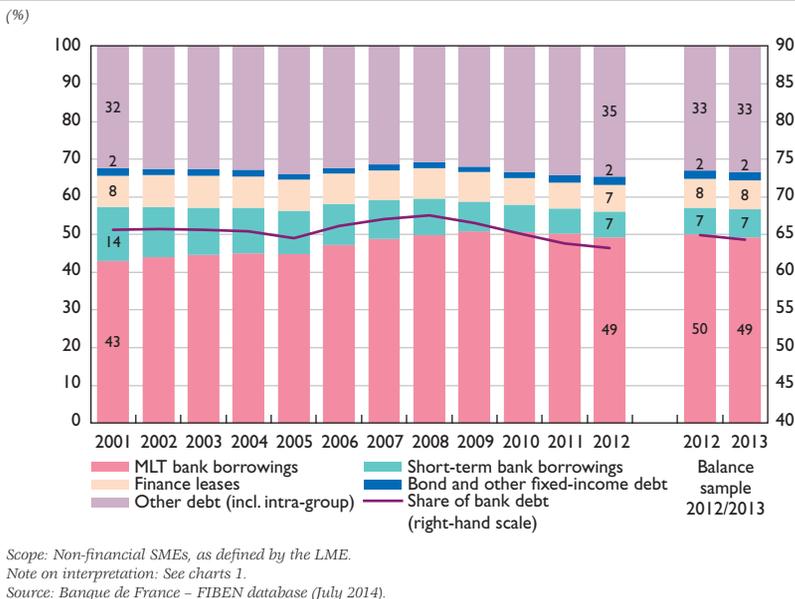
Charts 9 SMEs' debt ratio



In 2009, they both fell, by 4.3% and 0.8% respectively. After the crisis, the bond issuance of SMEs recovered rapidly, increasing by 14.8% annually in 2012, before falling back to 9.1% in 2013.

Conversely, bank debt (excluding factoring) stagnated and reached a high of just 1.8% in 2011. Since then, it remained almost stable, standing at 0.1% in 2012 and falling by 0.1% in 2013.

Chart 10 SMEs' debt financing structure



Factoring, which is not included in bank debt in company accounts, was very buoyant over the whole period under review.

As a result of the increase in equity, the financial debt-to-equity ratio trended downwards (see Chart 9a). However, their bank and bond debt has risen faster than their value added since 2005, except over the past two years (see Chart 9b).

From a long-term standpoint, the main change in the structure of SMEs' debt financing is the fall in short-term bank borrowings, from 14% of debt financing in 2001 to 7% in 2013. This decline was offset by a rise in the share of medium and long-term bank financing, which rose over the same period from 43% to 49% (see Chart 10).

Box 2

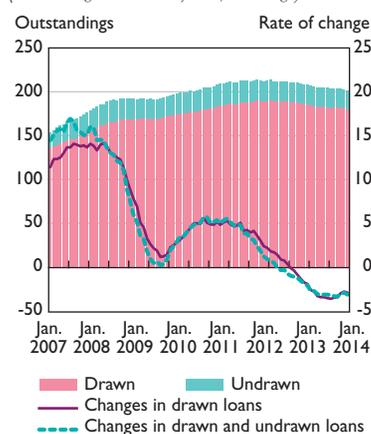
Bank loans to SMEs

Bank loans granted to SMEs stabilised in early 2014

According to the outstandings reported each month by credit institutions to the Central Credit Register, and based on a sub-set of SMEs whose balance sheets are recorded in the FIBEN database,¹ growth of drawn credit slowed in 2013, following

Outstandings of drawn and undrawn loans

(outstandings in billions of euro; % change)

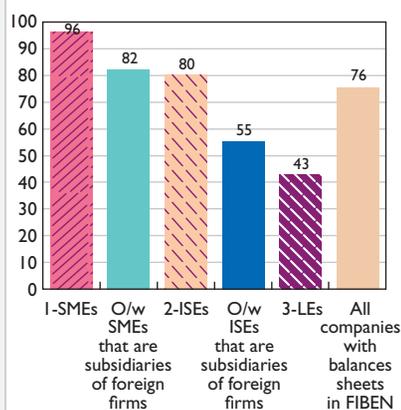


Scope: Non-financial SMEs, as defined by the LME, with balance sheet in FIBEN.

Source: Banque de France – FIBEN and Central Credit Register (July 2014).

Share of drawn loans in balance sheet bank debt recorded in the Central Credit Register

(%)



Scope: Non-financial SMEs, as defined by the LME, with balance sheet in FIBEN.

Source: Banque de France – FIBEN and Central Credit Register (July 2014).

¹ This sub-set accounts for roughly 50% of outstanding bank loans in the SME category in the “credit to enterprises” STAT INFO published monthly by the Banque de France.

with a lag the decline in undrawn credit. Since the start of 2014, outstanding drawn and undrawn credit has remained almost stable, with the slowdown in the annual rate of change reflecting the decline observed in the second half of 2013. The annual rate of change increased steadily in 2014 due to a base effect and stood at -3.1% in June.

For all SMEs, including those whose balance sheets are not recorded in the FIBEN database (mainly very small companies and microenterprises), the trend was a lot more favourable, with a 1.8% rise in drawn loans in June 2014, and a 1.9% increase if undrawn loans² are included.

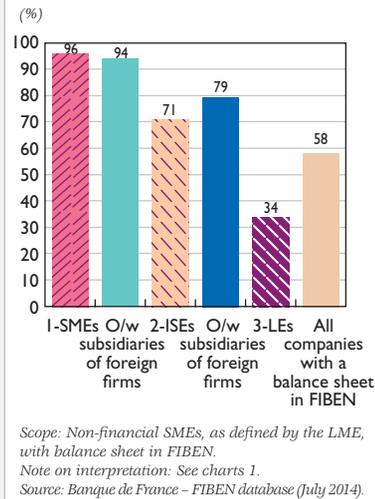
SMEs contract their bank loans almost entirely from resident credit institutions, which account for close to 96% of bank debt recorded in SME balance sheets. This is much less the case for the other categories of companies, which borrow more from non-resident credit institutions.

In addition, intermediate-sized enterprises (ISEs) and, especially, large enterprises (LEs) have access to alternative sources of financing using market instruments, such as bonds and other negotiable debt securities.

While SMEs and to a lesser extent ISEs rely mainly on bank loans, LEs mainly use market financing.

² <https://www.banque-france.fr/economie-et-statistiques/entreprises.html>

Bank intermediation rate



4 | 3 SMEs replenished their cash positions after a decline in 2012

SMEs' cash assets increased by around 10% per year just before the crisis. They also continued to increase during it but at a slower pace: 3.7% in 2008 and 6.3% in 2009. This slowdown was mainly attributable to the decline in liquidity generated by the fall in SMEs' profit margins.

Their cash positions contracted for the first time in 2012 by 1.7%, but then rose by 5.2% according to partial data available for 2013.

Expressed in terms of days of sales, the cash position of SMEs rose regularly during the 2000s, increasing from 40 days in 2001 to 61 days in 2010. It has since declined to stand at 58 days in 2013.

Box 3

SMEs' cash flow statement

The narrowing of margins reduced SMEs' ability to generate liquidity, which was only partially offset by the moderation of operating working capital requirements. Operating cash flow stood at 6.1% of their turnover in both 2013 and 2012.

Against this backdrop, the improvement in cash assets in 2013 can mainly be ascribed to the decline in dividends from 2.4% of turnover in 2012 to 2.0% in 2013 as well as to the rise in equity financing from 0.6% to 1.0% of turnover.

SME flows

(per EUR 100 of turnover)

	2010	2011	2012	2013
(+) Gross operating profit	6.7	6.6	6.3	6.1
(-) Growth in operating WCR	0.1	0.3	0.2	0.0
(=) Operating cash flow	6.6	6.3	6.1	6.1
(+) Other non-operating income	2.3	2.2	2.2	2.0
(-) Interest payments	1.2	1.2	1.2	1.0
(-) Employee profit sharing	0.1	0.1	0.1	0.1
(-) Dividends	2.2	2.4	2.4	2.0
(-) Corporate tax	1.2	1.2	1.1	1.0
(-) Growth in N-OWCR	-0.2	0.1	0.2	0.4
(=) Total cash flow	4.4	3.5	3.3	3.6
(-) Growth in tangible and intangible assets (incl. leasing)	2.2	2.6	2.3	1.9
(+) Growth in other assets	0.7	0.7	0.7	1.1
(+) Extraordinary profit on equity operations	0.5	0.5	0.4	0.3
(-) Depreciation on assets (reduction)	1.9	1.5	1.5	1.2
(+) Change in equity financing	0.7	0.6	0.6	1.0
(+) Change in long term debt	0.4	0.7	0.5	0.0
(+) <i>Olw</i> change in bank loans	0.1	0.1	-0.1	-0.1
(+) Change in cash liabilities	0.0	0.2	0.1	0.1
(=) Growth in cash assets	1.2	0.7	0.4	0.8
<i>Change in net cash position</i>	1.2	0.5	0.3	0.7
<i>Change in overall net working capital</i>	1.1	0.9	0.7	1.0
<i>Growth in operating WCR</i>	-0.1	0.4	0.4	0.4

Scope: Non-financial SMEs as defined by the LME, whose balance sheets are available for two consecutive years; see Appendix 1.

Source: Banque de France - FIBEN database (July 2014).

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Appendix I

FIBEN data

Database of company accounts

Statutory accounts are collected through the Banque de France's branches. The accounts collected represent one third of companies taxed under the BIC *bénéfice industriel et commercial* (industrial and commercial profits) and BRN *bénéfice réel normal* (real and normal profits) regimes. Information is gathered on all companies operating within France whose turnover exceeds EUR 0.75 million. In terms of staff, the data cover over 75% in most sectors and 80% in retail and wholesale trade and industry.

Scope of company accounts analysed

All business sectors with the exception of the KZ (financial activities, excluding holding companies) and O (general government) sectors. In contrast to previous years, the P (education) and Q (human health and social action) sectors have been included.

The main ratios used

A detailed explanation of the financial analysis methods and ratios used is available at the following address: <http://www.banque-france.fr/economie-et-statistiques/entreprises/structure-et-performances-des-entreprises/la-situation-des-entreprises-en-2010-dossier-statistique.html>

Financial links

The Banque de France identifies financial linkages and monitors the percentage of capital held by other companies, noting whether the holder is a non-financial company (including holding companies), a financial institution (bank, mutual fund, or insurance company), a natural person (individual or employee), the State, or a foreign company. The distinction is made between independent companies and those belonging to a group, irrespective of the size of the group.

The Central Credit Register

The Central Credit Register makes monthly records of the loans granted by credit institutions to their customers above a specific threshold: EUR 25,000 since January 2006. The loans recorded are classified as “drawn loans” and “undrawn loans”. Loans drawn include short, medium and long-term loans, finance leases and securitised loans.

Appendix 2

Definition of SMEs in FIBEN

Attribution of sizes and business sectors for the analysis of SMEs' company accounts.

The implementing decree of the LME of December 2008 provides a statistical definition of the term “company”.¹ It specifies, in line with the definitions of the European Commission, the categories of company sizes and the criteria used for defining them. There are four thresholds: number of employees, turnover, total assets of legal units and the financial links between them. The first three thresholds are assessed for each company, where the company is defined as the smallest combination of legal entities that make up an organisational unit of production of goods and services, which has some autonomy in decision-making (defined based on the company's financial links). A financial link is considered when it accounts for a stake of at least 50% of the capital of a legal entity.

SMEs are companies with up to 250 employees, with an annual turnover not exceeding EUR 50 million or a balance sheet total not exceeding EUR 43 million. SMEs may be either single-entity companies or multi-entities reporting to either a French or a foreign parent company. When an SME is made up of several legal entities, i.e. a “multi-entity SME”, the company accounts of the constituting legal entities are aggregated to define the “company”. This approach does not allow for adjustments for double counting between entities of a same company.

The **activity sector** is based on the 2008 aggregate nomenclature, itself based on the NAF Rev. 2. In the case of a multi-entity company, its sector is determined after allocating each of its entities to their corresponding sectors. The entity generating the highest sales revenue defines the company's sector as long as its sales represent more than 50% of the company's revenue. If not, the group's sector is decided on the basis of headcount, again, as long as the largest entity's headcount represents more than 50% of the group's total headcount. In cases where no single entity (or group of entities) accounts for over 50% of sales or staff, the sector of the entity (or group of entities) with the highest turnover is assigned to the group as a whole.

¹ http://www.legifrance.gouv.fr/affichTexte.do?sessionId=AE22AD6AA9827C20CEBCA70F67427237.tpdjo1v_3?cidTexte=JORFTEX000019961059&categorieLien=id

Double counting is not corrected in this study. The aggregation of the accounts of the individual legal entities leads to a double counting bias, which should be adjusted at the level of each company. For double counting to be properly neutralised, all 2012 balance sheets must be available, which was not the case when the SME study was conducted.² Double counting mostly affects equity, financial debt and intra-group financial income and expenses. Their share is however relatively small for SMEs, due to the limited number of legal entities that on average make up the company.

² *The reader can consult the annual year-end study for all companies.*

Appendix 3

Sample of SMEs in 2013

Economic weight of SMEs in 2013 based on data available at the start of August 2014

(staff headcount in thousands, turnover, value added, financial debt, bank debt and equity in EUR billions)

	Number of companies	Number of legal entities ^{a)}	Permanent staff	Turnover	Value added	Financial debt	Bank debt	Equity
All	142,050	245,444	2 990	684	202	175	113	237
Single-entity SMEs	94,473	94,473	1 316	279	85	61	48	72
Multi-entity SMEs	41,879	135,389	1 459	328	97	88	55	142
Foreign SMEs	5,698	15,582	215	76	20	26	10	24
Main sectors incl.:								
<i>Manufacturing industry</i>	22,737	43,184	664	127	43	27	16	55
<i>Construction</i>	24,142	38,386	473	79	30	13	8	24
<i>Retail and wholesale trade</i>	55,205	87,084	835	325	55	43	28	71
<i>Transport and warehousing</i>	6,002	9,637	179	27	11	8	6	8
<i>Business support services</i>	13,352	25,697	352	50	24	15	9	24

Breakdown

(%)

Single-entity SMEs	67	38	44	41	42	35	42	30
Multi-entity SMEs	29	55	49	48	48	50	49	60
Foreign SMEs	4	6	7	11	10	15	9	10
Main sectors incl.:								
<i>Manufacturing industry</i>	16	18	22	19	22	15	14	23
<i>Construction</i>	17	16	16	12	15	7	7	10
<i>Retail and wholesale trade</i>	39	35	28	48	27	24	24	30
<i>Transport and warehousing</i>	4	4	6	4	5	4	5	3
<i>Business support services</i>	9	10	12	7	12	9	8	10

Average value by SME category

(number and EUR millions)

	Average size of each SME category							
	Number of companies	Number of legal entities ^{a)}	Permanent staff	Turnover	Value added	Financial debt	Bank debt	Equity
All SMEs	142,050	1.7	21	4,812	1,424	1,235	795	1,670
Single-entity SMEs	94,473	1.0	14	2,954	904	649	506	761
Multi-entity SMEs	41,879	3.2	35	7,836	2,315	2,110	1,317	3,379
Foreign SMEs	5,698	2.7	38	13,392	3,491	4,505	1,736	4,186

Scope: Non-financial SMEs as defined by the LME

a) The number of legal entities corresponds to the number of entities in the firm's consolidation scope as defined by the LME, irrespective of whether its balance sheet is in the FIBEN database.

Source: Banque de France – FIBEN database (July 2014).

Appendix 4

Profit and loss account

Profit and loss account		
(% of turnover)		
	SMEs	
	2012	2013
Operating activities		
Turnover	100.0	100.0
(+) Inventoried production	0.1	0.0
(+) Capitalised production	0.3	0.3
Production and sale of goods	100.4	100.3
(-) Cost of purchase of goods sold	36.3	36.7
(-) Cost of inputs	12.9	12.7
(-) Purchases and external costs (excluding financial leases and external staff)	21.7	21.7
Value added	29.5	29.2
(+) Operating subsidies	0.2	0.2
(-) Salaries, wages and social security contributions	20.4	20.3
(-) External staff costs	1.2	1.2
(-) Taxes and tax-like payments	1.4	1.5
(+) Other operating income and expenses	-0.4	-0.4
Gross operating profit	6.3	6.1
Net operating profit	4.1	3.9
Acquisition of earnings		
Gross operating profit	6.3	6.1
(+) Other non-operating transactions ^{a)}	2.2	2.0
Total gross profit ^{a)}	8.4	8.2
(-) Interest and related expenses ^{a)}	1.0	1.0
(-) Employee profit-sharing	0.1	0.1
(-) Corporate tax	1.1	1.0
Cash flow ^{a)}	6.1	6.0
(-) Net charges to depreciation, amortisation and provisions	3.2	3.0
Net cash flow ^{a)}	3.0	3.0
Accounting net profit margin ^{a)}	3.3	3.3

Scope: Non-financial SMEs as defined by the LME.
a) No adjustments for double counting are made at this stage.
Source: Banque de France – FIBEN database (July 2014).

Appendix 5

Functional balance sheet

Functional balance sheet		
(% of total balance sheet)		
ASSETS	SMEs	
	2012	2013
Intangible fixed assets	8.7	8.7
Tangible fixed assets	41.3	41.2
Goods financed through leasing	3.2	3.0
Other fixed assets ^{a)}	18.1	18.5
Fixed assets ^{a)}	71.4	71.4
Inventories	13.3	13.3
Trade credit	3.4	3.0
Other operating claims and liabilities	-6.1	-6.3
Operating working capital requirements	10.5	10.0
Non-operating working capital requirements	-0.5	0.0
Cash and cash equivalents	9.4	9.6
Marketable securities	5.2	4.9
Share of intra-group claims with a maturity of up to one year ^{a)}	3.9	4.1
Cash assets ^{a)}	18.6	18.6
LIABILITIES		
Equity ^{a)}	40.5	41.3
Amortisation and provisions	28.4	28.9
Bonds and other fixed-income securities	0.6	0.7
Bank debt	15.6	14.7
Finance leases	2.5	2.4
Other debt ^{a)}	9.7	9.3
Stable debt ^{a)}	28.4	27.0
Short-term bank loans	2.2	2.3
Share of intra-group debts with a maturity of up to one year ^{a)}	0.5	0.5
Cash liabilities ^{a)}	2.7	2.7

Scope: Non-financial SMEs as defined by the LME.
a) No adjustments for double counting are made at this stage.
Source: Banque de France – FIBEN database (July 2014).

Non-resident holdings of shares in French CAC 40 companies at end-2013

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Securities Division

At 31 December 2013, non-residents held a total of EUR 499.2 billion worth of shares in French CAC 40 companies, accounting for 46.7% of their stock market capitalisation.

Net purchases of shares by non-residents amounted to EUR 15.3 billion in 2013, in line with the levels seen in the two previous years. However, the non-resident ownership rate grew at a slower pace than in 2012, rising just 0.4 percentage point, due in large part to a negative valuation effect of 1.1 points.

2013 also saw a rise in the number of French CAC 40 companies which are more than 50%-owned by non-residents, from a total of 16 out of 35 listed companies in 2012 to 19 out of 36.

Keywords: stock markets, portfolio investments, ownership rate, non-residents, CAC 40.

JEL codes: F21, F23, F36, G15, G34.

I | The non-resident ownership rate continued to rise in 2013

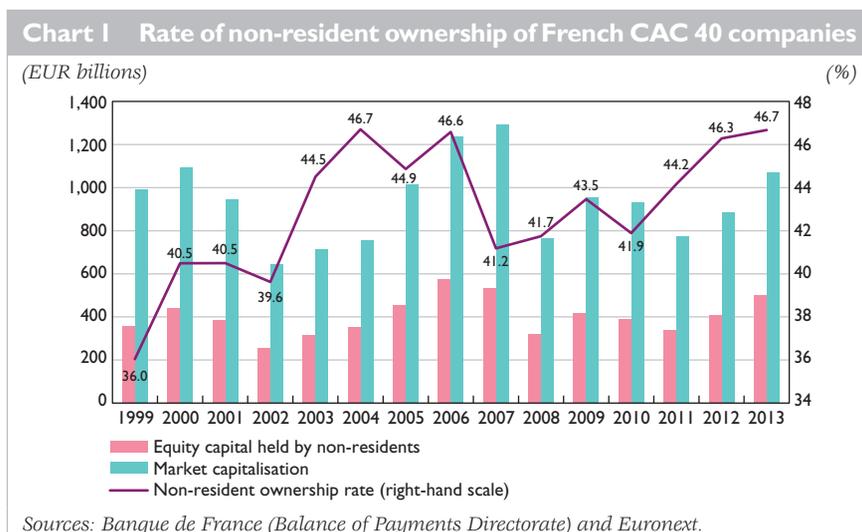
I | I | Slower growth than in previous years

At end-2013, non-resident holdings of shares in the 36 French companies listed in the CAC 40 amounted to EUR 499.2 billion out of a total market capitalisation for these companies of EUR 1,069.6 billion.¹

This represented an ownership rate of 46.7%, which was back in line with the level seen in 2004 (see Chart 1). The declines sparked by the 2007 financial crisis and, to a lesser extent, the sovereign debt crisis of 2010, have thus largely been recouped. That said, the rate of non-resident ownership grew at a much slower pace in 2013, rising just 0.4 percentage point after increases of 2.1 points in 2012 and 2.3 points in 2011.

Portfolio investments² continued to account for the bulk of non-resident holdings of French CAC 40 shares. However, the proportion of direct investments increased in 2013, rising to 9.2% compared with 8.0% in 2012 and 7.3% in 2011.

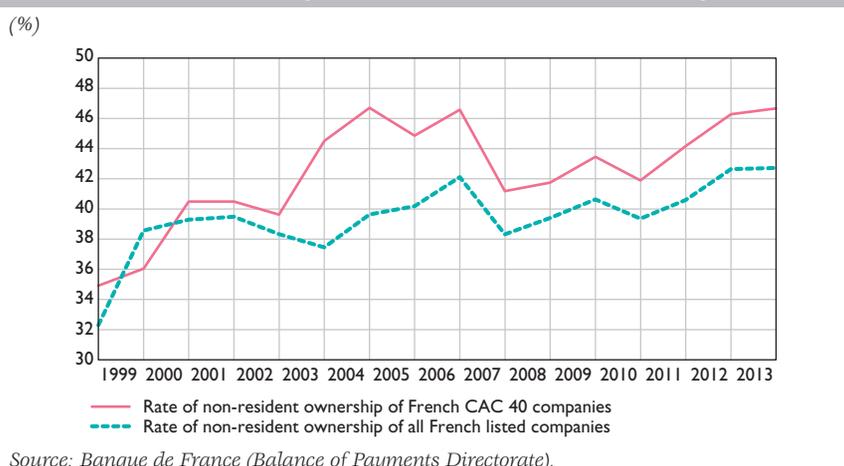
As a percentage of all French listed stocks (i.e. including intermediate-sized companies and certain SMEs, as well as large French multinationals) the non-resident ownership rate stood at 42.7% in 2013, up from 42.6% in 2012 and 40.6% in 2011.



¹ The study excludes the four remaining companies in the CAC 40 which are not resident in France (see Appendix 1: Composition of the CAC 40 in 2013).

² "Portfolio investments" refers to individual holdings accounting for less than 10% of the shares of a company. Beyond this threshold, holdings are considered to be "direct investments".

Chart 2 Change in non-resident ownership rate for French CAC 40 companies and all French listed companies



Since 2010, the gap between the non-resident ownership rate as a share of French CAC 40 stocks, and the rate calculated as a share of all French listed stocks has increased steadily, rising from 2.5 points to 4 points in 2013 (see Chart 2). However, the gap is still much smaller than in the 2003-2006 period, when it averaged 5.8 percentage points.

1 | 2 The slowdown was linked primarily to divergences in stock market performances

In 2013, ST Microelectronics was replaced by Alcatel-Lucent in the CAC 40, taking the total number of French companies in the index to 36 (from 35 in 2012, see Appendix 1). As Alcatel-Lucent's shareholders were more geographically diverse than the average for the other companies in the index, this change led to a slight rise in the non-resident ownership rate for French CAC 40 companies. However, the effect was only marginal (a rise of 0.1 percentage point; see Appendix 2, "Calculation of the relative contributions of share price and flow effects").

The main factor behind the rise in the non-resident ownership rate was the flow of issuances and of purchases/sales. In 2013, net sales of French CAC 40 company shares by French residents totalled EUR 10 billion, against net purchases of EUR 15.3 billion by non-residents.³ At constant share prices, these flows would have boosted the non-resident ownership rate to 47.7%, a rise of 1.4 percentage points relative to 2012.

³ The difference between purchases and sales is attributable to an issuance flow of EUR 5.3 billion in 2013.

However, the impact of these foreign capital inflows on the ownership rate was offset to an extent by differences in stock market performances, as those companies with a higher proportion of non-resident shareholders tended to fare worse over the year. The total value of French CAC 40 stocks held by non-residents rose just 16.9%, compared with an overall rise of 19.6% in the market capitalisation of the CAC 40. This explains the divergence between the estimated ownership rate at constant prices (47.7%) and the actual rate at end-2013 at market prices (46.7%).

2| More than half of French CAC 40 companies are majority-owned by non-residents

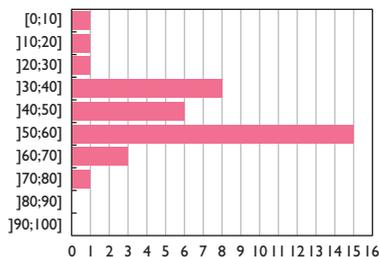
At 31 December 2013, non-residents held an average 47.2% capital stake in the 36 French companies making up the CAC 40. Nineteen companies were more than 50%-owned by non-residents, of which four were more than 60% foreign-owned (see Chart 3). At the end of 2012, 16 of the 35 French companies making up the CAC 40 were more than 50%-owned by non-residents.

This increase in the number of companies majority-owned by non-residents is in part linked to the change in the composition of the CAC 40 – in 2012, before Alcatel-Lucent was included in the CAC 40 index in 2013, more than half of its shareholders were foreign residents.

At the same time, 21 of the French companies in the CAC 40 saw a rise in the share of their market capitalisation held by non-residents in 2013 – in the case of four of these, the increase exceeded 6 percentage points (see Chart 4). Of these 21 companies, two became majority-owned (i.e. more than 50%) by non-residents in the course of 2013.

Chart 3 Breakdown of French CAC 40 companies by non-resident capital stake

(% and number)

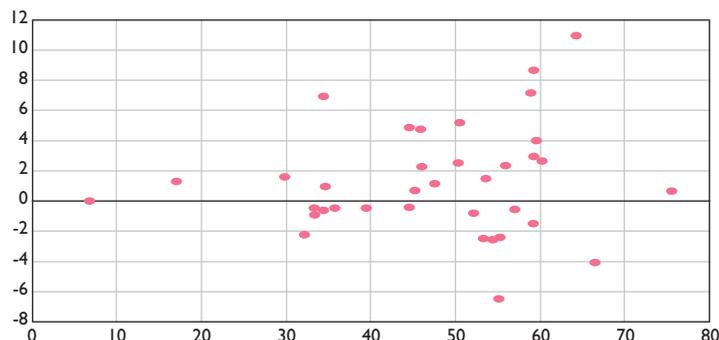


Source: Banque de France (Balance of Payments Directorate).

In contrast, the number of companies which saw a decrease in their non-resident holding rate was lower, at 15 out of a total of 36; the falls were also less marked than the increases, with only one company registering a decline of more than 6 percentage points in its non-resident holding rate. Moreover, none of these companies saw their non-resident holding rate fall below the 50% mark in 2013.

Chart 4 2012-2013 change in non-resident ownership rate in relation to the non-resident ownership rate at end-2013

(change in percentage points; rate in %)



Key: The dots located above the horizontal axis represent companies in which non-residents increased their holding in 2013. Those closest to the left-hand vertical axis had a relatively low share of non-residents in their capital at end-2013. The larger number of dots in the centre and upper half of the chart shows that the increase in non-resident stakes in French companies mainly occurred in companies which already had a very diversified shareholder structure, with foreign investors holding between 40% and 60% of their capital.

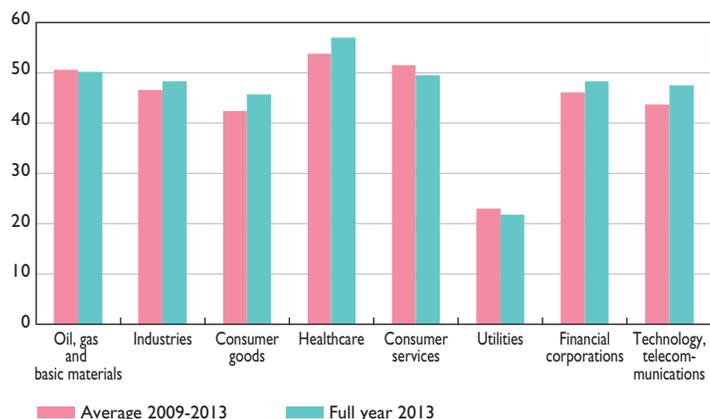
Source: Banque de France (Balance of Payments Directorate).

3| Non-residents tend to favour specific sectors

Since 2011, the sector which has attracted the most non-resident investment is healthcare; in 2013, its non-resident ownership rate stood at 57.0%, up 2.6 percentage points from the previous year (see Chart 5).

Chart 5 Rate of non-resident ownership of French CAC 40 companies by sector of activity (according to the Industry Classification Benchmark – ICB – used by Euronext)

(%)



Source: Banque de France (Balance of Payments Directorate).

Oil, gas and basic materials is the only other sector more than 50%-owned by non-residents (ownership rate of 50.3% in 2013, down 1.5 points versus 2012). Meanwhile, the utilities sector is the least popular with non-residents, with an ownership rate of 21.8% in 2013, down 3.4 points year-on-year.

The sector which saw the biggest rise in non-resident investment in 2013 was telecommunications, with its ownership rate increasing by 5.5 percentage points to 47.5%.

4| Geographical origin of non-resident shareholders

The International Monetary Fund's annual *Coordinated Portfolio Investment Survey (CPIS)*⁴ provides a country breakdown of all holdings of equity issued by residents. When combined with non-resident ownership rates for the CAC 40, this data can be used to calculate the share of CAC 40 equities held by country or by geographical area.⁵

In 2013, of the 46.7% of French CAC 40 shares held by non-residents, 18.8% were owned by euro area investors, 15.9% by US investors and 3.4% by investors in the United Kingdom (see Table 1).

This breakdown has remained more or less stable since 2009, with only the United Kingdom seeing a significant fluctuation in the size of its holding: the latter rose from 1.9% to 3.4% between 2010 and 2012, after falling from 8.8% to 1.9% between 2001 and 2010.

Table 1 Geographical origin of holders of French CAC 40 shares

(%)	Ownership rate				
	At end-2009	At end-2010	At end-2011	At end-2012	At end-2013 ^{a)}
All non-residents	43.5	41.9	44.2	46.3	46.7
Euro area	18.4	18.3	18.3	18.6	18.8
of which:					
Luxembourg	5.4	5.2	5.0	5.2	5.3
Germany	3.5	3.5	3.4	3.6	3.6
United States	14.6	14.2	14.8	15.8	15.9
United Kingdom	2.9	1.9	2.8	3.4	3.4
Norway	1.3	1.4	1.7	1.8	1.9
Switzerland	1.3	1.3	1.4	1.4	1.4
Canada	1.2	1.1	1.3	1.3	1.3
Japan	1.5	1.4	1.3	1.3	1.3

a) Projections according to the relative weight of non-residents at the end of 2012. Because of the time it takes for the IMF to collect and consolidate data, only data from the end of 2012 is available.

Sources: Banque de France (Balance of Payments Directorate), IMF.

4 The CPIS provides data on the portfolio investment positions of some 75 countries, broken down by type of security (equities and mutual fund units, short- and long-term debt securities) and by counterparty country. Data and information relating to the CPIS can be found on the IMF website: <http://www.imf.org/external/np/sta/pil/cpis.htm>

5 This calculation is based on the assumption that the geographical distribution of CAC 40 shareholdings is the same as that observed for non-resident holdings of all French shares and mutual fund units, as CPIS data combines both types of asset.

Appendix I

Sources and methods

Composition of the CAC 40 in 2013

The scope of this study excludes companies which are not resident in France. Thus the number of companies covered may vary from year to year, depending on the composition of the CAC 40.

In 2013, the number of resident companies in the CAC 40 rose from 35 to 36 after ST Microelectronics (non-resident) was excluded from the index and replaced by Alcatel (resident).

List of the 36 resident companies in the CAC 40 at 31 December 2013

Accor	Crédit Agricole	LVMH	Schneider Electric
Air liquide	Danone	Michelin	Société Générale
Alcatel-Lucent	EDF	Pernod Ricard	Technip
Alstom	Essilor International	PPR	Total
Axa	France Télécom	Publicis Groupe	Unibail-Rodamco
BNP Paribas	GDF Suez	Renault	Vallourec
Bouygues	Lafarge	Safran	Veolia Environnement
Cap Gemini	Legrand	Saint Gobain	Vinci
Carrefour	L'Oréal	Sanofi-Aventis	Vivendi

Note: Arcelor Mittal, Airbus Group, Gemalto and Solvay are non-resident companies and are therefore excluded from the study.

Source: Euronext.

Revisions to data

Data on French assets and liabilities positions for the last three years are revised when the Banque de France publishes its *French Balance of Payments and International Investment Position Annual Report*.¹ The figures published in this article take account of these corrections.

Revisions to security holdings stem from additional data collected from securities custodians, the integration of additional foreign direct investments or corrections to the valuation of certain securities. Stock market capitalisation data, however, are produced by Euronext and are not revised.

¹ The French Balance of Payments and International Investment Position is available on the Banque de France website at <http://www.banque-france.fr/economie-et-statistiques/balance-des-paiements-et-economie-internationale/la-balance-des-paiements/la-balance-des-paiements-et-la-position-exterieure-de-la-france.html>

Data on CAC 40 shareholdings published in 2013 and 2014

(EUR billions and %)

	Publication in 2013		Publication in 2014	
	2011	2012	2011	2012
Capital held by non-residents	340.7	410.4	341.1	410.3
Market capitalisation	772.3	886.4	772.3	886.4
Non-resident ownership rate	44.1	46.3	44.2	46.3

Source: Banque de France (Balance of Payments Directorate).

As a result of these revisions, non-resident holdings of French CAC 40 shares for 2011 were adjusted upwards from a published figure of EUR 340.7 billion to EUR 341.1 billion (the ownership rate rose from 44.1% to 44.2%). Non-resident holdings for 2012 were revised downwards slightly by EUR 0.1 billion, with no impact on the ownership rate.

Appendix 2

Calculation of the relative contributions of share price and flow effects

The main abbreviations used in this Appendix are as follows:

$S_i^{(i)}$	Stock of French CAC 40 shares held by non-residents at the end of year i , estimated at market value at the end of year j .
$C_i^{(i)}$	Market capitalisation of French CAC 40 shares at the end of year i , estimated at market value at the end of year j .
$CS_i^{(i)}$	Impact of the change in the composition of the CAC 40 over year i on the stock of shares held by non-residents, calculated at market value for year j .
$CC_i^{(i)}$	Impact of the change in the composition of the CAC 40 over year i on the market capitalisation of the CAC 40, calculated at market value for year j .
$F_{R,i}^{(i)}$	Net flow of purchases/sales of CAC 40 shares by French residents in year i calculated at market value at the start of year j .
$F_{NR,i}^{(i)}$	Net flow of purchases/sales of CAC 40 shares by non-residents in year i , calculated at market value at the start of year j .

Breakdown of composition/flow/stock/valuation effects

(EUR billions)

	2012 stock	Change in the composition of the CAC 40	Net non-resident flows in 2013	2013 stock
	$S_{12}^{(12)}$	+ $CS_{13}^{(12)}$	+ $F_{NR,13}^{(12)}$	= $S_{13}^{(12)}$
Change in market capitalisation in 2013 excl. price variations	410.3	+ 1.3	+ 15.3	= 426.8
	$V_{S12}^{(12)}$	+ $V_{CS13}^{(12)}$	+ $V_{F_{NR,13}^{(12)}}$	= $V_{S13}^{(12)}$
Change in prices in 2013	69.9	+ 2.9	- 0.5	= 72.3
	$S_{12}^{(13)}$	+ $CS_{13}^{(13)}$	+ $F_{NR,13}^{(13)}$	= $S_{13}^{(13)}$
Change in market capitalisation in 2013 incl. price variations	480.2	+ 4.2	+ 14.8	= 499.2

	2012 capitalisation	Change in the composition of the CAC 40	Net resident flows in 2013	Net non-resident flows in 2013	2013 capitalisation
	$C_{12}^{(12)}$	+ $CC_{13}^{(12)}$	+ $F_{R,13}^{(12)}$	+ $F_{NR,13}^{(12)}$	= $C_{13}^{(12)}$
Change in market capitalisation in 2013 excl. price variations	886.4	+ 2.3	- 10.0	+ 15.3	= 894.0
	$V_{C12}^{(12)}$	+ $V_{CC13}^{(12)}$	+ $V_{F_{R,13}^{(12)}}$	+ $V_{F_{NR,13}^{(12)}}$	= $V_{C13}^{(12)}$
Change in prices in 2013	167.9	+ 5.2	+ 2.9	- 0.5	= 175.6
	$C_{12}^{(13)}$	+ $CC_{13}^{(13)}$	+ $F_{R,13}^{(13)}$	+ $F_{NR,13}^{(13)}$	= $C_{13}^{(13)}$
Change in market capitalisation in 2013 incl. price variations	1,054.3	+ 7.6	- 7.1	+ 14.8	= 1,069.6

Measurement of the impact of changes in the index composition, prices and flows on the non-resident ownership rate

(%)

Composition of the index	Prices	N-R flows	Formula for calculating the ownership rate	Rate	
Composition unchanged	Current prices	With N-R flows	$[S12^{(13)} + F_{NR} 13^{(13)}] / [C12^{(13)} + F_R 13^{(13)} + F_{NR} 13^{(13)}]$	46.6	R1
Composition changed	Constant prices	With N-R flows	$S13^{(12)} / C13^{(12)}$	47.7	R2
Composition changed	Current prices	Without N-R flows	$[S12^{(13)} + CS13^{(13)}] / [C12^{(13)} + CC13^{(13)} + F_R 13^{(13)}]$	45.9	R3
Composition changed	Current prices	With N-R flows	$S13^{(13)} / C13^{(13)}$	46.7	R4

The impact of non-resident flows on the ownership rate is measured as the difference between R4 and R3, i.e. +0.7 point.

The impact of prices on the ownership rate is measured as the difference between R4 and R2, i.e. -1.1 points.

The impact of changes in the composition of the CAC 40 index on the ownership rate is measured as the difference between R4 and R1, i.e. +0.1 point.

Volume effects, stemming from net issuance excluding non-resident flows, combined with structure effects, resulting from initial ownership rates, are measured as the balance, i.e. +0.7 point.

Is the rise in student loan debt in the United States a source of economic fragility?

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Since 2008 and the bankruptcy of Lehman Brothers, the balance of outstanding student loan debt has risen at an accelerating pace in the United States, contrasting sharply with the trend for all other types of household credit. Changes to legislation have made it easier to access student loans, while the government has also boosted the volume of federal lending. These measures were designed to help households cope with rising tuition fees at a time of stagnating or even falling (2009) disposable income, caused by negative wealth effects and cuts to student grants.

The growth in student loan debt is weighing on individuals' finances and borrowing capacity. This has potentially negative implications for consumer spending, and can reduce borrowers' ability to afford rental or mortgage payments, delaying the formation of new households. Moreover, the emergence of a default risk on student loans is making it more and more difficult for indebted individuals to access other forms of credit, raising the threat that a whole segment of the population could become financially and economically excluded.

Despite the recent jump in defaults, student loan debt does not pose the same scale of risk as subprime loans: only a small amount of this debt is securitised, and the majority of the loans are guaranteed by the federal government, leaving the banking sector largely unexposed. Student debt may, however, pose a serious threat to public finances.

Keywords: United States, student debt, securitisation, housing market.

Codes JEL: E21, E31, H52, I22.

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In the United States, Democrats and Republicans have clashed repeatedly in recent months over the issue of student loan debt. The average amount of student loan debt per borrower increased by 6% per year from 2008 to 2012, and now stands at USD 29,400 per individual holding a student loan. According to the latest data for 2014, some 40 million Americans currently have an outstanding loan of this type.

Faced with a rise in defaults, President Obama signed an executive order in June 2014 extending the federal student loan relief programme (the pay-as-you-earn programme), which allows graduates to cap monthly repayments on federal loans at 10% of their income. However, the approach has drawn criticism from Republicans, who argue that the underlying problem is the lack of job prospects, as young graduates are struggling to find first-time employment and thus recoup tuition costs through higher pay.

A notable feature of the debate is that neither party has proposed lowering tuition fees, even though this is one of the main factors behind the rise in total outstanding student loans. Indeed, the amount of debt has increased to such an extent (notably since 2008) that it could even raise the threat of a bubble in tuition fees fuelled by excessive credit, similar to the phenomenon witnessed in the real estate market in the 2000s.

As tuition fees have climbed, so too have unemployment levels among those with a bachelor's degree; the jobless rate for college graduates almost doubled during the Great Recession, from 2.5% in July 2008 to a peak of 5% in November 2010. Although it has since declined (to 3.1% in July 2014), college graduates are still tending to find less well-paid jobs than before the recession, leading to a rise in student loan defaults.

In 2013, 41% of the population aged 25 and over had a college degree (or equivalent) and demand for higher education is expected to remain high in coming years – the Bureau of Labor Statistics (BLS) forecasts an average of 260,000 additional students per year over the next ten years – even though tuition fees are likely to continue climbing due to cuts in public financing for universities.

Like politicians, the press has been quick to dramatise the issue, describing it as a “time bomb”.¹ Some economists have also compared student loans to the subprime loans which dragged the United States into the last financial crisis.

1 Le Monde, 27 September 2012, “Student loans: America’s time bomb”.

Our view is that any comparison with the subprime crisis needs to be put into perspective. In particular, only a small amount of student loan debt is securitised, and federal student loans, which make up the bulk of borrowing in this category, are guaranteed by the government and thus pose only a marginal risk to financial stability. That said, the rise in student loan debt has direct implications for the US economy: in the short term it affects consumer spending and investment, while over the longer term, the negative impact of mounting student debt on demand and on education levels could place a drag on US economic potential. There is also a risk to public finances – 85% of student borrowing is guaranteed by the federal government, representing a potential outstanding debt of USD 950 billion.²

I | The increase in student loan debt

I | I Student loans are the only type of household debt to have risen since the collapse of Lehman Brothers

The first part of this paper looks at the recent evolution of student loan debt in the United States. According to statistics published in May 2014 by the Federal Reserve Bank of New York, total outstanding student loans in the United States stood at USD 1.110 trillion in the first quarter of 2014, up USD 31 billion compared with the previous quarter, and up USD 125 billion year-on-year. The figure accounts for 6.6% of US gross domestic product (GDP), and 7.7% of US households' gross disposable income.

Under the definition used by the New York Fed, student loans refer to all loans used to finance education-related costs and originated by banks and credit or other financial institutions, or by the federal states and federal government (see Table 1). In fiscal year 2012, some 15% of student loans were federal loans, originated and guaranteed by the federal government and bearing a fixed rate of interest. Fifteen percent were unguaranteed loans issued by the banking sector (source: Consumer Financial Protection Bureau). Only the latter category can be securitised.

The annual flow of private sector loans hit a peak of USD 18.1 billion in 2007-08, immediately prior to the credit crunch, before falling to USD 5.2 billion in 2010-11. In the 2012-13 period it began to climb again, reaching USD 6.2 billion; however, the growth rate for private loans is lower than for federal loans.

² Based on updated economic data at 7 August 2014.

Table 1 Different categories of student loan

Type	Distribution ^{a)}	Borrower	Lender	Interest rate ^{b)}		Characteristics	Term
				fixed	floating		
Federal government							
Subsidised direct Stafford	27.3% of federal loans	Student	US Department of Education	4.66%		The most common type of loan.	Maximum term of 10 years or 25 years, depending on the financing plan. Up to 30 years for a consolidated loan.
Non-subsidised direct Stafford	24.8% of federal loans	Graduate or undergraduate		4.66% 6.21%			
Direct PLUS	3.9% of federal loans	Parent, student or graduate student		7.21%			
Perkins	2.8% of federal loans	Graduate or undergraduate	Universities	5.00%		Exceptionally low rate, as these loans are intended for students experiencing financial difficulties.	10 years. Up to 30 years for a consolidated loan.
Private sector							
Private loans	nc	Students not eligible for a federal loan, or who cannot borrow enough via federal loans.	Banks and other financial institutions.		Rates of up to 15.7% observed.	Loans with no government guarantee.	On a case-by-case basis.
Federal Family Education Loan (FFEL)	nc			Fixed rate of 8.5% from 1 July 2006 to 1 July 2013.	Floating rate from 1 July 1998 to 1 July 2006.		

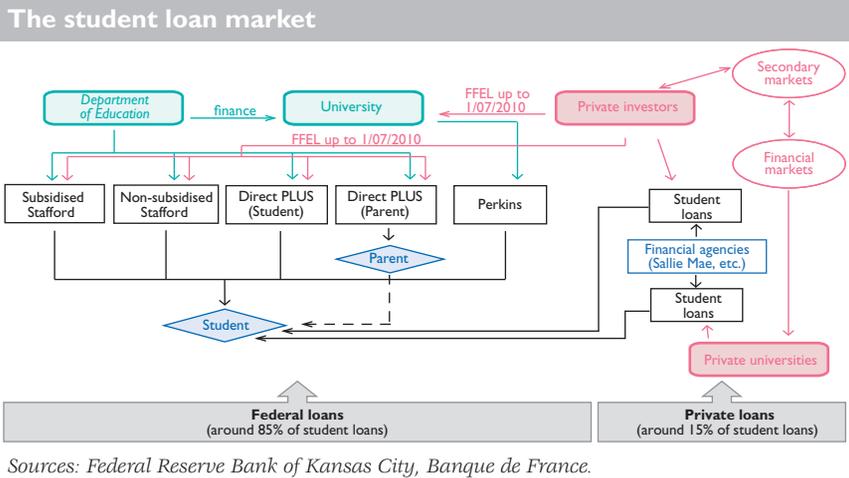
a) There is also the "combined" Stafford loan which combines both types of Stafford loan listed here and accounts for 29.7% of federal loans.

b) Loans issued between 1 July 2014 and 30 June 2015.

nc: not communicated.

Sources: US Department of Education, National Student Loan Data System, Banque de France calculations.

According to the New York Fed, student loan debt has increased by USD 870 billion since the first quarter of 2003 (when the Fed first began collecting data). From 2008 onwards, the pace of growth began to accelerate (a rise of USD 500 billion since the collapse of Lehman Brothers in the third quarter of 2008), while the outstanding amount of all other forms of US household debt contracted by USD 1.526 trillion. This phenomenon is due in part to two legislative decisions: the Ensuring Continued Access to Student Loan Act (ECASLA) of 2008 and the Student Aid and Fiscal Responsibility Act (SAFRA) of 2010, which together facilitated access to credit, raised borrowing limits and made repayment conditions easier.



The federal government played a key role in fuelling the rise in student debt, by increasing the amount of its federal lending (see figure above).

The outstanding amount of federal loans climbed from USD 710 billion in 2006-07 to USD 910 billion in 2012-13 (in 2011 dollars). As they offer cheaper rates than private loans, they have largely pushed banks out of the market for student lending (see Chart 1). Federal loans are relatively easy to obtain as they do not depend on the income of the parents (or of the student), on the student’s expected future earnings, or on his/her credit history. Only students who have already defaulted on a loan or who have been found guilty of a drug-related crime are ineligible.

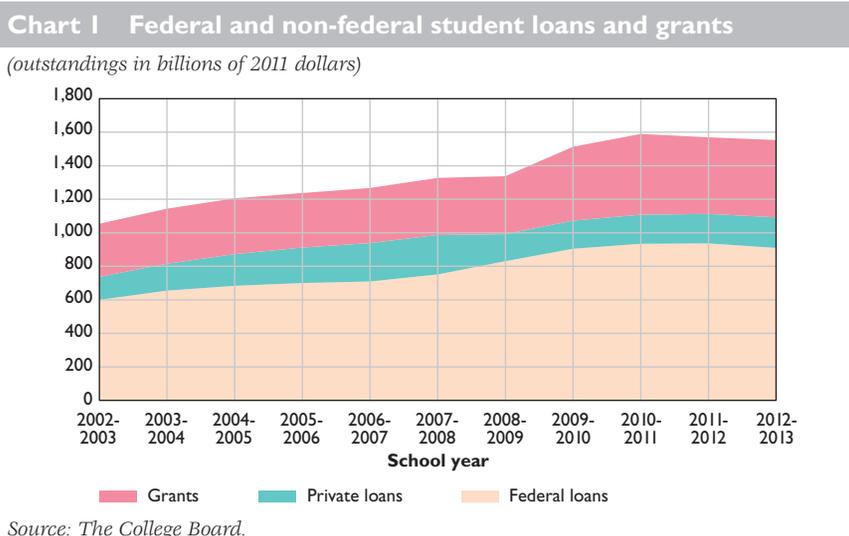
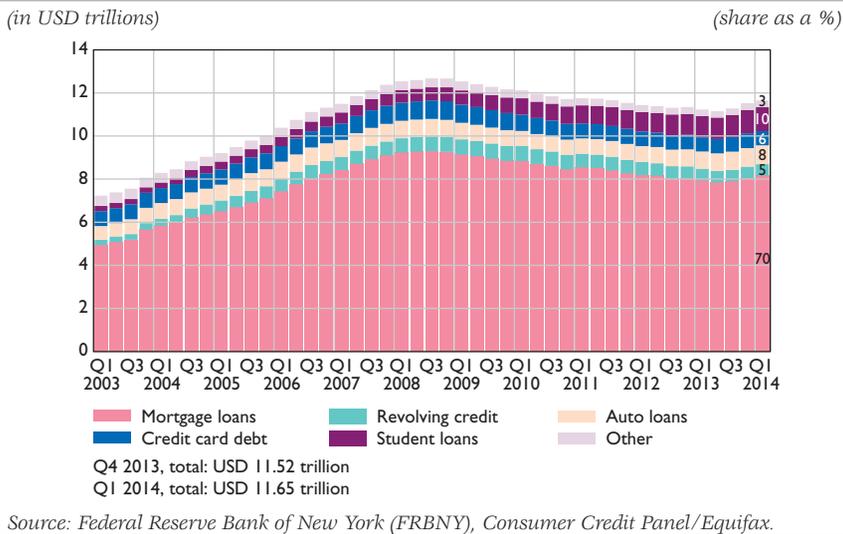


Chart 2 Structure and amount of outstanding household debt



The upsurge in federal lending from 2008 onwards is the main driving factor behind the acceleration in total outstanding student loan debt described above. Outstanding private loans, in contrast, shrank from USD 212 billion in 2006-07 to USD 183 billion in 2012-13.

At the same time (and notably up until mid-2013), all other forms of household debt stalled, especially mortgage loans and credit card debt. Despite the rise in the amount of student borrowing, there was an overall process of deleveraging among American households: outstanding household debt fell by 12% from its peak in the third quarter of 2008 before bottoming out in the second quarter of 2013.

Total outstanding household debt rose in the first quarter of 2014 for the first time since the third quarter of 2008; however, it is still 8.1% lower than the high of USD 12.675 trillion reached at that time (see Chart 2).

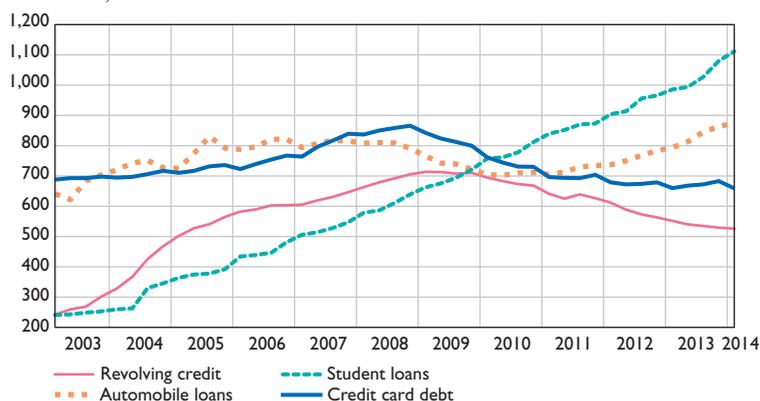
In contrast, student borrowing continued to rise throughout the Great Recession. According to the New York Fed, from 2010 onwards, student loans became the second biggest item of debt held by US households, after mortgage loans but ahead of credit card debt and auto loans (see Chart 3).

Today, there are around 49 million outstanding federal student loans, compared with 32.4 million in 2007.³ As a share of overall household borrowing, student loan debt has doubled since 2008 to 10%, although this is still much lower than the share of mortgage debt (70%).

³ Source: National Student Loan Data System (NSLDS).

Chart 3 Outstanding non-mortgage debt

(in USD billions)



Source: FRBNY Consumer Credit Panel/Equifax.

1 | 2 The rise in student debt is attributable to the deterioration in macroeconomic conditions

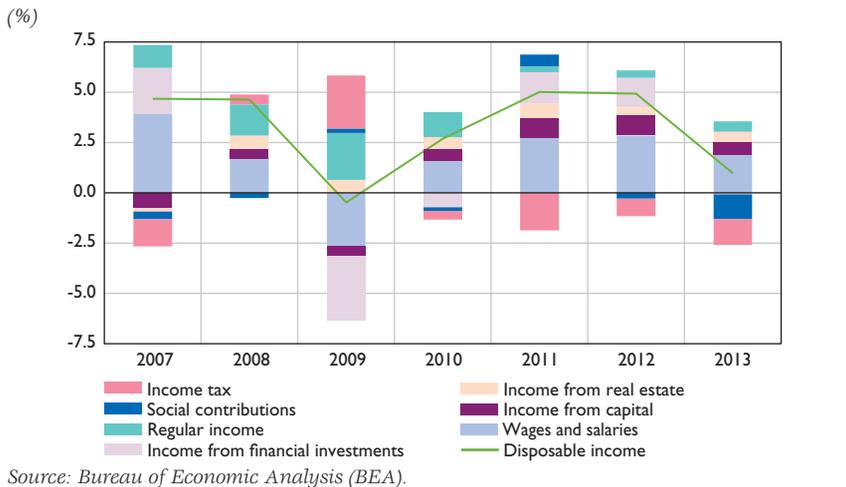
In this second section, we attempt to show how indebtedness levels have risen in a context of sluggish growth in gross disposable income (GDI) and student grants, high unemployment in comparison with other recessionary episodes, and expanding tuition fees.

Household GDI fell in 2009 and, since the end of the crisis, has been growing at a more moderate pace than in previous periods. In the United States, the decline in disposable income during the last recession was essentially linked to falling earnings from employment, resulting from job losses or a switch to part-time work (see Chart 4).

However, the deterioration in the US labour market and fall in earnings cannot be attributed merely to cyclical factors arising from the Great Recession, particularly as job numbers returned to their January 2008 levels in May 2014. In reality, a portion of the job losses can be traced to structural factors (such as a mismatch between labour supply and demand, shocks to specific sectors, a structural fall in the participation rate, de-industrialisation, global competition, etc.).⁴ Income from employment could therefore continue to grow at a modest pace, even during an economic recovery.

⁴ M. Chinn, L. Ferrara and V. Mignon (2013) show that, since the end of the recession, US employment has remained on average around 1% below the level implied by the long run output-employment relationship.

Chart 4 Growth in households' gross disposable income
Contributions to annual variation



In addition, negative wealth effects (which have since been reversed) almost certainly played a role in boosting student loan debt, as families felt poorer and spent less on helping their children finance their studies. Case, Quigley and Shiller (2012) show that the fall in house prices led to significant drops in consumer spending; so it is legitimate to assume that a similar phenomenon occurred with education-related expenses.

Another important factor that helped fuel the rise in student debt is the reduction in student grants from 2010 onwards (the outstanding amount of grants fell by 4.3% between 2010-11 and 2012-13, see Chart 1).

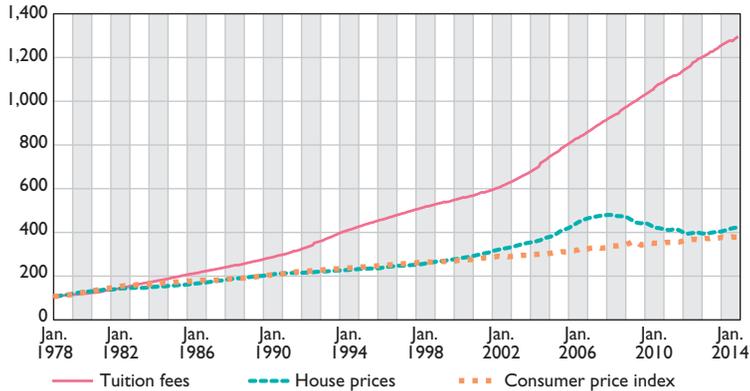
The final contributing factor was the rise in tuition fees, which has far exceeded inflation as measured by the year-on-year consumer price index. Tuition fees have surged 1,225% since 1978, while house prices in comparison have “only” risen 320% (see Chart 5).

There are a number of factors behind this rise in tuition fees:

- First, **demand for higher education** is rising, both structurally (more and more young people are enrolling into higher education) and due to the economic climate (the increase in unemployment caused by the crisis has led to a rise in the number of students as young people have delayed their entry into the labour market). Indeed, there is a positive correlation between changes in unemployment rates and the number of students in higher education (correlation coefficient of 0.68 for the period 1963-2012), as illustrated in Chart 6.

Chart 5 Growth in tuition fees, house prices and consumer prices in the United States

(January 1978 = 100)



Sources: Bureau of Labor Statistics (BLS), Federal Housing Finance Agency (FHFA).

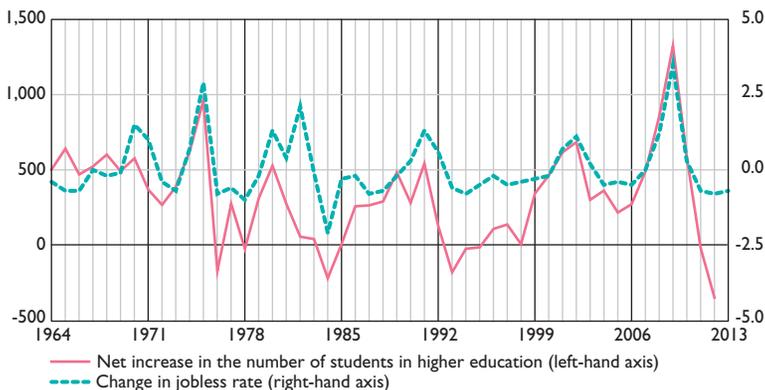
Applying a Granger causality test indicates that a variation in the unemployment rate leads directly to an increase in the number of students in higher education. Consequently, with each episode of recession the number of college enrolments rises.⁵

A. Barr and S. Turner (2013) also show that, over the last decade, the cyclical response consisting in an increase in the number of college enrolments during periods of economic slowdown, was greater than that observed in previous decades.

Chart 6 Increase in the number of students in higher education and change in the jobless rate in the United States

(in thousands)

(percentage points)



Source: BLS, US Department of Education.

⁵ *P*-value of 0.0016. However, the test does not easily accept the reverse causality.

- Second, **fiscal consolidation** on the part of local authorities, whose job it is to provide funding for colleges and universities, has also played a significant role in driving up tuition fees. The 2007-2009 recession prompted a slump in state and local authority tax receipts.⁶ Although the federal stimulus package enacted by Congress in 2009 (the American Recovery and Reinvestment Act or ARRA) helped to prevent a contraction in overall receipts, states and local authorities still struggled to balance their finances. As a result, they were forced to cut spending in certain areas, and education – one of the largest spending items in their budgets – was not spared the knife (the share of local authority contributions in university and college funding fell from 27% in 2008-09 to 18% in 2011-12). Therefore, tuition fees rose to make up for the drop in public financial aid.
- At the same time, US universities tried to make up for the decline in certain revenues by raising enrolment fees for students. Financial revenues for both public and private establishments together (i.e. revenues from foundations' financial investments) plummeted by 85% between the 2006-07 and 2011-12 school years, and went from 15% of total revenues at the start of the period to a share of just 2%. Conversely, enrolment fees for US universities and colleges rose by 9% over the period, and increased from 22% of total revenues to 30% (source: US Department of Education).
- A number of universities, including some of the most prestigious, have voiced concerns over their ability to finance themselves in the future.⁷ As a result, there is a risk that some of them might be forced into bankruptcy.

2| The risks linked to student loan debt

2| I To what extent does rising student loan debt pose a threat to the US economy?

Student loans can be a handicap for borrowers, and this has a number of implications for the US economy.

A direct negative impact on consumer spending and house purchases

The most immediate macroeconomic consequence of higher student loan debt is its negative impact on household spending, which accounts for 70% of US GDP. A breakdown of growth in consumer spending by

⁶ Tax receipts dropped by 9% in the space of a year, i.e. between the second quarter of 2008 and the second quarter of 2009. Over the same period, nominal GDP contracted by 3% (source: BEA).

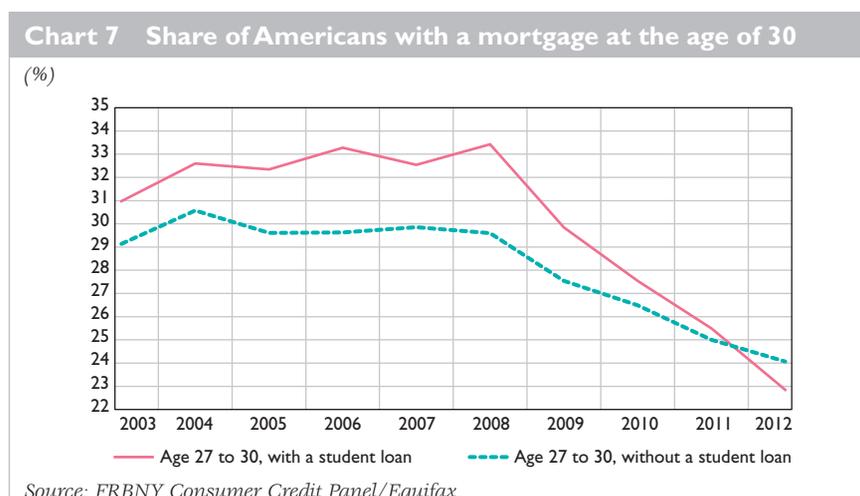
⁷ See the University of Harvard's financial report for the 2012 fiscal year, page 5: "The need for change in higher education is clear given the emerging disconnect between ever-increasing aspirations and universities' ability to generate the new resources to finance them".

education level⁸ shows clearly that annual spending for individuals with a bachelor's degree fell by 3.9% between 2007 and 2012, whereas overall spending for all population groups combined rose by 3.6% over the same period.

In the short term, student loan debt also has an impact on the automobile market. In an article published in 2013, Brown *et alii* show that, since 2012, individuals in the 22 to 25 age bracket without a student loan were more likely to hold an auto loan than those with a student loan.

With regard to the property market, among those struggling to save up a down payment for the purchase of a home (i.e. 12% of those surveyed by the National Association of Realtors – NAR), the largest share cite their outstanding student loan as the main obstacle. This proportion rises to 54% for first-time buyers struggling to find a down payment. As a result, young people are leaving it later and later to get onto the property ladder: according to the NAR,⁹ first-time buyers accounted for 26% of home purchases in January 2014, down from 30% a year earlier. This is the lowest level since October 2008. The NAR estimates that first-time buyers would normally account for 40% of all purchases.

As a result of this trend, two phenomena have emerged since the crisis: (i) the proportion of 27-30-year-olds with a mortgage loan has fallen; (ii) since 2011, individuals in the 27-30 age bracket with an outstanding student loan have been less likely to take out a mortgage than those without a student loan (see Chart 7).



⁸ Source: Consumer Expenditure Survey, Bureau of Labor Statistics (BLS).

⁹ National Association of Realtors (<http://www.realtor.org/>).

Another economic consequence linked to US student loan debt is the slowdown in new household formation since the Great Recession. At the height of the property boom in 2002-06, 1.4 million additional households were created each year, but this figure fell to around 450,000 during the Great Recession. According to Rohit Chopra, the CFPB's student loan ombudsman (a position created by the Dodd-Frank Act), three quarters of the decline in new household formation since 2011 is directly correlated with student loan debt. Since the start of the recovery, new household formations have risen again to 615,000 per year; however, they now appear to be stuck at this level, which is still less than half that observed at the height of the property boom.

In the medium-term, the increase in student debt is thus delaying the formation of new households: 5.8 million young people in the 25-34 age bracket lived with their parents in 2013, an increase of 45% from the figure of 4 million in 2004.¹⁰

As well as placing a financial burden on borrowers and restricting their access to other loans, student loan debt can also affect an individual's credit history, with potentially negative implications for the macroeconomy: borrowers who default on a student loan can find it difficult, even impossible, to get any other form of credit. Mounting student loan debt thus raises the risk of social exclusion, in that it could prevent a certain segment of the population from accessing credit in the future.

The risk that graduates in a certain age group could find themselves economically excluded

A 2013 report by The Institute for College Access and Success (TICAS)¹¹ revealed that 7 out of 10 college graduates in 2012 had an outstanding student loan, with an average balance of USD 29,400.¹² The Institute highlighted that the average amount of student loan debt per borrower increased by 6% per year from 2008 to 2012. Data from J. Rothstein and C. Rouse (2011) for previous years show that the average outstanding student loan balance per borrower was USD 13,275 in 2004 and USD 8,462 in 1993.¹³

For some people, this burden can last a lifetime. There is no such thing as personal bankruptcy proceedings for student loan debt, and the government can garnish wages, benefits, tax credits and even pensions if it does not receive payment. In addition to young graduates, a growing number of over-60s still have outstanding student loans that were taken out years earlier. According to the New York Fed, in the United States,

¹⁰ Source: US Census Bureau, *Families and Living Arrangements, Table AD- 1, "Young Adults Living at Home: 1960 to Present"* (2013).

¹¹ TICAS is a non-profit research organisation which aims to improve access to higher education in the United States.

¹² In current dollars, not adjusted for inflation.

¹³ In 2005 dollars.

the over-60s were in debt to the tune of USD 43 billion in the fourth quarter of 2012 on federal and private loans taken out during their college education (bearing in mind that private loans usually take longer to repay). That accounts for 4.4% of the total outstanding amount of student loan debt.

Another longer-term consequence is that young people in employment who hold outstanding student loans find it harder to save for retirement.

2|2 Despite the rise in defaults on student loans, the financial risk remains limited

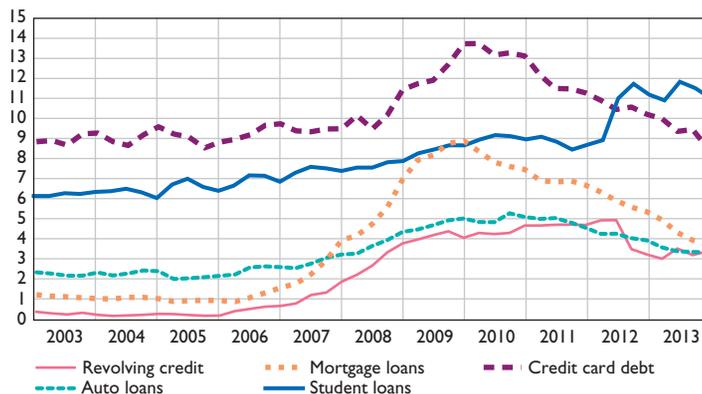
Defaults have more than doubled since 2008

According to the New York Fed, 28.2% of student loans in the United States were delinquent (more than 30 days past due) in the first quarter of 2014. While the outstanding balance on seriously delinquent loans (more than 90 days past due) has been falling for nearly all forms of borrowing, for student loans it has risen sharply (see Chart 8), from USD 11.19 billion in the first quarter of 2008 to USD 24.36 billion at the end of 2012 (a rise of 117.6% over the period).

The share of borrowers more than 90 days past due on their student loan repayments rose by nearly 2 percentage points between 2007 (6.8%) and 2009 (8.7%). Since the end of the recession in 2009, it has risen steadily (up 2.9 points between 2010 and 2013) and stood at 11.0% in the first quarter of 2014.

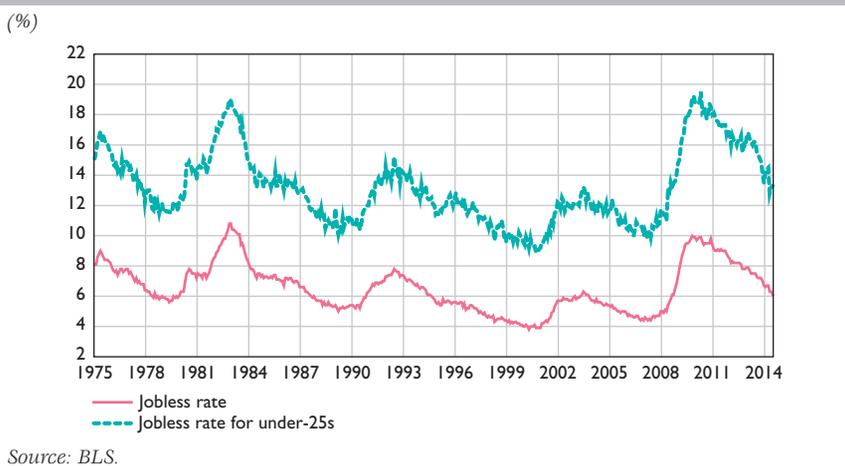
Chart 8 Loans more than 90 days past due

(as a % of total loans)



Source: FRBNY Consumer Credit Panel/Equifax.

Chart 9 Jobless rate for young people in the United States



The rise in delinquencies and defaults is mainly due to the deterioration in the labour market. Unemployment soared among young people in the United States during the recent crisis (it stood at 13.6% for 16-24-year-olds in July 2014, see Chart 9) and, although it has been falling steadily since its peak in April 2010 (at 19.5%), it is still 2 points above its pre-crisis level.

Not only are students struggling to find jobs, but young graduates are also seeing a decline in their wages. Lisa B. Kahn (2010) shows that graduating from college in a bad economy has long-lasting negative effects on earnings. Using data from the National Longitudinal Survey of Youth (NLSY79), she looks at workers who graduated before, during and after the recession in the early 1990s; she estimates that a 1-percentage-point rise in unemployment implies an initial wage loss of 6-7% on entering the labour market, and of 2.5% after 15 years.

For a more recent picture of the impact, it is possible to use Census Bureau data from the latest Current Population Survey to calculate the loss in average earnings for young people over the past 10 years (see Table 2).

In particular, the data show that in the 2007-12 period, graduates with bachelor's degrees or higher experienced a 7% drop in average earnings.

Abel, Deitz and Su (2014) attribute this phenomenon to the fact that, in the last recession, an increasing number of young graduates were forced into low-wage jobs that were below their skill level.

Table 2 Change in average income level for young people 2002-12

(%)		
	18-24 years	25-34 years
Men	-5.8	-5.9
Women	-3.7	-2.4

Source: Census Bureau.

Box 1***Is higher education still a good investment in the United States?***

The steady rise in college fees combined with the fall in average wages for young graduates has raised the question of whether higher education is still a good investment in the United States. By analysing the economic returns of a college education since the 1970s in terms of higher wages, J. Abel and R. Deitz (2014) show that, for those with an associate's or bachelor's degree, the investment is still very profitable. They calculate that the internal rate of return on a college degree has held steady at around 15% over the last decade. In their view, the driving force behind this phenomenon is the fact that the wages of those without a college degree have been falling to a greater extent, keeping the college wage premium high and reducing the opportunity cost of going into higher education.

That said, college graduates have seen a smaller decline in their average wages than individuals without a degree (see Box 1).

M. Daly and L. Bengali (2014) calculate that, on average, a college graduate will earn USD 800,000 more over his/her working life than an individual who only has a high school diploma. This figure is equivalent to five years of average annual earnings.

The fact that young graduates are accepting low-skilled jobs means that society is no longer reaping the full rewards of its human capital investments. This could place a drag on the future performance of the US economy, at a time when it is already struggling to shake off the effects of the Great Recession. According to the OECD, the US economy's growth potential has fallen from 2.9% before the crisis to 1.9%.

Few student loans are securitised, and the majority are guaranteed by the federal government

Fears are mounting in the United States that the rise in student loan debt could spark a new financial crisis. The press has been quick to compare the phenomenon to the subprime loan crisis of 2007,¹⁴ and a number of economists have also come out in support of this theory.¹⁵ It is true that in the case of student loans, there are two factors that create a moral risk for banks: one is the guarantee provided by the federal government for the majority of these loans; the other is the securitisation of student debt.

¹⁴ See for example: Financial Times, 16 October 2011, "US student debt impact likened to subprime crisis"; Le Monde, 10 July 2012, "Student loans in the US: the new subprime loans?"; Fortune, 14 February 2013, "Student loans: Welcome to subprime university".

¹⁵ Daily Ticker, 3 October 2013, "This is the next subprime crisis", Jim Rickards.

Box 2

Sallie Mae

SLM Corporation, originally called the Student Loan Marketing Association and better known as Sallie Mae, was first created in 1972 as a GSE. It began privatising its operations in 1997 and completed the process at the end of 2004 when Congress terminated its federal charter, ending its ties to the government.

In the 40 years since its creation, Sallie Mae has helped more than 31 million Americans fund their way through college.

Its core business is originating and collecting loans for students and their families in order to help finance their education. Initially, Sallie Mae offered federally guaranteed loans originated under the FFELP programme, but since 1 July 2010, it has focused exclusively on Private Education Loans, that is private loans with no federal guarantee.

Nonetheless, in the case of subprime loans, a much higher amount had been securitised prior to the collapse of the property bubble – around **USD 1.3 trillion in 2007** (source: Flow of Funds), or 12.2% of total outstanding residential mortgage debt in 2007 (which stood at some USD 10.6 trillion). According to SIFMA (Securities Industry and Financial Markets Association), only 17.8%, or **USD 225 billion**, of outstanding student loan debt had been securitised in the first quarter of 2014 (compared with 20.7% at end-2012). In most cases, the securitisation takes the form of SLABS (student loans asset-backed securities), which are ABS (asset-backed securities) collateralised by student loans originated either by the FFELP (Federal Family Education Loan Programme) up to 1 July 2010 – when the programme ended – or by a private entity. The main originator of these loans is Sallie Mae, which was initially created as a GSE (government-sponsored enterprise), like Fannie Mae and Freddie Mac (see Box 2). The SLABS market is relatively small: Sallie Mae issued USD 9.6 billion of SLABS (and USD 3.75 billion of uncollateralised debt) in 2013; in comparison, at the height of the property bubble, i.e. just before 2007, Fannie Mae, Freddie Mac and other agencies were issuing around a trillion dollars of MBS (mortgage-backed securities) per year.¹⁶ According to SIFMA, 26.1% of SLABS are rated AAA¹⁷ and 55% are rated AA. Only 5.6% have a rating of between BB and DD. Standard & Poor's attributes SLABS a stable outlook due to the large number with a government guarantee. This means that, in the case of a default on a federal student loan, the government guarantees at least 97% of the principal and interest payments, so the maximum loss that can be incurred is 3%. Given that 85% of student loans are federal loans, the default risk on student debt is mainly borne by the federal

¹⁶ Source: SIFMA.

¹⁷ Highest rating attributed by Moody's, Standard & Poor's or Fitch Ratings.

government, leaving the banking system largely unexposed. Moreover, the majority of these loans are at a fixed rate of interest, so borrowers are not vulnerable to a sudden rise in the federal funds rate.

Nonetheless, given the size of this outstanding debt, a massive default could have a negative impact on public finances: the federal guarantee on student loan debt currently stands at close to USD 950 billion, accounting for 8% of total federal debt and 6% of US GDP.

As a result, student loan debt is not without its macroeconomic risks: the rise in student loans could lead to social exclusion and restrict access to credit for graduates in a particular age group. The main impact of this would be macroeconomic, in that it would weigh on consumer spending and household investment; but there is also the threat of the possible impact on public finances.

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Four instruments to strengthen financial integration in sub-Saharan Africa

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Brookings Institution

This paper proposes four tools to strengthen financial integration in sub-Saharan Africa. The first tool, “political commitment devices” can ensure steady progress on the road to an economic community. For instance, stronger regional institutions can monitor progress towards integration and encourage policymakers to respect their regional commitments. Second, the economic benefits from financial integration are better secured when countries achieve a number of “threshold conditions”, including minimum levels of financial development and governance. Third, full financial integration requires the “trinity” of equality of access, rules, and treatment. Policymakers have to eliminate entry barriers, and once foreign institutions enter domestic markets, refrain from discriminating against them. In addition, policymakers must harmonise regulations further and build capacity, especially in banking supervision. Fourth, improving the “plumbing” of financial integration – financial infrastructure – by reducing transaction costs, can provide quick gains. Innovation in mobile payments can help reduce such costs, and regulators need to balance the associated benefits and risks.

Keywords: Africa, banking groups, financial integration, payments system.

JEL codes: F36, F38, F65, G21, G28.

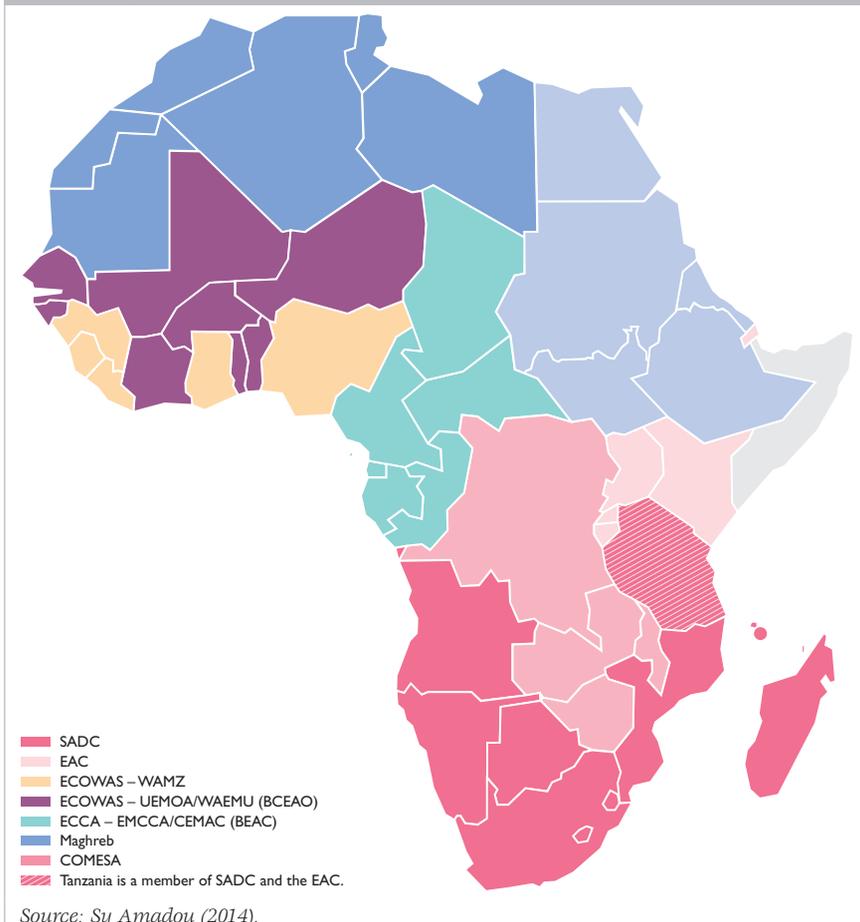
NB: A draft of this paper was presented at the Banque de France-Ferdi Conference on “Promoting financial integration in Africa” (Paris, May 27, 2014) and financial support by the Banque de France-Ferdi partnership is gratefully acknowledged. I would like to thank participants at the Paris Conference for helpful discussions and comments, and Christina Golubski and Soumya Chattopadhyay for editorial and research assistance. Any errors or omissions are the responsibility of the author.

I | Introduction and political commitment to integration

Over the past 10 years, sub-Saharan Africa grew 5 percent per year and, at this rate, the region's economy should double in size before 2030. Economic growth is projected to rise by at least 6 percent in 2014 and 7 of the world's fastest 10 economies in 2011-2015 will be from the region.

This "Africa rising" narrative should not mask the remaining challenges facing the continent. Indeed, rapid economic growth has not resulted in sufficient gains in terms of job creation and reduced inequality. Moreover, average continental growth rates mask an uneven progress among countries.

Figure 1 Regional economic communities
African regions



Without a doubt, financial integration can play an important role in helping achieve sustainable and inclusive growth in sub-Saharan Africa. Hoping for their countries to benefit from regional integration, 51 heads of state and government signed the Abuja Treaty in 1991. The treaty, which entered in force in 1994, establishes a roadmap toward an African Economic Community to be completed by 2028. The roadmap included six stages starting with the creation of regional blocs (regional economic communities or RECs, see Figure 1) and the strengthening of intra-regional integration and the harmonisation between the blocs.

The remaining four stages plan for the consecutive establishment of free trade areas and customs unions in each bloc, the creation of a continental customs union, the creation of an African common market, and, finally, the establishment of an African economic monetary union and a parliament (Figure 2 lists remaining stages).

Although the first stage has been completed, the second stage, which was supposed to be finalised by 2007, is not fully complete because progress by regional blocs and the countries within them has been uneven (Sy, 2014).

In addition to the planned integration of the regional blocs, the African Union has launched a number of integration programs and initiatives, including the African Central Bank, the African Monetary Fund and the African Investment Bank.

Reduced political appetite for increased financial integration can slow down the process towards the remaining stages of the African Economic Community. Strong common institutions can give policymakers the right incentives to foster integration. Indeed regional integration, especially monetary integration, requires independent institutions with the relevant expertise. In addition, common institutions should be able to monitor and evaluate the integration process on a timely basis, and be able to apply sanctions to countries that fail to respect their regional obligations. Measuring the degree of financial integration will be necessary and efforts to collect quality data are needed.¹ Regional integration often involves

Figure 2 Overall deadline for the establishment of the African economic community 2028



Source: Sy Amadou (2014).

¹ As in the annual *European Financial Stability and Integration Reports*, European Commission (2013).

trade-offs between short-term costs such as the loss of customs revenues and long-term gains such as access to larger markets, which often causes delays in integration. A compensation mechanism can give incentives to governments to remain engaged to the integration agenda.

“Political commitment devices” include therefore strong common institutions able to track the integration process and propose remedial actions when it goes off-track. These devices include a sustainable funding mechanism for common institutions such as the RECs’ secretariats and commissions. A pre-requisite of surveillance will be the measurement of the degree of financial integration achieved. They also include regional projects in infrastructure and other sectors that require financing. Current progress towards a European Banking Union underscores the importance of institutions and mechanisms that aim at strengthening financial stability in a monetary union.

The rest of this paper discusses three additional tools to strengthen financial integration in sub-Saharan Africa. The first section discusses “threshold conditions” for financial integration to yield economic benefits. The second section then discusses the aspects and importance of the “Integration Trinity,” – similarity of access, rules, and treatment to foster integration. Finally, the last section discusses ways in which financial infrastructure –“the plumbing”– is key to lowering transaction costs in trade and finance, thereby facilitating the integration process.

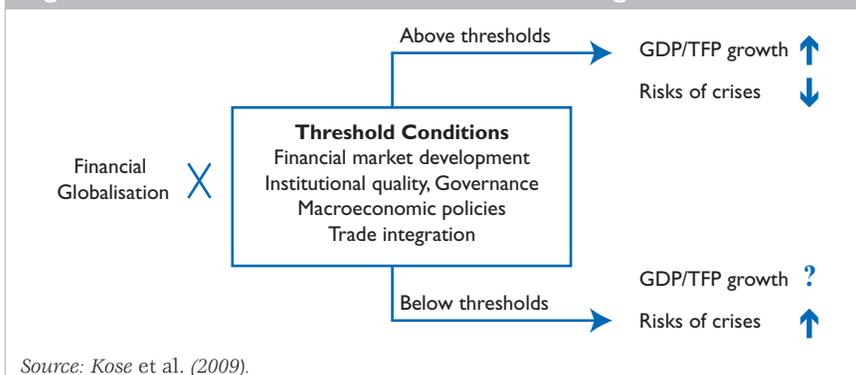
2| Threshold conditions for financial integration

The literature on international financial integration points to a set of policies for countries to benefit from financial openness and reduce the vulnerability to crises. These policies should target achieving a number of preconditions found to be the most important as in Kose, Prasad, and Taylor (2011). In particular, these policies include:

- a deep and well-supervised financial sector able to intermediate efficiently foreign finance into productive investments. It can also help manage better the volatility of capital flows;²
- the quality of corporate and public governance, the legal framework, level of corruption and the degree of government transparency, which can affect the allocation of resources in an economy;

2 See Annex I for the preconditions for effective banking supervision recommended by the Basel Committee on Banking Supervision.

Figure 3 Threshold conditions for financial integration

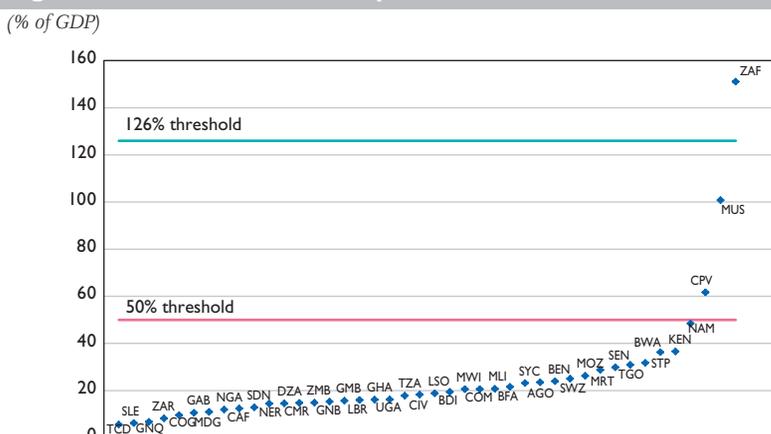


- trade openness, which reduces the probability of crises associated with financial openness and mitigates the costs of crises if they do occur;
- capital account liberalisation, which is more likely to be successful if it is supported by good fiscal, monetary and exchange rate policies.

2 | I Financial development

As noted by Kose, Prasad, and Taylor (2011), countries that meet a minimum number of threshold conditions achieve a better balance of the benefits and risks associated with financial globalisation. In particular, financial depth, the quality of supervision of the financial sector and institutional

Figure 4 Domestic credit to private sector: Sub-Saharan Africa



Source: World Bank, World Development Indicators.

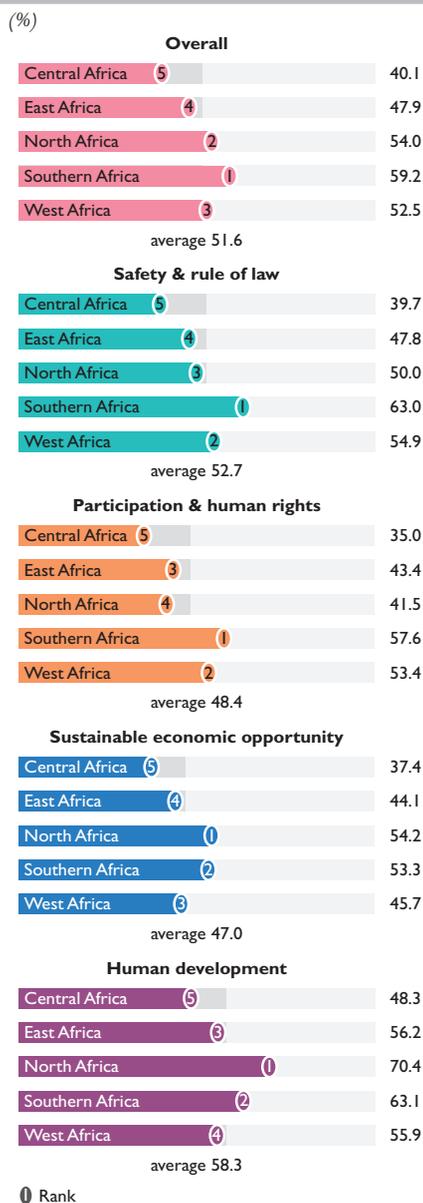
capacity appear to be the most important factors. The authors find an inverted U-shape relationship between ratios of credit to GDP and the benefits of financial openness. In particular, ratios of credit to GDP ratios of above 50 percent and below 126 percent are associated with positive marginal benefits of increasing financial openness.³

2|2 Governance

African countries are at different levels of progress relative to these preconditions. Credit-to-GDP in most countries is below the 50 percent threshold and only three countries (Cape Verde, Mauritius, and South Africa) have a higher financial depth (see Figure 4). Countries such as Botswana, Kenya and Namibia are closing the gap.

There is also ample room to improve governance indicators across all regions. The Ibrahim Index of African Governance (see Figure 5) measures progress in how countries ensure safety and the rule of law, encourage participation and defend human rights.⁴ It also measures opportunities for sustainable economic opportunity and human development. Although there has been some progress over the years, governance indicators show that there is scope for significant improvements.

Figure 5 Ibrahim index of African governance
Regional category scores: 2012



Source: Ibrahim index of African governance, Summary Report (2012).
www.moibrahimfoundation.org

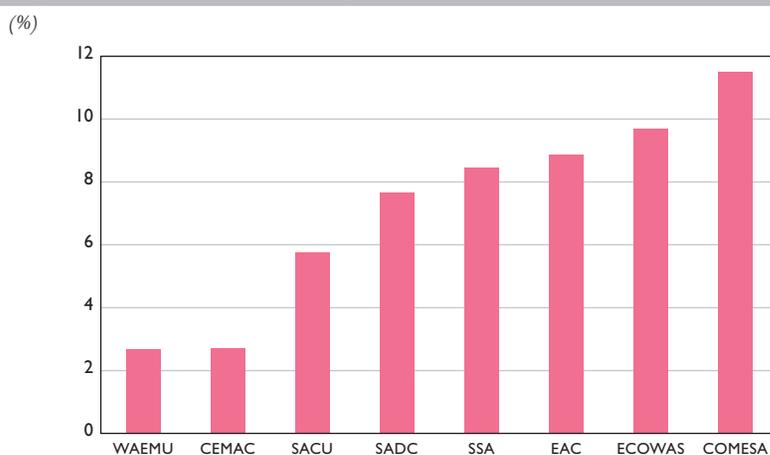
³ Thresholds are lower for foreign direct investment and portfolio equity liabilities compared to those of debt liabilities.

⁴ See <http://www.moibrahimfoundation.org/liag/>

2|3 Macro policies

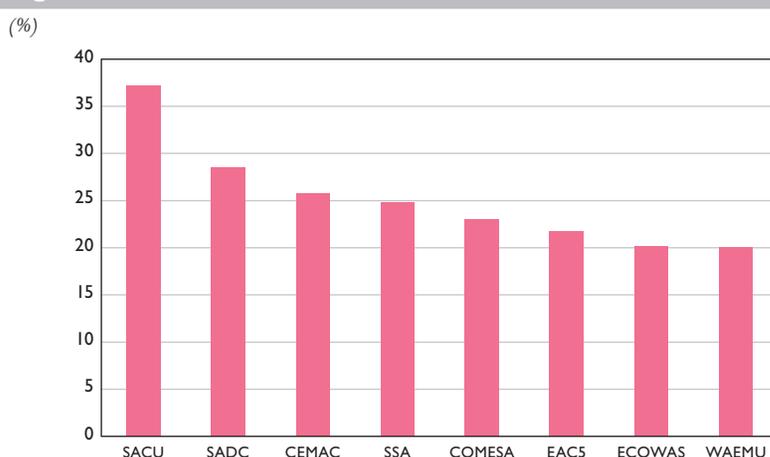
Macroeconomic policies in Africa have improved but performance remains uneven across regions. Ten-year average inflation rates are below double digit in most RECs (see Figure 6).⁵ However, average ratios of government revenue-to-GDP remain low (see Figure 7).

Figure 6 2004-2013 Average inflation



Source: IMF, <http://www.imf.org/external/datamapper/index.php>

Figure 7 2000-2012: Government revenue as a share of GDP



Source: IMF, <http://www.imf.org/external/datamapper/index.php>

⁵ The low inflation in the WAEMU and the CEMAC can be attributed in part to their pegged exchange rate regimes.

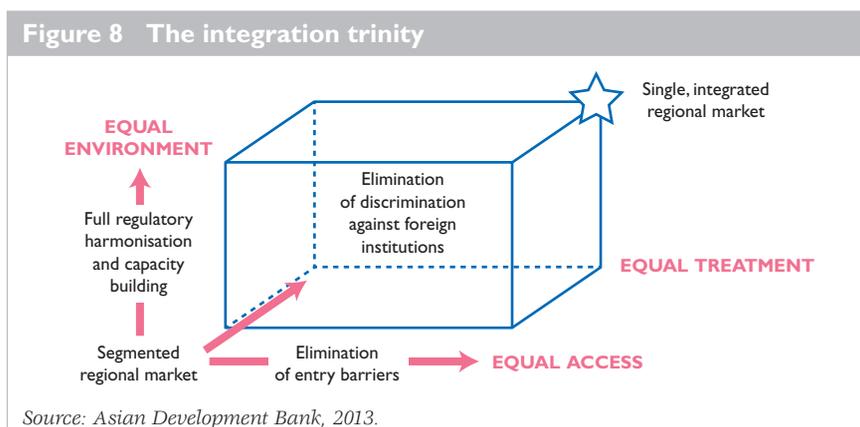
2|4 Trade

Intra-regional trade has increased but remains low and non-tariff barriers are high. While the European Union and, more recently, China and other emerging markets remain the continent's largest trading partners, intra-African trade, especially with Nigeria and South Africa, is increasing rapidly. Intra-African trade increased more than fivefold to USD 148.9 billion in 2012 from USD 27.9 billion in 1995. Yet intra-African trade was the lowest in the world at 12 percent in 2012 compared with 25 percent for ASEAN, and 17 percent for MERCOSUR. Efforts to eliminate tariffs and non-tariff barriers, which remain high, and implement the roadmap to free trade areas and customs unions will need to be strengthened. For instance, in its initial phase, the US initiative with the East African Community (EAC) – Trade Africa – aims to double intra-regional trade in the EAC, reduce by 15 percent the average time needed to import or export a container from the ports of Mombasa or Dar-es-Salaam to landlocked Burundi and Rwanda, and decrease by 30 percent the average time a truck takes to transit selected borders.

3| The integration trinity

3|1 The three dimensions of the single market: equality of access, rules and treatment

Policies that aim for a similarity of access, rules and treatment strengthen financial integration (see Figure 8). More specifically, financial instruments and services can be considered fully integrated if all potential market participants with the same relevant characteristics (1) have equal access



to the above-mentioned set of financial instruments and services (equal access); (2) face a single set of rules when they decide to deal with those financial instruments and services (equal rules); and (3) are treated equally when they are active in the market (equal treatment) (see Baele, Ferrando, Hördahl, Krylova, Monnet, 2004).

African RECs are at different levels of integration. At one end of the spectrum, countries in the Maghreb lag in the integration process for political reasons. At the other end, countries in the West African Economic and Monetary Union (WAEMU) have achieved a relatively high degree of financial integration.

3|2 Common institutions in the WAEMU⁶

The structure of the financial sector and common institutional arrangements indicate that financial integration in the West African Economic and Monetary Union is well-advanced (see Sy, 2006). In addition to a common currency (the CFA franc), the WAEMU boasts a common legal and regulatory framework, a single licensing regime, common regulators and supervisors, and a common financial infrastructure. Over time, initiatives to promote regional financial integration in the WAEMU have included the following:

- Since 1962, the West African Economic and Monetary Union treaty has laid the basis for a monetary union with a single currency and regional central bank (*Banque Centrale des États de l'Afrique de l'Ouest*—BCEAO) responsible for the conduct of monetary policy. There are no capital controls within the WAEMU.
- A single banking commission (*Commission Bancaire de l'UMOA*) was created in 1990 to strengthen regional banking supervision. The commission is managed by a secretary general and headed by a president, who is also the governor of the BCEAO. Since 2004, a single banking license is sufficient to set up banking operations in the WAEMU. The decision to grant or withdraw a banking license involves both the banking commission and the relevant national finance minister.
- There are no cross-border restrictions on banking and other financial services except insurance. Approval is granted on a nondiscriminatory basis. However, for “prudential” reasons, countries will not be prevented from taking certain measures, such as requiring approval by the minister responsible for finance or the central bank and/or any other measures, which have or may have a prudential effect.

⁶ The CEMAC in central Africa has a comparable set-up and has also achieved a high level of institutional integration.

- Insurance contracts for residents or for property located in a given WAEMU country can only be concluded with entities that have been approved for such purpose in that country. The minister responsible for insurance grants approval after consultation with the Insurance Control Commission.
- The 1995 PARMEC law (*Projet d'Appui à la Réglementation sur les Mutuelles d'Épargne et de Crédit*) for savings and credit institutions laid the basis for a regulatory framework for cooperative financial institutions in the region. In 1994, the BCEAO introduced a microfinance monitoring system (Decentralised Financial Systems – DFS – monograph).
- The regional capital market includes a common interbank market and a single market (*Bourse régionale des valeurs mobilières – BRVM*) for both bond and stock trading, and fund management (SICAV), which is supervised by a regional securities commission (*Conseil régional de l'épargne publique et de marchés financiers – CREPMF*). In addition, pension funds have been supervised since 1996 by a regional body, *Conférence interafricaine de la prévoyance sociale – CIPRES*.
- Insurance companies are supervised under the 1992 Inter-African Conference on Insurance Markets (*Conférence interafricaine du marché des assurances – CIMA*) treaty among the African franc zone countries by a single regional authority (*Commission régionale de contrôle des assurances – CRCA*). There is a regional reinsurance company (CICA-RE).
- Since 1996, a regional commercial legal framework (*Organisation pour l'harmonisation du droit des affaires en Afrique – OHADA*) has been in place.

Accounting standards for financial institutions have been modernised to bring them in line with international standards. Similarly, accounting standards for corporations have been harmonised in the context of the West African Accounting System (*Système comptable Ouest-Africain – SYSCOA*). Moreover, a balance sheet centre (*Centrale des bilans*) is maintained at the BCEAO and includes balance sheet information for a number of borrowing firms.

- A reform of the payment system has led to a regional real time gross settlement (RTGS) system and a regional automated clearing house (ACH). A centralised database tracking unpaid checks (*Centrale des incidents de paiement*) is also maintained by the BCEAO.
- Government securities markets are integrated and cross-border purchases of Treasury bills and bonds have grown very rapidly (Sy, 2010).

3|3 Pan-African banking groups

Financial integration has increased through the geographic expansion of pan-African banking groups across the continent (see Lukonga, 2010). In particular, South African banks expanded their cross-border operations starting in 1995. This first wave was followed by the rapid expansion of Nigerian, Moroccan and other banks headquartered in Mali and Togo. This trend is continuing with the recent entry of Standard Bank in Côte d'Ivoire as part of a broader plan to expand its service offerings across the rest of francophone Africa. The main driver of this expansion is the expected growth in foreign direct investment in mineral wealth and economic growth.

The rapid expansion of pan-African banks comes with both benefits and challenges. Recent financial crises point to the importance of adequate regulation and supervision of systemically important financial institutions (SIFIs). Although pan-African banking groups are not large enough to fall in the category of global SIFIs, the current regulatory and supervisory frameworks in many countries need to take into account the risks they entail, including the risk of moral hazard. Cross-border regulation is still fragmented and the prudential framework needs to follow the pace of rapid developments. Supervision is not on a consolidated basis except in a few countries such as South Africa. There is a need to set up more colleges of supervisors for more intrusive supervision, crisis management and cooperation for bank resolution.

3|4 Regional securities markets

Regional exchanges can benefit countries but domestic exchanges dominate, partly for “nationalist” reasons. The EAC scorecard notes that in 2012, nine out of 43 countries with a GDP less than USD 5 billion operated their own exchange. Not surprisingly, such exchanges are small, with a limited number of issuers and a shallow investor base. In contrast, six countries participated in regional exchanges hoping to benefit from larger scale and improved access to capital markets.

Although efforts are underway to harmonise laws and trading platforms, capital controls restrict participation in regional markets. Since 2013 in the EAC, central depository systems have been interlinked and a few companies are cross-listed. The regional commodity exchange (the East African Exchange, EAX) based in Rwanda is set to trade products from the region.⁷

⁷ See <http://www.ea-africaexchange.com/about-us-2/company-overview/>. Other more domestically focused exchanges include the Ethiopia Commodity Exchange (ECX) and the JSE Agricultural derivatives.

However, capital controls restrict Burundian and Tanzanian investors from investing in EAC markets, and the Tanzanian regulatory framework restricts access to its stock exchange for investors from the EAC region. Removing such controls would give investors and firms in Burundi access to the other exchanges in the EAC that have a USD 35.5 billion market capitalisation and 101 listed companies.

Figure 9 Geographical distribution of pan-African banking



African institutional investors could play an important role in integrating securities markets through cross-border investments. But African countries are at different level of development of their pension and insurance industries. In some countries, pension reform is still ongoing, and in others the life insurance industry has not yet picked up. Asset allocation by many pension funds is limited to real estate assets and domestic government securities, often because of regulation and the dearth of investable assets. The recent decision by the USD 150 billion South African public pension fund, the Public Investment Corporation (PIC), to start investing in the region is a good start. Listing requirements for exchange-traded funds (ETFs) and depository receipts (DRs) in African stock exchanges are also promising.

3|5 Investment

Intra-African investment into new foreign direct investment (FDI) projects is growing rapidly. At a 32.5 percent annual growth rate since 2007, investments by African countries in the region are growing four times faster than FDI from developed markets (EY, 2014).

3|6 Financial openness

There is, however, scope to reduce barriers to the free movement of capital. The Chinn-Ito index, a commonly used measure of the extent of the openness in cross-border financial transactions, indicates that most African countries remain relatively closed. Out of the 52 African countries in the sample, only 12 had a positive index as of 2011 (about 23 percent), and 16 countries (about 30 percent) had an index above the average value (the index values range from a minimum of -2.0 to a maximum of +2.5) (see Figure 11). These figures indicate the large scope available for reducing barriers to the freedom of movement of capital. Of course, the sequencing and scope of capital account liberalisation will have to balance the associated benefits and costs, and the threshold effects discussed earlier. The example of current developments in the EAC provides a good illustration of the challenges of opening capital flows regionally.

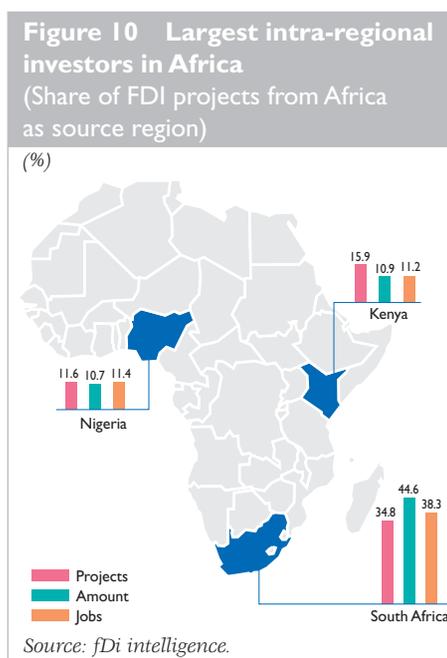
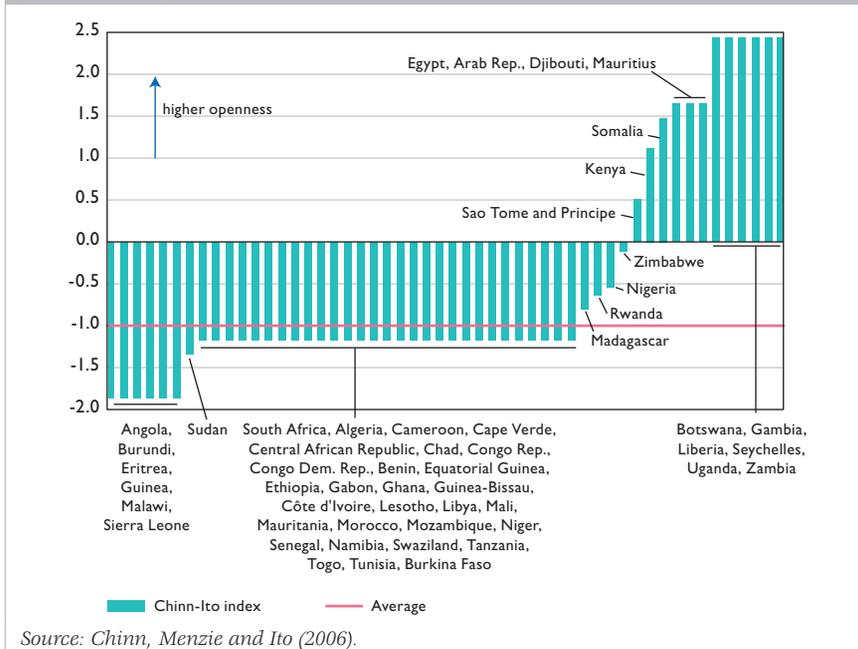


Figure 11 Chinn-Ito index of capital account openness: African countries 2011 (latest year)



3|7 The East African Community Common Market Scorecard

Article 24 of the EAC Common Market Protocol requires the elimination of restrictions on the free movement of capital, including restrictions based on nationality, place of residence, current payments and where capital is invested. The EAC Common Market Scorecard 2013 (World Bank, 2014) measures the degree of Partner States' legal compliance with their obligations to liberalise the cross-border movement of capital.⁸ It also considers barriers to the free movement of services and goods. The operations covered include securities and credit operations as well as direct investments and personal capital transactions. Financial services such as legal and accounting services as well as telecommunications services are also considered.

The 2014 scorecard indicates that barriers to the free movement of capital and services among partner states include different laws and regulations, membership in multiple RECs and capital controls. The scorecard stresses that progress to eliminate restrictions has been slow. Some partner states have introduced new measures despite their obligations under the EAC Common Market Protocol.

⁸ <https://www.wbginvestmentclimate.org/publications/eac-market-scorecard-2014.cfm>

Recommendations to eliminate entry barriers include the need for:

- the EAC secretariat and partner states to create a transparent and credible system for monitoring the free movement of capital in the EAC by enforcing the existing notification mechanism;
- partner states to impose restrictions on the movement on capital only on a temporary basis;
- the EAC to rollback laws, regulations and investment codes that impede investment;
- capacity building by countries and partners, including the development of market intermediaries, stronger coordination of securities markets, and more investment in public awareness.

Interestingly, the EAC Scorecard notes that entry barriers are not the only restrictions. Several forms of discrimination persist even after entering the market, such as different fees for transactions and government services, ceilings on the value of transactions, limits on the type and length of projects for service providers and higher taxes for foreign firms.

4| Trade, finance and plumbing

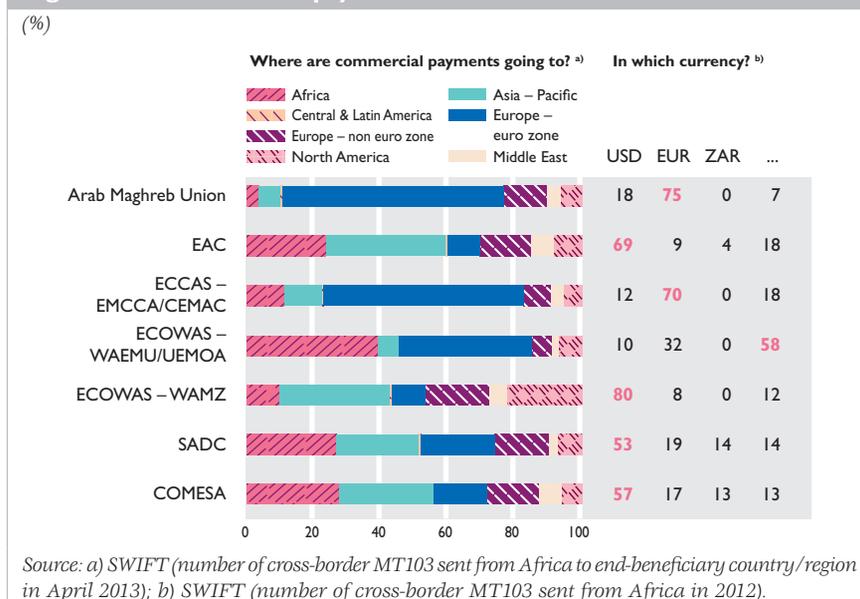
A financial system performs at least three main functions: (1) financing; (2) screening and monitoring; and (3) payments and settlements, the “plumbing”. The last function, although often overlooked in high-level policy circles, plays a key role in facilitating financial integration. Well-functioning and cost-efficient payment and settlement systems help support intra-regional exchanges of trade and finance as well as remittances. Solutions are needed to reduce the transaction costs associated with foreign currency clearing and settlement; currency risk; and remittance transfers.

4| I Clearing and settlement in foreign currency

Transaction costs arise when trade and investment is cleared and settled in foreign currency outside Africa. For instance, SWIFT figures (see Figure 12) indicate that about 50 percent of intra-African import and export settlements involve a bank outside Africa.⁹ In particular, US dollar clearing

⁹ SWIFT is the Society for Worldwide Interbank Financial Telecommunication.

Figure 12 Commercial payments from RECs



banks are becoming more important as trade and investment within Africa (about 23 percent of total trade according to SWIFT data)¹⁰ and with China and other emerging markets is increasing. Know-your-customer (KYC), anti-money laundering and combating financial terrorism (AML/CFT) regulations also increase transaction costs. Financial integration can help reduce transaction costs and SWIFT figures show that intra-regional trade is higher in the WAEMU than in other RECs, reflecting the use of a common currency and a regional financial infrastructure, (RTGS and ACH).

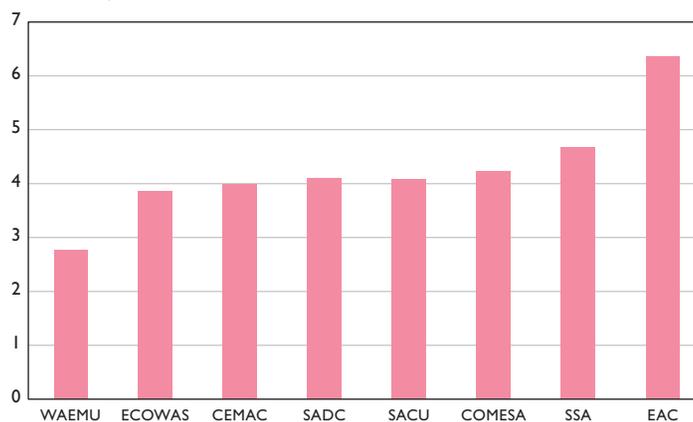
4|2 Currency risk

There is also a need to reduce the transaction costs from trading in at least 30 different currencies in the region. High market volatility and administrative measures by central banks with, at times, low foreign exchange reserves remain an issue. Furthermore, the number of countries adopting more flexible exchange rate regimes has increased, resulting in higher market volatility as exchange rates are a more frequently used tool to absorb external shocks. In addition, many countries rely on

¹⁰ The data from SWIFT indicate larger cross-border volumes than balance of payments data.

Figure 13 Foreign exchange reserves
2004-2013 Average reserves

(months of imports)



Source: IMF, <http://www.imf.org/external/datamapper/index.php>

administrative measures in the foreign exchange markets and ration out foreign currencies when international reserves are low (see Figure 13). Instruments to mitigate currency risks such as swap arrangements would help strengthen cross-border investments. In the absence of private sector involvement, considerations could be given to multilateral solutions. For instance, the World Bank's private finance arm, the IFC, issues bonds in local currency such as the CFA franc and, more recently, Rwandan francs but typically swaps its positions back to US dollars.

4|3 Intra-regional remittances

Regional integration entails the free movement of people. Remittances can be an important source of foreign exchange for some countries and have exceeded 10 percent of GDP in Togo, Cape Verde, Senegal, Nigeria and Lesotho (AEO, 2013).¹¹ Intra-regional remittances, in particular from South Africa and Nigeria, indicate some degree of financial integration. However, transfer costs within Africa are the highest in the world. For instance, it costs about USD 19.5 to USD 21.0 to transfer USD 200 from South Africa to Malawi, Angola, Mozambique, Botswana or Zambia. These costs are seven to more than ten times higher than the cheapest transfers (from Singapore, the United Arab Emirates or Saudi Arabia) (see Table 1).¹²

¹¹ See http://www.africaneconomicoutlook.org/en/outlook/financial_flows/remittances/

¹² See <http://remittanceprices.worldbank.org/en>

Table 1 US dollar cost of transferring USD 200

(USD)

5 Most costly corridors	Average cost	5 Least costly corridors	Average cost
South Africa > Zambia	21.06	Saudi Arabia > Pakistan	1.73
South Africa > Botswana	20.18	Singapore > Thailand	2.05
South Africa > Mozambique	19.81	UAE > India	2.68
South Africa > Angola	19.55	UAE > Sri Lanka	2.87
South Africa > Malawi	19.51	Singapore > Bangladesh	3.03

Source: World Bank Data.

4|4 Mobile payments

Mobile payments could help reduce transactions. For instance, Orange Money is present in 11 countries in sub-Saharan Africa and mobile-to-mobile payments in CFA francs are possible between some West African countries (Côte d'Ivoire, Mali and Senegal). Similarly, in East Africa, Tigo offers cross-border mobile money transfers with automatic currency conversion between Tanzania and Rwanda.

The unexpected rapid growth of mobile usage in sub-Saharan Africa suggests that there is a potential for mobile payments to increase. According to the GSMA, sub-Saharan Africa's unique mobile subscriber base has grown by 18 per cent annually over the last five years, making it the fastest growing region globally. By mid-2013, there were 253 million unique mobile subscribers and 502 million connections.¹³ Efforts to increase internet usage coupled with the lower cost of smartphones could help reduce further the costs of mobile payments and other innovative solutions. Indeed, companies are increasingly targeting emerging markets with plans to manufacture smartphones that would sell at retail for USD 20-25.¹⁴

Such developments could also increase financial inclusion. It will be important, however, to strike the right balance between regulatory objectives such as customer protection or KYC regulation and the pace of innovation. The African Mobile Phone Financial Services Policy Initiative provides a forum for regulators to discuss these issues and adapt regulations accordingly.¹⁵

¹³ See <http://www.gsma.com/newsroom/sub-saharan-africa-leads-world/>

¹⁴ See for instance <http://wallscheatheet.com/technology/arm-20-smartphone-will-be-here-soon.html/?a=viewall#ixzz31FkSiBCg>

¹⁵ See <http://www.afri-global.org/2014-african-mobile-phone-financial-services-policy-initiative-ampi-meeting>

5| Conclusion

Economic and political integration is without a doubt proceeding in Africa but progress is uneven among regional economic communities. Financial integration is not just an important element of the integration process. It can be a key driver of integration given its role in facilitating further regional trade, investment and remittance flows.

This paper proposes four tools to strengthen financial integration. First, “political commitment devices” can ensure a steady progress on the road to an economic community. Stronger regional institutions staffed with the appropriate level of technical staff can monitor such progress and put pressure on laggards to respect their regional commitments. Regional projects such as infrastructure projects can also be an effective tool to garner political commitment from regional leaders. In short, the regional institutional set-up should be strengthened to give incentives to policymakers to respect their engagement towards integration. Measurement of the degree of financial integration is a first step.

Second, the economic benefits from financial integration are better secured when countries achieve certain “threshold conditions”. The most important ones are minimum levels of financial development and governance.

Third, the road to a fully integrated financial region involves efforts to attain the “trinity” of equality of access, rules and treatment. Policymakers will have to eliminate entry barriers, and once foreign institutions enter domestic markets, refrain from discriminating against them. Policymakers will also have to harmonise regulations further and build capacity, especially in banking supervision.

Last but not least, the “plumbing” of financial integration can provide quick gains. Transaction costs are high in Africa. A US clearing bank has to be involved when two African countries trade among themselves in US dollars. Banks with corporate clients in different countries in the region need to deal with multiple currencies, and, at times, high market risk and exchange restrictions. African migrants pay the highest costs in the world to send remittances from one African country to another. Improvements in payments and settlement systems, and risk management systems can reduce such transaction costs. There is also a need to consider solutions such as swap arrangements or a multi-currency clearing center. In the meantime, innovation is proceeding at a rapid pace and mobile payments can now occur between some African countries with different currencies. Regulators will need to keep pace with such developments without stifling their benefits.

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Summary of the conference of 27 May “Promoting financial integration in Africa”

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In the framework of its partnership with the Foundation for International Development Study and Research, the Banque de France organised a conference entitled “Promoting financial integration in Africa”.

Financial integration can be defined as a process of strengthening interactions between national financial systems both at the global and national levels. By creating broader financial spaces, it improves the regional and global allocation of savings and credit towards the most productive investment projects. By contributing to reducing the cost of financial transactions and increasing funding sources, financial integration contributes to economic development. However, it may also carry, in Africa as well as in developed countries, growing risks of contagion, as illustrated by the global financial crisis of 2008-09.

The aim of this conference was to discuss ways to reach the best compromise for Africa between financial integration and financial stability objectives.

Keywords: Financial integration, financial development, financial risks, financial regulation and supervision, banking systems, cross-border transactions, pan-African banks, financial innovation.

JEL codes: F36, F42, G15, G28, O16.

In the framework of its partnership with the Foundation for International Development Study and Research (FERDI), the Banque de France organised a conference entitled “Promoting financial integration in Africa”. In his introduction, Marc-Olivier Strauss-Kahn, Director General for Economics and International Relations, Banque de France, stressed the importance that the Banque de France places on development financing issues, in particular financial integration, not only in view of its commitment to the Franc Zone, but also to ensure the smooth conduct of its central banking activities in the euro area, against the backdrop of growing financial interdependence.

Financial integration can be defined as a process of strengthening interactions between national financial systems (banking systems and/or financial markets) both at the global and national levels. By creating broader financial spaces, it improves the regional and global allocation of savings and credit towards the most productive investment projects, promotes economies of scale and enhances competition, thanks in particular to a gradual harmonisation of regulations. By contributing to reducing the cost of financial transactions and increasing funding sources, and more generally the efficiency of the financial system, financial integration contributes to economic development, which in turn strengthens financial integration. However, it may also carry, in Africa as well as in developed countries, growing risks of contagion, as illustrated by the global financial crisis of 2008-09, which brought to light feedback effects between the financial sector and the real economy.

The aim of this conference was to discuss ways to reach the best compromise for Africa between financial integration and financial stability objectives, by debating in turn the benefits expected from financial integration, the public policies to be implemented to strengthen it or preserve it against the risks it raises, and the existing links between regional integration and financial globalisation.

I | The international environment and financial integration in Africa

The two participants in the inaugural session stressed the two major challenges for global financial integration: the impact of short-term imbalances created by international capital movements, and the importance of using international capital as sources for funding development.

Ronald Mc Kinnon, University of Stanford, emphasised the magnitude of capital flows recently invested in emerging markets with convertible currencies, associated in particular with the Federal Reserve Bank's accommodative monetary policy. These capital flows appear very volatile and could affect commodity prices and lead to speculative bubbles.

African countries are not large recipients of international financial flows and are therefore less vulnerable to short-term speculation and banking crisis contagion, particularly countries whose currencies have limited convertibility or with a fixed exchange rate regime.

They are, however, highly vulnerable to fluctuations in commodity prices, due to their high degree of specialisation in agricultural cash crops and/or mining activities.

The indirect vulnerability of Africa to short-term capital flows, induced by developed countries' monetary policies, should therefore not be underestimated.

In a context of high volatility on financial markets, the inflationary effects arising from imported commodity price increases are lower in countries with fixed exchange rate regimes.

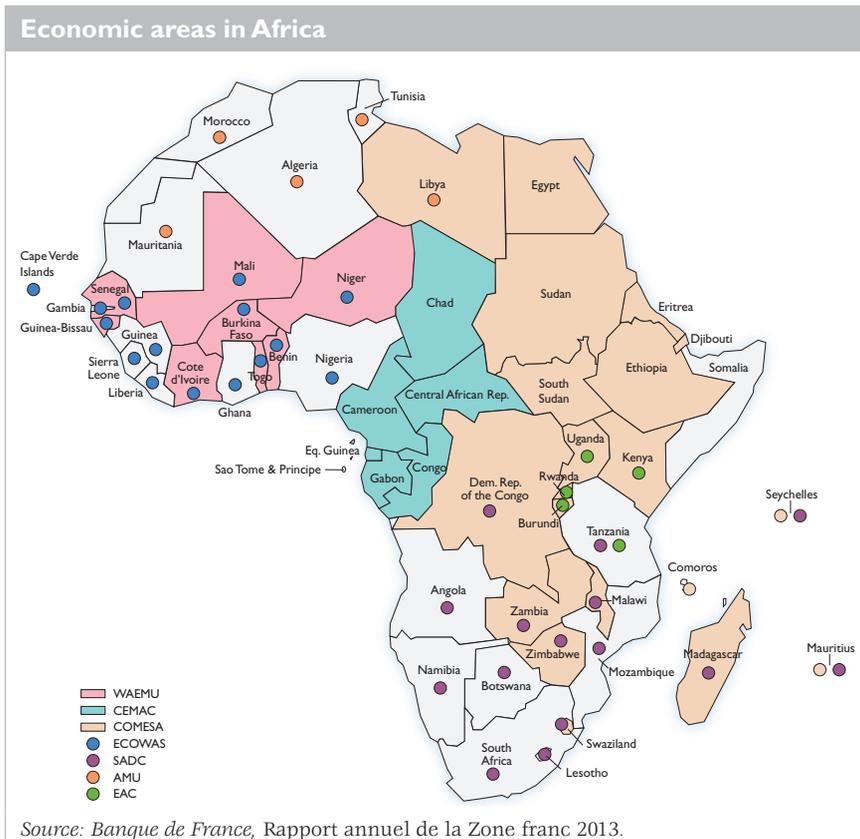
Pierre Richard Agénor, University of Manchester, emphasised the key issue of global financial integration for Africa: the acceleration in regional economic convergence and the mobilisation of international savings for investment and economic development purposes.

Financial integration may in particular help complement sometimes inadequate or poorly mobilised domestic savings, improve the allocation of funds towards high-yield productive investments, contribute to raising access to financial services, especially credit, help absorb asymmetric exogenous shocks and be conducive to more effective macroeconomic stabilisation policies. It can also improve the efficiency of the banking system by spurring competition and increasing the dissemination of good practices, including in the area of supervision. Foreign direct investment (FDI) appears particularly effective as productive investment, but also through the indirect effects that it induces (technological and managerial transfers, effects on productivity).

However, financial integration can also contribute to a sub-optimal allocation of capital flows (focused on specific countries and sectors), to a loss of macroeconomic stability, to contagion effects and greater volatility of capital flows and to increased risks linked to the penetration of foreign banks.

Overall, financial integration can have large positive effects, provided that the resulting financial development promotes stable and long-term funding (especially FDI) that is likely to generate positive externalities for African economies.

In this context, P. R. Agénor drew the lessons for Africa from the recent experiences of middle-income countries: (i) macroeconomic discipline is necessary, but not sufficient, (ii) there needs to be a gradual move



towards capital account liberalisation, exchange rate flexibility and inflation targeting, (iii) capital inflows, in particular short-term capital inflows, need to be managed during the transition to a more developed domestic financial system, (iv) macro-prudential tools should be as simple as possible and (v) an excessive accumulation of reserves has to be avoided given its high opportunity cost.

2| Why reinforce financial integration in Africa?

Chris Adam, University of Oxford, presented the experience of the East African Community (EAC, see map above). He recalled its history in three stages: the customs union, the single market, the monetary union, yet to come, and the prospect of a federal state. As regards monetary union, as drawn up in the recently signed Protocol, he stressed its pragmatic nature: long-term horizon, variable geometry project, etc.

He showed that financial integration, while still limited, was progressing, as evidenced by the convergence of yields on domestic treasury bills, but continued to be driven by economic and commercial integration. While capital market authorities have strengthened their cooperation and cross-listings between stock exchanges have been set up, there are still significant disparities in the degree of capital account liberalisation, which shows that regional integration may occur, to some extent, with different foreign exchange control regimes.

Finally, he stressed that this integration implied improving payment systems and strengthening financial regulation, still at a rudimentary stage, but that it was necessary to ensure a balance between the stability and security objectives of financial regulations and the risk of establishing too restrictive rules. While the rapid adoption of strict rules is a sign of the authorities' commitment to promoting financial stability, these rules should be appropriate to the existing supervisory capacities and not hinder the development of loans to SMEs and long-term loans.

Anne-Marie Gulde, IMF, highlighted the potential benefits of financial integration and the measures to be put in place to support this process. She stressed that global financial integration could contribute to meeting the substantial funding needs of developing countries in the fields of infrastructure, education and health, while regional integration essentially contributed to improving capital allocation, to achieving economies of scale and to disseminating skills and know-how.

She then highlighted one of the most significant developments: the rapid development of pan-African banks, in particular banks of African origin. She stressed that this development implied adjusting risk management rules, in particular those for cross-border transactions for which the application of prudential rules is lagging in Africa (development of cooperation ties between regulators in home- and host-countries).

Both speeches and the questions from the floor helped to highlight three major points regarding the benefits of regional financial integration:

- the gains to be expected from financial integration are particularly large in Africa, as it lifts two major constraints to financial development, i.e. the small size of markets and the high costs of financial intermediation;
- the presence of a monetary union or a monetary union project increases the effectiveness of public policies beyond the gains to be expected from financial integration. Indeed, monetary union requires defining a framework for managing macroeconomic policies, it facilitates the supervision of the banking and financial system and provides better shock absorption thanks to risk sharing;

- regional and global integration processes are complementary, in particular for low-income countries. While regional integration improves the allocation of savings at the regional level and enhances the efficiency of the financial system, global integration contributes to mobilising international savings necessary for countries with large funding needs to conduct their economic catching-up process.

3| How to reinforce financial integration?

Amadou Sy, Brookings, focused on the four key factors for ensuring deeper financial integration over the long run. First, it is necessary to lastingly anchor the political commitment to integration by setting up regional investment projects, especially in infrastructure and, at the institutional level, by strengthening regional institutions, including supervisory ones. Given that the economic efficiency of financial integration is subject to threshold effects, financial integration should go hand in hand with an improvement in the business climate, which may constrain financial development, and the implementation of policies geared towards improving access to financial services.

Domestic financial regulations also need to ensure an equal treatment of financial institutions by lifting any barriers to entry, any discriminations in their activities, and, at the regional level, by establishing a level playing field (banking regulation, supervision, taxation). Finally, improving financial infrastructures is essential for rapidly lowering transaction costs, which are traditionally high in Africa. This optimisation concerns means of payment, interbank clearing systems, the promotion of innovative services and risk management.

Drawing on the example of the East African Community, Irina Astrakhan, World Bank, recommended for her part to facilitate financial integration by setting up cross-border regulations and banking supervision mechanisms, regional securities markets, intra-regional trade credit and a regional integration of financial infrastructures (means of payment, interbank market).

Overall, the discussions brought to light four essential dimensions for strengthening financial integration in Africa:

- implementing credible financial integration policies by strengthening regional institutions and enabling the public to better follow the actual progress of financial integration through the publication of indicators (such as “scorecards” in the case of the EAC);

- adopting more modern regional regulatory frameworks, based on harmonised financial regulations and designed to accompany financial innovations (Islamic finance, mobile banking, microfinance);
- improving the efficiency and stability of the banking system through a regional integration of payment systems, a strengthening of credit bureaus and central credit registers, a diversification of the supply of financial services, in particular long-term financing, which is deficient in Africa;
- deepening real integration to foster financial integration: economic integration, common market and regional development policies encourage trade and intra-regional investments and thus the demand for financial integration, which appears as endogenous to economic development.

4| How to manage risks linked to financial integration?

Christian de Boissieu, Member of the Board of the *Autorité des marchés financiers* (French Financial Markets Authority – AMF), drew, for the benefit of African countries, a number of lessons from his experience as a regulator. First, he noted that financial integration is not irreversible; it is subject to risks, in particular during financial crises, as shown in the case of Europe. Financial integration increases contagion risk between countries but also between the banking system and governments, which requires strengthening regional instruments for risk management (supervision, resolution, guarantees). Second, due to the strong complementarity between regulation and supervision, it is crucial to give supervisors the means of enforcing regulations. Third, particular attention should be paid to the prevention and management of financial and real estate bubbles in order to limit their size. Finally, the effectiveness of regulation depends on its quality, which involves achieving a balance between the objective of managing systemic risk and that of not weighing on the financing of the economy. In particular, the regulation of financial markets needs to be adjusted to support their emergence and reduce the pro-cyclicality of prudential standards.

The various speeches and questions from the floor highlighted three major points relating to risk management:

- to strengthen financial stability, it is necessary to coordinate the various instruments for managing both financial and macroeconomic risks: (i) micro-prudential policies, in particular the consolidated supervision of pan-African groups and cross-border transactions, (ii) macro-prudential policies, (iii) crisis resolution tools, and (iv) multilateral surveillance, in particular the monitoring of budget deficits and government debt;

- a balance must be achieved between strengthening prudential requirements and adjusting them to the African context in order not to hinder the process of increasing access to financial services. First, strengthening prudential requirements is necessary, both to be more in line with international best practices (minimum capital, solvency ratio and liquidity, risk concentration, treatment of bad debts) and to adjust to the changes in financial systems (pan-African banks, mobile banking, microfinance). Second, regulation must reconcile the central objective of financial stability and that of better financial inclusion, in particular as regards SMEs' access to financing and the provision of long-term funding. It must also be adjusted to the authorities' supervisory capacity;
- risk management instruments are more effective at the regional level. First, they make it possible to adjust to the growth in international financial transactions. Second, the size of the guarantee mechanisms increases their efficiency. Finally, regional institutions allow for greater independence of control mechanisms, which reinforces their credibility.

To close the conference, a round table discussion, chaired by Christian Durand, Deputy Director General for Economics and International Relations, Banque de France, and bringing together Anthony Requin (Treasury), Sylviane Guillaumont Jeanneney (FERDI), Anne-Marie Gulde, Abdoulaye Bio Tchane (African Guarantee Fund) and Lionel Zinsou (PAI Partners), underlined the links between global and regional financial integration, which should be drawn upon to achieve stable and sustainable economic growth. In this respect, Africa has still to overcome a number of major handicaps.

African economies continue to face the problem of capital flight, mainly linked to trade operations (over or under-billing, non-repatriation of earnings) that the control measures in place do not manage to curb effectively. It is necessary to find a balance between restricting capital movements and improving the international attractiveness of African economies.

A second weakness is the vulnerability of the integration process due to the sometimes hesitant support or even, in some cases, the outright hostility of the general public, and due to a discrepancy between the economic and political integration processes. Strengthening political integration, and in particular the community institutions, must go hand in hand with significant communication efforts not only on the benefits of integration but also on the constraints associated with it. It is essential to spell out these benefits and constraints for the public in order to legitimise the integration process.

The conference also highlighted several important assets of African countries to ensure the continuity and stability of the different financial integration processes. First, Africa has, for the past decade, benefited from favorable economic conditions linked to the cycle of commodity price increases, which has facilitated the concomitant development of the financial sector. Financial integration is also encouraged by the rapid growth, so far without any major crises, of cross-border banks, which should lead to a better coordination of supervisors and a harmonisation of financial regulations.

To achieve this, African countries can draw on the experience of existing monetary unions, in which regional institutions (commissions, central banks, joint regulatory authorities) can play an active role in promoting integration. From this point of view, the challenges faced by national and regional authorities in Africa are similar to those currently faced by European countries.

Quarterly Selection of Articles

Winter 2010-2011

- The position of firms in 2009: a decline in business and a reluctance to invest during the crisis
- Payment periods in 2009 – One year on from the Economic Modernisation Act
- French outward and inward foreign direct investment in 2009
- The future of monetary policy – Summary of the conference held in Rome on 30 September and 1 October 2010
- New challenges for public debt in advanced economies – Summary of the conference held in Strasbourg on 16-17 September 2010

Spring 2011

- The impact of the earthquake of March 11th on the Japanese economy and the rest of the world
- Monetary and credit developments in France: 2010, the year of the recovery
- Inventories in the crisis
- Structural reforms, crisis exit strategies and growth – OCDE-Banque de France Workshop, 9 and 10 December 2010
- Structural analysis in times of crisis – Banque de France symposium, 29 and 30 November 2010
- The Banque de France in European and international organisations

Summer 2011

- Summary of the international symposium organised by the Banque de France “What is the appropriate regulatory response to global imbalances?”
- The relationship between capital flows and financial development: a review of the literature
- Households’ savings and portfolio choices: micro and macroeconomic approaches
- National financial accounts in 2010: recovery in lending and ongoing rise in debt ratio
- Household savings behaviour in 2010

Autumn 2011

- SMEs see a pick-up in business in 2010, but delay investment
- Companies after the crisis – Banque de France seminar, 28 June 2011
- Fiscal and monetary policy challenges in the short and long run – Summary of the Banque de France-Bundesbank conference held on 19 and 20 May 2011 in Hamburg
- After the collapse, the reshaping of international trade – Summary of the Banque de France/PSE/CEPII conference of 25 and 26 May 2011
- Insurance companies’ investments at the end of 2010

Winter 2011-2012

- The cost of business credit by firm category
- Companies in France in 2010: a mixed picture
- Payment periods in 2010: the efforts made since the implementation of the LME have lost momentum
- France's national economic wealth showed a marked rebound in 2010 due to higher land prices
- French overseas territories and the euro
- Summary of the international workshop on microfinance organised by the Banque de France on 8 July 2011
- Forecasting the business cycle – Summary of the 8th International Institute of Forecasters workshop hosted by the Banque de France on 1-2 December 2011 in Paris
- Fiscal and monetary policy in the aftermath of the financial crisis – Summary of the BDF/EABCN/EJ/PSE conference on 8-9 December 2011

Spring 2012

- High-growth SMEs
- The financial situation of the major French groups remained sound in the first half of 2011
- Leveraged buy-outs in France: substantial differences between small and medium-sized targets
- Monetary and credit developments in 2011
- Has the 2008-2009 recession increased the structural share of unemployment in the euro area?
- The measurement of systemic risk – Summary of a lecture given by Robert F. Engle, winner of the Nobel Prize in Economics, Banque de France, 25 January 2012
- United States then, Europe now – Summary of a lecture given by Thomas J. Sargent, winner of the Nobel Prize in Economics, Banque de France, 1 March 2012

Summer 2012

- Holdings of French investment funds
- SMEs in Europe: disparities between countries and sectors were greater in 2010 than before the crisis
- Analysis of banking activity by business line
- Firms' financing and default risk during and after the crisis – Summary of a conference hosted by the Banque de France and OSEO on 9 and 10 February 2012
- 18th international panel data conference: a brief synthesis

Autumn 2012

- Current account imbalances in the euro area: competitiveness or demand shock?
- Non-residents' equity holdings in French CAC 40 companies at end-2011
- New housing loans to households: recent trends
- Insurance institutions' investments at end-2011

Winter 2012-2013

- French companies in 2011: expanding activity but shrinking profits
- The financial situation of the major listed groups remained sound in the first half of 2012 despite a difficult environment
- Securitisation in France
- Equilibrium exchange rate and competitiveness within the euro area
- Macroeconomic and financial vulnerability indicators in advanced economies
- The labour market: institutions and reforms

Spring 2013

- Monetary and credit developments in 2012 – Credit distribution grew more quickly in France than in the euro area
- France's inward foreign direct investment from 2005 to 2011
- Assisted microcredit – Summary of the symposium organised by the Banque de France on 12 December 2012
- Oil and the macroeconomy – Summary of the Banque de France workshop on 14 November 2012

Summer 2013

- Profits of CAC 40 companies: what contribution does foreign direct investment income make? An assessment of the period 2005-2011
- Access to credit of SMEs and MTEs: decline in supply or lower demand? Lessons learned from a new quarterly business survey
- Firm competitiveness: summary report on the CompNet conference Banque de France – 20 and 21 September 2012
- French investment funds during the crisis (2008-2012)
- Wage dynamics and current account rebalancing in the euro area

Autumn 2013

- The economic slowdown took a toll on SMEs' profits and investments in 2012
- Globalisation and labour market outcomes: an overview of the conference organised by the Banque de France on 16 and 17 May 2013
- Insurance institutions' investments at end-2012
- Non-residents holdings of French CAC 40 shares at end-2012
- The IMF and management of capital flows: the long road towards a pragmatic approach

Winter 2013-2014

- How do VAT changes affect inflation in France?
- Securitisation in France: recent developments
- Financial situation of the major listed groups in H1 2013: faltering growth coupled with debt reduction
- The performances of French firms deteriorated in 2012 but they consolidated their financial structures
- Innovation at work: introducing the first banknote in the Europa series

Spring 2014

- International adjustment and rebalancing of global demand: where do we stand?
- The labour market: institutions and reforms – Summary of the 2nd labour market conference organised by the Aix-Marseille School of Economics and the Banque de France on 16 and 17 December 2013
- International workshop on algorithmic and high-frequency trading: a brief summary

Summer 2014

- Monetary and credit developments in 2013
- Major French groups were less profitable in 2013, but their cash position was stable and their financial structure strong
- Labour productivity in Europe: allocative efficiency of labour or performance of firms?
- How do house prices affect wages? A comparison between France and Germany
- Euro banknotes and coins in France in 2013

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<http://www.banque-france.fr/en/economics-statistics/banking-and-financial-activity/frances-balance-of-payments/the-french-balance-of-payments-and-international-investment-position-annual-report.html>
- **The Observatory for Payment Card Security – Annual Report 2012**
http://www.banque-france.fr/observatoire/home_gb.htm
- **Focus No. 12**
Collateral: towards a sustainable growth
- **Occasional Papers – February 2014**
Macroprudential framework: key questions applied to the French case

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Nota bene

Statistical data are updated monthly on the Banque de France's website.

Table I
Industrial activity indicators – Monthly Business Survey – France

(NAF revision 2; seasonally-adjusted data)

	2014						
	April	May	June	July	Aug.	Sept.	Oct.
Changes in production from the previous month ^{a)}							
Total manufacturing	3	0	3	3	5	1	3
Food products and beverages	5	3	6	10	5	6	8
Electrical, electronic and computer equipment and other machinery	3	-5	4	-2	11	-2	6
Automotive industry	-4	-14	-2	4	3	-12	-9
Other transport equipment	3	-12	8	-3	2	-2	10
Other manufacturing	3	3	1	2	5	2	1
Production forecasts ^{a)}							
Total manufacturing	1	7	7	-1	6	5	3
Food products and beverages	6	9	13	7	7	11	7
Electrical, electronic and computer equipment and other machinery	1	6	2	2	3	6	4
Automotive industry	-1	8	14	5	3	3	8
Other transport equipment	0	15	-3	-1	6	5	8
Other manufacturing	2	7	6	-2	9	3	3
Changes in orders from the previous month ^{a)}							
Total manufacturing	3	3	2	3	4	2	2
Foreign	2	5	0	4	6	4	2
Order books ^{a)}							
Total manufacturing	2	3	1	1	-1	0	1
Food products and beverages	-4	-2	0	-2	-10	-2	-1
Electrical, electronic and computer equipment and other machinery	0	-1	-4	-8	-8	-7	-13
Automotive industry	-20	-9	-7	-6	-12	-4	-6
Other transport equipment	48	49	49	47	49	48	46
Other manufacturing	4	3	-1	2	0	-1	0
Inventories of finished goods ^{a)}							
Total manufacturing	3	2	3	3	4	3	4
Food products and beverages	3	2	-4	0	4	2	6
Electrical, electronic and computer equipment and other machinery	8	5	8	5	6	6	6
Automotive industry	0	-2	-4	5	9	1	-1
Other transport equipment	5	8	5	8	2	6	6
Other manufacturing	2	1	5	3	3	1	3
Capacity utilisation rate ^{b)}							
Total manufacturing	76.4	76.0	76.0	75.9	75.5	76.1	76.2
Staff levels (total manufacturing) ^{a)}							
Changes from the previous month	-1	-1	0	0	-1	0	0
Forecast for the coming months	-2	-1	-1	-3	1	-1	0
Business sentiment indicator ^{c)}							
	97	97	97	96	97	96	96

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.

Source: Banque de France.

Produced 13 November 2014

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

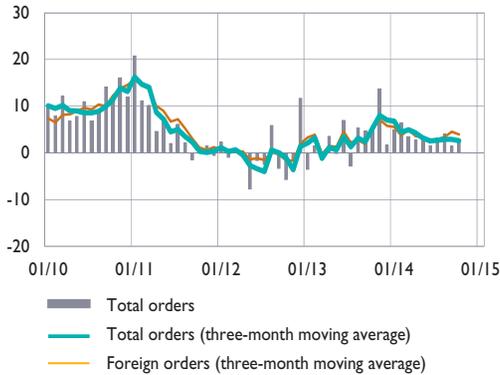
Business sentiment indicator

(100 = 1981 – last value)



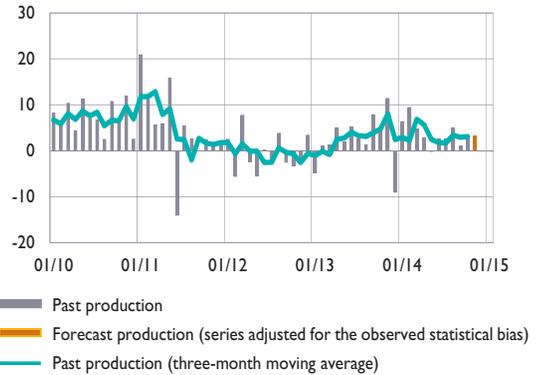
Orders ^{a)}

(balance of opinions; monthly change)



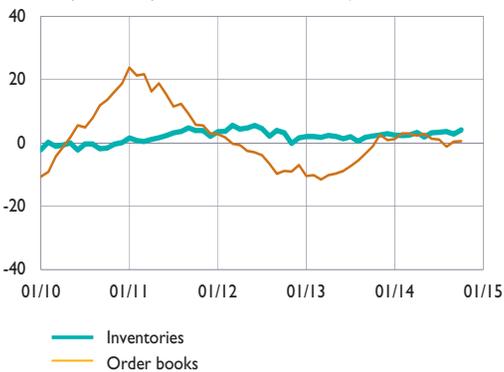
Production ^{a)}

(balance of opinions; monthly change)



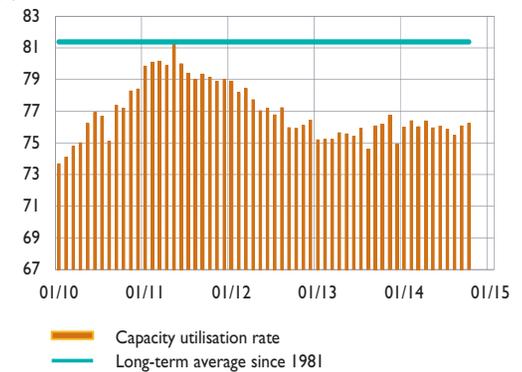
Inventories and order books ^{a)}

(balance of opinions; compared to levels deemed normal)



Capacity utilisation rate ^{a)}

(%)



a) Manufacturing.

Source: Banque de France.

Produced 13 November 2014

Table 3
Consumer price index ^{a)}

(annual % change)

	2014								
	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.
France	1.1	0.7	0.8	0.8	0.6	0.6	0.5	0.4	na
Germany	1.0	0.9	1.1	0.6	1.0	0.8	0.8	0.8	0.7
Italy	0.4	0.3	0.5	0.4	0.2	0.0	-0.2	-0.1	0.2
Euro area	0.7	0.5	0.7	0.5	0.5	0.4	0.4	0.3	0.4
United Kingdom	1.7	1.6	1.8	1.5	1.9	1.6	1.5	1.2	na
European Union	0.8	0.6	0.8	0.6	0.7	0.5	0.5	0.4	na
United States	1.1	1.5	2.0	2.1	2.1	2.0	1.7	1.7	na
Japan	1.5	1.6	3.4	3.7	3.6	3.4	3.3	3.3	na

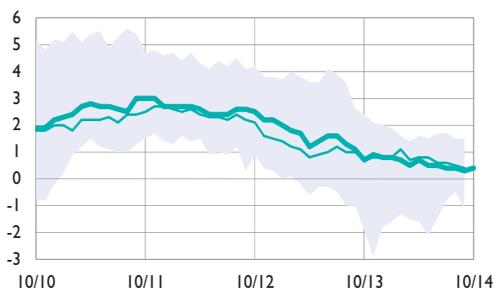
(annual average)

(monthly % change)

	2011	2012	2013	2014					
				May	June	July	Aug.	Sept.	Oct.
France	2.3	2.2	1.0	0.0	0.0	-0.4	0.5	-0.4	na
Germany	2.5	2.1	1.6	-0.3	0.4	0.3	0.0	0.0	na
Italy	2.9	3.3	1.3	-0.1	0.1	-2.1	-0.2	1.9	0.3
Euro area	2.7	2.5	1.4	-0.1	0.1	-0.7	0.1	0.4	na
United Kingdom	4.5	2.8	2.6	-0.1	0.2	-0.4	0.4	0.1	na
European Union	3.1	2.6	1.5	-0.1	0.1	-0.5	0.1	0.3	na
United States	3.2	2.1	1.5	0.3	0.2	0.0	-0.2	0.1	na
Japan	-0.3	0.0	0.4	0.4	-0.1	0.0	0.2	0.3	na

France and the euro area

(annual % change)



— Euro area
— France
Amplitude ^{b)}

International comparisons

(annual % change)



— Euro area
— United States
- - - Japan

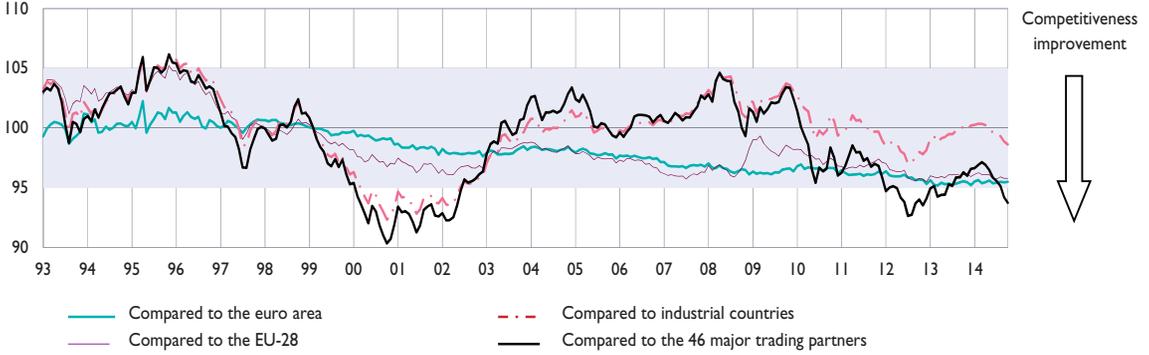
a) Harmonised indices except for the United States and Japan (national indices).

b) Gap between the extreme values of harmonised price indices observed in the euro area (changing composition).

Table 4
The competitiveness of France's economy

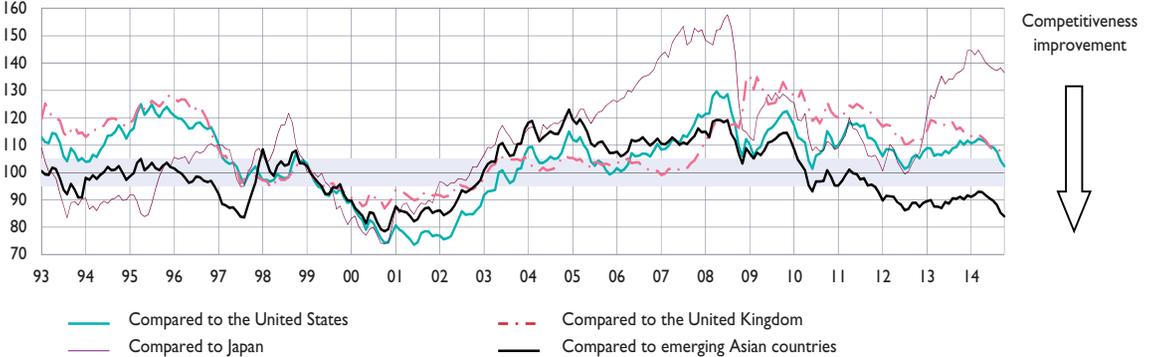
Indicators deflated by consumer prices

(1st quarter 1999 = 100)



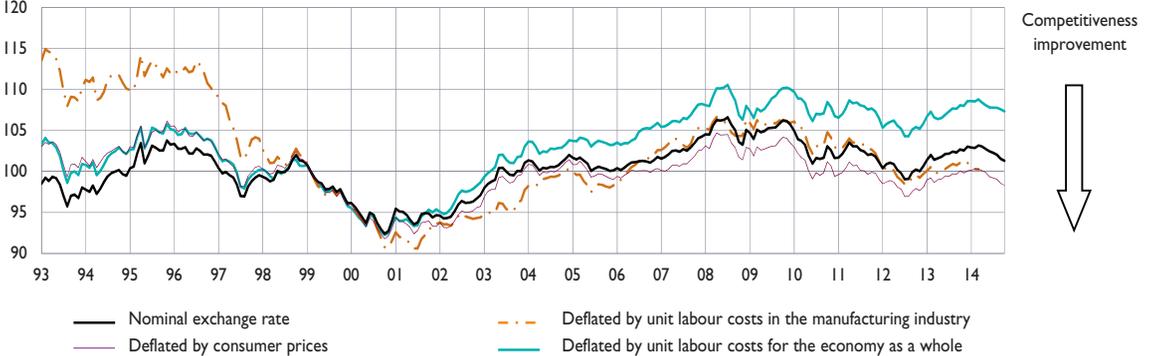
Indicators deflated by consumer prices

(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.

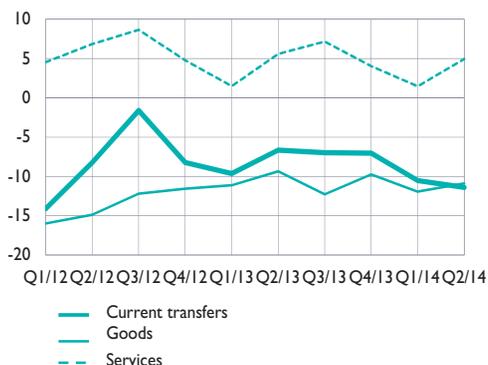
Table 5
Balance of payments – Main components (quarterly data) – France

(unadjusted data, EUR billions)

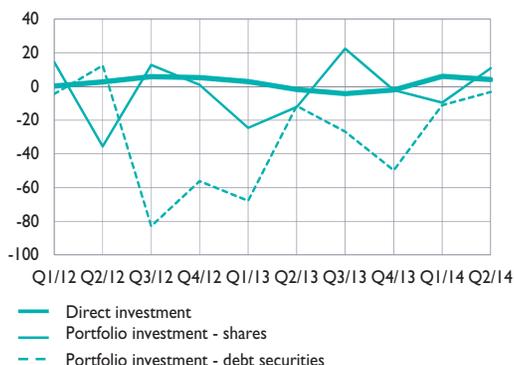
	2012	2013	2013			2014	
			Q2	Q3	Q4	Q1	Q2
Current account	-31.8	-30.3	-6.7	-7.0	-7.0	-10.5	-11.4
Goods	-54.6	-42.5	-9.4	-12.3	-9.8	-11.9	-10.9
Services	24.7	18.3	5.6	7.2	4.0	1.5	4.9
Primary income	40.7	39.3	8.5	8.7	7.3	15.7	8.9
Secondary income	-42.6	-45.3	-11.4	-10.6	-8.6	-15.7	-14.3
Capital account	0.5	1.8	1.1	0.1	0.6	0.8	0.1
Financial account	-21.0	-14.2	-5.7	-4.3	-12.9	-8.2	-15.2
Direct investment	14.1	-5.1	-1.8	-4.2	-2.1	6.1	4.1
French direct investment abroad	37.7	-0.2	-2.3	2.9	-3.2	9.6	5.2
Foreign direct investment in France	23.6	4.9	-0.5	7.1	-1.1	3.5	1.0
Portfolio investment	-26.5	-69.8	-23.7	-4.3	-52.0	-20.6	7.6
Assets	-1.7	66.3	10.4	16.6	-13.7	30.4	43.3
Liabilities	24.9	136.1	34.1	20.9	38.3	51.0	35.7
Financial derivatives	-14.3	-16.8	-6.1	0.7	-7.0	-4.7	-9.7
Other investment ^{a)}	1.7	79.0	26.2	1.6	50.7	9.4	-18.6
Reserve assets	4.0	-1.5	-0.3	1.9	-2.6	1.6	1.3
Net errors and omissions	10.3	14.3	-0.2	2.5	-6.5	1.4	-4.0

Current account balance

(unadjusted data, EUR billions)


Financial account balance

(unadjusted data, EUR billions)



The balance of payments has been compiled in accordance with the 6th Balance of Payments Manual.

a) Loans and deposits transactions.

Table 6
Balance of payments - Current account (main components) - France

(unadjusted data, EUR billions)

	2012	2013	2013			2014	
			Q2	Q3	Q4	Q1	Q2
Current account	-31.8	-30.3	-6.7	-7.0	-7.0	-10.5	-11.4
Goods	-54.6	-42.5	-9.4	-12.3	-9.8	-11.9	-10.9
Exports	435.9	437.3	111.8	104.2	111.6	108.2	108.5
Imports	490.6	479.9	121.2	116.5	121.4	120.1	119.4
General merchandise	-72.4	-64.1	-15.1	-16.7	-15.3	-16.4	-16.0
Merchandising	17.8	21.6	5.7	4.5	5.6	4.4	5.1
Services	24.7	18.3	5.6	7.2	4.0	1.5	4.9
Exports	184.0	192.0	48.9	52.9	48.6	44.2	51.0
Imports	159.2	173.7	43.3	45.8	44.6	42.7	46.1
Manufacturing services on physical inputs owned by others	1.4	1.6	0.4	0.3	0.4	0.5	0.3
Maintenance and repair services	2.8	2.0	0.5	0.5	0.5	0.4	0.5
Transport	-0.3	-1.7	-0.3	-0.5	-0.4	-0.5	-0.4
Travel	10.7	10.4	3.8	5.3	0.5	0.5	2.5
Construction	1.1	0.7	-0.1	0.0	0.8	-0.1	-0.1
Insurance and pension services	1.0	0.1	-0.1	0.1	0.0	-0.4	0.3
Financial services	4.3	4.6	1.1	1.1	1.2	1.4	1.4
Charges for the use of intellectual property	3.1	1.1	0.3	0.2	0.5	-0.1	0.4
Telecommunications, computer and information services	0.5	-1.1	-0.3	-0.4	-0.2	-0.2	-0.5
Other business services	0.5	1.2	0.3	0.6	0.6	0.1	0.7
Personal, cultural and recreational services	-0.7	-0.9	-0.3	-0.2	-0.2	-0.2	-0.2
Government services	0.4	0.4	0.1	0.1	0.1	0.1	0.1
Other services							
Primary income	40.7	39.3	8.5	8.7	7.3	15.7	8.9
Compensation of employees	15.7	15.9	4.0	4.0	4.0	4.2	4.2
Investment income	16.7	14.1	4.3	5.1	1.5	4.1	4.9
Direct investment	39.1	34.2	16.2	7.3	5.7	5.8	15.9
Portfolio investment	-18.7	-17.2	-11.2	-1.4	-3.5	-0.9	-10.3
Other investment ^{a)}	-4.1	-3.3	-0.8	-0.8	-0.7	-0.9	-0.9
Reserve assets	0.4	0.5	0.1	0.1	0.1	0.1	0.1
Other primary income	8.4	9.3	0.2	-0.3	1.8	7.5	-0.2
Secondary income	-42.6	-45.3	-11.4	-10.6	-8.6	-15.7	-14.3
General government	-28.6	-30.5	-7.8	-6.8	-4.8	-11.2	-6.5
Other sectors	-14.0	-14.8	-3.6	-3.8	-3.8	-4.6	-7.8
of which workers' remittances	-8.2	-8.4	-2.1	-2.1	-2.1	-2.1	-2.1
Capital account	0.5	1.8	1.1	0.1	0.6	0.8	0.1

The balance of payments has been compiled in accordance with the 6th Balance of Payments Manual.

a) Loans and deposits transactions.

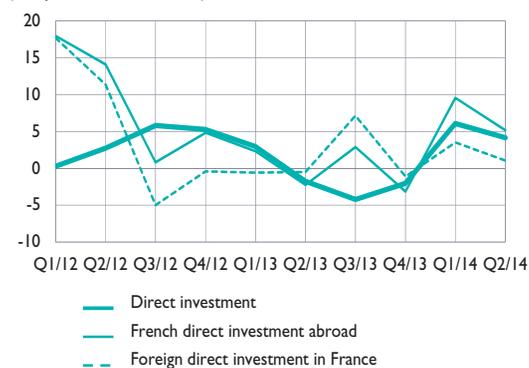
Table 7
Balance of payments - Financial flows (quarterly data) – France

(unadjusted data, EUR billions)

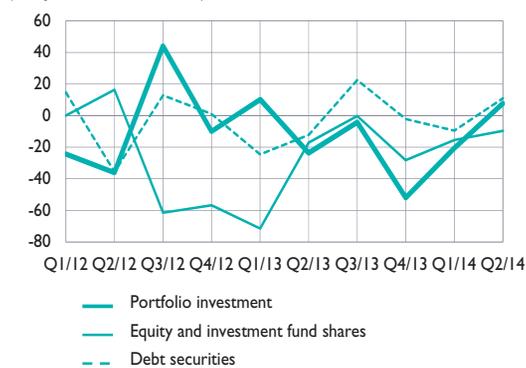
	2012	2013	2013			2014	
			Q2	Q3	Q4	Q1	Q2
Financial account	-21.0	-14.2	-5.7	-4.3	-12.9	-8.2	-15.2
Direct investment	14.1	-5.1	-1.8	-4.2	-2.1	6.1	4.1
French direct investment abroad	37.7	-0.2	-2.3	2.9	-3.2	9.6	5.2
of which Equity capital	45.9	9.1	-0.2	2.6	3.3	7.0	0.9
Foreign direct investment in France	23.6	4.9	-0.5	7.1	-1.1	3.5	1.0
of which Equity capital	12.3	17.5	4.1	4.5	4.0	3.7	4.5
Portfolio investment	-26.5	-69.8	-23.7	-4.3	-52.0	-20.6	7.6
Assets	-1.7	66.3	10.4	16.6	-13.7	30.4	43.3
Equity and investment fund shares	54.3	48.8	-4.5	20.4	15.6	-13.3	19.5
Long-term debt securities (>1yr)	-79.6	36.3	7.9	3.2	5.1	29.5	19.7
Short-term debt securities (<1yr)	23.7	-18.8	7.0	-7.0	-34.3	14.2	4.1
Liabilities	24.9	136.1	34.1	20.9	38.3	51.0	35.7
Equity and investment fund shares	25.4	26.1	7.7	-2.0	17.7	-3.8	8.7
Long-term debt securities (>1yr)	36.5	82.0	25.0	3.6	33.4	45.0	29.4
Short-term debt securities (<1yr)	-36.9	28.0	1.5	19.4	-12.8	9.8	-2.4
Financial derivatives	-14.3	-16.8	-6.1	0.7	-7.0	-4.7	-9.7
Other investment ^{a)}	1.7	79.0	26.2	1.6	50.7	9.4	-18.6
Reserve assets	4.0	-1.5	-0.3	1.9	-2.6	1.6	1.3
Net errors and omissions	10.3	14.3	-0.2	2.5	-6.5	1.4	-4.0

Direct investment account

(unadjusted data, EUR billions)


Portfolio investment account

(unadjusted data, EUR billions)



The balance of payments has been compiled in accordance with the 6th Balance of Payments Manual.

a) Loans and deposits transactions.

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

(unadjusted data, EUR billions)

	2 nd quarter 2014					
	EMU ^{a)}	UE-28 excl. EMU ^{b)}	USA	Japan	Switzerland	China
Current account	9.1	-0.1	-2.4	-0.1	4.3	na
Receipts	124.7	6.8	15.6	2.4	12.0	6.2
Expenditure	115.6	7.0	18.0	2.4	7.7	na
Goods	-6.1	-0.3	-0.8	-0.8	-0.6	-4.5
Receipts	63.4	5.0	6.5	1.1	2.5	4.6
Expenditure	69.5	5.3	7.3	1.9	3.0	9.1
Services	1.3	-0.6	0.5	0.2	1.7	0.0
Receipts	28.7	0.8	5.5	0.7	4.0	1.0
Expenditure	27.4	1.5	4.9	0.5	2.3	1.0
Primary income	20.1	0.9	2.1	0.5	3.8	na
Receipts	31.0	1.0	3.3	0.6	4.9	0.5
Expenditure ^{c)}	10.9	0.0	1.2	0.1	1.2	na
Secondary income	-6.2	-0.1	-4.2	0.0	-0.6	-0.1
Receipts	1.6	0.0	0.3	0.0	0.6	0.0
Expenditure	7.8	0.1	4.5	0.0	1.2	0.1
Financial account						
Direct investment	0.6	0.7	-3.1	-0.2	3.8	-0.9
French direct investment abroad	5.2	0.4	-5.9	-0.1	4.1	0.2
Foreign direct investment in France	4.6	-0.3	-2.8	0.1	0.3	1.2
Portfolio investment – Assets ^{d)}	39.6	-2.4	3.4	-1.2	-1.3	1.3
Equity and investment fund shares	18.2	0.0	0.5	-0.1	-1.5	1.2
Long-term debt securities (>1yr)	20.6	0.0	2.9	-4.8	0.2	0.2
Short-term debt securities (<1yr)	0.8	0.0	-0.1	3.7	0.0	0.0
Other investment ^{e)}	-48.6	0.0	26.9	6.5	3.9	6.1

The balance of payments has been compiled in accordance with the 6th Balance of Payments Manual.

a) 18 Member States.

b) Denmark, United Kingdom, Sweden, European institutions and new Member States (Czech Republic, Hungary, Lithuania, Poland, Bulgaria, Romania, Croatia).

c) Geographical breakdown of portfolio income based on data compiled by the IMF (Coordinated Portfolio Investment Survey); data for China not available.

d) The geographical breakdown is not available for liabilities.

e) Loans and deposits transactions.

Table 9
Balance of payments (monthly data) - France

(unadjusted data, EUR billions)

	2014			
	May	June	July	Aug.
Current account	-8.9	0.6	0.7	-4.0
Goods	-3.7	-3.8	-3.8	-4.6
Services	0.7	2.6	4.3	0.8
Primary income	-2.4	9.2	3.3	2.4
Secondary income	-3.5	-7.5	-3.1	-2.5
Capital account	-0.1	0.1	0.1	0.0
Financial account	-10.8	38.0	16.8	15.1
Direct investment	-2.9	2.0	5.5	2.6
French direct investment abroad	-2.9	3.0	-0.7	3.0
Equity capital	-5.3	0.4	-1.6	1.6
Reinvested earnings	1.3	1.3	1.3	1.3
Other capital (inter-company loans)	1.1	1.3	-0.4	0.1
Foreign direct investment in France	0.0	1.0	-6.3	0.4
Equity capital	0.7	1.5	-6.3	0.5
Reinvested earnings	0.4	0.4	0.4	0.4
Other capital (inter-company loans)	-1.1	-0.9	-0.4	-0.4
Portfolio investment	19.0	-1.9	-11.9	10.4
Assets	31.8	29.0	-14.4	17.5
Equity and investment fund shares	10.5	7.4	-7.8	-0.9
Long-term debt securities (>1yr)	15.4	9.6	-11.1	-8.5
Short-term debt securities (<1yr)	6.0	12.0	4.5	26.9
Liabilities	12.8	30.9	-2.5	7.1
Equity and investment fund shares	-0.6	14.8	-3.5	0.5
Long-term debt securities (>1yr)	15.6	8.0	0.7	1.2
Short-term debt securities (<1yr)	-2.1	8.0	0.2	5.3
Financial derivatives	-5.4	-2.4	-7.9	-2.8
Other investment ^{a)}	-21.5	39.5	31.4	5.2
of which IMF excl. Banque de France (net flows)	-7.1	17.0	32.9	-3.0
Reserve assets	0.0	0.8	-0.3	-0.3
Net errors and omissions	-1.8	37.3	16.0	19.1

The balance of payments has been compiled in accordance with the 6th Balance of Payments Manual.

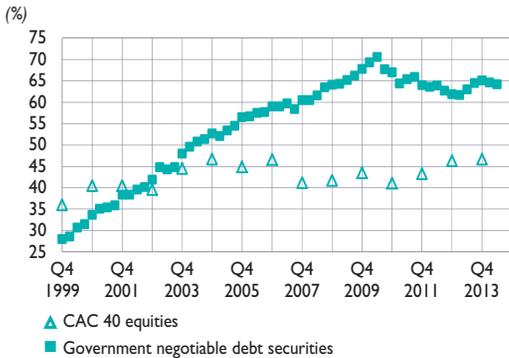
a) Loans and deposits transactions.

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

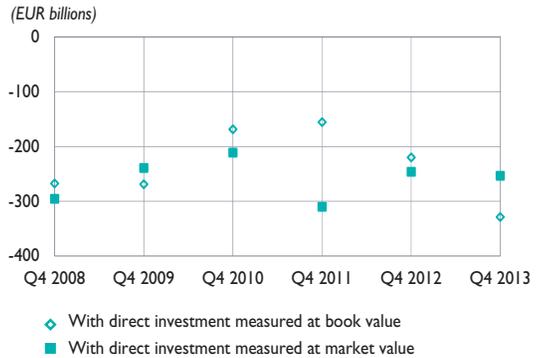
(EUR billions)

	2009	2010	2011	2012	2013	2014
	Dec.	Dec.	Dec.	Dec.	Dec.	Q2
Assets	5,427.2	5,731.9	5,962.1	6,016.3	5,741.4	6,069.5
French direct investment abroad	1,024.0	1,140.1	1,238.6	1,268.5	1,235.9	1,280.9
Equity capital and reinvested earnings	736.3	839.1	874.5	914.6	897.3	949.7
Other capital (inter-company loans)	287.6	301.0	364.1	353.9	338.6	346.5
Portfolio investment	2,070.8	2,100.1	1,865.6	1,991.0	2,094.7	2,234.7
Financial derivatives	926.6	825.8	1,092.2	1,080.2	804.7	815.9
Other investment ^{a)}	1,313.5	1,541.4	1,632.7	1,536.8	1,501.1	1,607.0
Reserve assets	92.4	124.5	133.1	139.9	105.1	115.7
Liabilities	5,696.1	5,900.3	6,117.4	6,236.2	6,070.2	6,414.0
Foreign direct investment in France	690.8	733.1	811.2	824.8	825.2	866.4
Equity capital and reinvested earnings	408.4	434.5	443.1	442.3	460.0	506.7
Other capital (inter-company loans)	282.5	298.6	368.1	382.5	365.2	362.7
Portfolio investment	2,290.0	2,420.9	2,412.2	2,612.1	2,819.3	2,989.3
Financial derivatives	998.3	873.6	1,136.6	1,125.4	869.8	884.9
Other investment ^{a)}	1,717.0	1,872.8	1,757.4	1,673.9	1,555.9	1,670.4
Net position	-268.8	-168.4	-155.3	-219.9	-328.7	-344.4

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



France's international investment position



The balance of payments has been compiled in accordance with the 6th Balance of Payments Manual.
a) Loans and deposits transactions.

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

(annual percentage growth rate)

	2011	2012	2013	2013	2014							
	Dec.	Dec.	Dec.	Sept.	March	April	May	June	July	Aug.	Sept.	
M1												
Euro area ^{a)}	1.9	6.4	5.7	6.6	5.6	5.2	5.0	5.4	5.6	5.9	6.2	
France (contribution)	5.5	2.8	3.4	1.8	5.5	3.4	4.5	5.6	4.0	5.1	4.8	
M2												
Euro area ^{a)}	1.9	4.5	2.5	3.8	2.2	2.0	2.1	2.3	2.5	2.7	3.0	
France (contribution)	6.8	5.2	2.3	3.5	1.8	0.6	1.4	1.9	1.1	1.9	1.9	
M3												
Euro area ^{a)}	1.6	3.5	1.0	2.0	1.0	0.8	1.1	1.6	1.8	2.1	2.5	
France (contribution)	3.0	2.6	1.3	2.7	0.9	-0.7	-0.1	0.8	0.9	1.2	1.5	
Loans to the private sector												
Euro area ^{a)}	1.0	-0.6	-2.3	-2.1	-2.2	-1.8	-2.0	-1.8	-1.6	-1.5	-1.2	
France ^{b)}	3.1	2.5	0.7	1.7	0.9	1.4	1.0	1.6	1.6	1.5	2.0	

M1

(annual percentage growth rate)



M2

(annual percentage growth rate)



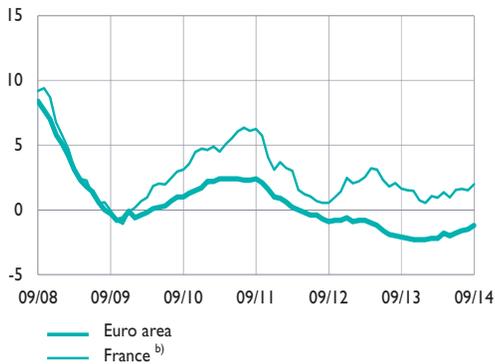
M3

(annual percentage growth rate)



Loans to the private sector

(annual percentage growth rate)



a) Seasonal and calendar effect adjusted data.

b) Loans extended by MFIs resident in France to euro area residents excluding MFIs and central government.

Sources: Banque de France, European Central Bank.

Produced 13 November 2014

Table I2
Banque de France Monthly Statement ^{a)}

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

	2011	2012	2013	2013	2014			
	Dec.	Dec.	Dec.	Sept.	June	July	Aug.	Sept.
Assets								
National territory	295.8	326.4	199.7	221.0	176.2	171.7	177.0	172.7
Loans	218.4	234.2	127.1	141.1	108.6	104.2	109.3	103.6
MFIs ^{b)}	218.2	234.0	127.0	140.9	108.5	104.0	109.1	103.4
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Securities other than shares	76.9	92.1	72.5	79.8	67.4	67.4	67.6	69.1
MFIs	34.1	32.2	25.2	25.3	27.1	27.5	27.5	28.0
General government	42.9	59.9	47.3	54.5	40.3	40.0	40.1	41.1
Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other euro area countries ^{b)}	106.8	87.6	91.4	90.1	91.7	89.4	88.7	88.2
Rest of the world ^{b)}	110.5	114.9	88.3	104.3	92.9	94.0	91.9	91.3
Gold	95.3	98.8	68.2	77.4	75.3	75.2	76.4	75.3
Not broken down by geographical area ^{c)}	105.3	109.6	107.6	103.7	103.6	103.1	102.1	110.6
Total	713.6	737.3	555.2	596.5	539.6	533.4	536.1	538.1
Liabilities								
National territory – Deposits	185.6	200.3	116.0	121.4	81.0	82.6	89.7	91.3
MFIs	176.2	194.8	112.2	120.0	76.1	81.1	88.6	78.5
General government	8.9	4.9	3.3	0.7	4.0	0.5	0.6	11.9
Other sectors	0.5	0.6	0.6	0.6	0.9	1.0	0.6	0.9
Other euro area countries – Deposits	79.6	73.9	34.1	52.7	48.2	30.9	22.3	14.5
Rest of the world – Deposits	143.4	146.0	112.6	128.3	110.1	119.1	122.6	125.4
Not broken down by geographical area	305.0	317.1	292.5	294.2	300.3	300.9	301.4	306.8
Banknotes and coins in circulation ^{d)}	169.0	173.5	181.7	174.7	181.9	183.8	184.1	184.1
of which coins ^{e)}	2.8	2.9	3.0	3.0	3.0	3.1	3.1	3.1
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital reserves and revaluation account	112.4	117.0	86.6	96.6	97.5	97.4	98.7	100.0
Other liabilities	23.6	26.5	24.1	22.9	21.0	19.7	18.6	22.6
Total ^{f)}	713.6	737.3	555.2	596.5	539.6	533.4	536.1	538.1

a) These statistics are transmitted to the European Central Bank, on the 15th working day following the end of the month to which they relate, within the production of the consolidated balance sheet of the monetary financial institutions (Regulation ECB/2008/32).

b) This item includes the outstanding amounts of market operations.

c) Including the adjustment linked to the method of accounting used for measuring the euro notes on the liability side of the balance sheet of the Banque de France since January 2002.

d) Since January 2002, banknotes in circulation are treated according to specific euro area accounting conventions to bring them in line with the capital key share. 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.

e) Coins in circulation are not a liability of MFIs in the participating Member States, but a liability of the central government. However, coins are part of the monetary aggregates and, by convention, this liability is to be entered under the category 'currency in circulation'. The counterpart to this liability is to be included within 'remaining assets'. (Regulation ECB/2008/32.)

f) The total of the balance sheet at end 2013 published in March 2014 (550 bn) can be calculated by subtracting from the total of the Monthly Statement at end December 2013 (552.2 bn): coins (3 bn) and miscellaneous amounts linked to the accounting gap between the statement established in the early January 2014 and the Annual Accounts, which include all the year-end entries (2.2 bn).

Table I3
Deposits – France

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

	2011	2012	2013	2013	2014			
	Dec.	Dec.	Dec.	Sept.	June	July	Aug.	Sept.
Overnight deposits								
Total non-financial sectors (excluding central government)	546.3	555.9	582.3	561.6	586.6	587.1	590.8	590.2
Households and similar	284.4	279.2	295.5	292.1	303.4	307.1	309.7	307.4
Non-financial corporations	203.3	214.7	231.2	211.1	230.9	227.3	229.8	230.4
General government (excl. central government)	58.6	62.0	55.7	58.3	52.2	52.7	51.2	52.4
Other sectors	39.3	42.5	35.7	38.3	43.0	43.6	40.6	39.8
Total – Outstanding amounts	585.1	598.0	617.7	599.4	629.1	630.4	631.0	629.6
Total – Growth rate	5.3	2.8	3.3	2.2	5.9	4.1	5.5	5.0
Passbook savings accounts								
"A" and "Blue" passbooks	214.7	247.2	263.2	261.3	265.6	264.5	264.0	261.7
Housing savings accounts	36.1	35.2	33.4	34.2	32.0	31.9	32.0	31.6
Sustainable development passbook accounts	69.4	92.0	100.7	99.3	102.3	102.3	102.5	101.7
People's savings passbooks	52.4	51.7	48.3	49.5	46.2	46.1	46.2	46.1
Youth passbooks	7.0	7.0	6.9	6.9	6.7	6.7	6.8	6.8
Taxable passbooks	179.7	178.7	172.5	177.8	175.3	175.5	176.8	174.1
Total – Outstanding amounts	559.3	611.7	625.1	628.9	628.1	627.0	628.2	622.0
Total – Growth rate	7.3	9.4	2.2	6.3	-0.3	-0.9	-1.0	-1.1

Overnight deposits

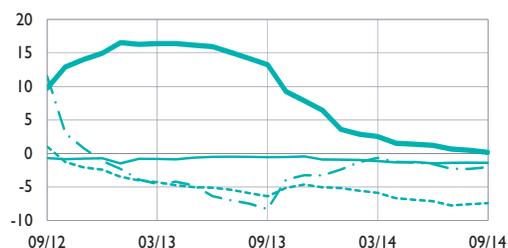
(annual growth rate)



— Total
- - - Non-financial corporations
..... Households
- . - Youth passbooks

Passbook savings accounts

(annual growth rate)



— "A" and "Blue" passbooks
- - - Youth passbooks
..... Housing savings accounts
- . - Taxable passbooks

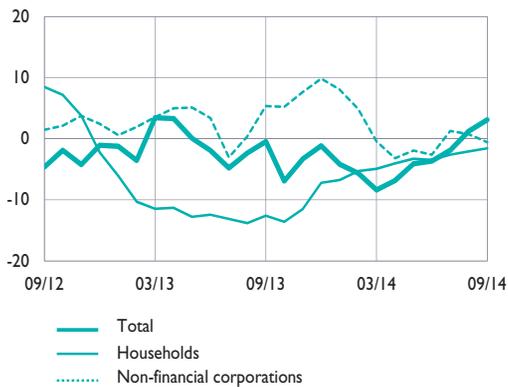
Table I4
Time deposits – France

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

	2011	2012	2013	2013	2014			
	Dec.	Dec.	Dec.	Sept.	June	July	Aug.	Sept.
Deposits with agreed maturity up to two years								
Total non-financial sectors (excl. central government)	108.1	111.8	117.3	109.3	108.3	110.5	109.4	108.9
Households and similar	31.7	30.9	28.6	29.0	28.2	28.5	28.7	28.6
Non-financial corporations	75.5	79.9	87.7	79.3	79.0	80.7	79.4	79.0
General government (excl. central government)	1.0	0.9	1.0	1.0	1.2	1.3	1.3	1.3
Other sectors	42.7	40.7	33.5	36.3	32.0	32.1	39.0	41.2
Total – Outstanding amounts	150.9	152.5	150.7	145.6	140.4	142.6	148.4	150.1
Total – Growth rate	10.9	-1.1	-1.1	-0.5	-3.7	-1.9	1.2	3.1
Deposits with agreed maturity of over two years								
Total non-financial sectors (excl. central government)	306.7	328.9	342.2	335.8	349.4	350.5	351.9	352.9
Households and similar	259.0	269.4	274.8	270.0	278.2	278.8	279.8	280.8
PEL	186.6	188.2	197.7	192.0	202.9	204.3	205.7	207.3
PEP	24.4	24.0	23.0	22.9	22.3	22.2	22.1	22.0
Other	48.0	57.1	54.1	55.1	53.0	52.4	51.9	51.5
Non-financial corporations	46.6	58.1	65.5	64.0	69.1	69.7	70.2	70.2
General government (excl. central government)	1.1	1.4	1.9	1.8	2.0	1.9	1.9	1.9
Other sectors	177.0	154.7	157.0	158.1	97.2	95.9	99.3	92.3
Total – Outstanding amounts	483.7	483.5	499.3	493.9	446.6	446.3	451.2	445.2
Total – Growth rate	18.8	0.3	3.4	2.7	-11.2	-10.7	-9.9	-10.0

Deposits up to 2 years

(annual percentage growth rate)



Deposits over 2 years

(annual percentage growth rate)



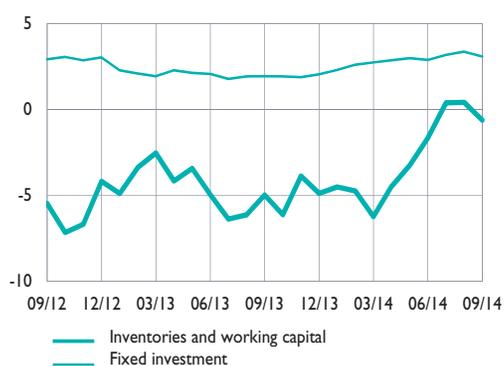
Table 15
Loans extended by credit institutions established in France to French residents – France

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

	2011	2012	2013	2013	2014				
	Dec.	Dec.	Dec.	Sept.	May	June	July	Aug.	Sept.
Loans to resident clients									
Private sector	2,053.7	2,100.0	2,114.9	2,121.3	2,150.9	2,152.5	2,150.2	2,144.5	2,158.2
General government	195.1	206.8	213.1	211.1	211.7	211.1	213.8	214.6	213.6
Total – Outstanding amounts	2,248.7	2,306.7	2,328.1	2,332.4	2,362.7	2,363.5	2,364.0	2,359.1	2,371.8
Private sector	3.1	2.5	0.7	1.7	1.0	1.6	1.6	1.5	2.0
General government	-6.7	6.1	2.8	6.3	1.5	1.7	0.7	1.2	1.2
Total – Growth rate	2.2	2.8	0.9	2.1	1.0	1.6	1.5	1.5	1.9
Loans to non-financial companies									
Fixed investment	547.1	563.0	568.0	561.8	570.6	570.7	572.6	574.1	572.4
Inventories and working capital	187.5	174.1	167.5	168.0	172.6	175.4	175.7	172.3	171.9
Other lending	81.2	82.0	81.3	82.1	78.6	80.7	78.5	78.9	79.9
Total – Outstanding amounts	815.9	819.1	816.7	812.0	821.7	826.8	826.8	825.3	824.2
Total – Growth rate	4.4	1.0	0.2	0.2	0.9	1.3	1.8	2.1	1.8
Loans to households									
Loans for house purchase	847.0	874.2	907.0	897.5	913.4	915.7	920.1	921.9	922.1
Consumer loans	161.1	160.4	157.3	155.9	157.7	157.3	157.9	155.9	156.5
Other lending	92.8	92.1	92.3	92.9	93.2	93.8	93.8	93.9	93.1
Total – Outstanding amounts	1,100.9	1,126.7	1,156.6	1,146.4	1,164.2	1,166.7	1,171.9	1,171.6	1,171.7
Total – Growth rate	5.6	2.3	2.5	2.4	2.6	2.7	2.7	2.7	2.5

Loans to non-financial companies – France

(annual percentage growth rate)



Loans to households – France

(annual percentage growth rate)



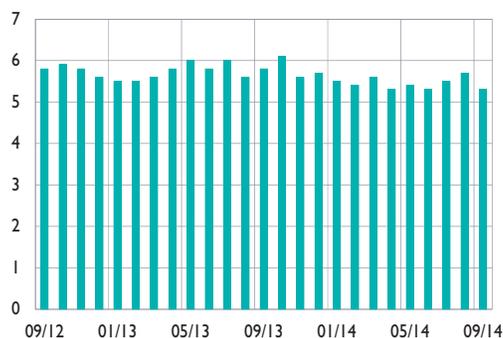
Table 16
New loans to residents, (excl. overdrafts) – France

(monthly flows - seasonally adjusted - in euro billions)

	2013			2014		
	July	Aug.	Sept.	July	Aug.	Sept.
Loans to non-financial corporations						
Loans ≤ 1 million euro ^{a)}	6.0	5.6	5.8	5.5	5.7	5.3
Loans > 1 million euro ^{a)}	11.6	11.8	10.4	8.2	9.4	9.7
Loans to households						
Cash loans to sole traders and individuals (excl. revolving consumer credit)	4.0	4.0	4.1	4.1	4.0	3.8
Housing loans	14.5	14.0	13.7	9.5	10.2	9.8

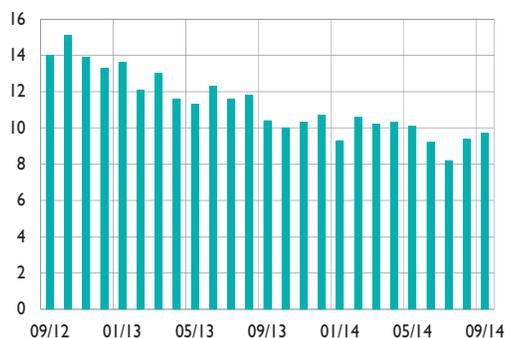
Non-financial corporations – Loans ≤ 1 million euro

(monthly flows - seasonally adjusted - in euro billions)



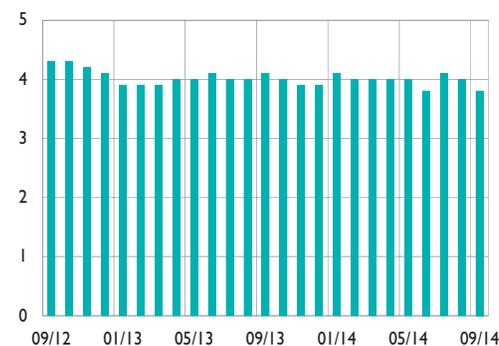
Non-financial corporations – Loans > 1 million euro

(monthly flows - seasonally adjusted - in euro billions)



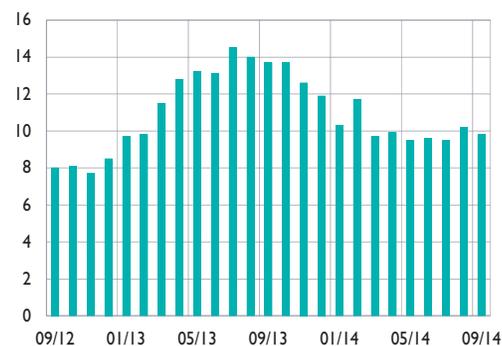
Households - Cash loans

(monthly flows - seasonally adjusted - in euro billions)



Households - Housing loans

(monthly flows - seasonally adjusted - in euro billions)



a) All initial rate fixation periods.

Table 17
Investment and financing – Insurance corporations and pension funds – Euro area and France

(EUR billions)

Euro area						
	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2013				2014	2014
	Q1	Q2	Q3	Q4	Q1	March
Financial assets						
Currency and deposits	-7.8	-7.7	-15.0	-23.6	-22.5	794.3
<i>of which deposits included in M3 ^{a)}</i>	11.0	7.6	2.7	-14.0	-6.9	209.7
Short-term debt securities	-0.5	-13.4	-22.3	-13.6	-11.1	58.2
Long-term debt securities	105.5	119.2	123.4	156.5	140.5	3,235.5
Loans	11.4	10.3	1.2	3.8	14.2	504.5
Shares and other equity	106.4	103.1	138.8	113.6	119.5	3,015.2
<i>of which quoted shares</i>	0.1	-0.5	9.4	0.9	4.3	444.5
Remaining net assets	-28.2	-31.0	-35.4	-3.6	6.2	238.2
Financing						
Debt securities	5.4	3.3	2.8	-0.2	0.1	55.4
Loans	0.1	-7.4	-23.2	-4.6	-4.8	298.3
Shares and other equity	2.1	2.2	1.3	4.7	4.8	535.6
Insurance technical reserves	170.6	176.2	184.3	195.2	215.9	6,909.1
<i>Life insurance</i>	155.9	164.5	171.0	179.6	192.4	6,041.6
<i>Non-life insurance</i>	14.7	11.6	13.3	15.6	23.5	867.5
Net lending/net borrowing (B9B)	8.6	6.2	25.4	38.1	30.8	

(EUR billions)

France						
	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2013			2014		2014
	Q2	Q3	Q4	Q1	Q2	June
Financial assets						
Currency and deposits	6.2	8.0	4.1	1.2	7.0	39.6
Short-term debt securities	-7.5	-11.4	-4.5	-9.3	-4.6	20.3
Long-term debt securities	58.1	74.4	67.4	47.0	36.4	1,366.2
Loans	0.9	0.9	0.3	0.2	0.5	36.1
Shares and other equity	4.9	-2.6	-3.4	10.3	16.0	734.1
<i>of which quoted shares</i>	-1.8	-2.4	-1.2	-1.6	-1.9	81.6
Remaining net assets	-20.8	-15.9	-13.7	-10.6	-7.1	-31.8
Financing						
Debt securities	1.7	2.5	1.4	1.2	1.5	13.1
Loans	15.9	16.1	11.8	8.9	5.0	95.5
Shares and other equity	1.5	1.2	1.6	1.1	1.0	112.5
Insurance technical reserves	52.0	55.2	50.5	51.9	55.6	1,858.8
<i>Life insurance and pension funds</i>	37.5	39.7	38.3	38.7	42.2	1,567.3
<i>Non-life insurance</i>	14.5	15.5	12.2	13.2	13.4	291.5
Net lending/net borrowing (B9B)	-8.8	1.5	6.6	-1.8	8.9	

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.

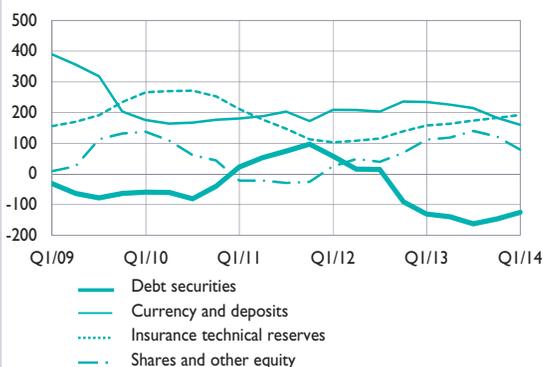
Table 18
Investment and financing – Households – Euro area

(EUR billions)

	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2013				2014	2014
	Q1	Q2	Q3	Q4	Q1	March
Financial assets						
Currency and deposits	234.3	225.8	214.2	182.9	159.8	7,254.5
<i>of which deposits included in M3 ^{a)}</i>	213.5	206.3	171.0	102.9	74.1	5,440.5
Short-term debt securities	-15.6	-20.6	-27.7	-20.5	-14.8	33.1
Long-term debt securities	-115.1	-118.7	-134.9	-126.4	-110.3	1,222.3
Shares and other equity	111.8	118.1	139.9	121.7	79.0	5,273.5
Quoted shares	9.9	0.4	-9.7	-14.6	-13.6	957.2
Unquoted shares and other equity	57.5	57.1	85.2	76.7	49.2	2,775.3
Mutual fund shares	44.4	60.6	64.3	59.6	43.4	1,541.0
<i>of which money market fund shares</i>	-39.4	-30.4	-27.2	-14.5	-20.9	90.7
Insurance technical reserves	157.6	163.3	173.8	182.6	192.3	6,647.9
Remaining net assets	-50.0	-65.8	-63.5	-57.2	-25.2	-156.1
Financing						
Loans	-1.0	-12.0	-2.4	-19.3	-8.4	6,147.8
<i>of which from euro area MFIs</i>	21.1	1.4	7.6	-4.1	-5.0	5,267.5
Revaluation of financial assets						
Shares and other equity	249.6	270.1	318.8	447.8	555.1	
Insurance technical reserves	166.6	132.5	85.0	72.3	94.5	
Other flows	22.5	65.5	50.6	21.9	75.0	
Change in net financial worth	762.7	782.3	758.7	844.5	1,013.8	

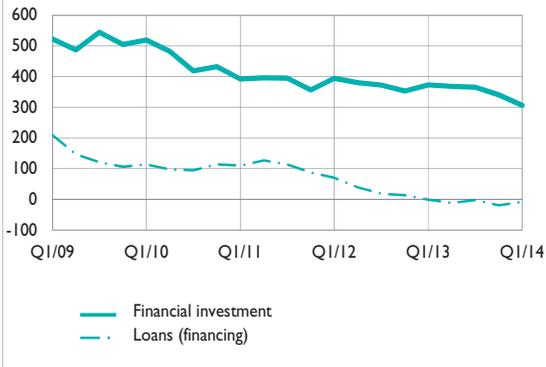
Investment flows

(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.

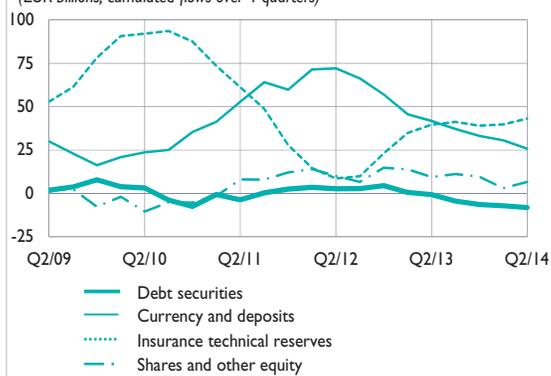
Table 19
Investment and financing – Households – France

(EUR billions)

	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2013			2014		2014
	Q2	Q3	Q4	Q1	Q2	June
Financial assets						
Currency and deposits	41.8	37.1	33.2	30.6	25.8	1,323.6
Short-term debt securities	0.5	0.0	-0.5	-0.3	0.0	18.7
Long-term debt securities	-1.2	-4.5	-5.9	-6.9	-8.1	65.0
Shares and other equity	9.5	11.2	9.6	3.0	6.6	1,339.2
Quoted shares	-5.7	-5.0	-4.8	-4.8	-3.5	186.3
Unquoted shares and other equity	20.5	23.2	24.0	19.4	21.9	840.1
Mutual fund shares	-5.3	-7.1	-9.5	-11.7	-11.9	312.7
of which money market fund shares	-7.8	-5.9	-5.5	-6.4	-6.1	17.1
Insurance technical reserves	39.6	41.2	39.0	39.8	43.2	1,670.0
Remaining net assets	32.9	20.9	23.3	-2.9	-14.6	71.7
Financing						
Loans	21.7	26.7	22.9	23.1	23.8	1,184.9
Revaluation of financial assets						
Shares and other equity	93.8	114.5	96.2	94.8	122.4	
Insurance technical reserves	20.0	22.5	17.3	22.0	27.9	
Other flows	7.6	2.2	1.1	6.0	5.8	
Change in net financial worth	222.6	218.5	190.4	163.0	185.2	

Investment flows

(EUR billions, cumulated flows over 4 quarters)



Investment and financing flows

(EUR billions, cumulated flows over 4 quarters)

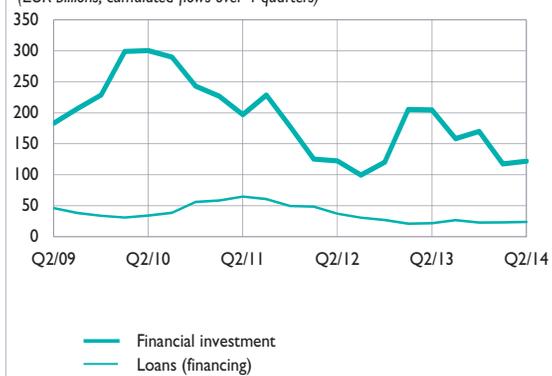


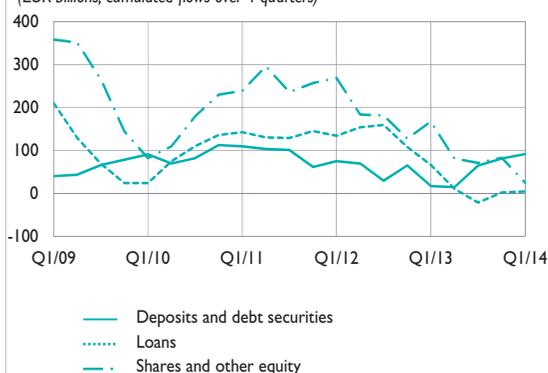
Table 20
Investment and financing – Non-financial corporations – Euro area

(EUR billions)

	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2013				2014	2014
	Q1	Q2	Q3	Q4	Q1	March
Financial assets						
Currency and deposits	46.1	50.0	97.5	124.0	102.5	2,116.8
<i>of which deposits included in M3 ^(a)</i>	75.9	76.1	86.7	102.1	91.6	1,729.0
Debt securities	-29.1	-35.5	-33.2	-42.9	-11.2	330.2
Loans	65.9	10.5	-21.4	2.0	4.3	3,125.0
Shares and other equity	166.8	81.0	70.9	82.8	24.4	9,152.3
Insurance technical reserves	4.5	4.1	4.3	2.8	3.2	177.8
Remaining net assets	5.5	80.6	45.9	76.3	114.4	321.1
Financing						
Debt	119.9	35.6	-43.0	-0.8	-5.1	10,039.5
Loans	13.7	-57.6	-132.6	-87.3	-91.9	8,565.3
<i>of which from euro area MFIs</i>	-115.1	-157.4	-165.7	-133.6	-137.4	4,336.4
Debt securities	102.2	89.5	86.2	83.1	82.8	1,120.3
Pension fund reserves	4.0	3.7	3.3	3.4	4.0	353.9
Shares and other equity	165.5	160.4	193.4	215.6	196.7	15,495.6
Quoted shares	10.8	20.9	22.8	30.6	56.6	4,672.8
Unquoted shares and other equity	154.7	139.5	170.5	185.0	140.2	10,822.7
Net lending/net borrowing (B9B)	-25.8	-5.4	13.6	30.1	46.0	

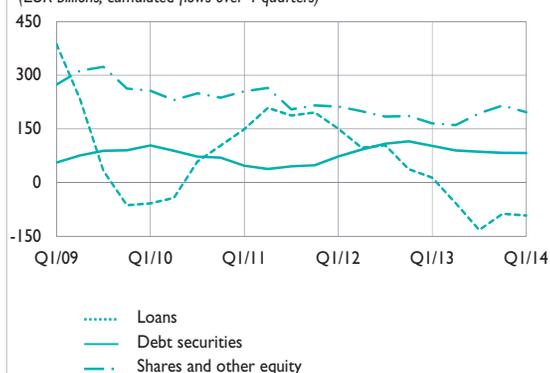
Investment flows

(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.

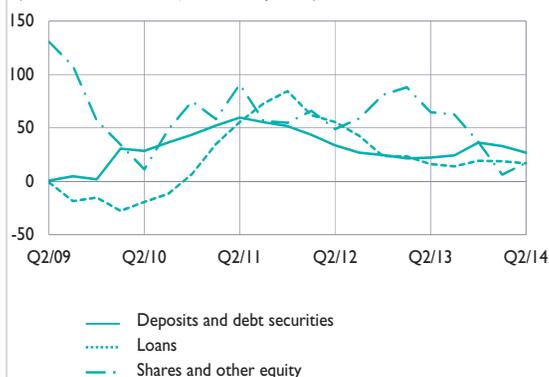
Table 21
Investment and financing – Non-financial corporations – France

(EUR billions)

	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2013			2014		2014
	Q2	Q3	Q4	Q1	Q2	June
Financial assets						
Currency and deposits	36.2	34.9	46.0	34.7	32.3	453.0
Debt securities	-13.9	-10.7	-9.8	-1.7	-5.5	56.8
Loans	16.1	14.0	19.3	18.8	16.8	1,108.1
Shares and other equity	64.8	62.3	36.9	6.2	17.2	3,482.7
Insurance technical reserves	0.6	0.5	0.2	0.1	-0.1	49.9
Remaining net assets	-11.2	-32.2	-17.7	15.4	24.9	142.5
Financing						
Debt	33.3	41.1	41.3	43.5	70.4	2,582.8
Loans	11.8	15.6	24.4	15.4	18.8	2,037.4
Debt securities	21.5	25.5	16.9	28.1	51.5	545.4
Shares and other equity	70.8	74.8	68.4	68.2	74.9	5,006.9
Quoted shares	11.6	11.7	9.7	12.6	15.9	1,433.3
Unquoted shares and other equity	59.2	63.1	58.7	55.6	59.0	3,573.6
Net lending/net borrowing (B9B)	-11.6	-47.0	-34.9	-38.2	-59.5	

Investment flows

(EUR billions, cumulated flows over 4 quarters)



Financing flows

(EUR billions, cumulated flows over 4 quarters)

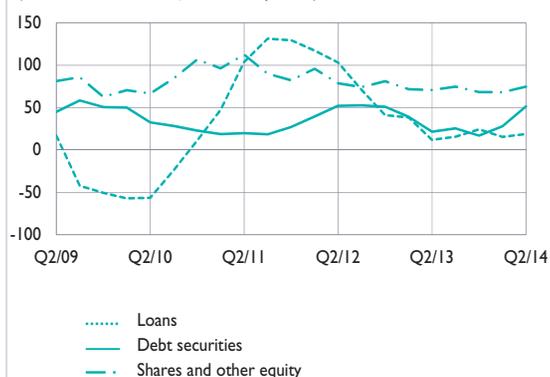


Table 22
Interest rates on bank deposits – France and the euro area

(average monthly rates – %)

	2012	2013	2013	2014				
	Dec.	Dec.	Sept.	May	June	July	Aug.	Sept.
Euro area								
Overnight deposits – households	0.39	0.29	0.30	0.27	0.27	0.24	0.24	0.23
Deposits redeemable at notice up to 3 months – households	1.59	1.11	1.15	1.05	1.04	1.01	0.93	0.92
Time deposits with agreed maturity over 2 years – non-financial corporations	2.16	1.63	1.87	1.38	1.52	1.49	1.63	1.53
France								
"A" passbooks (end of period)	2.25	1.25	1.25	1.25	1.25	1.25	1.00	1.00
Regulated savings deposits	2.26	1.29	1.29	1.28	1.28	1.28	1.05	1.06
Deposits with agreed maturity up to 2 years	2.26	1.97	2.07	1.95	1.92	1.91	1.88	1.94
Deposits with agreed maturity over 2 years	3.01	2.91	2.98	2.87	2.89	2.83	2.84	2.87

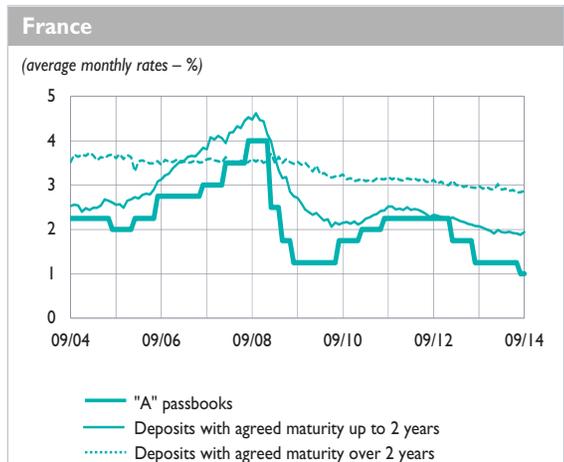
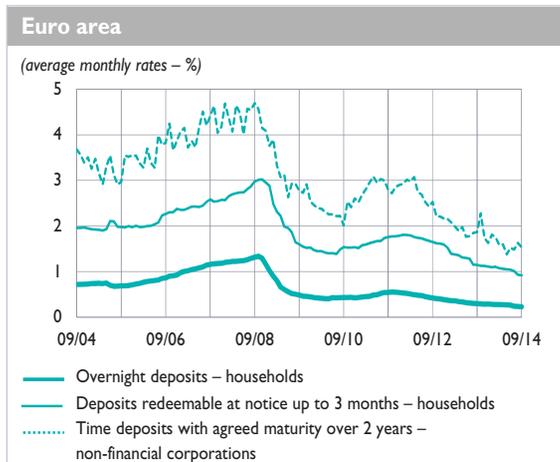
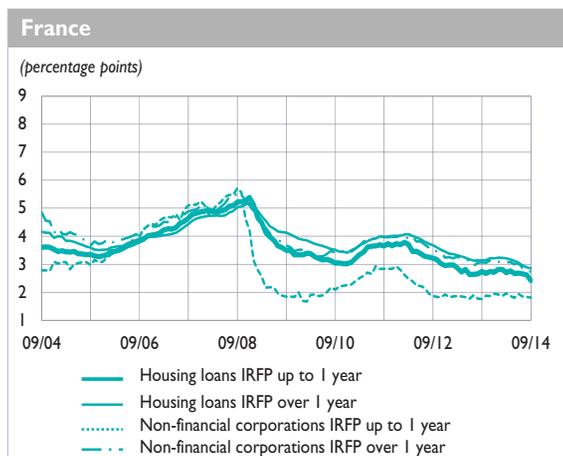
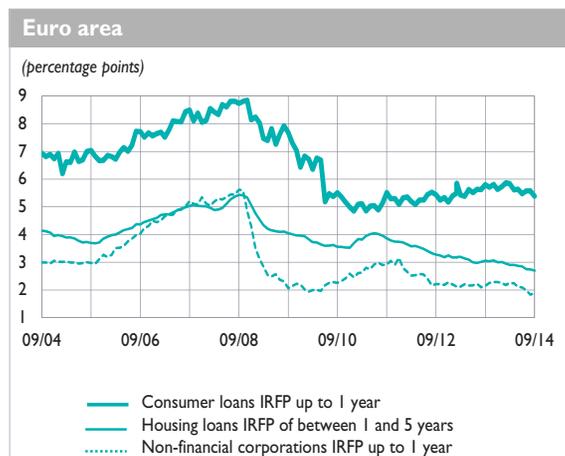


Table 23
Interest rates on bank loans – France and the euro area

(average monthly rate – %)

	2013			2014								
	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)}	5.71	5.81	5.63	5.73	5.87	5.83	5.61	5.64	5.47	5.57	5.58	5.39
Loans for house purchase												
Floating rate and IRFP of between 1 and 5 years ^{a)}	3.04	3.06	3.00	3.01	2.95	2.90	2.91	2.87	2.85	2.75	2.74	2.69
Non-financial corporations of over EUR 1 million												
IRFP of up to 1 year ^{a)}	2.25	2.28	2.29	2.25	2.17	2.25	2.24	2.11	2.09	1.99	1.83	1.88
France												
Consumer loans												
Floating rate and IRFP of up to 1 year ^{a)}	5.73	5.82	5.83	5.90	5.85	5.78	5.62	5.58	5.43	5.25	5.35	5.21
Loans for house purchase												
IRFP of up to 1 year ^{a)}	2.67	2.74	2.71	2.81	2.81	2.70	2.76	2.67	2.68	2.65	2.62	2.42
IRFP of over 1 year ^{a)}	3.14	3.21	3.21	3.23	3.22	3.21	3.17	3.12	3.05	2.96	2.89	2.85
Non-financial corporations												
IRFP of up to 1 year ^{a)}	1.88	1.87	1.95	1.92	1.87	1.96	1.87	1.80	1.94	1.85	1.83	1.81
IRFP of over 1 year ^{a)}	3.05	3.13	3.07	3.09	3.07	3.06	3.08	3.00	3.03	2.86	2.86	2.71



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 24
Usury rates on loans to households and cost of business credit – France

(%)

Usury ceiling with effect from the 1st day of the reference period	2014			
	Jan.	April	July	Oct.
Loans to households under Articles L312-1 to L312-36 of the french Consumer Code (housing loans)				
Fixed-rate loans	5.04	5.19	5.11	4.85
Floating-rate loans	4.51	4.64	4.71	4.53
Bridge loans	5.23	5.39	5.27	5.19
Loans to households not within the scope of Articles L312-1 to L312-36 of the French Consumer Code (consumer loans)				
Loans up to EUR 3,000	20.23	20.27	20.35	20.28
Loans comprised between EUR 3,000 and EUR 6,000	15.12	15.09	14.81	14.59
Loans over EUR 6,000	10.35	10.21	9.79	9.47

	2013		2014		
	July	Oct.	Jan.	April	July
Loans to enterprises					
Discount					
up to EUR 15,245	2.69	3.09	3.10	3.17	2.93
EUR 15,245 to EUR 45,735	3.23	3.91	3.63	4.30	4.14
EUR 45,735 to EUR 76,225	3.04	3.32	3.25	3.40	3.70
EUR 76,225 to EUR 304,898	2.15	2.52	2.40	2.81	2.41
EUR 304,898 to EUR 1,524,490	1.42	1.55	1.76	1.87	1.55
over EUR 1,524,490	0.85	1.10	1.00	1.23	1.06
Overdrafts					
up to EUR 15,245	9.92	9.94	9.98	9.80	9.86
EUR 15,245 to EUR 45,735	6.19	6.66	6.82	6.47	6.52
EUR 45,735 to EUR 76,225	4.55	5.11	5.52	5.48	4.92
EUR 76,225 to EUR 304,898	3.69	3.87	4.16	3.74	3.36
EUR 304,898 to EUR 1,524,490	1.83	2.13	2.41	2.13	2.32
over EUR 1,524,490	1.15	1.36	1.34	1.25	1.21
Other short-term loans					
up to EUR 15,245	3.43	3.63	3.47	3.35	3.36
EUR 15,245 to EUR 45,735	3.15	3.39	3.10	2.99	3.08
EUR 45,735 to EUR 76,225	2.61	2.73	2.64	2.49	2.77
EUR 76,225 to EUR 304,898	2.22	2.21	2.40	2.58	2.38
EUR 304,898 to EUR 1,524,490	1.74	1.72	1.70	1.80	1.77
over EUR 1,524,490	1.80	1.92	1.92	1.93	1.95
Medium and long-term loans					
up to EUR 15,245	3.20	3.22	3.20	3.06	2.98
EUR 15,245 to EUR 45,735	2.89	2.95	2.89	2.78	2.68
EUR 45,735 to EUR 76,225	2.88	2.89	2.92	2.84	2.68
EUR 76,225 to EUR 304,898	2.92	2.96	2.96	2.88	2.75
EUR 304,898 to EUR 1,524,490	2.78	2.83	2.90	2.89	2.65
over EUR 1,524,490	2.38	2.50	2.44	2.59	2.30

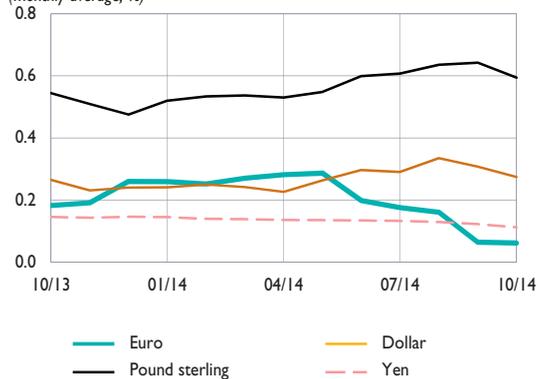
Table 25
Interest rates

(%)

	Monthly average ^{a)}										Key interest rates at 07/11/14
	2014										
	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	
Short-term interbank interest rates											
Euro											0.05
Overnight	0.17	0.13	0.14	0.22	0.24	0.06	0.02	0.04	0.00	0.00	
3-month	0.26	0.25	0.27	0.28	0.29	0.20	0.18	0.16	0.06	0.06	
1-year	0.55	0.54	0.55	0.57	0.54	0.48	0.49	0.47	0.36	0.34	
Pound sterling											0.50
Overnight	0.45	0.45	0.44	0.44	0.44	0.44	0.45	0.46	0.48	0.49	
3-month	0.52	0.53	0.54	0.53	0.55	0.60	0.61	0.64	0.64	0.59	
1-year	0.86	0.91	0.89	0.92	1.02	1.13	1.16	1.15	1.13	1.06	
Dollar											0.25
Overnight	0.13	0.14	0.13	0.14	0.14	0.14	0.16	0.17	0.15	0.17	
3-month	0.24	0.25	0.24	0.23	0.26	0.30	0.29	0.33	0.31	0.27	
1-year	0.57	0.57	0.56	0.55	0.60	0.63	0.64	0.67	0.70	0.63	
Yen											0.10
Overnight	0.07	0.07	0.06	0.06	0.06	0.05	0.05	0.05	0.05	0.04	
3-month	0.14	0.14	0.14	0.14	0.14	0.13	0.13	0.13	0.12	0.11	
1-year	0.27	0.27	0.26	0.25	0.27	0.28	0.25	0.22	0.23	0.18	
10-year benchmark government bond yields ^{b)}											
France	2.38	2.25	2.15	2.03	1.84	1.71	1.56	1.41	1.35	1.26	
Germany	1.78	1.66	1.60	1.53	1.40	1.35	1.20	1.02	1.00	0.88	
Euro area	3.21	3.09	2.89	2.61	2.55	2.28	2.16	1.99	1.85	1.69	
United Kingdom	2.86	2.75	2.73	2.68	2.63	2.70	2.64	2.46	2.49	2.23	
United States	2.85	2.70	2.72	2.70	2.55	2.59	2.54	2.42	2.52	2.29	
Japan	0.68	0.60	0.62	0.62	0.60	0.59	0.54	0.51	0.54	0.49	

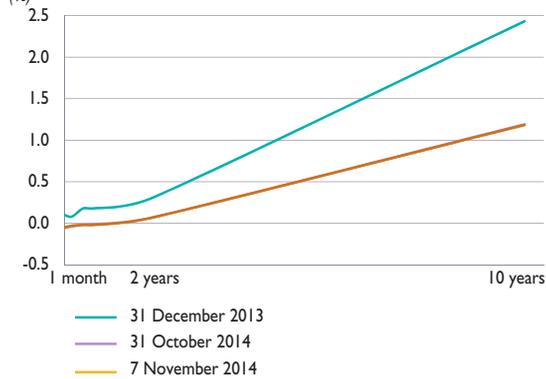
3-month interbank market rates

(monthly average, %)



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.

b) Benchmark bonds: rates posted by Reuters at 4.30pm.

Table 26
Banking system liquidity and refinancing operations – Euro area

(EUR billions, daily average for the reserve maintenance period from 13 August to 9 September 2014)

	Liquidity providing	Liquidity absorbing	Net contribution
Contribution to banking system liquidity			
(a) Eurosystem monetary policy operations	698.6	25.2	673.3
Main refinancing operations	114.7		114.7
Longer-term refinancing operations	387.4		387.4
Standing facilities	0.2	25.2	-25.1
Other	196.3	0.0	196.3
(b) Other factors affecting banking system liquidity	574.8	1,038.0	-463.2
Banknotes in circulation		971.8	-971.8
Government deposits with the Eurosystem		66.3	-66.3
Net foreign assets (including gold)	547.8		547.8
Other factors (net)	27.0		27.0
(c) Reserves maintained by credit institutions (a) + (b)			210.1
<i>including reserve requirements</i>			<i>105.2</i>

Net contribution to banking system liquidity

(EUR billions, daily average for the reserve maintenance period from 13 August to 9 September 2014)

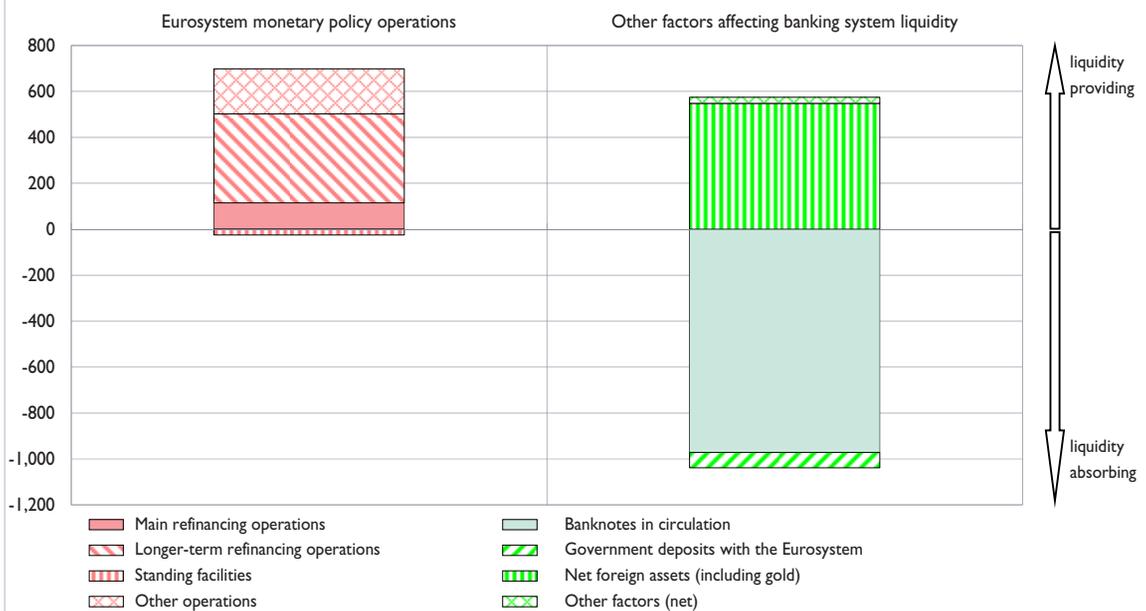


Table 27
Eurosystem key rates; minimum reserves

(%)

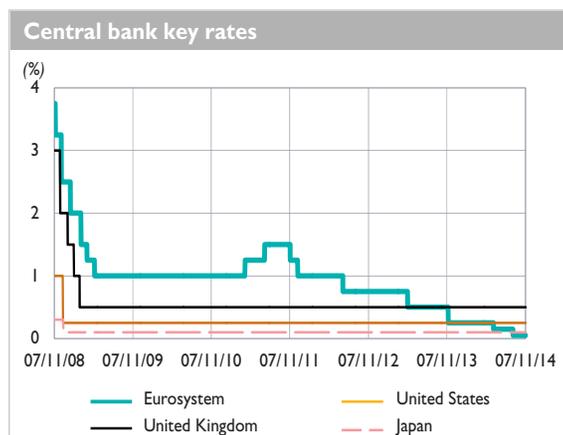
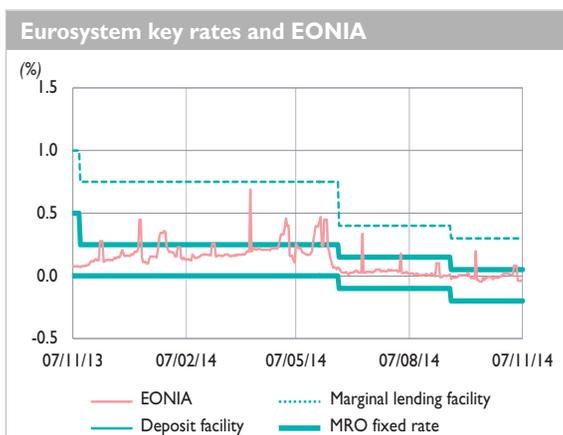
Key rates for the Eurosystem (latest changes)						
Main refinancing operations			Standing facilities			
Date of		Fixed rate	Date of		Deposit	Marginal lending
decision	settlement		decision	settlement		
07/11/13	13/11/13	0.25	07/11/13	13/11/13	0.00	0.75
05/06/14	11/06/14	0.15	05/06/14	11/06/14	-0.10	0.40
04/09/14	10/09/14	0.05	04/09/14	10/09/14	-0.20	0.30

(%)

Main refinancing operations				Longer-term refinancing operations		
		Marginal rate	Weighted average rate			Marginal rate
2014	1 October ^{a)}	0.05	0.05	2014	31 October	0.05
	8 October	0.05	0.05		3 November	0.05
	15 October	0.05	0.05		4 November	0.05
	22 October	0.05	0.05		5 November	0.05
	29 October	0.05	0.05		6 November	0.05
	5 November	0.05	0.05		7 November	0.05

(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	
2014	13 May	103.50	20.00	191.20	34.70	87.70	14.60	0.25
	10 June	103.90	20.00	192.30	36.10	88.30	16.00	0.25
	8 July	104.40	20.30	214.30	38.60	109.80	18.30	0.15
	12 August	105.00	20.10	210.20	43.30	105.20	23.10	0.15
	9 September	105.20	20.30	210.10	40.70	104.90	20.50	0.15
	7 October	105.30	20.10	192.60	35.00	87.30	14.90	0.05



a) Fixed rate tender procedure.

Sources: European Central Bank, ESCB.

Produced 13 November 2014

Table 28
Negotiable debt securities – France

Certificates of deposit			
	EUR billions ^{a)}		Number of issuers
	Issues	Stocks	
09/08/14 to 15/08/14	17.59	258.01	142
16/08/14 to 22/08/14	15.14	261.29	143
23/08/14 to 29/08/14	18.84	263.96	143
30/08/14 to 05/09/14	18.85	259.75	143
06/09/14 to 12/09/14	19.42	258.57	144
13/09/14 to 19/09/14	20.27	258.27	144
20/09/14 to 26/09/14	16.01	252.63	143
27/09/14 to 03/10/14	22.56	244.94	141
04/10/14 to 10/10/14	13.15	249.32	141
11/10/14 to 17/10/14	10.53	246.63	140
18/10/14 to 24/10/14	10.78	246.14	140
25/10/14 to 31/10/14	14.96	245.46	139
01/11/14 to 07/11/14	14.82	241.76	138

Commercial paper			
	EUR billions ^{a)}		Number of issuers
	Issues	Stocks	
09/08/14 to 15/08/14	4.49	57.10	100
16/08/14 to 22/08/14	8.62	61.25	98
23/08/14 to 29/08/14	4.39	59.92	99
30/08/14 to 05/09/14	6.30	57.00	100
06/09/14 to 12/09/14	6.79	59.27	102
13/09/14 to 19/09/14	6.41	59.69	101
20/09/14 to 26/09/14	7.23	57.60	98
27/09/14 to 03/10/14	8.87	53.80	96
04/10/14 to 10/10/14	10.90	55.78	101
11/10/14 to 17/10/14	7.49	55.42	103
18/10/14 to 24/10/14	7.24	52.18	101
25/10/14 to 31/10/14	6.71	52.62	101
01/11/14 to 07/11/14	4.65	52.19	103

Negotiable medium-term notes			
	EUR billions ^{a)}		Number of issuers
	Issues	Stocks	
09/08/14 to 15/08/14	0.00	70.84	115
16/08/14 to 22/08/14	0.25	70.97	115
23/08/14 to 29/08/14	0.42	71.35	115
30/08/14 to 05/09/14	0.08	71.18	115
06/09/14 to 12/09/14	0.16	70.97	115
13/09/14 to 19/09/14	0.14	70.01	115
20/09/14 to 26/09/14	0.80	70.55	116
27/09/14 to 03/10/14	0.12	70.41	116
04/10/14 to 10/10/14	1.30	71.49	116
11/10/14 to 17/10/14	0.18	71.37	116
18/10/14 to 24/10/14	0.06	70.28	116
25/10/14 to 31/10/14	0.24	70.06	115
01/11/14 to 07/11/14	0.21	69.85	116

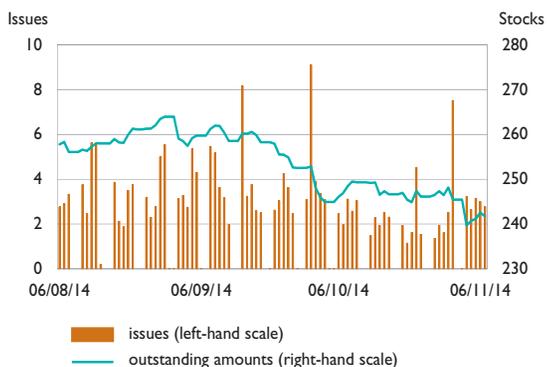
a) Issues in euro are cumulative over the reference period. Outstanding amounts are calculated from the cut-off date (the last day of the period under review).

Source: Banque de France.

Produced 13 November 2014

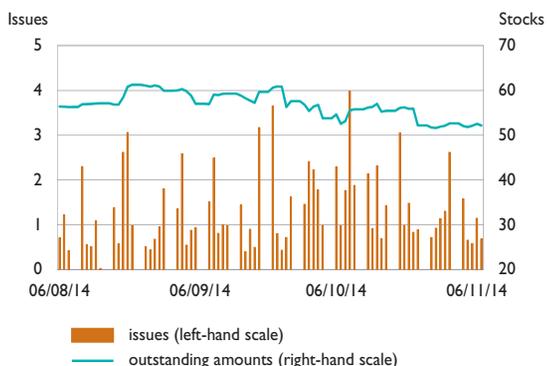
Certificates of deposit

(daily data, EUR billions)



Commercial paper

(daily data, EUR billions)



Negotiable medium-term notes

(daily data, EUR billions)

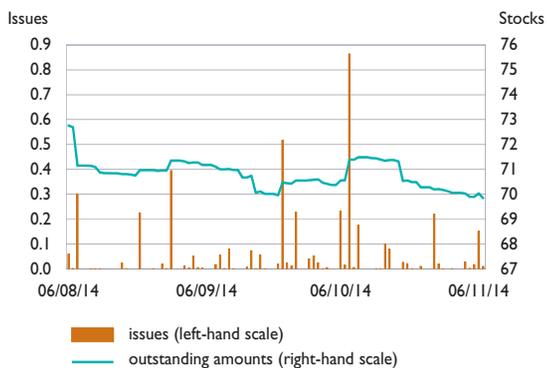


Table 29
Negotiable debt securities – France

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)



Table 30
Investment funds' investments – France

(EUR billions)

	2013	2014		2014
	Dec.	March	June	Aug.
Net assets of investment funds' investments by category				
Money-market funds	318.23	323.32	308.41	324.65
Bond mutual funds	207.92	220.76	228.87	
Equity mutual funds	272.06	277.90	286.02	
Mixed funds	272.34	276.66	284.68	
Funds of alternative funds	12.50	12.91	12.77	
Guaranteed-performance mutual funds	0.00	0.00	0.00	
Structured funds ("fonds à formule")	43.04	41.57	38.10	

Net assets of money-market funds

(EUR billions)

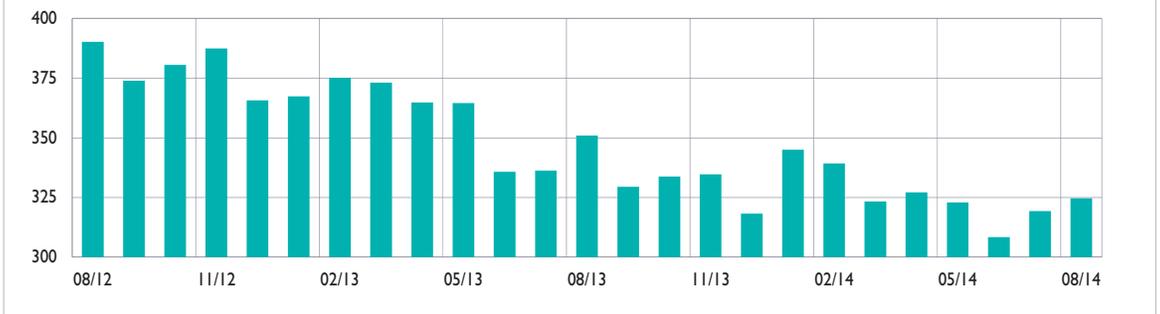


Table 31
Debt securities and quoted shares issued by French residents

(EUR billions)

	Outstanding amounts ^{a)}		Net issues ^{b)}			
	2013	2014	12-month total	2014		
	Sept. ^{c)}	Sept. ^{c)}		July ^{c)}	Aug. ^{c)}	Sept. ^{c)}
Debt securities issued by French residents						
Total	3,343.9	3,467.3	123.4	-1.3	8.7	13.0
Non-financial corporations	496.0	545.3	49.3	4.4	2.6	1.2
Short-term (≤ 1 year)	41.3	47.4	6.1	4.3	0.7	-0.8
Long-term (> 1 year)	454.7	497.9	43.2	0.1	1.9	2.0
General government	1,610.4	1,699.6	89.3	-2.7	8.2	12.7
Short-term (≤ 1 year)	208.0	219.1	11.1	-8.8	5.5	1.9
Long-term (> 1 year)	1,402.4	1,480.5	78.2	6.1	2.7	10.8
Monetary financial institutions ^{d)}	1,104.9	1,119.2	14.2	-3.4	-1.5	1.4
Short-term (≤ 1 year)	256.8	235.5	-21.3	-6.3	-1.3	-5.0
Long-term (> 1 year) ^{d)}	848.2	883.7	35.5	2.9	-0.3	6.4
Non-monetary financial institutions ^{e)}	132.6	103.2	-29.3	0.3	-0.6	-2.3

(EUR billions)

	Outstanding amounts ^{f)}		Net issues ^{b)}			Gross issues ^{g)}	Repurchases ^{g)}
	2013	2014	12-month total	2014		12-month total	12-month total
	Sept.	Sept.		Aug.	Sept.		
French quoted shares							
Total	1,489.0	1,613.6	11.7	0.7	1.0	21.4	9.6
Non-financial corporations	1,293.8	1,384.8	10.0	0.6	0.6	19.6	9.6
Monetary financial institutions	131.7	155.5	1.2	0.0	0.2	1.2	0.0
Non-monetary financial institutions	63.5	73.3	0.5	0.1	0.1	0.5	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) Excluding the impact of intra-group transactions between banks.

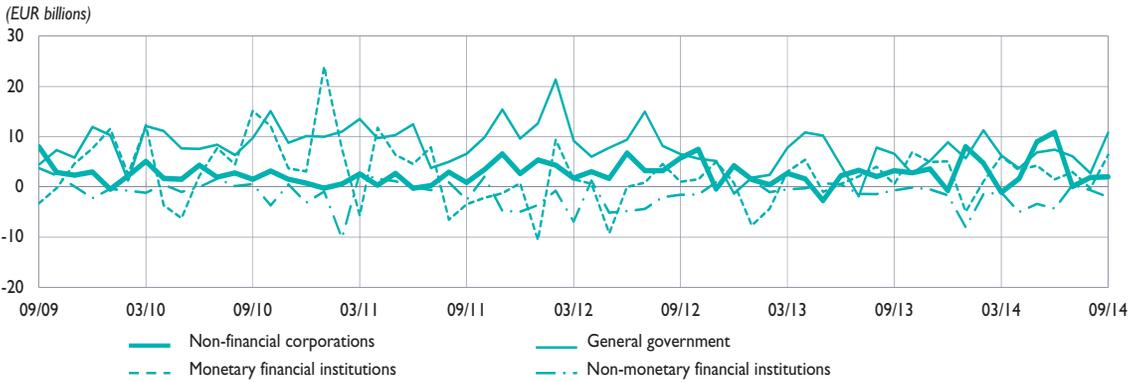
e) Including units issued by SPVs.

f) Market values for outstanding amounts of quoted shares.

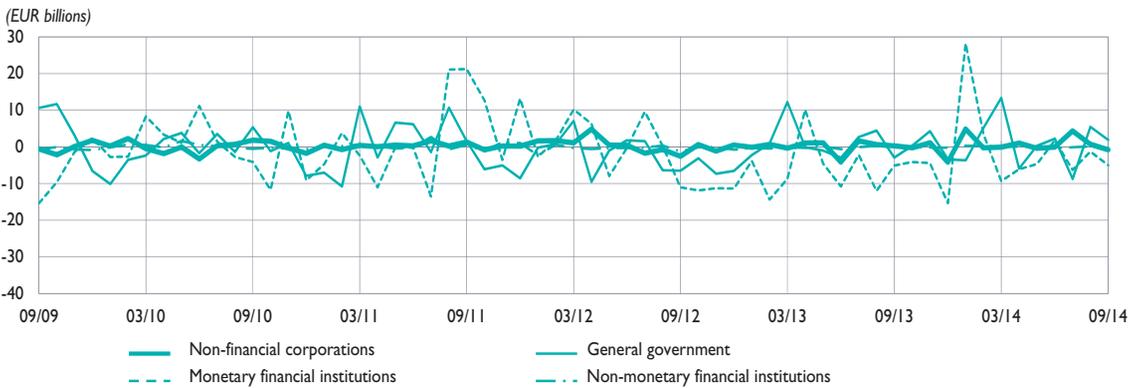
g) Non-seasonally adjusted data.

Table 32
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)

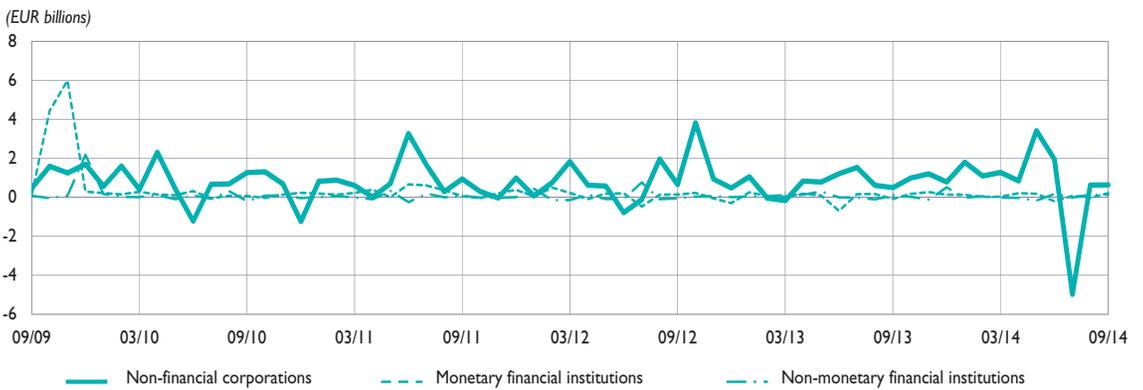


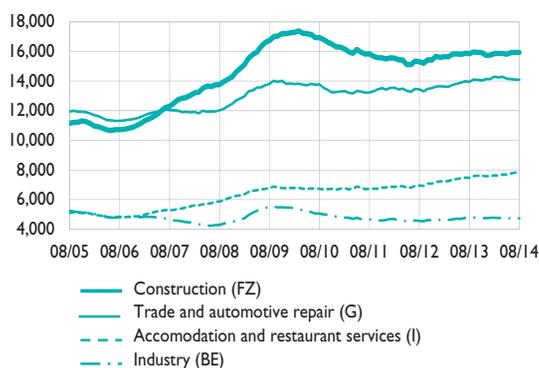
Table 33
Company failures by economic sector – France

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

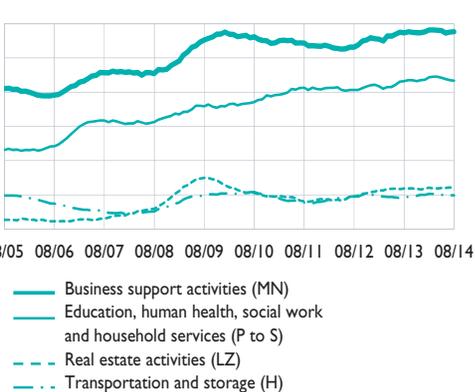
	2013					2014							
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.
Agriculture, forestry and fishing (AZ)	1,267	1,290	1,284	1,284	1,313	1,333	1,354	1,375	1,376	1,368	1,373	1,343	1,343
Industry (BE)	4,772	4,789	4,757	4,736	4,751	4,758	4,771	4,751	4,767	4,716	4,746	4,752	4,728
Construction (FZ)	15,843	15,964	15,943	15,922	15,741	15,751	15,853	15,872	15,864	15,814	15,917	15,943	15,933
Trade and automotive repair (G)	13,946	14,099	14,078	14,039	14,136	14,139	14,300	14,248	14,293	14,162	14,137	14,100	14,089
Transportation and storage (H)	1,916	1,947	1,963	1,970	2,002	1,998	2,031	2,029	2,010	2,005	1,986	1,994	1,984
Accommodation and restaurant services (I)	7,465	7,574	7,608	7,596	7,584	7,573	7,633	7,616	7,685	7,678	7,770	7,819	7,848
Information and communication sector (JZ)	1,558	1,545	1,558	1,578	1,602	1,597	1,608	1,634	1,628	1,609	1,592	1,543	1,542
Financial and insurance activities (KZ)	1,126	1,135	1,145	1,149	1,169	1,196	1,215	1,208	1,223	1,252	1,270	1,247	1,256
Real estate activities (LZ)	2,187	2,187	2,187	2,180	2,162	2,181	2,214	2,188	2,187	2,201	2,202	2,219	2,211
Business support activities (MN)	6,733	6,764	6,745	6,736	6,734	6,761	6,815	6,816	6,806	6,799	6,725	6,753	6,766
Education, human health, social work and household services (P to S)	5,321	5,347	5,347	5,319	5,350	5,364	5,435	5,452	5,452	5,418	5,381	5,347	5,337
Sector unknown	94	92	93	88	87	89	98	105	109	106	104	108	112
Total sectors	62,228	62,733	62,708	62,597	62,631	62,740	63,327	63,294	63,400	63,128	63,203	63,168	63,149

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. Data for last month are preliminary.

Table 34
Retail payment systems – France

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

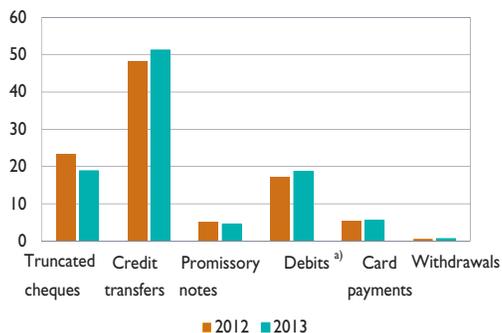
	2010	2011	2012	2013	2014			2014
					July	Aug.	Sept.	Share
Cheques	5,590	5,478	4,947	3,986	3,849	2,899	3,404	16.7
Credit transfers	8,865	9,646	10,167	10,827	11,500	9,899	10,581	52.0
of which SEPA credit transfers	683	2,555	4,130	5,967	11,298	9,899	10,581	52.0
Promissory notes	1,138	1,142	1,079	981	891	981	900	4.4
Direct debits	1,827	1,938	2,004	2,048	1,787	1,593	1,824	9.0
Interbank payment orders	133	130	131	129	66	65	193	0.9
Electronic payment orders	1,141	1,343	1,491	1,766	1,799	1,355	2,089	10.3
Card payments	1,009	1,085	1,152	1,200	1,228	1,195	1,205	5.9
ATM withdrawals	140	145	146	147	155	159	150	0.7
Total	19,844	20,907	21,116	21,085	21,275	18,144	20,346	100.0

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

	2010	2011	2012	2013	2014			2014
					July	Aug.	Sept.	Share
Cheques	9,507	9,112	8,588	8,040	7,465	5,975	7,128	13.4
Credit transfers	7,356	7,549	7,593	7,722	7,565	7,022	7,638	14.4
of which SEPA credit transfers	270	1,400	2,154	3,641	7,481	7,021	7,638	14.4
Promissory notes	311	303	291	281	267	284	243	0.5
Direct debits	8,194	8,502	8,680	8,737	8,644	7,834	8,197	15.4
Interbank payment orders	364	342	320	301	234	195	307	0.6
Electronic payment orders	66	76	101	127	158	72	135	0.3
Card payments	21,505	22,969	24,489	25,868	26,880	26,441	27,017	50.9
ATM withdrawals	2,375	2,422	2,407	2,397	2,400	2,393	2,463	4.6
Total	49,677	51,275	52,469	53,472	53,613	50,215	53,129	100.0

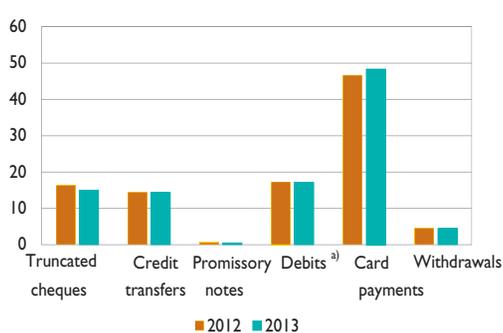
Market share developments
for main non-cash means of payment

(% 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.

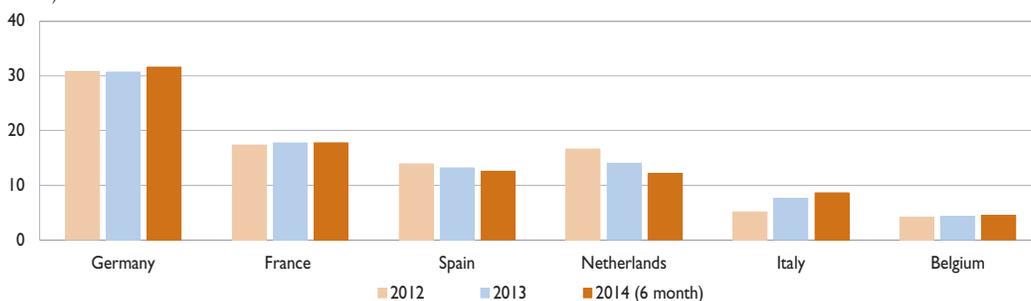
Table 35
Large-value payment systems – EU

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

	2010	2011	2012	2013	2014			2014
					Aug.	Sept.	Oct.	Share
France	365	398	431	343	288	339	329	17.6
Germany	829	818	764	594	528	607	589	31.5
Austria	27	27	25	21	28	29	31	1.7
Belgium	95	106	104	84	80	82	82	4.4
Cyprus	2	2	3	1	1	1	0	0.0
Spain	342	367	345	255	216	231	256	13.7
Estonia	–	1	1	1	1	1	1	0.0
Finland	35	47	85	39	42	45	42	2.3
Greece	28	23	20	34	22	21	22	1.2
Ireland	30	21	17	15	13	14	13	0.7
Italy	129	129	128	147	137	146	152	8.1
Latvia	–	–	–	–	1	1	1	0.1
Luxembourg	40	57	70	67	60	63	71	3.8
Malta	0	0	1	0	0	0	0	0.0
Netherlands ^{a)}	300	308	412	272	223	223	214	11.4
Portugal	20	22	14	11	11	10	10	0.5
Slovakia	3	3	3	2	2	2	3	0.1
Slovenia	2	2	3	2	2	5	3	0.1
EPM-ECB	37	36	35	29	36	38	39	2.1
Total TARGET2 euro area ^{b)}	2,283	2,368	2,462	1,918	1,691	1,858	1,859	99.3
Non-euro area	16	17	15	17	15	14	13	0.7
Total TARGET2 EU ^{b)}	2,299	2,385	2,477	1,935	1,706	1,873	1,872	100.0
Euro1 ^{c)}	241	249	226	191	164	183	na	

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 STEPI.

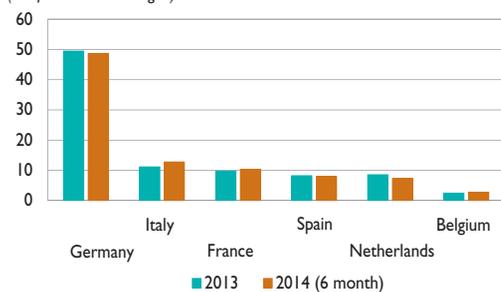
Table 36
Large-value payment systems – EU

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

	2010	2011	2012	2013	2014			2014
					July	Aug.	Sept.	Share
France	31,850	34,139	33,830	35,753	38,737	31,180	34,649	10.3
Germany	173,218	172,884	175,611	179,655	168,967	161,511	165,840	49.1
Austria	5,266	6,294	6,711	4,719	4,459	4,195	4,424	1.3
Belgium	9,454	10,265	9,955	9,322	10,413	9,997	10,337	3.1
Cyprus	466	515	613	872	571	465	499	0.1
Spain	29,195	29,509	29,760	30,105	28,544	23,533	26,757	7.9
Estonia	–	329	360	417	548	460	486	0.1
Finland	1,589	1,571	1,611	1,596	1,497	1,539	1,690	0.5
Greece	5,904	5,861	4,335	4,292	3,429	3,029	3,416	1.0
Ireland	4,961	4,376	4,012	3,589	3,450	3,303	3,575	1.1
Italy	33,649	33,643	34,837	40,711	46,288	36,452	42,258	12.5
Latvia	–	–	–	–	1,301	1,292	1,386	0.4
Luxembourg	3,033	3,229	3,509	4,398	4,754	4,213	4,497	1.3
Malta	65	72	157	236	401	251	199	0.1
Netherlands ^{a)}	33,304	32,490	33,144	31,300	24,250	21,238	22,623	6.7
Portugal	4,206	4,165	4,166	4,276	5,248	4,578	4,466	1.3
Slovakia	582	730	1,090	1,255	861	852	884	0.3
Slovenia	3,023	3,039	2,786	2,697	2,750	2,565	2,763	0.8
EPM-ECB	333	379	553	590	681	671	672	0.2
Total TARGET2 euro area^{b)}	340,099	343,488	347,040	355,785	347,150	311,323	331,419	98.2
Non-euro area	3,281	5,017	7,145	7,313	6,164	5,621	6,007	1.8
Total TARGET2 EU^{b)}	343,380	348,505	354,185	363,099	353,314	316,944	337,426	100.0
Euro1^{c)}	343,380	348,505	354,185	363,099	225,397	201,780	na	

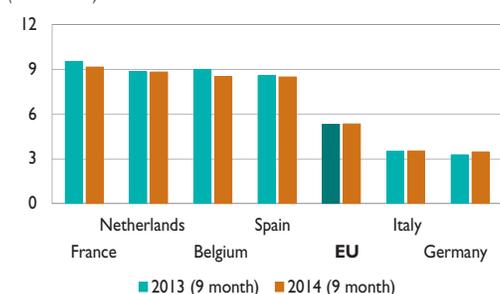
Market share of each financial centre in the TARGET2 system

(% 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.

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 STEPI.

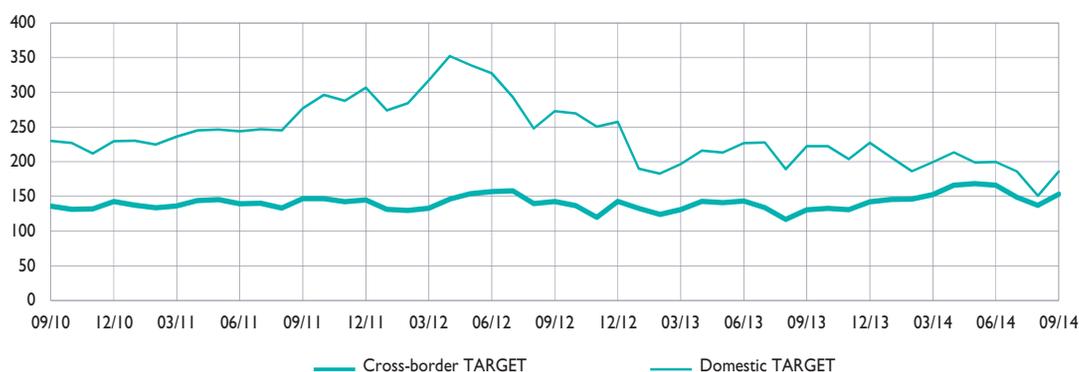
Table 37
Large-value payment systems – France

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

	2010	2011	2012	2013	2014			2014
					July	Aug.	Sept.	Share
Collateral used in domestic TARGET^{b)}								
French negotiable securities	105.7	81.6	127.4	109.8	64.8	62.9	63.3	23.1
Private claims	149.8	146.4	189.9	180.7	133.9	133.6	134.6	49.2
Securities collateralised through CCBM	76.9	60.5	53.7	63.7	67.3	68.5	70.4	25.7
Other securities ^{c)}	5.9	3.5	2.7	3.4	5.3	5.2	5.2	1.9
Total	338.3	292.0	373.8	357.6	271.3	270.2	273.5	100.0

Monthly change in amounts exchanged in French payment systems^{a)}

(EUR billions, daily average)

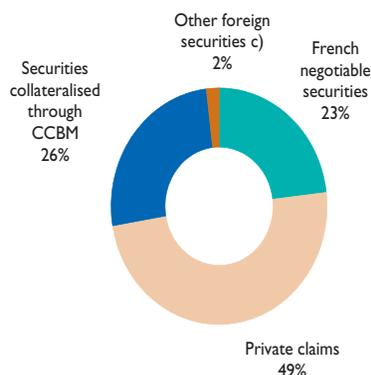


Monthly change in collateral^{b)}

(EUR billions, daily average)



Collateral used in September 2014^{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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