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Banque de France 2009 Annual Report

Banque de France/Central Bank of France

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2009 | ANNUAL REPORT
BANQUE DE FRANCE

To
The President of the Republic
And Parliament

By Governor Christian Noyer



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The photographs featured in this report illustrate the role of the Banque de France in society at large. They were taken by Pascal Assailly, Jean Derennes and Philippe Jolivel.

The photograph of the Executive Committee was taken by Marthe Lemelle.

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A word from the Governor



The year 2009 saw an economic upturn that was admittedly moderate, but nonetheless real, in the wake of a recession that was less marked in France than in other European countries. However, all of the risks that the financial crisis, triggered in mid-2007, revealed and continues to bring to the fore have not been eliminated and the efforts to create the conditions for sustainable recovery and growth need to be pursued and even, as soon as this becomes possible, stepped up. In this regard and in keeping with its role, the Banque de France is faced with two tasks.

The first task is to reinforce financial stability

Financial stability is one of the prerequisites for sustainable growth. The measures taken by the Banque de France are part of the drive for reform instigated by the G20, which consists in addressing systemic risks better, countering the possible temptation to return to the previous status quo and continuing work on the necessary adjustments to international standards in order to complete the framework for the regulation of the financial system appropriately and effectively.

This desire for reform is finding expression at European level in the setting-up of bodies with completely new and enhanced roles compared with those of existing structures: the European Systemic Risk Board, under the aegis of the ECB, and a European System of Financial Supervisors made up of three authorities – the first for the banking sector, the second for the insurance sector and the third for financial markets.

In France, the creation of the new Prudential Supervisory Authority (Autorité de contrôle prudentiel – ACP), under the auspices of the Banque de France, via the merger of the different authorities for the banking and insurance sectors into a single entity, is a response to these new challenges. The ACP, which supervises all financial players and which has a broader remit, notably including supervision of the marketing of financial products, will be a strong body that will help to bolster France's influence on the world stage and to promote the French model of supervision.

The ACP's creation is in itself a challenge in terms of organisation and human resources as the new authority brings together different corporate cultures and modes of organisation. It also represents a major opportunity to benefit from the sharing of new approaches and expertise. I have the honour of chairing the ACP and will ensure that it takes full advantage of all the energy and competencies of the people that go to make it up.

The second task is to contribute to supporting the economy

The Banque de France's role at the service of the economy has been reinforced: its capacities in terms of expertise, forecasting, making proposals and taking action which proved decisive during the crisis are just as crucial in preparing exit strategies.

The Banque de France as part of the Eurosystem was both responsive and imaginative in ensuring bank refinancing and the smooth functioning of financial markets. It contributed to defining the European framework for the measures that it subsequently implemented in France to support the liquidity of the interbank market and encourage banks to continue to finance the economy in a difficult environment which monetary policy made less uncertain. The monetary authorities' response was, and continues to be, perceived as a firm and reassuring anchor in the face of a reality that is by nature a changing one.

In addition to monetary policy measures, the Banque de France also closely monitored the conditions necessary for economic recovery, notably lending to businesses regarding which the banking system had made commitments. In its role supporting credit mediation, it helped viable businesses to overcome the major disruptions caused by the economic crisis; this was made both possible and effective by the Banque de France branch network staff's intimate knowledge of France's economic fabric. Moreover, the Banque de France also put in place close monitoring of lending to households and published the first report of the Microfinance Observatory.

Lastly, the Banque de France is a socially-aware enterprise that works concretely to support sustainable development, honours its corporate social responsibility to foster diversity and inclusion, opens its doors to the younger generations and promotes the financial education of the general public. This Annual Report provides an opportunity to learn about these aspects of the Bank, which are no doubt less well known than the central bank's core tasks but which are nonetheless the hallmark of an institution that is a player in society at large and that works to serve our fellow citizens. This is also what motivates all of the Banque de France's staff, whom I would like to thank for the competence and commitment they have displayed throughout 2009.



Christian NOYER

Monetary policy and financial stability: from crisis to recovery

The Banque de France can be visited
by all on Heritage days.



The world economy saw in 2009 its deepest and most widespread crisis since the Second World War.

The financial system fell into turmoil after the collapse of Lehman Brothers, leading to liquidity drying up on some markets, strong risk aversion and high volatility. The collapse of world trade and investment led to a very large-scale recession in the first half of the year. The economic policy response was outstanding in terms of its size and the originality of the instruments used. The stimulus packages decided at the end of 2008 were implemented in 2009, pushing fiscal deficits to historic highs. Following massive cuts in their key rates made with unprecedented speed, the leading countries' central banks turned to non-standard monetary policy measures. Other measures implemented to support the financial sector included capital injections, guarantees for liabilities or asset relief schemes.

The economic policy response to the crisis improved the operation of financial markets at first, starting in March, followed by an economic recovery in the second half of 2009. The recovery is still moderate owing to the effects of the recession and it is still dependent on the measures to support the economy.

1| INTERNATIONAL ENVIRONMENT

1|1 Financial and commodity markets

Financial markets

The markets shifted in March 2009, with the implementation of non-standard monetary policy measures by the US Federal Reserve, the Bank of England and the Eurosystem, which lowered market

participants' risk aversion, and a reversal of the main negative trends seen on the markets since the third quarter of 2008.

On foreign exchange markets, declining risk aversion after March 2009 resulted in lower implied volatility measures, promoting a resurgence in carry trade strategies and driving down the dollar until December.

The 2009 nominal effective exchange rate of the dollar measured against 23 currencies was down by 4.6%, whereas it had surged following the collapse of Lehman Brothers due to its safe haven status. Developments in dollar exchange rates went through three phases: from January to March, the dollar continued to benefit from its safe haven status as risk aversion remained high. From March until the end of November, the dollar declined steadily against most other currencies as a result of several factors: easing risk aversion, excess liquidity on the money market, the Federal Reserve's commitment to keep rates low for an extended period and the implementation of its policy of buying securities (American Treasury securities, mortgage agencies' securities and mortgage-backed securities). As volatility declined on the foreign exchange market (see box 1), the low return on short-dated dollar securities led operators to engage in carry trade strategies, borrowing dollars, selling them for another currency offering higher returns and lending the latter. These strategies help drive down the dollar. In December 2009, the perception of a stronger recovery in the United States, following publication of better-than-expected jobs figures for November, gave the dollar a boost, pushing its effective exchange rate up by nearly 5% over the month.

The nominal effective exchange rate of the euro, calculated against 21 currencies, was down slightly in 2009, falling by 0.98%. In January and February, the euro was affected by investors' concerns about the public finances of the euro area countries,

as the sovereign ratings of some countries were downgraded and European banks were exposed to the countries of Eastern Europe. Conversely, starting in March 2009, the effective exchange rate of the euro increased by 4.8% as risk aversion eased and the dollar declined. Then, in December 2009, the euro slid after Greece's sovereign rating was downgraded and questions arose about the Member States' public finances.

The yen lost value against all of the leading currencies. The effective exchange rate of the yen calculated against 29 currencies fell by 3.8% in 2009. This slide stems from a correction after the sharp surge in the yen following the collapse of Lehman Brothers, with a 27% jump in the effective rate in the second half of 2008, fuelled by the unwinding of carry trade strategies. Several factors helped to slow the decline of the yen, however. Tax rules were amended in April 2009 to promote repatriation of earnings from Japanese companies overseas and the dollar competed with the yen as the currency for financing carry trade strategies. Consequently, the yen reached a 14-year high of 86.41 to the dollar at the end of November.

The nominal effective exchange rate of sterling calculated against 15 currencies was down by 21% in 2008. In 2009, it rose by 9.10%. Sterling benefited greatly as risk aversion eased, despite a sharper slowdown in the British economy compared to other developed countries.

As risk aversion eased, emerging countries' currencies were boosted by a resumption of capital flows starting in March 2009, stimulated by the recovery that started earlier and more strongly than in the developed countries. Currencies offering high returns and, thus lending themselves to carry trade strategies, such as the Brazil's real and the rouble, posted particularly large gains. Central banks, especially in Asia, responded to this situation with interventions to fight the appreciation of their currencies, especially in the second half of the year, while Brazil slapped a tax on capital inflows.

Money markets saw a steady rise in liquidity as a result of non-standard monetary policy measures. In the euro area, the cut in the ECB's key rate from 2.50% to 1%, along with enhanced credit support measures (fixed-rate tenders with full allotment, refinancing operations over one reserve maintenance period, additional 3-month, 6-month and 12-month operations), helped to ease money market rates. The EONIA (Euro overnight index average) fell from 2.21% to approximately 0.30% at the end of the year. The Euribor fixing also fell and the spread between the Euribor and the rate on overnight indexed swaps (OIS) with the same maturities narrowed steadily from 107 basis points at the beginning of the year to nearly 30 basis points in the fourth quarter.

Bond markets saw a steepening of yield curves as governments launched large bond issues. Short-dated sovereign bonds of developed countries benefited from excess liquidity and low money market rates, but the deterioration of public finances and record issuance volumes affected yields especially for long-dated bonds. Ten-year yields on French bonds were relatively low, however, averaging 3.64%, which was the lowest yield in the last decade, with the exception of 2005. Ten-year yields on French bonds fluctuated in a fairly narrow range between 3.40% and 3.80%, except in May and June, when they peaked at 4.05%. Except for Japan, where the yield curve remained stable, all developed countries saw substantial steepening of their yield curves. The spread between yields on 2-year and 10-year bonds ranged from 85 basis points in France to 123 basis points in the United States. In the United Kingdom, where the Bank of England's securities purchasing programme was larger in proportion to issuance than the programmes implemented by the Fed or the Bank of Japan, 10-year yields rose by 100 basis points, and the 2-year/10-year spread widened by only 68 basis points over the year. Pressure on yields at the long end of the curve was especially strong in the last quarter, as inflation expectations returned to normal (the breakeven inflation rates for a 10-year bond increased from 0.09% to 2.40% in the

United States, from 1.48% to 2.12% in the euro area, from 1.60% to 2.92% in the United Kingdom) and the markets anticipated the end of the Treasury securities purchasing programmes by the Bank of England and the Fed. The bond yield spreads between different issuers were markedly more selective at the end of the year than in the second quarter of 2009.

In the euro area, sovereign bond yield spreads widened significantly with regard to German sovereign bonds in 2009. The spread vis-à-vis a German 10-year bond reached a high of 157 basis points for Italy, 283 basis points for Ireland, 300 basis points for Greece and 118 basis points for Spain. These pressures eased significantly during the second and third quarters. However, the fourth quarter saw growing concerns about the sustainability of Greece's sovereign debt and the downgrading of the country's sovereign rating in December by Fitch, Standard & Poors and Moody's to BBB+, BBB+ and A2 respectively (with a negative outlook in all three cases).

Another development in 2009 was the return to normal on the credit market. Corporate spreads had risen to historic highs up until March 2009, after which they narrowed very rapidly, attracting investors seeking high returns. Corporate bond issuance reached very large volumes, probably because market financing was being substituted for bank borrowing and because volumes were catching up after issuance virtually halted in the wake of the Lehman Brothers collapse. Emerging countries also saw a marked improvement in their financing conditions. JP Morgan's EMBI global index, which measures spreads between emerging countries' bonds and American government bonds, narrowed from 725 basis points to 291 basis points in 2009.

Stock markets bounced back strongly, after bottoming out in March 2009. Developed countries' equities indices posted strong gains, but still fell short of the levels reached before September 2008. The Dow Jones was up 18.8%, the Nasdaq rose by 43.9%, while the

Nikkei increased by 19% and the CAC 40 posted a gain of 22.3%. Emerging countries' equities markets reported very strong gains after March. The MSCI index of emerging countries' equities gained 57% over the year, with some markets showing even larger gains (e.g. Brazil's BOVESPA index, which rose by 72% over the year).



Box 1

Are financial markets returning to normal?

The turmoil that roiled financial markets in 2008 severely disrupted their functioning. Liquidity dried up in many market segments and volatility increased to historic highs. In this respect, 2009 saw the start of a movement towards a more normal situation on financial markets.

For example, volatility on foreign exchange markets gradually decreased in 2009. The EUR/USD one-month implied volatility declined steadily throughout 2009, falling from more than 20% in January to an average of 11% for the last three months of 2009, which is very close to the historic mean of 11% for the period from 2000 to 2009. The USD/JPY one-month implied volatility also decreased from 18% to 14% in 2009, but is still above the long-term mean. The decline in volatility may stem from improved liquidity on foreign exchange markets, following a substantial decline in 2008.

The euro area interbank market also saw a gradual return to normal operations in 2009. The ECB money market survey shows a significant improvement in repo and derivatives transactions between the second quarter of 2008 and the second quarter of 2009, while the flow of uncollateralized transactions decreased substantially. There were hardly any transactions with maturities over one month on the market at the beginning of the year, but these transactions gradually resumed in an environment marked by excess liquidity. The spreads between the 3-month Euribor fixings on the euro interbank market and OIS (overnight indexed swaps) rates narrowed steadily over the year from 107 basis points to 30 basis points in the fourth quarter. The dollar and sterling markets followed similar patterns, with a big decrease in liquidity risk.

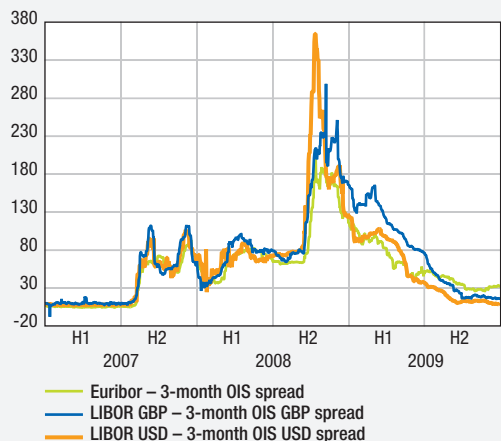
Stock markets also saw a sharp decline in volatility, after record-breaking volatility in the wake of the Lehman Brothers collapse. Implied volatility declined steadily during 2009, on both the American stock market (measured by the S&P 500 index) and the German stock market (measured by the DAX index), from more than 40% in the first quarter to slightly more than 20% at the end of the year. However, there were some temporary increases in the implied volatility of stock market indices, for example during the events affecting the debt of Dubai World at the end of the November.

Chart A
EUR/USD and USD/JPY one-month implied volatility



Source: Bloomberg.

Chart B
Spreads between the 3-month BOR contract and the 3-month Overnight Indexed Swaps (OIS) contract in euro, dollars and sterling



Source: Bloomberg.

Box 2

Credit default swaps

The rapid growth of the credit derivatives market since 2005 and the predominant role that they played in the financial crisis call for tighter supervision and better risk management, particularly in the case of counterparty risk. The efforts undertaken by market regulators and participants need to be continued and stepped up as appropriate.

In addition to the private sector initiatives to reduce operating risk and standardise practices and instruments on the CDS market, the regulation of OTC derivatives in general was a key concern for regulators in 2009. The planned reform in the United States and the European Commission's Communication in October 2009 are aimed at the same objective, in line with the recommendations of the Pittsburgh G20 summit: limiting systemic risk and enhancing the transparency of these markets.

With this in mind, the recording of OTC derivative trading positions in central Trade Repositories should be made obligatory. Future regulations should also require clearing of standardised trades through a central counterparty (CCP) by the end of 2012 or else impose additional capital requirements for bilateral clearing arrangements. There are bound to be new measures to encourage operators to use exchanges and trading platforms for derivatives transactions. Implementation of these measures is critically important. It will be the main issue from 2010 onwards.

As far as the regulators' wishes go, the CDS market is a precursor, with the development of CCPs. Four such initiatives were launched in 2009, two in the United States, one in the United Kingdom and one in Germany. A French project implemented by LCH.Clearnet SA is also about to be deployed.

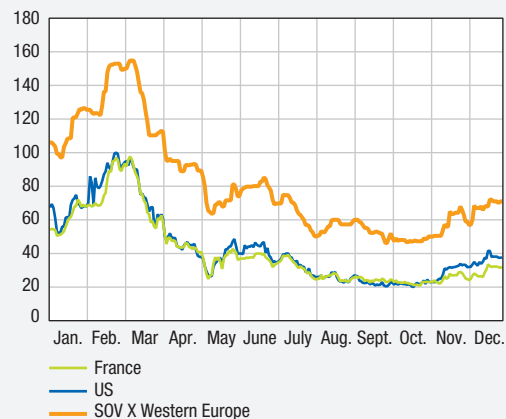
The 2008 crisis also showed that a CCP must have enough resources to cope with any increase in its liquidity requirements in the event of default by a participant. To avoid total reliance on lines of credit from banks, which could dry up in the event of turmoil on the money market, CCPs must have permanent access to central bank liquidity in the relevant currency. This access entails direct monitoring of the CCP by the central bank and operating from a location in the central bank's monetary area. In 2009, the ECB Governing Council reiterated the need for at least one CDS central counterparty in the euro area, in view of the volume of CDS denominated in euros (some 40%) and the systemic importance of CCPs, which assume the counterparty risk.

Chart A
Corporate CDS indices in 2009



Sources : JP Morgan, Datastream.

Chart B
Sovereign CDS premiums in 2009



Sources : JP Morgan, Datastream.

.../...

Monetary policy and financial stability: from crisis to recovery

The reduction of corporate spreads by more than 100 basis points on the leading American and European indices shows not only that the credit risk perceived by the market has diminished, as markets are relatively optimistic about the end of the crisis, but that the systemic risk premium has also decreased. Government intervention, in the form of acquisition of banks' shares or guarantees for banks' liabilities, means that some of the banking sector's risk exposure was transferred to governments, which led to a substantial increase in sovereign CDS premiums in March 2009. The situation then gradually returned to normal, but the index of the 15 leading European sovereign borrowers was rising again by the end of 2009, which means that the increase in government debt and larger fiscal deficits stemming from the crisis could drive up sovereign risk premiums in 2010.

Commodity markets

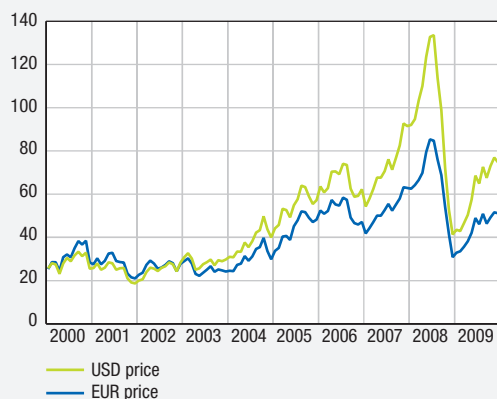
The average price of oil stood at 61.7 dollars in 2009, which was 37% lower than the annual average price of 97.9 dollars in 2008. The oil market returned to normal in the first four months of 2009. The severe global economic downturn meant that the price of Brent stayed within a band between USD 40 (price in January 2005) and USD 50 until April 2009. The rapid decline in supply was matched by a collapse of demand and stock-building absorbed any surpluses.

In May, the global economy bottomed out and oil prices rebounded to stabilise between USD 65 and USD 75 per barrel until the beginning of October,

which is considered to be closer to the equilibrium price. Oil consumption in the developed countries remained low in the second half of 2009, but it increased further in the emerging countries. China's oil imports in the third quarter of 2009 were up by 24% year-on-year and increased even more rapidly in the fourth quarter (31% year-on-year) as the global economy emerged from recession. These early signs of an economic recovery drove Brent oil prices up to around USD 80 at the end of the year.

Prices of non-energy commodities were stable in the first quarter of 2009 and then rose steadily until the end of the year. Prices for industrial raw materials, which are strongly correlated to the global business

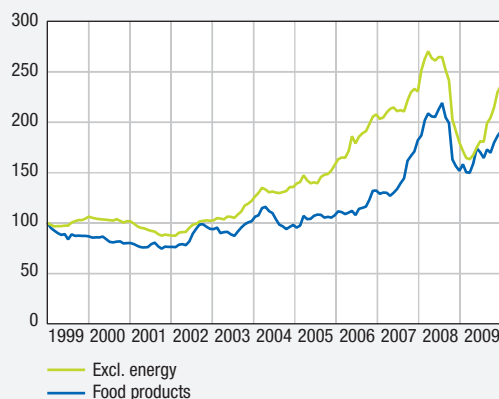
Chart 1
Brent crude oil prices



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

Chart 2
HWWI commodity price indices

(base 100 = January 1999)



NB: HWWI: Hamburgisches WeltWirtschafts Institut (Hamburg Institute of International Economics).
Source: Datastream.

cycle, increased steadily after April 2009. They were sustained by stock-building at first and then by the improved outlook for growth. However, the increase in food prices was more restrained, primarily because of the growth of supply that followed price rises in 2008.

1|2 Economic growth in non-euro area countries

The world economy underwent a transition in 2009. Economic growth in all countries was affected by the collapse of the international financial system in September 2008 and bottomed out in the first half of 2009. The International Monetary Fund (IMF) estimates that average annual global output shrank by 1.1% in 2009, following an increase of 3.0% in 2008 and a rise of 5.2% in 2007. Since then, however, the world economy has been showing signs of improvement. An outstanding feature of the crisis was the unprecedented synchronicity of the recessions in different countries. However, due to the specific resilience and characteristic of individual economies, they are showing different patterns of recovery.

Industrialised countries

In the United States, the problems in the financial system meant that gross domestic product contracted by 2.4% as an annual average in 2009, following growth of only 0.5% in 2008. Some 4.2 million jobs were lost in 2009, following 3.1 million job losses in 2008. The unemployment rate reached 9.3% in 2009, compared to 5.8% in 2008. Household consumption fell for the second year in a row, contracting by 0.6% as an annual average, compared to a drop of 0.2% in 2008, despite the tax cuts and increases in social transfers under the fiscal stimulus package passed in February 2009. The poor labour market prolonged the decline of the real estate market in 2009. The S&P Case-Shiller home price index fell by 13.9%, after a fall of 15.8% in 2008.

Business investment was down by 18.1% in 2009, which accounts for much of the decline in domestic output. Foreign trade made a positive contribution

to GDP growth in 2009, but this contribution is the “mechanical” effect of declining domestic demand and falling oil imports.

The United States consumer price index fell by 0.3% in 2009, after posting an increase of 3.8% in 2008. This variation can be attributed primarily to energy prices, which fell by 16.8% in 2009, following the slump in economic growth, in sharp contrast to the increase of 14.2% in 2008.

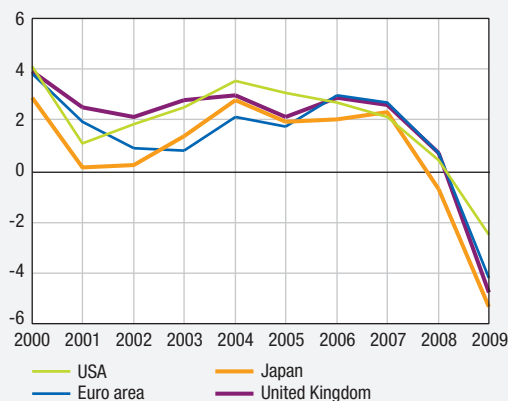
However, the second half of the year saw a rebound in growth stemming from massive government intervention and a switch to stock-building. The American economy emerged from recession in the third quarter of 2009. Output growth resumed with a 2.2% annualised growth rate for the quarter. The main reasons for this rebound are the positive contribution of consumer spending, which accounted for 2.0 percentage points of GDP growth. The “cash-for-clunkers” programme introduced in July and August sustained consumer spending on durable goods. Housing investment also made a positive contribution to growth, but to a lesser extent (0.4 percentage points), with the introduction of the tax credit for first-time homebuyers. The recovery gathered strength in the fourth quarter, with 5.6% GDP growth at an annualised rate. This can be attributed primarily to stock-building, which made a positive contribution of 3.4 percentage points.

Throughout 2009, the Federal Reserve System maintained the exceptional measures introduced the previous year to cope with the collapse of financial markets, the slump in growth and risks of deflation. Fed funds rates ranged from 0% to 0.25% in 2009. The Federal Reserve’s balance sheet remained in “crisis” mode in 2009 and its assets stood at more than double their level in 2008. However, the structure of the Fed’s balance sheet changed, as programmes to inject liquidity were replaced by asset purchase programmes to support the credit markets and, more specifically, the mortgage market.

The federal government’s deficit grew massively over the fiscal year 2009, (1 October 2008 to 30 September 2009) to reach 9.9% of GDP, compared to 3.1% in FY 2008. The recession undermined government revenues, which

Chart 3
GDP growth rates for the developed economies

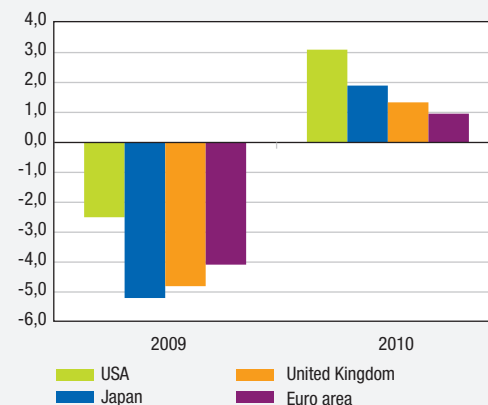
(annual average in %)



Source: International Monetary Fund.

Chart 4
GDP growth rate forecasts for the developed economies

(annual average in %)



Source: International Monetary Fund (World Economic Outlook, April 2010).

contracted by 17%. In addition, measures to support the financial system (troubled asset relief program), capital injections for the government lending agencies Freddie Mac and Fanny Mae, and the fiscal stimulus package passed in February (American Recovery and Reinvestment Act) increased the government's discretionary spending. America's federal debt stood at 53% of GDP in 2009, a level that has not been seen since 1955.

The United Kingdom was also severely affected by the crisis. In 2009, Britain's GDP contracted by 4.9% as an annual average, which was the biggest drop in the history of the index, following growth of 0.5% in 2008. The total decline in output during the recession (from 2008Q1 to 2009Q3) stood at 6.2%, which was deeper than the declines in the 1980 and 1990 crises. Inflation, as measured by the year-on-year change in the consumer price index stood at an average of 2.2% in 2009, compared to 3.6% in 2008. Inflation slowed sharply at the beginning of the year and then picked up again in the last quarter, as sterling fell against other currencies and output capacities were cut. After cutting its key interest rate from 5% to 2% between October and December 2008, the Bank of England continued its policy of monetary easing in the first quarter of 2009, gradually lowering rates to 0.5%

in March and initiated its asset purchase programme for Gilts, commercial paper and corporate bonds by setting aside reserves that reached GBP 200 billion by the end of the year. The United Kingdom's general government deficit worsened substantially during the crisis, reaching 10.2% of GDP in 2009, compared to 4.2% in 2008.

GDP growth resumed in the fourth quarter of 2009, with a 0.4% quarterly increase, making the United Kingdom the last of the major developed countries outside the euro area to emerge from the recession. Furthermore, the recovery was more timid than in other advanced economies because of a set of specific circumstances that affected the British economy at the beginning of 2009: the turnaround in the inventory cycle was only partial in the United Kingdom, meaning that part of its "mechanical" contribution to growth was delayed until 2010; the positive effects of the recovery in world trade and the improvement in British price-competitiveness stemming from the depreciation of sterling (the effective exchange rate of sterling fell by nearly 26% between July 2007 and March 2009) had not yet been fully felt in 2009; private consumption and business investment remained soft. The scale and strength of the recovery in 2010 will depend heavily on how these factors evolve in the future.

In Japan, the sudden collapse of world demand affected imports, which drive the country's economy. Japan's GDP bottomed out in the first quarter of 2009, with a quarterly contraction of 3.6%, followed by a resumption of growth in the second quarter, when it expanded by 1.5%. This means that Japan stands out from the other industrialised economies, because it emerged from the recession early. The recovery weakened in the third quarter, when GDP remained flat. The year ended with 0.9% growth in the fourth quarter. Japan's GDP shrank by 5.2% as an annual average in 2009, following a contraction of 1.2% in 2008.

The rebound in world trade that started in the second quarter played a key role in stabilising Japan's economy. Exports recovered very quickly, posting quarterly growth of 9.2% in real terms in the second quarter. Exports continued to grow at a strong rate until the end of the year. The trade balance with Asia became positive again in February and returned to the level seen before the crisis in May as Japan benefited from the strong growth of emerging Asian economies and the recovery of the assembly trade. The Japanese government introduced massive fiscal stimulus packages to support domestic demand. It implemented four plans totalling 5.5% of GDP since the crisis started, with a fifth plan at the end of 2009 that will primarily affect 2010. Japan's government debt stood at 189% of GDP in 2009, compared to 172.1% in 2008. Fiscal stimulus measures had a major impact on households' consumption of durable goods starting in the second quarter and lasting until the end of the year. However, business investment continued to decline into the fourth quarter of 2009. The Bank of Japan responded to developments in 2009 by introducing corporate security purchase programmes and by increasing its purchases of government bonds. The yen, which was seen as a safe haven in the turbulence on the financial markets, rose substantially against the US dollar in 2009, helping to lower prices in Japan. Annual consumer price inflation was negative, standing at 1.4% in 2009, after rising by 1.4% in 2008 because of higher oil prices. The CPI, excluding energy and unprocessed food, declined by 0.7% in 2009, after remaining stable in 2008.

Emerging countries

The emerging countries showed resilience in the face of the crisis for most of 2008, but events caught up with them when the crisis turned global, following the collapse of Lehman Brothers. Emerging Asian countries, such as China or India, saw a sharp slowdown in economic growth. Large stimulus packages and expansionary monetary policy mean that China's growth should still reach 8.7% in 2009, compared to its average of 10.8% between 2004 and 2008. And yet, some Asian countries, such as Thailand and Malaysia, posted negative growth rates of about 3.5% in 2009. Latin America suffered more from the crisis, partly because of its greater sensitivity to commodity prices, which resulted in GDP contractions of 0.2% for Brazil and 6.5% for Mexico.

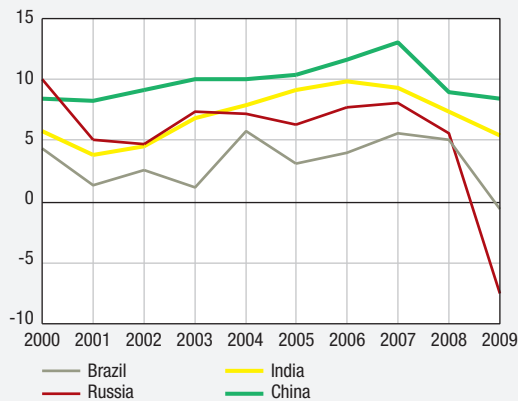
The countries of Eastern Europe were hit by a brutal recession. GDP shrank by 5.0% in Bulgaria, 7.1% in Romania, 15.1% in the Ukraine and 7.9% in Russia. Poland was the only one to post output growth of about 1%. The severity of the crisis was reflected in CDS premiums, which shot up. These financial instruments measure the risk of a country defaulting on its debt. In late 2008 and early 2009, CDS premiums for all emerging countries rose to often-unprecedented levels (from 100 basis points for Brazil before the crisis to more than 400 basis points in March 2009).

Emerging countries suffered from both the collapse of trade, especially those countries where growth is driven by exports (emerging Asian countries), and from the decline in commodity prices (Brazil, Mexico, Russia, Middle East).

However, the emerging countries' economies bounced back more quickly than those of the developed countries. Nevertheless, the same differences in patterns were noted, as during the recession. The stimulus packages adopted by emerging countries played a significant role in the recovery. The different growth patterns can be explained by the relative scale of the stimulus packages. For example, China's GDP posted year-on-year growth

Chart 5
BRIC GDP growth rates

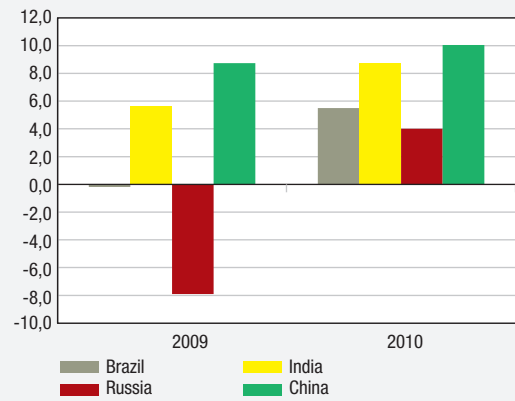
(annual average in %)



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

Chart 6
BRIC GDP growth rate forecasts

(annual average in %)



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

of 10.7% in the fourth quarter of 2009, which is comparable to the country's growth rate before the crisis. Fiscal stimulus, which deepened the deficit by 2 GDP points, and, more importantly, strong domestic credit growth had a rapid effect on China's economy. So much so, that the Chinese authorities started to tighten up their monetary policy in early 2010 for fear the economy was overheating. India's also posted GDP growth of 5.9% in the fourth quarter of 2009, thanks to government spending that more than doubled the fiscal deficit to 10.4% of GDP in 2009, compared to 4.4% in 2007, before the crisis.

Conversely, Russia's situation was much more difficult, despite some signs of improvement, such as a rise in industrial output, stemming from the increase in oil production, and slight growth of lending to households. Economic recovery in the other emerging countries of Europe (Poland, Czech Republic, Hungary and Romania) was slow and fragile because of increasing unemployment and debt reduction in the private sector, which will dampen domestic demand. As support for the automotive industry is phased out in Western Europe, there is a risk that demand will soften for the emerging countries' exports, which rely heavily

Table 1
Principal economic indicators for the BRIC economies

	Brazil		Russia		India		China	
	2008	2009	2008	2009	2008	2009	2008	2009
Nominal GDP (USD billions)	1,636	1,632	1,660	1,529	1,207	1,275	4,520	4,915
GDP change (%)	5.1	-0.2	5.6	-7.9	7.3	5.7	9.6	8.7
Inflation (%)	5.7	4.9	14.1	11.7	8.4	10.9	5.9	-0.7
Budget balance (% of GDP)	-1.4	-3.6	4.3	-7.0	-7.9	-10.3	-0.1	-1.9
Current account (% of GDP)	-1.7	-1.5	6.2	3.9	-2.2	-2.1	9.4	5.8
Foreign exchange reserves (USD billions)	193	238	413	425	248	268	1950	2344
Change in foreign exchange reserves (%)	7.5	23.6	-11.6	2.7	-7.3	8.1	27.4	20.2

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

Sources: Nominal GDP 2008: World Economic Outlook (WEO); Nominal GDP 2009: calculations by Banque de France; GDP 2008: domestic data; GDP 2009: WEO estimate, April 2010; Prices: domestic data; other data: WEO, October 2009.

Box 3

**A sudden collapse of international trade during the crisis,
followed by contrasting patterns of recovery depending on the areas**

One of the most striking features of the crisis was the sudden collapse of international trade that followed the financial crisis of the summer of 2008. It is estimated that world trade dropped by 7.9% in volume terms and by 17.3% in nominal terms in the space of a single quarter, if we compare the third and fourth quarters of 2008. The annual figures show that world trade contracted by 10% in volume and by 20% in nominal terms in 2009. This collapse hit all countries at the same time. Such synchronicity has not been seen since the end of the Second World War. The collapse is also in stark contrast to the last two decades, during which world trade expanded at an average annual rate of nearly 7% (see Chart A).

The exceptional nature of this event raises a number of questions. The decline in world trade is not surprising per se. The financial crisis led to a major loss of wealth and disposable income. It also undermined the confidence of all economic agents, which cut consumption and investment in most countries, thus reducing demand for trade goods. What is surprising is that international trade dipped much more deeply than global GDP, which contracted by 1.1% in 2009. This decline in GDP had had no precedent since the Second World War, but it was not at all the same order of magnitude as the collapse of trade. By way of comparison, the elasticity of trade to global GDP stood at around 1.8 between 1981 and 2008.

Several hypotheses have been put forward to explain the collapse.

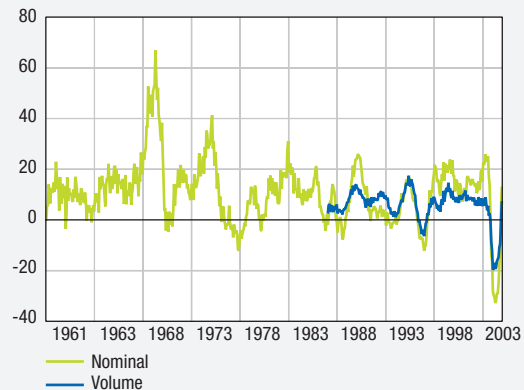
- Demand structure: the different GDP components follow very different patterns during a crisis. Investment tends to plunge (as businesses cut investment in the face of the uncertainty stemming from the crisis), while government spending tends to increase as a result of government measures to deal with the crisis. Furthermore, consumer spending on durables, which include more imports, tends to decline more than spending on consumer goods in a crisis.
- The multiplier effect of changes in the international division of labour: segmentation means that the same unit of value added is counted several times in trade measurements. This could explain the suddenness of the drop in trade, especially in countries that are heavily involved in the fragmentation of production chains.
- The credit crunch: the unavailability of export credits, stemming from the widespread lack of international liquidity during the crisis, is often mentioned as a possible cause of the decline in world trade. The decline in credit seen during the crisis is primarily endogenous however, and it explains only a small portion of the drop in trade.
- A resurgence of protectionism: in times of crisis, protectionist measures tend to increase. According to Bown (2009),¹ there were many new protectionist measures introduced during the present crisis, but they only affected some 0.2% to 0.8% of the pre-crisis imports of the countries concerned.

¹ Bown C. (2009), "Antidumping, Safeguards and other Trade Remedies", in *The Fateful Allure of Protectionism: Taking Stock for the G8*, published by Evenett et al.

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Chart A
World trade

(year-on-year change in %)



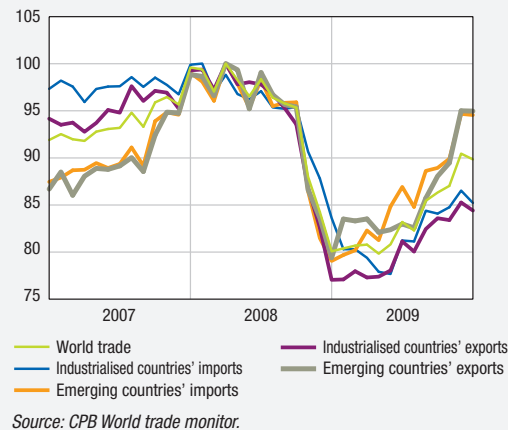
Sources: Banque de France, CPB Netherlands Bureau for Economic Policy Analysis.

Ultimately, the drop in trade seems to stem primarily from the decline in demand, compounded by the effects of trade structure. This is consistent with the rebound in trade seen since the second quarter of 2009, stemming from the recovery in world economic growth and the effects of stimulus plans. By November, the year-on-year decline in global trade volume was only 1%.

This figure reflects very different patterns, depending on the area. Emerging countries' trade grew by 4.7% in the year to November 2009, whereas industrialised countries' trade posted a further decline of 5.8%. The industrialised countries' trade was still some 16% below its pre-crisis level, whereas the gap was only 6% for the emerging countries. The recovery was driven in particular by the imports of emerging Asian countries and oil-producing countries, which were back up to their pre-crisis levels by November 2009.

Chart B
Trade recovery

(in volume terms; base 100 at peak)



on the automotive industry. The outlook for recovery in Latin America is good owing to the contra-cyclical macroeconomic policies implemented, along with rising commodity prices.

Other emerging countries should also get a boost from rising commodity prices and the recovery in world trade. Capital has started flowing back into the emerging countries as well. Foreign exchange reserves have started accumulating again at a pace similar to that seen before the collapse of Lehman Brothers.

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

2|1 Emerging from the recession

Towards a moderate recovery

The crisis in 2008 and 2009 plunged the euro area countries into their deepest recession since the end of the Second World War. The recession bottomed out in the second quarter of 2009 in terms of output. GDP was down by 5.2% compared to the first quarter of 2008, which had been the high point of the previous cycle. After five consecutive quarters of contracting GDP, the euro area emerged from the recession in the third quarter of 2009, posting a quarterly increase of 0.4%

in real GDP, followed by stagnant growth in the fourth quarter. Euro area GDP fell by 4.0% over 2009 as a whole (quarterly accounts in chained prices, adjusted for seasonal and working day variations).

Consumer spending in the euro area was down by 1%, as job losses and unemployment increased. Employment in the euro area started declining steadily in the third quarter of 2008. The unemployment rate rose from an average of 7.6% of the labour force in 2008 to 9.4% in 2009. In December 2009, the unemployment rate stood at 9.9%, matching the levels seen between 1995 and 1998. On the other hand, consumer prices slowed down and then started to fall in the second quarter of 2008, boosting the purchasing power of European households. At the same time, the household savings rate in the euro area increased by 1.7 points over the year to stand at 15.8% of gross disposable income in the third quarter of 2009.

Total investment in the euro area started declining in the second quarter of 2008 and was down by 10.8% in 2009. The downturn in real estate activity that started in 2007 continued in 2008 and 2009, leading to a 6.1% decline in investment in construction in 2009, according to European Commission estimates.

As output declined, euro area businesses cut back sharply on their investment. According to preliminary European Commission estimates, investment in plant and equipment was down by 17.9% in 2009.

Exports are a very cyclical component of GDP. They plunged by 8.0% in the first quarter of 2009 and stabilised in the second quarter, before starting to recover substantially after that. The softening of domestic demand reduced imports from the euro area, which declined in the first half of 2009. After bouncing back in the third quarter, imports showed only minor growth in the fourth quarter of 2009. The total contribution of net exports to GDP growth in 2009 was negative, at -0.8 points, whereas it had been nil in 2008 and positive at 0.4 points in 2007.

The four leading economies of the euro area all went through a recession in 2009, with synchronous cycles in France, Germany and Italy. However, the factors that hampered growth varied from one country to the next.

In France, GDP declined by 2.2% in 2009, after posting a modest increase of 0.3% in 2008. Output started to contract in the second quarter of 2008 and continued to fall during the following 3 quarters. The recession bottomed out in the first quarter of 2009 in terms of output. GDP was down by 3.4% compared to the first quarter of 2008, marking the biggest one-year drop in half a century. GDP started to expand again in the second quarter of 2009, with a marked recovery of 0.6% in the fourth quarter.

Inventory drawdowns are a dominant characteristic of this recession in France, making a negative contribution of 1.4 GDP points in 2009. At the same time, the contribution of net foreign trade to France's GDP growth in 2009 was only slightly negative at 0.2 points. Investment fell by 6.9%, making it the biggest factor driving down France's growth in 2009, along with inventory drawdowns. Household consumption is the traditional mainstay of France's economic growth. It weakened in 2009, posting growth of only 0.8%, in contrast to average growth of 2.5% over the previous 10 years. The household savings rate increased by 1.1 points in 2009 to reach 16.4% of gross disposable income, which was its highest level since 2002. Despite a larger increase in purchasing power in 2009 (2.1%) compared to 2008 (0.7%), households preferred to save as unemployment rose from 8.7% of the labour force in January 2009, to 10.1% in January 2010.

Germany's GDP contracted by 4.9% in 2009, following growth of 1.0% in 2008. The slowdown in foreign trade started to affect the German economy in 2008 and exports fell by 14.2% in 2009. Investment in plant and equipment fell by 21% in 2009, as German businesses adjusted to the drop in global demand. However, investment in construction fell by only 0.8%. Short-time working helped to attenuate the impact of the crisis on employment, which dipped by only 0.1% in 2009. The unemployment rate was 7.5% in January 2010, posting a rise of only 0.3 points over one year. Under these circumstances, German households' consumption was up by 0.3% in 2009, which was firmer than in the rest of the euro area, except for France. German GDP started expanding in the second quarter of 2009, but the year-on-year change was still negative at -2.4% in the fourth quarter.

Italy also suffered a very sharp contraction of its GDP, which shrank by an average of 5.1% in 2009. This followed a drop of 1.3% in 2008. All GDP components made a negative contribution to growth, with the exception of public consumption. Investment made a negative contribution of 2.5 percentage points to the decline in GDP. Businesses drew down inventories as demand slowed down, making a negative contribution of 0.4 percentage points to the decline in GDP in 2009. The contribution from net foreign trade was also negative in 2009 at 1.2 percentage points. Household consumption dropped by an annual average of 1.7%, making a negative contribution of 1 percentage point to the decline in GDP. Unemployment started to rise in the second quarter of 2007 to reach 8.6% of the labour force in January 2010.

In Spain, despite a particularly brutal real estate crisis, GDP contracted by 3.6%, which was less severe than the average decline of 4.0% in the euro area. Net positive contributions from foreign trade (3.5 percentage points), resulting from the big drop in imports, and government spending (0.8 percentage points), stemming from stimulus plans, actually offset some of large negative contributions from investment (4.3 percentage points) and household consumption (2.9 percentage points). The Spanish economy seems to be in trouble. The bursting of the real estate bubble highlighted

its heavy reliance on the construction sector and the large debt load of Spanish households. Unemployment rose by 11 percentage points between January 2007 and January 2010 to reach 18.8% of the labour force.

The recovery from the crisis was relatively slow compared to the suddenness of the fall, which is the characteristic

pattern for banking and financial crises. According to the available forecasts, the recovery should be moderate in 2010. For example, the European Commission forecasts growth of 0.9% for euro area GDP in 2010 (with growth of 1.2% in Germany, 1.3% in France and 0.8% in Italy and a decline of 0.4% in Spain). The ECB forecasts growth rates ranging from 0.4% to 1.2%.

Box 4

Current account transactions in France's balance of payments

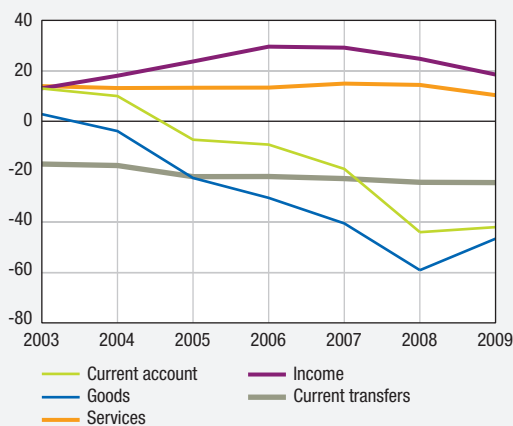
France posted a current account deficit of EUR 42 billion in 2009, following a deficit of EUR 44 billion in 2008 (balance of payments data), as trade in goods and services declined by an average of nearly 16% over one year. The smaller goods deficit is partially offset by the smaller surplus on services and the reduction of the income surplus (see Chart A).

Trade in goods

In 2009, world trade in goods sustained an exceptional decrease, which was much larger than the decrease in world output (see Box 3). Under these circumstances, France's foreign trade in goods posted a sharp drop: exports were down by 17.1% and imports fell by 17.7% in nominal terms (customs data¹). The biggest decline came in the first half of 2009. Over the year as a whole, France's fob-fob trade balance based on customs data² improved, but still showed a large deficit of EUR 43.5 billion. The smaller deficit stems from the EUR 19.1 billion decrease in the France's energy bill as a result of the fall in average oil prices and the decline in oil imports, whereas the trade balance in goods excluding energy shrank by EUR 6.7 billion to post a deficit of EUR 3.7 billion.³ By way of comparison, the trade surplus in goods, excluding energy, stood at EUR 25,5 billion in 2002.

Chart A
Current account

(unadjusted data, EUR billions)



Source: Banque de France, provisional data for 2009.

1 The customs data (produced by the Directorate General of Customs and Excise) are substantially different from the balance of payments data on trade in goods (produced by the Banque de France). The balance of payments data include the revised customs data, as well as exchanges that do not result in a change in ownership or payment, goods for processing, repairs on goods and goods procured in ports by carriers. Furthermore, the balance of payments data presented here do not incorporate the methodological change introduced by the Directorate General of Customs and Excise regarding the recognition of trade in aeronautical engineering products with Germany in March 2010 (with backcasting of data series over ten years). For example, under the new methodology, total free-on-board (fob) exports and cost-insurance-freight (cif) imports of goods increase by EUR 5.6 billion and EUR 7.1 billion respectively in 2009, which lowers the cif-fob balance by EUR 1.5 billion.

2 Meaning insurance and freight costs for imports are not included.

3 The balance excluding energy is calculated with a "total balance" fob-fob series and an "energy balance" cif-fob series, which includes insurance and freight costs for imports. The sector and geographical series produced by the Directorate General of Customs and Excise are always cif-fob. If we use a "total balance" cif-fob series, the balance excluding energy shows a deficit of EUR 18.7 billion in 2009.

.../...

Table A
Total trade in goods (fob-fob) and trade in goods by sector (cif-fob)

(amounts in EUR billions, change in %)

	Exports		Imports		Balance	
	Amount in 2009	Change 2009/2008	Amount in 2009	Change 2009/2008	Amount in 2009	Change 2009/2008
Goods trade balance (fob-fob)	346.0	-17.1	389.5	-17.7	-43.5	12.4
<i>o/w: Agriculture produces and agri-food</i>	44.3	-11.3	39.0	-5.2	5.3	-3.5
<i>Energy products</i>	14.7	-41.8	54.5	-35.3	-39.8	19.1
<i>Mechanical, electrical, electronic and data processing equipment</i>	67.4	-19.5	82.6	-17.3	-15.2	1.0
<i>Transport equipment</i>	72.7	-17.2	65.4	-13.1	7.3	-5.2
<i>Other industrial products</i>	138.9	-14.6	154.6	-14.4	-15.7	2.3

Note: fob: free on board; cif: cost, insurance, freight.

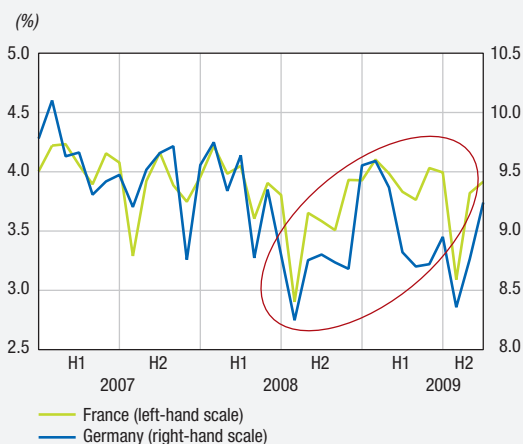
Sources: DGDDI (estimated unadjusted data); Banque de France calculations.

The contraction of global trade was stronger for capital goods and intermediate goods. In France, for example, the sectors showing the biggest variations are mechanical, electrical, electronic and data processing equipment (see Table A).

The resilience of exports of sectors such as pharmaceuticals, aerospace and agri-food, during the crisis, combined with less exposure than Germany or Japan to the decline in global demand for capital goods, meant that France's share of the global export market increased in 2009 (see Chart B), however, this increase is not sure to last.

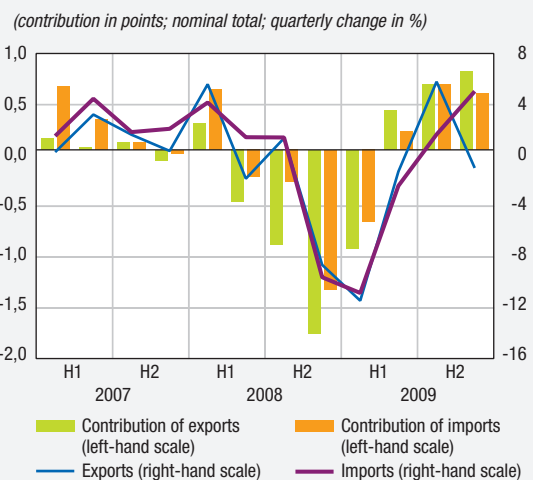
The automotive industry warrants special attention. It accounts for approximately 9% of France's trade in goods and is a major contributor to economic growth and manufacturing jobs. France's automotive industry has suffered structural losses of competitiveness. Its exports have been declining steadily since 2005 and its share of the European market has been falling since 2003. The automotive industry has also been severely disrupted by the economic and financial crisis. It made a large contribution to the drop in France's total exports at the height of the crisis, i.e. the fourth quarter of 2008 and the first quarter of 2009 (see Chart C). Government programmes to support the industry ("cash for clunkers" schemes for new car buyers) in France and its leading trading partners successfully stimulated trade in the sector. The net contribution of foreign trade in motor vehicles to the expansion of total trade in goods (and, consequently, GDP growth) was positive in the second and fourth quarters of 2009. The fact that "cash for clunkers" schemes were lump sum payments and often included incentives to purchase cars that pollute less was a boon to French carmakers with their strong position in the market for cars with smaller engines.

Chart B
World market share for exports of goods



Sources: International Monetary Fund; Banque de France calculations.

Chart C
Contribution of the automotive sector to the growth of France's trade



Sources: DGDDI (seasonally and working day adjusted data); Banque de France calculations.

.../...

Table B
Geographical structure of French trade in goods

(amounts in EUR billions, change in %)

	Exports		Imports		Balance	
	Amount in 2009	Change 2009/2008	Amount in 2009	Change 2009/2008	Amount in 2009	Change 2009/2008
Euro area	169.9	-18.3	198.2	-17.8	-28.4	4.8
<i>o/w: Germany</i>	55.5	-16.0	71.4	-17.0	-15.9	4.0
<i>Italy</i>	28.4	-21.0	31.5	-20.0	-3.1	0.3
<i>Spain</i>	27.1	-21.0	24.9	-20.0	2.1	-0.9
United Kingdom	24.5	-23.6	18.4	-20.9	6.1	-2.7
New Member States (NMS) of the EU	16.7	-22.1	20.6	-11.4	-3.9	-2.1
Americas	30.0	-21.0	34.6	-10.5	-4.6	-3.8
<i>o/w: United States</i>	19.7	-17.9	25.1	-4.3	-5.4	-3.2
Asia	33.3	-13.1	57.6	-10.6	-24.4	1.8
<i>o/w: Japan</i>	4.8	-14.5	7.8	-18.4	-3.0	1.0
<i>China and Hong Kong</i>	10.3	-11.3	30.2	-4.9	-19.9	0.3
Middle East	13.7	5.2	6.6	-45.1	7.1	6.1

Sources: DGDDI (estimated unadjusted data).

France's carmakers won back two percentage points of market share in Europe, while German carmakers, with their specialisation in more powerful cars that produce more CO₂, lost two percentage points of market share. However, the most ecological cars are mainly manufactured abroad.

In geographic terms (see Table B), the improvement of the trade balance stems primarily from the balances with the euro area (improved by EUR 4.8 billion) and with the Middle East (improved by EUR 6.1 billion). The improvement of the trade balance with the euro area is primarily attributable to France's smaller trade deficit with its leading trading partner, Germany. The improvement in the trade balance with the Middle East can be attributed to the fall in oil prices mentioned above, as well as the 5.2% growth in French exports to this area.

Trade in services

The surplus on trade in services shrank from EUR 14.5 billion in 2008 to EUR 10.4 billion in 2009 (see Table C). The drop affected a small number of sectors. The travel surplus was down by EUR 1.4 billion from 2008 at EUR 7.1 billion, as earnings contracted more sharply than spending. Merchanting also posted a decline of EUR 1 billion. Miscellaneous business services, which cover research and technical assistance costs, showed a deficit of EUR 4.1 billion, which was EUR 1 billion more than in 2008.

Income and current transfers

The income surplus contracted sharply from EUR 24.8 billion in 2008 to EUR 18.5 billion in 2009. There was a large drop in portfolio investment income, with net sales of securities to non-residents, but direct investment income also declined. However, the increase in the surplus on income from deposits and lending offset some of this decline. The deficit on current transfers remained stable at EUR 24.3 billion.

Table C
International trade balance in services

(EUR billions)

	2005	2006	2007	2008	2009
Total services	13.3	13.4	15.0	14.5	10.4
Transport	-3.4	-1.9	-0.3	-0.9	-0.4
Travel	10.8	12.1	12.8	8.5	7.1
Communication services	1.1	1.3	1.2	1.0	0.6
Construction services	1.6	1.9	2.3	2.8	2.8
Insurance services	-0.9	-1.2	-0.8	-0.8	-0.7
Financial services	-0.8	-0.6	-0.1	0.0	0.2
Royalties and licence fees	2.5	2.3	3.0	3.7	3.0
Merchanting	5.9	6.2	5.6	8.2	7.1
Rentals	-0.2	-1.2	-1.3	-1.1	-1.4
Miscellaneous business services	-0.5	-2.2	-3.6	-3.1	-4.1

Source: Banque de France, provisional data for 2009.

Box 5

Adjustments in the labour markets

In the latest crisis, businesses in the major developed countries had to cope with an exceptional output shock. They had to rationalise their use of production factors in order to curb costs. They have three main levers for adjusting the labour factor: number of employees, working hours and pay.

In the last three quarters, the major industrialised countries followed different patterns with regard to two aspects:

- the type of instrument used: headcount, hours worked per capita, per capita pay (see Charts A, B and C) and
- the magnitude of adjustments to the labour factor, which can be summed up by unit labour cost (see Chart D), i.e. the total labour costs per unit produced. It is measured by the ratio of total payroll over real GDP.

Chart A
Headcount

(base 100: 2007Q4)

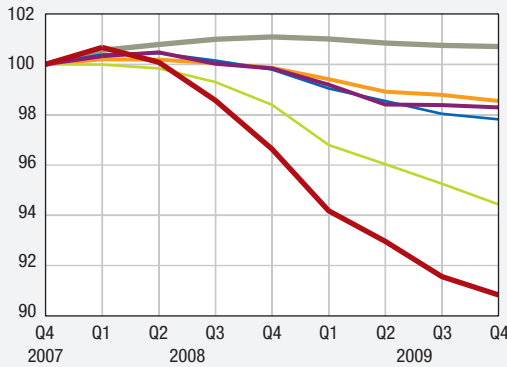


Chart B
Hours worked per capita

(base 100: 2007Q4)

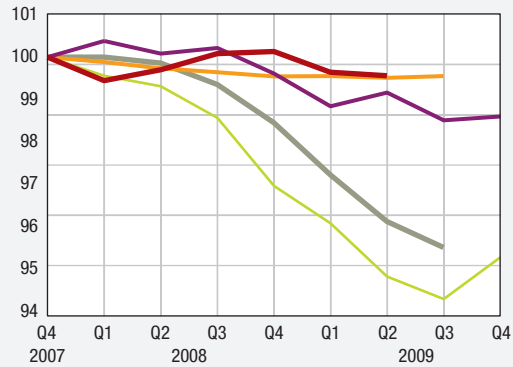


Chart C
Real per capita compensation

(base 100: 2007Q4)

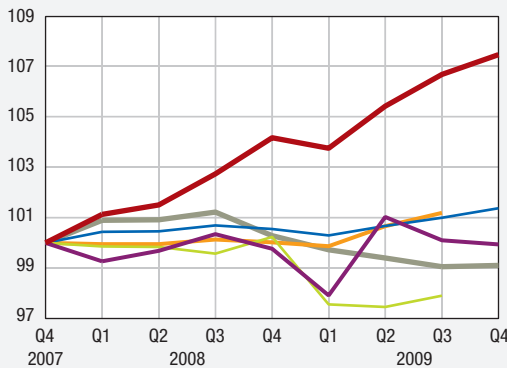
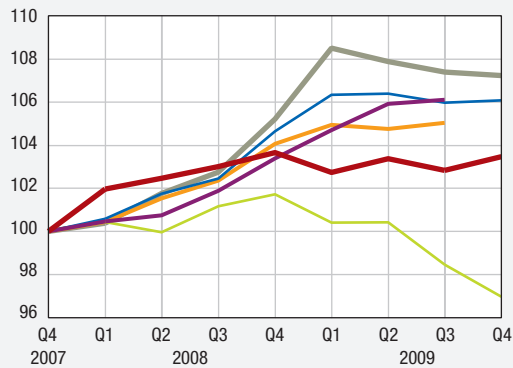


Chart D
Unit labour cost

(base 100: 2007Q4)



United States
Euro area
France

United Kingdom
Germany
Spain

NB: The GDP deflator is used.

Sources: National accounts; Banque de France calculations.

.../...

Monetary policy and financial stability: from crisis to recovery

Since the beginning of 2008, all of these levers have been used in the United States: large cuts in numbers of employees, a sharp decrease in hours worked and, to a lesser extent, cuts in pay. In other countries, despite some degree of wage moderation, the adjustments of hours worked and/or numbers of employees have been only incomplete and gradual. The result is that unit labour costs have been curbed more effectively in the United States than in Europe (see Chart D).

In Europe, the adjustments have varied greatly from country to country. In the United Kingdom, limited adjustments were made primarily to numbers of employees and wages. In France, adjustments have also been made through inertia, but they have affected employment, wages and hours worked (although it is impossible to measure the latter adjustment with precision¹). In Germany, the bulk of adjustment was to hours worked with the use of short-time working schemes or working time accounts. Of the European countries in this sample, Spain saw the smallest increase in unit labour cost. Payrolls were adjusted through massive reductions in staff levels, largely because of strong pay rigidity (index-linking mechanisms), while real pay per capita continued to increase.²

1 The statistics that INSEE disseminates relating to hours worked do not consider short-time working. Hence the virtual stagnation of the average hours worked in France shown in Chart B.

2 The large pay increases seen in Spain stem in part from the change in the sectoral structure of jobs, as many unskilled workers in the construction sector lost their jobs, which paid wages far below the average wage.

Wild swings in energy prices and deflationary pressures

As measured by the Harmonised Index of Consumer Prices (HICP), euro area inflation was up sharply in 2008, with an annual average of 3.3%, compared to rates ranging from 2.1% to 2.3% between 2000 and 2007. In 2009, inflation suddenly dropped to an annual rate of 0.3%. This average rate actually reflects wide month-to-month swings. After peaking at 4.0% in July 2008, the year-on-year change in the monthly HICP dipped to -0.7% in July 2009. After that, inflation picked up again between August and December 2009 to reach +0.9%. All in all, there were five months of negative year-on-year inflation rates in the euro area in 2009. Underlying inflation (excluding energy and unprocessed foods) posted a more moderate decline: the average for 2009 stood at 1.3% (compared to 2.4% in 2008). The path is also smoother: the underlying HICP fell steadily from 1.8% in January to 1.0% December 2009.

As was the case in 2008, energy and food prices explain most of the total inflation pattern. After jumping from EUR 62 to EUR 86 per barrel between January and

June 2008, the euro price of Brent crude collapsed in the second half of the year to EUR 31 in December 2008. International oil prices rose moderately in 2009, to reach EUR 51 by the end of the year. However, this modest increase falls far short of the sudden drop in the second half of 2008. In the first eleven months of 2009, energy prices were substantially lower than in the previous year. The large negative year-on-year

Chart 7
Euro area inflation

(year-on-year change in %)



Source: Eurostat.

variations in energy prices in the euro area did not disappear until December 2009. The repercussions of changes in crude oil prices on prices at the pump created substantial base effects that shaped the pattern of the HICP. In July 2009, the energy price index was down by 14.4% over the previous year. Declining world food prices were passed on in consumer prices. The year-on-year variation in food product prices went from an average of +2.1% in the first quarter of 2009 to -1.4% in the fourth quarter.

In addition to the direct consequences of swings in world commodity prices, gloomy macroeconomic conditions contributed to the formation of lower equilibrium prices.

The average price inflation for manufactured goods stood at 0.6% in 2009, compared to 0.8% in 2008. The service sector posted the strongest price inflation. Yet, the year-on-year rate declined steadily from 2.2% in the first quarter to 1.7% in the fourth quarter. This was the lowest inflation for service prices since November 2000.

Box 6

The link between underlying inflation and total inflation

The underlying HICP excludes unprocessed foods and energy, because these two components are too volatile and too dependent on swings in international commodity prices. It covers processed food, manufactured goods and services. An examination of this underlying index, in addition to the all-items index, shows intrinsic domestic price formation patterns, stripping out variations in world prices, which are subject to sudden wide swings. When food and energy markets are calm, that all-items HICP and the underlying HICP usually follow very similar patterns. Increases in food and energy prices are usually passed on in consumer prices fairly quickly, but the impact of various macroeconomic variables, such as producer prices and the unemployment rate, takes longer to affect the underlying index. When wide swings occur in the business cycle and commodity prices, total inflation may no longer be correlated with underlying inflation.

In contrast to 2008, underlying inflation and total inflation in France showed very different patterns in 2009. The year-on-year variations in total inflation declined rapidly from +0.8% in January to -0.8% in July, followed by a rise to +1.0% in December. Much of the variation can be explained by the base effects created by soaring oil prices in 2008. The pattern of underlying inflation was different from that of total inflation in 2009. It declined steadily from 1.6% in January to 1.0% in November, before rising slightly to 1.1% in December.

In 2008, the deterioration of the macroeconomic situation had yet to have an impact, on wage costs in particular. On the contrary, shifts in the labour market do not affect price formation (through consumer demand) until at least nine months later. This means that prices in 2008 were still being driven up by the falling unemployment rate in 2007. In addition, rises in international food prices were passed on quickly in consumer prices for fresh and processed foods.

In 2009, two factors combined to produce a steady decline in underlying inflation. First of all, the fall in commodity prices that started in the second half of 2008 was still being passed on to consumer prices through lower costs. This was shown by changes in the prices of intermediate goods in France. In the first three quarters of 2009, these prices posted an average year-on-year decrease of 3.8%. Furthermore, the lagged impact of the deterioration in economic conditions was not fully felt until 2009. The increase in the unemployment rate, which rose by 2.4 percentage points from a low point in the first quarter of 2008, and the fall in capacity utilisation rates, which stood at an average of 71.1% in 2009, compared to 79.8% in 2008, are two indicators that are symptomatic of a surplus of supply to demand and, consequently, lower equilibrium prices.

2|2 Money supply growth halted in 2009

After slowing down since the beginning of 2008, the growth of the euro-area M3 aggregate halted in 2009. For the first time since the introduction of the single currency, the annual seasonally adjusted M3 growth rate became negative, falling from +6.0% in January 2009 to -0.3% in December 2009. This slowing of money supply growth stemmed primarily from the sharp contraction in lending to the private sector. France's contribution to M3 growth slowed sharply at the beginning of the year and even turned negative in the second half of the year. The annual growth rate dipped to -4.9% in December 2009, as opposed to +4.8% in December 2008.

The large fall in short-term interest rates led to a shift within M3 towards more liquid assets (currency and overnight deposits) and a corresponding reduction in holding costs. Consequently, the narrow M1 aggregate

posted particularly strong growth in the euro area in 2009, as the rate rose from 5.2% in January to 12.3% in December 2009. The faster growth in the second half of 2009 may also be explained by the prospects for an economic recovery in the short term, since non-financial agents generally tend to build up their transaction balances, especially overnight deposits, in the run-up to a recovery. However, this build-up of overnight deposits needs to be interpreted with caution, since it also corresponds in part to a temporary preference for holding liquid assets pending the steepening of the yield curve.

The other M3 components were affected as savings flows switched into non-monetary investments. Short term deposits, other than overnight deposits, and outstanding marketable instruments were down sharply in 2009, the annual change in the former dropping from +10.4% in January to -9.1% in December and the contraction of the latter intensifying from -2.6% to -11.1%. Within the short term deposits included

Table 2
Monetary developments in the euro area and France

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

	Euro area (a)				Amount outstanding end December 2009	France		
	Outstanding end December 2009	Gross annual growth rate (b)				December 2007	December 2008	December 2009
		December 2007	December 2008	December 2009				
Monetary aggregates (seasonally adjusted) or main monetary assets (c)								
Currency in circulation	754.3	7.7	13.0	6.3				
+ Overnight deposits	3,724.5	3.2	1.0	13.8	486.4	6.0	-3.8	4.4
= M1	4,478.8	3.9	3.0	12.5				
+ Other monetary deposits	3,688.2	17.7	13.8	-9.1	632.8	17.7	18.7	-5.4
<i>O/w: Deposits redeemable at notice up to 3 months</i>	<i>1,802.8</i>	<i>-3.5</i>	<i>1.2</i>	<i>15.1</i>	<i>502.6</i>	<i>5.0</i>	<i>11.1</i>	<i>2.9</i>
<i>Term deposits up to 2 years</i>	<i>1,885.4</i>	<i>41.0</i>	<i>23.5</i>	<i>-24.2</i>	<i>130.2</i>	<i>100.4</i>	<i>45.0</i>	<i>-27.3</i>
= M2	8,167.0	10.0	8.1	1.6				
+ Negotiable instruments	1,153.4	20.1	3.4	-11.1	483.9	16.5	5.5	-14.5
<i>O/w: Money market fund shares/units</i>	<i>673.9</i>	<i>8.9</i>	<i>4.5</i>	<i>-1.9</i>	<i>384.6</i>	<i>1.5</i>	<i>11.0</i>	<i>-0.2</i>
<i>Debt securities up to 2 years</i>	<i>132.7</i>	<i>62.2</i>	<i>-11.6</i>	<i>-49.4</i>	<i>51.8</i>	<i>74.0</i>	<i>-10.4</i>	<i>-56.4</i>
= M3	9,320.4	11.4	7.4	-0.1				
France's contribution to M3 (d)					1,662.9	16.3	4.8	-4.9

(a) Transactions of euro area monetary financial institutions (MFIs) with other euro area residents.
(b) Data adjusted for reclassifications and valuation effects.
(c) Transactions of French MFIs with other French residents.
(d) Commitments up to two years of resident MFI in France, excluding currency in circulation, with regard to the sector holding the euro area currency (euro area residents, excluding MFIs and central government bodies), along with MFIs deposits with central government bodies.
Source: Banque de France.

in M2-M1, deposits with an agreed maturity of up to two years posted a sharp contraction of -24.2% in December, compared to growth of +15.3% in January. On the other hand, the growth rate of deposits redeemable at a notice of up to three months showed a strong increase in the euro area, whereas, in France, deposits on passbook savings accounts contracted slightly, after rising sharply in the first quarter, as distribution of “A” passbook savings accounts was opened up to competition (see Box 7).

The reallocation of assets in the euro area also contributed to a decrease in holdings of marketable instruments in 2009. Non-financial corporations and non-monetary financial intermediaries sold off massive holdings in money market funds to build up their overnight deposits and deposits with a maturity of over two years. At the same time, outstanding debt securities issued with a maturity of up to two years, which had been decreasing since October 2008, contracted by 49.4% in 2009.

Box 7

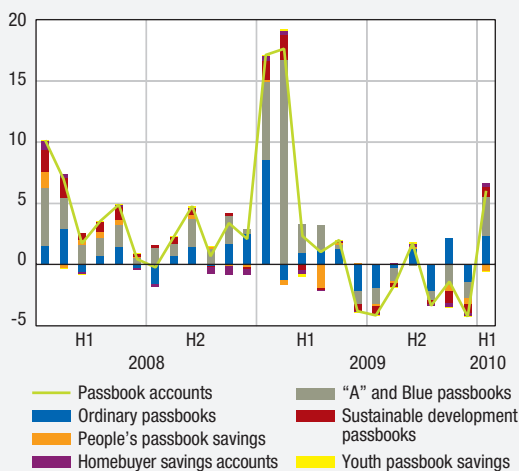
All banks are allowed to offer “A” passbook savings accounts

The Economic Modernisation Act of 4 August 2008 made it possible for all French credit institutions to start distributing “A” passbook savings accounts starting on 1 January 2009. This resulted in an immediate jump in deposits. Total deposits on “A” passbook and Blue Passbook¹ savings accounts held by households and non-profit institutions increased by EUR 16.7 billion between the end of December 2008 and the end of January 2009 (see Chart A).

Much of this enthusiastic response stems from the major banks’ marketing efforts that started in the third quarter of 2008 as part of an “advance reservation” drive. Most credit institutions started offering their customers an ordinary passbook savings account that offered an equivalent after-tax return to that of the “A” passbook well in advance

Chart A
Deposits on different types of passbook savings accounts

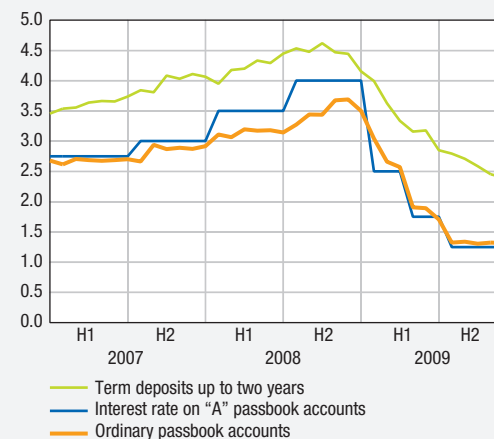
(net monthly flows in EUR billions)



Source: Banque de France.

Chart B
Interest rates on term deposits up to two years, ordinary passbook and “A” passbook accounts

(%)



¹ Under the terms of the Act, Crédit Mutuel can no longer offer new Blue passbook accounts after 1 January 2009. Consequently, the total deposit amount now shows only changes in the stock of deposits from 31 December 2008 (meaning existing account holders who make deposits or close their accounts).

.../...

Monetary policy and financial stability: from crisis to recovery

of 1 January 2009. This marketing drive accounts for the surge in deposits on ordinary passbook savings accounts seen in September, October and, most markedly, in December 2008 (totalling some EUR 9 billion). These deposits were subsequently transferred in full to new "A" passbook accounts on 1 January 2009.

In addition, passbook savings accounts paying regulated interest rates, starting with the "A" passbook accounts, offered particularly attractive interest rates at the end of 2008 and in early 2009. The financial crisis led to a sharp rise in the EONIA and 3-month EURIBOR, which are used to calculate the interest rate paid on the passbook accounts. Then, the annual increase in the consumer price index (excluding tobacco), which is also a factor in the formula used to set the interest rates on these accounts, stood at 3.6% in July 2008, which was the highest inflation rate seen since the creation of the euro area. Under these circumstances, the interest rate paid on "A" passbook accounts was set at 4% in August 2008 (see Chart B), making this risk-free and tax-free investment even more attractive.

Subsequently, the sharp fall in the cost of borrowing and the easing of inflation led to successive cuts in the interest rate paid on "A" passbook accounts, reducing it from 4% in January 2009 to 1.25% in the period from August to December 2009. Households quickly reacted to these interest rate cuts and shifted their assets into non-monetary investments, such as life insurance in euros and deposits with an agreed maturity of over two years. Credit institutions often encouraged their customers to reallocate their assets to maintain their loyalty, offering term deposits with progressive rates, which were sometimes linked to homebuyer savings plans.

Opening up the "A" passbook savings accounts to competition enabled many credit institutions to increase their resources in the form of savings account deposits paying regulated interest rates. However, the big jump in deposits seen in January 2009 stopped in May and was followed by a slight decline throughout the rest of the year, except for August. At the end of December 2009, total deposits on "A" and Blue passbook accounts had fallen back to a level similar to the one seen at the beginning of the year: The main effect of the change, therefore, was to redistribute these deposits between credit institutions.



Heritage days

Box 8

Household savings in France

Households borrowed less and increased their financial savings in 2009

Households¹ increased their savings substantially in 2009 (see table). Their gross disposable income (GDI) increased more rapidly than their consumption as social benefit payments increased. Slower economic growth and rising unemployment made them reluctant to spend this extra income immediately, which automatically increased their savings.

Consequently, the household savings rate (ratio of gross savings to gross disposable income) rose to 16.2%, from 15.2% in 2008 (see Chart A). Households' financial savings rate, which corresponds to net lending, is the difference between the flows of financial assets acquired and the flows of debt, as a percentage of gross disposable income. This figure posted a further increase to 6.8%, following 4.6% in 2008. This meant that households increased their acquisitions of financial assets, with life insurance contracts accounting for much of the increase. At the same time, they reduced their borrowing, cutting back on housing loans as activity on the real-estate market slowed down considerably.

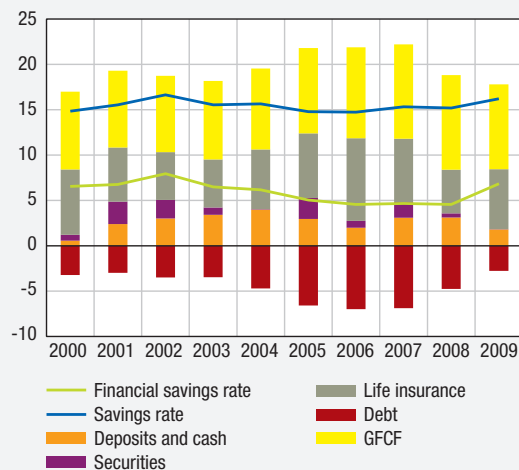
Households responded to the decline in return on low-risk investments by reducing their deposits and selling off their money market mutual funds shares...

In 2009, households reallocated their flows of financial investments compared to the previous year as the yield curve steepened and the situation on financial markets started to return gradually to normal at the beginning of the year (see Chart B).

They reduced their liquid investments, which offered lower returns as short-term interest rates stayed low. They redeemed EUR 15.5 billion in money market mutual funds shares, after net subscriptions of EUR 9 billion in 2008 (see table). Similarly, they reduced their net cash deposits sharply from EUR 40.8 billion in 2008 to EUR 24.1 billion in 2009.

Chart A
Household savings rate and main investment and debt flows

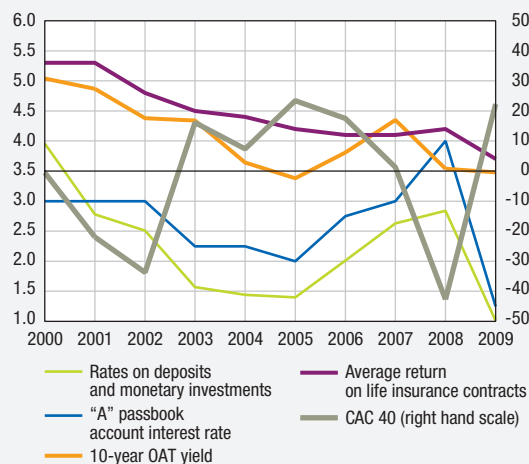
(as a % of gross disposable income)



Sources: Banque de France, INSEE.

Chart B
Annual return on financial assets

(%)



Sources: Banque de France, Fédération française des sociétés d'assurance, Euronext.

1 Individuals, sole proprietorships and non-profit institutions serving households

.../...

...and bought life insurance

In 2009, the flow of investment into life insurance picked up, reaching EUR 88.4 billion, compared to EUR 63.3 billion in 2008. Life insurance benefited greatly from the funds withdrawn from term accounts and redemptions of money market mutual funds shares. These changes arose primarily from changes in relative returns, which made life insurance a more attractive investment than the other alternatives (see Chart B).

At the same time, the overall flows of acquisitions of securities slowed down somewhat. Net redemptions of money market mutual funds shares were only partially offset by the increase in direct investments in quoted shares, with net acquisitions of EUR 2.8 billion, compared to net redemptions of EUR 1.7 billion in 2008, and in non-money market mutual funds, with net acquisitions of EUR 1.6 billion, compared to net redemptions of EUR 11.4 billion in 2008. This pattern stems from the rebound of the stock markets, as well as the elimination in 2009 of measures allowing early redemption of units in employee investment funds (FCPE). There was a very slight increase in net acquisitions of debt securities, which stood at EUR 3.9 billion, compared to EUR 3 billion in 2008.

Table
Households' main investment and debt flows

(EUR billions)

	Annual flows		
	2007	2008	2009
GFCF	131.8	136.9	124.8
Financial investments	149.6	110.2	113.0
Deposits and cash	39.1	40.8	24.1
o/w: <i>Passbook accounts and CEL</i>	22.2	47.5	14.2
<i>PEL and PEP</i>	-17.7	-26.3	4.8
<i>Term deposits</i>	24.2	18.4	-18.9
Securities	21.8	6.1	0.5
Debt securities	8.1	3.0	3.9
Equities	7.5	5.5	10.5
o/w: <i>listed</i>	-0.3	-1.7	2.8
Mutual fund shares	6.3	-2.4	-13.9
o/w: <i>money market funds</i>	14.2	9.0	-15.5
Life insurance	88.7	63.3	88.4
o/w: <i>euro assets</i>	68.3	69.5	86.5
Gross savings	59.1	60.0	91.4
Debt	87.2	62.4	37.1

NB: GFCF: gross fixed capital formation; CEL: homebuyer savings account; PEL: homebuyer savings plan; PEP: people's savings plan.
Sources: Banque de France, INSEE.

2|3 The role of fiscal policies

Outcome of stimulus plans

In 2009, the euro-area countries applied the guiding principles of the European Economic Recovery Plan announced by the European Commission on 26 November 2008. The Plan called for timely and targeted temporary measures to fight the crisis.

However, the implementation of stimulus plans varied greatly between European countries, which relied on a set of varied and targeted measures that involved extra spending or tax cuts to boost demand or to boost supply. In addition, the amounts involved in domestic stimulus plans varied significantly.

The differences stem largely from the fact that European countries went into the crisis with very different fiscal resources. On the one hand, tight budgets might have spurred some governments to cut back their stimulus plans, while, on the other hand, governments had to act according to the severity of the recession in their countries.

Consequently, the scale of the crisis, and its impact on growth and jobs, meant that several euro-area countries (Germany, Finland, France and the Netherlands) introduced further stimulus measures in 2009, on top of the plans adopted at the end of 2008.

In contrast, Spain, Ireland, Cyprus and Slovenia decided to start consolidating their fiscal situation in 2009 by cutting spending and boosting revenue to curb swelling government deficits.

Other countries, such as Italy and Luxembourg, did not implement any additional fiscal measures regarding either revenue or spending.

Public finances

Public finances in the euro-area countries grew markedly worse in 2009. According to the European Commission's forecasts in the fourth quarter of 2009, the euro area's government deficit will stand at 6.4 GDP points in 2009, as opposed to 2 points in 2008. Three elements have combined to increase the deficit:

- the action of the automatic stabilisers, which helped to attenuate the impact of the crisis;
- discretionary measures that the various governments took within the framework of the stimulus plans;
- the scissors effect of contracting GDP and the growth of spending that is not sensitive to the business cycle (government payrolls and social transfers).

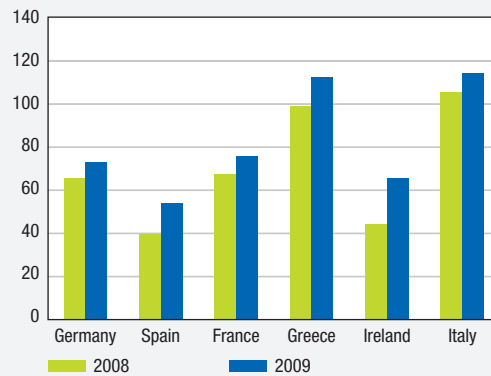
In 2009, virtually all of the euro-area countries posted government deficits that exceeded the threshold of 3% of GDP set out in the Treaty. This led the European Commission to initiate excessive deficit procedures to bring an end to the situation by 2012 or 2013, depending on the country.

At the same time, the euro-area government debt ratio soared from 69.3 GDP points at the end of 2008 to 78.2 GDP points at the end of 2009, according to the European Commission's forecasts in the fourth quarter of 2009. The largest increases were seen in Ireland (22 points), Spain (14 points) and Greece (13 points).

The swelling of government debt underlines the need for massive fiscal adjustment as soon as economic conditions permit in order to avoid snowballing government debt. Such a pattern appears when the apparent government debt ratio is greater than the

Chart 8
Public debt

(as a % of GDP)



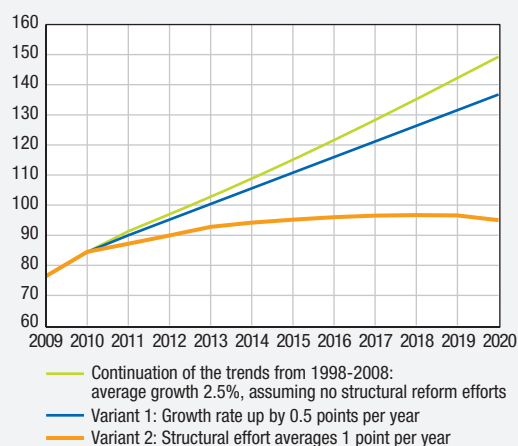
Source: European Commission.

GDP growth rate and the effective primary deficit is larger than the theoretical primary balance required to stabilise debt.

Simulations for France (see Chart 9) show that it will take more than a strong recovery in growth to have a significant impact on the trend for government debt. Stabilising government debt will require structural changes to curb government spending.

Chart 9
French public debt forecasts

(as a % of GDP)



Sources: Banque de France, INSEE.

Box 9

Public debt and sovereign risk

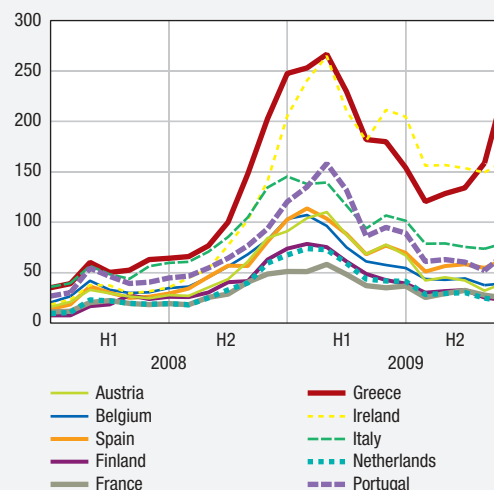
Risk premiums on the sovereign debt of euro-area countries have diverged substantially since the crisis started. These premiums are usually measured by the spread vis-à-vis the Bund, which serves as a benchmark, given the size of the German economy and the liquidity of German government debt. Such premiums had never exceeded 50 basis points since the start of Monetary Union, but they started growing significantly in the third quarter of 2008.

Monetary Union eliminated exchange rate risk, which means that larger risk premiums within the euro area seem to stem from a change in the financial markets' perception of credit risk. The largest increases in risk premiums have hit the countries where public finances have deteriorated the most, such as Greece and Ireland. Liquidity risk may also have been a factor in the recent past. As risk aversion increased, investors preferred government securities and shunned other asset classes. They invested in the countries seen as presenting the lowest risk, which further widened spreads.

It is hard to say whether the current larger risk premiums will last once the crisis is over. Less pronounced risk aversion should narrow the spreads, but investors are still concerned by the huge public debt burdens of many countries in the euro area and it will take bold and credible fiscal consolidation strategies to allay their fears.

Chart
Risk premiums on sovereign 10-year bonds vis-à-vis Germany

(monthly data in basis points)



Source: Banque de France.

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

3|1 Eurosistem monetary policy decisions

The exceptionally gloomy macroeconomic climate following the deepening of the financial crisis in the wake of the collapse of Lehman Brothers in mid-September 2008 lasted through January until May 2009. In the first quarter, output in the euro area was down by 2.5%. The year-on-year change in the Harmonised Index of Consumer Prices in the euro area fell from 1.1% in January 2009 to 0% in May 2009.

This was the result of the decline in aggregate demand and base effects, the latter stemming from movements in commodity prices in 2008. The combination of these two effects pointed to negative inflation in the coming months.

The ECB Governing Council dealt with this situation by implementing further cuts in the main Eurosystem key rate. This second round of cuts amounted to a total of 150 basis points between January and May 2009, following the 175-basis-point cut in the last quarter of 2008. The 2009 cuts came in four stages of 50, 50, 25 and 25 basis points respectively. This brought the rate for the main refinancing operations down to 1%, its lowest level seen in any euro-area country

since the end of the Second World War. Furthermore, the spread between the deposit facility rate and the marginal lending facility rate, which are the upper and lower bounds for the rate on the main refinancing operations, was reduced from 200 to 150 basis points in May 2009.

Starting in May 2009, the ECB Governing Council decided to supplement these cuts with a set of exceptional measures aimed at supporting lending to the economy in order to achieve its objective of medium-term price stability (see Box 10). More specifically, three refinancing operations with maturities of one year,

Box 10

Non-standard monetary policy measures

Central banks usually use a “standard” instrument to achieve their monetary policy objectives, with price stability being their primary goal. This instrument is the key rate, i.e. the rate at which commercial banks can obtain refinancing from the central bank, generally for very short terms of one or more days. The level of and changes in the key rate influence the economy through two main transmission channels, which are the interest rate channel and the credit channel.

Changes in the key rate lead to a change in the level and slope of the yield curve on financial markets through the interest rate channel. Changes in key rates are disseminated to the economy through the yield curve, which represents all short-term, medium-term and long-term interest rates.

Not all economic agents, meaning households and businesses, have direct access to financial markets. Many of them have to rely on bank lending, especially in the euro area. This means that the bank credit transmission channel supplements the interest rate channel. Interest rates determine how much banks pay for the funds obtained on the money market (short-term financing) or on capital markets (long-term financing). This means that when funds are expensive, banks have less incentive to lend and charge higher interest rates.

As the economic crisis worsened after September 2008, it led to a partial blockage of these two transmission channels, which made it necessary to use the standard monetary policy instrument, but it also meant that this instrument on its own was not enough to achieve the price stability objective. Central banks subsequently turned to “non-standard” monetary policy measures.

On the one hand, the interbank market, where banks obtain most of their refinancing, seized up as the participants lost confidence in each other. Banks’ lack of access to liquidity severely limited the positive effects that cuts in key rates have on the flow of credit to the economy. Non-standard monetary policy measures were developed to provide refinancing for the financial sector in order to open up the credit transmission channel. More specifically, the Eurosystem enhanced credit support programme was designed with an eye to the special characteristics of the euro-area financial system, and the predominance of bank lending in particular.

On the other hand, many central banks’ key rates dropped to near zero, meaning that these banks could not make any more significant rate cuts. This situation could be very damaging if expectations of negative inflation emerged. In this case, the real interest rate could remain high, dampening growth and making negative inflation expectations self-fulfilling, leading to a deflationary spiral. Non-standard monetary policy measures help anchor inflation expectations in positive territory, in line with the central banks’ price stability objective, thus avoiding any risk of deflation. In the specific case of the Eurosystem, extending the maximum maturity of fixed-rate tenders with full allotment to one year played a critical role by signalling the determination to maintain an expansionary monetary policy stance in the long run.

bearing a fixed interest rate and with full allotment, were implemented in June, September and December of 2009. These operations were aimed at easing tensions on the money market, by ensuring that banks had broad access to liquidity, thereby increasing their ability to lend to the real economy. These collateralised transactions were supplemented with direct purchases of euro-denominated covered bonds issued in the euro area for a total of EUR 60 billion over a twelve-month period starting in July 2009. The purpose of this measure was to enhance the liquidity of the market for covered bonds, which are a primary source of financing for banks, and to narrow the spreads, which were deemed to be wider than warranted by the underlying assets.

In December 2009, as prices on capital and money markets returned to normal and growth gradually resumed, despite the risks weighing upon it, the Governing Council announced that it was phasing out the non-standard measures, thus underlining its determination to continue its exceptional effort to supply liquidity and support lending for as long as required for the smooth functioning of the financial system and for medium-term price stability.

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

Continuing the policy of fixed-rate full allotment tenders and further extending the term of supplementary refinancing operations

The Banque de France, as part of the Eurosystem, continued to provide ample supplies of liquidity to credit institutions, carrying on the measures introduced in the third quarter of 2008 in order to ease the upwards pressure on interbank interest rates.

- On 8 October 2008, the central bank suspended the usual tender procedure that limited the sums allotted according to the interest rates bid by banks to introduce a policy of full allotment by lending all of the money requested by credit institutions at a fixed rate.
- It continued to conduct supplementary longer-term refinancing operations, with maturities of one month (special refinancing operations that match the minimum

Box 11

The policy of fixed-rate tender procedures with full allotment

The Governing Council decided in mid-October 2008 to ease tensions and facilitate the refinancing of credit institutions by suspending the usual tender procedure for monetary policy operations and to introduce a policy of fixed-rate tender procedures with full allotment open to all eligible counterparties for all refinancing operations for as long as necessary.

In practice, this measure means that credit institutions' refinancing requests are fully met, as long as they have adequate collateral.

This policy was implemented throughout 2009 for both refinancing operations in euros (all maturities) and for refinancing operations in foreign currencies. The policy greatly facilitated refinancing of banks in the euro area by eliminating any uncertainty about the volumes allotted and the rates applied.

On 3 December 2009, the Governing Council announced its decision to extend this measure as long as necessary for the main refinancing operations and for refinancing operations with a maturity of one reserve maintenance period. On 4 March 2010, the latter measure was extended until 12 October 2010. The third and final 12-month refinancing operation at the end of 2009 was conducted at a rate that was equal to the average minimum bid rate of the main refinancing operations to be carried out over the life of the operation.

reserve maintenance period), three months, six months and one year starting in June 2009. On 7 May 2009, the Eurosystem responded to the continuing turmoil on the interbank market by announcing three one-year refinancing operations on 25 June, 1 October and 17 December 2009, in addition to the supplementary one-month, three-month and six-month operations implemented throughout the year according to a pre-established timetable (36 supplementary operations).

Banks' demand for refinancing during the first of these operations was particularly strong and EUR 442 billion was allotted to credit institutions. The size of the second operation was smaller and EUR 75 billion was allotted. The third and final one-year refinancing operation allotted EUR 97 billion at a rate equal to the average of the minimum bid rates on the main refinancing operations to be carried out during the maturity of the operation.

These operations resulted in a concentration of Eurosystem refinancing at the longer end of the yield curve, as shown by the term structure of liquidity (see Charts 10 A and B).

This generous provision of liquidity to the banking system was backed up by a temporary expansion of the eligible collateral for Eurosystem lending operations starting on 15 October 2008.

On 7 May 2009, this measure, which was originally scheduled to run to the end of 2009, was extended until the end of 2010.

The Eurosystem continued to allot large amounts of liquidity to credit institutions. The total outstanding refinancing allotted to Eurosystem banks rose from an average of EUR 450 billion before the crisis to EUR 776 at the end of 2009. However, this was less than the total outstanding amount at the end of 2008, which stood at nearly EUR 900 billion. French banks' share of aggregate refinancing averaged 14% in 2009, which is comparable to their share in the previous year. At the end of the year, the refinancing provided by the Banque de France stood at EUR 121 billion.

Thus, the flexibility of the operational framework for the implementation of Eurosystem monetary policy enabled the central bank to fulfil its intermediation function throughout 2009.

Charts 10
Maturities of refinancing allocated in the euro area

(average refinancing)

Chart A: first half of 2009

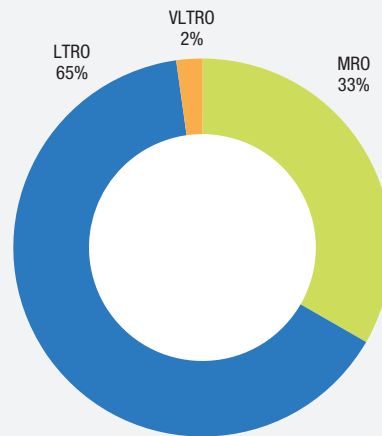
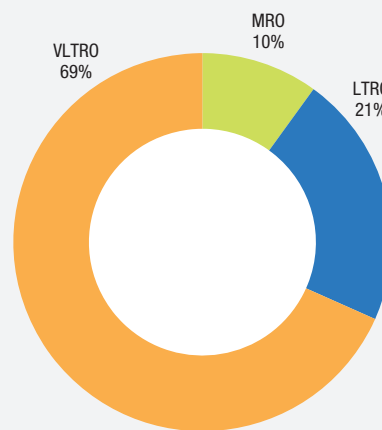


Chart B: second half of 2009



■ MRO: Main refinancing operations
■ LTRO: Longer-term refinancing operations (1, 3 and 6 months)
■ VLTRO: Very-long-term refinancing operations (12 months)

Source: European Central Bank.

Box 12

Extension of the temporary broadening of collateral in 2010

As well as providing abundant liquidity to the banking system, the Governing Council decided on 15 October 2008 to extend the list of assets eligible as collateral for Eurosystem refinancing operations on a temporary basis. On 7 May 2009, the Governing Council announced that this measure would be extended until the end of 2010.

The extension of the list of assets accepted as collateral complements the changes made to the operational framework for the implementation of monetary policy, with the lengthening of the maturity of refinancing operations and full allotment of the amounts requested.

These measures consisted primarily of accepting the following assets as collateral for Eurosystem operations:

- Debt instruments issued in the euro area but denominated in other currencies (dollars, yen or sterling);
- Debt instruments issued by credit institutions and traded on unregulated markets, as well as subordinated debt instruments with acceptable guarantees;
- Loans and securities rated BBB, except for ABS.

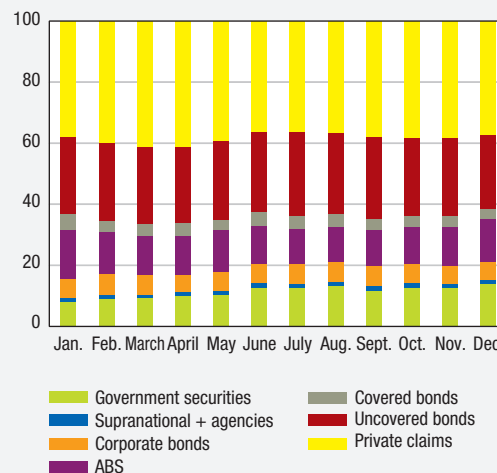
These measures did not entail any extra risk exposure for the Eurosystem because of the haircuts applied.

On 8 April 2010, the Governing Council decided to extend acceptance of assets rated BBB beyond 31 December 2010, and to apply graduated valuation haircuts for assets rated in the BBB+ to BBB- range starting on 1 January 2011. The Governing Council also decided to end the eligibility of other assets temporarily accepted as collateral (categories 1 and 2 above) starting on 1 January 2011.

The amount of collateral provided by French banks remained stable in 2009, at a monthly average amount of EUR 330 billion lodged with the Banque de France (only part of this collateral was actually used for refinancing operations). The breakdown by asset categories shows a slight increase in the volume of government securities used as collateral, whereas the volume of ABS used decreased by 30%.

Chart
Collateral provided in 2009

(on the last Friday of the month; in %)



Source: Banque de France.

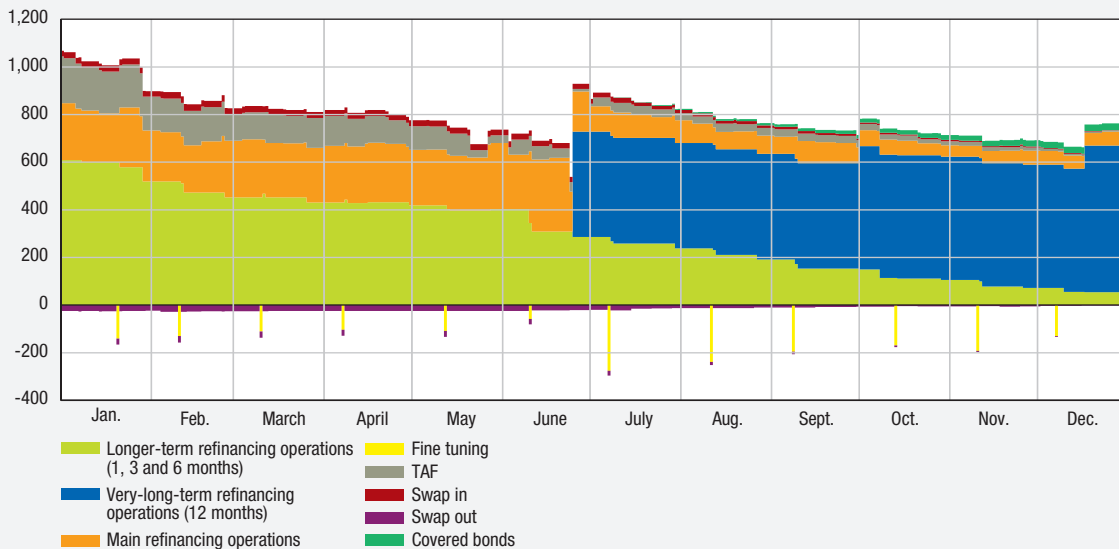
However, the policy for providing liquidity to the banking system implemented throughout 2009 was only meant to be temporary so as to avoid the distortions produced by maintaining non-standard measures over too long a period. Therefore, in December 2009, the Governing Council announced its goal of phasing out the exceptional liquidity provision measures that were no longer required.

Continuing foreign currency refinancing in dollars and Swiss francs

In 2009, the Banque de France, acting as part of the Eurosystem, continued its operations that started on 13 October 2008 to provide liquidity in American dollars through term auction facilities (TAFs) with various maturities (one week, one month, three months) carried out at fixed rate tenders and with full allotments.

Chart 11
Refinancing in the euro area

(EUR billions)



Source: European Central Bank.

The number of operations started to wind down in the third quarter of 2009, as the dollar financing market and the currency swap market showed signs of returning to normal and the demand for foreign currency refinancing eased. One-month TAFs were discontinued in July and three-month TAFs ended in October.

The Banque de France also engaged in currency swaps throughout 2009, first in dollars and then in Swiss francs, starting on 20 October 2008, with maturities of one week and three months.

Implementation of the covered bond purchase programme starting in July 2009

On 7 May 2009, the Governing Council announced a covered bond purchase programme worth a total of EUR 60 billion. The programme was implemented in June 2009 and will run until July 2010. At the end of 2009, the Eurosystem had made direct purchases of nearly EUR 30 billion in covered bonds from banks all over the euro area. The purchases were made by the Eurosystem central banks and posted to their balance sheets.

The purpose of the programme is primarily to promote housing loans by narrowing spreads and making these bonds more liquid.

Box 13

Covered bonds eligible for the purchase programme

Covered bonds must meet the following requirements to be eligible for the purchase programme:

- Purchases are conducted in both primary and secondary markets.
- Covered bonds must be on the list of assets that are eligible for use as collateral for Eurosystem credit operations.
- As a general rule, they must have a minimum rating of AA or the equivalent from a rating agency (Standard & Poors, Fitch, Moody's and DBRS), and, in any case, no rating lower than BBB-/Baa3.
- In principle the minimum issue amount must be EUR 500 million and in any case, not lower than EUR 100 million.

The underlying assets must consist of property loans and/or claims on public entities.

Once the programme was announced in May 2009, the spreads narrowed and issuance recovered. It is still too early to draw any definitive conclusions about

the programme before it ends, but it did help revive the covered bond market sector, which is particularly important for refinancing credit institutions.

Massive use of the deposit facility and falling overnight rates on the money market

Market participants' strong demand for liquidity, which was fully met, resulted in excess liquidity in the banking system. Some of the surplus came back to the central bank through the deposit facility. Surplus liquidity also led to a significant drop in overnight rates on the money market, which fell below the rate on the main refinancing operations and ended up relatively close to the deposit facility rate.

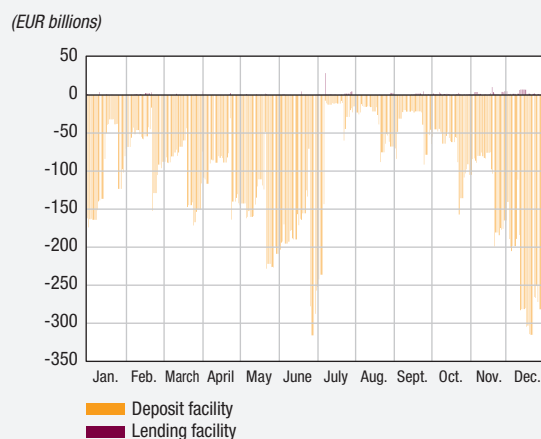
Consequently, the deposit facility rate had more influence than in the past on the EONIA and other short-term rates on the money market.

Right at the start of 2009, the Governing Council re-established a 200-basis-point corridor for the rates on the standing facilities. The corridor was later narrowed to 150 basis points in May 2009, when the key rate was cut to 1%, so that the deposit facility rate stood at 0.25% and the lending facility rate at 1.75%.

Enhanced risk control measures

At the same time, the Eurosystem also amended the eligibility criteria for certain assets in order to enhance the quality of eligible collateral and maintain an adequate level of risk protection for the Eurosystem.

Chart 12
Use of lending and deposit facilities in the euro area in 2009



Source: European Central Bank.

Starting on 1 March 2009, asset-backed securities (ABS) had to be rated AAA at issue and the underlying assets should not consist of other tranches of other ABS. Furthermore, a minimum rating of A is required over the lifetime of the ABS. At the end of 2009, the Governing Council further amended the rating requirements for ABS. ABS issued after March 2010 will have to have two AAA ratings from recognised external credit assessment institutions (ECAIs).

These ABS will not be deemed eligible for Eurosystem lending operations unless the second best rating satisfies the current credit quality criteria for such securities, meaning AAA at issuance and A throughout the lifetime of the ABS. Both the best and the second best ratings must meet the minimum rating requirements for eligible ABS.

As of 1 March 2011, the double rating requirement will apply to all ABS. These measures are intended to restore smooth operations on the securitisation market.

The Eurosystem also placed limits on the use of uncovered bonds.

Since 1 March 2009, the value of uncovered bonds from a single issuer or any entity with close ties to this issuer must be less than 10% (after haircuts) of the value of the counterparty's collateral pool. This measure applies above a threshold of EUR 50 million and does not apply to government-guaranteed uncovered bank bonds issued by credit institutions.



Heritage days

4 | RESPONSES IN TERMS OF FINANCIAL STABILITY

4|1 Action to promote financial stability

Ensuring financial stability

Financial stability

The Banque of France endeavoured to curb the repercussions of the financial crisis and limit its impact. It put the priority on analysing structural changes in the markets. The Banque de France carried out analyses focusing on ways of stimulating certain markets and reducing risks (securitisation market).

It also participated in discussions about:

- how to promote the development of central counterparty (CCP) clearinghouses for OTC derivatives (including all categories of CDS), in line with the recommendations of the G20, and
- how to make the CDS market secure by ensuring that the CCPs' risk management systems are truly suited to the specific risks of CDS, in accordance with the updated joint recommendations of the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO), which are used to evaluate clearinghouses.

In the second half of 2009, the Banque de France initiated a very practical project to assess the risks of the French financial system that had three main thrusts: identifying the weak points of the financial system and risk mapping; defining scenarios, including macroeconomic shocks and financial shocks, and assessing the impact of such shocks on the various components of the financial system (banks, insurance companies, investment funds, financial markets); defining and developing compound indicators to be

used as warning signals. The first assessment was carried out at the end of 2009. Starting in 2010, financial system risks will be assessed twice a year in conjunction with the Prudential Supervisory Authority (ACP). The findings will be published on the Banque de France website.

Naturally, the Banque de France has its say in the ongoing discussion about the necessary reform of prudential and accounting regulations, and the discussion about the architecture for international financial supervision. More specifically, the Banque de France calls for a macroprudential approach to regulation, stressing the need to develop such an approach for risk prevention and for analysing the impact of regulations on financial agents' behaviour. The Banque de France, which backs international coordination of financial system governance, has contributed to the discussions of the BIS committees, including the Basel Committee and the Committee on the Global Financial System (CGFS), the IMF and new bodies, such as the Financial Stability Board (FSB), which is the enlarged and renamed Financial Stability Forum. The Banque de France took part in the discussions on organising surveillance and supervision in Europe, leading to the creation of the future European Systemic Risk Board and the future European System of Financial Supervisors.

The Banque de France also took part in the discussions about the future of financial regulation in an issue of the Financial Stability Review that contained many contributions by renowned economists and professionals from financial institutions, government and academia. It also continued its efforts to inform and share economic and financial knowledge and analysis by compiling a document on "the financial crisis".

A critical role for banking supervision

The primary task of the banking authorities headed by the Governor of the Banque de France, which are the *Commission bancaire*, responsible for prudential supervision, relying on off-site monitoring and on-site

inspections, and the Credit Institutions and Investment Firms Committee (CECEI), responsible for authorising institutions, is to ensure that the public's deposits are safe and, more generally, that banks are sound. Having the Banque de France back up supervision offers a major advantage for performing this task, which requires close supervision of credit institutions, because of the synergy with the central bank tasks performed by the Banque de France.

The *Commission bancaire's* General Secretariat continued and intensified off-site monitoring in 2009, analysing accounting and prudential documents provided by credit institutions, as well as information gathered from their representatives through individual contacts, which were markedly more frequent than in 2008. This work also uses qualitative and quantitative information gathered through on-site inspections (see below) and formed the basis for developing a new methodology for systematic analysis of all banks under Pillar 2 of Basel 2, which involves assessing each bank's capital adequacy with regard to its aggregate risk exposure.

The *Commission bancaire's* initial programme of on-site inspections covered such topics as liquidity management, the impact of the crisis on assessment models for market and operating risks or credit risks, especially exposure to real-estate professionals, in addition to general inspections. On-site inspection of how institutions have implemented the Basel 2 system also continued. The programme was adjusted in the course of the year to initiate a series of investigations into the pay of market professionals working for France's leading credit institutions.

On the international stage, the General Secretariat of the *Commission bancaire* played an active role in cooperation between supervisors, organising several meetings with its counterparts in other countries as part of the supervision of cross-border groups through colleges of supervisors. The Banque de France has participated in the work of the Committee of European Banking Supervisors on harmonising and rationalising

the prudential and financial reporting that banks are required to provide supervisors, working towards the adoption of an operational revised framework by 2012.

In addition to the major transaction creating the BPCE group, which combines *Banques populaires* and *Caisses d'épargne* with a single new central body, the most noteworthy developments in the organisation of the banking business in 2009 led the Credit Institutions and Investment Firms Committee to investigate a series of rationalisation and subsidiary development operations by banking groups, particularly in the mutual sector, along with authorisation and approval applications for specialised businesses, such as secure refinancing, payment services and *bureaux de change*. The Committee also looked into how cross-border acquisitions and changes in control in other countries stemming from the financial crisis affected authorised institutions in France.

Events relating to banking and financial regulation in 2009 included the completion of the transposition of the Payment Services Directive into French law, with the creation of a new type of payment institution that is subject to specific prudential regulations, and the Mergers and Acquisitions Directive, as well as the transposition of Directive 2005/60/EC, known as the "Third Anti-Money Laundering Directive". Provisions relating to credit institutions' internal control systems have been enhanced and new regulations now require institutions to implement tools for measuring and managing liquidity risk that are appropriate to their risk profile.

Achieving new financial supervision

The financial crisis has highlighted the need to strengthen the supervision and regulation system. This primarily means an overhaul of the supervisory authorities at the French, European and international levels to develop cross-cutting supervision that incorporates all of the key micro and macroprudential dimensions that are important for financial stability.

In France, the creation of the Prudential Supervisory Authority, by the Ordinance of 21 January 2010, published in the Journal officiel on 22 January 2010, makes the stronger supervisory framework a reality. The new Authority combines the authorisation authorities for banks and investment firms (CECEI) and insurance companies (CEA) with the supervisory authorities (*Commission bancaire* and insurance supervisory authority, ACAM) for the banking and insurance sectors into a single entity backed by the Banque de France. This reform maintains the specific characteristics and cultures of these two sectors, while seeking to capitalise on the synergy between the merged staff members by aiming at three objectives:

- enhancing financial stability through joint surveillance of banking and insurance risks. The Prudential Supervisory Authority will be made up of a plenary college chaired by the Governor of the Banque de France and responsible for deciding general issues relating to supervision and the Authority's operations, and two sub-colleges that will deal with insurance and banking matters respectively. The Authority will be backed by the Banque de France, in keeping with the current banking supervision model, which has proved its effectiveness during the crisis. More specifically, the Authority will have the benefit of the Banque de France's economic and financial expertise and a better grasp of the systemic aspects of prudential supervision. This will ensure optimum responses to any emergencies by combining the information sources and powers of the monetary and prudential authorities;
- enhancing consumer protection through closer supervision of the marketing of financial products, which will stem from close cooperation between the Prudential Supervisory Authority and the Financial Markets Authority (AMF) and the new resources of the Prudential Supervisory Authority, including the creation of a marketing directorate. A joint unit will provide one-stop service for enquiries from consumers;
- having a greater say in the negotiations for and the definition of the future international framework for regulation of the financial system, since domestic prudential regulations are primarily derived from international and European standards.

The European Council of Heads of State and Government adopted this new European financial regulation architecture on 10 and 11 December 2009. It is based on the proposals of the high-level group chaired by Jacques de Larosière, a former Governor of the Banque de France, which were published in February 2009.

Box 14

New financial supervision architecture

The Ordinance of 21 January 2010 defines the operations of the Prudential Supervisory Authority. The new definition includes some changes from the previous organisational framework for banking supervision, particularly with regard to how the Authority is financed, but it maintains the principle of backing from the Banque de France, which proved to be helpful and effective during the crisis. The Prudential Supervisory Authority is an independent administrative authority that receives the human and financial resources that it needs to perform its tasks under a separate budget within the framework of the Banque de France. The Central Bank is the employer of the Prudential Supervisory Authority's staff, regardless of their origin or status. The funding for the new authority comes from a tax on authorised institutions. The Banque de France collects this tax and may supplement the Authority's resources with additional funds.

The Prudential Supervisory Authority's staff is managed by a Secretary General, who is appointed by the Governor of the Banque de France, acting on a proposal from the President of the Authority. The appointment is made official by a Decree from the Minister for the Economy. The Secretary General is assisted by a Deputy Secretary General with experience that complements his own in insurance, finance or banking. The Deputy Secretary General is appointed by the President of the Authority, with the approval of the Vice-President and the consent of the Minister for the Economy and the Minister for Social Affairs. The Secretary General asks the Prudential Supervisory Authority Board to determine the budget and decide on the principles for organising the staff, the general framework for hiring and employing staff, in accordance with the provisions applying to permanent employees and civil servants, as well as on the rules of conduct applying to staff, with due consideration of the rules of conduct that already apply at the Banque de France.

The major achievement of the reform is the creation of the European Systemic Risk Board (ESRB), which is intended to strengthen the macroprudential oversight of the financial system within the EU. This body is responsible for detecting risks affecting the financial system, warning the relevant authorities and issuing recommendations so that the necessary measures can be implemented rapidly in the event of a threat to the financial stability of the European Union. The ESRB will call on the expertise of central bankers and domestic supervisors. It will make the financial stability policy more effective at the European level.

At the microprudential level, a European System of Financial Supervisors (ESFS) is to be set up to consolidate a decentralised network of domestic supervisors, which shall continue to be responsible for supervision of individual credit institutions, with the backing of the national central banks in many countries. Three European supervisory authorities will be set up. They are the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIA) and the European Securities and Markets Authority (ESA). These authorities will be legal persons and they will be granted greater powers and resources. In the banking sector, the EBA could draft technical standards, make decisions that are directly applicable to credit institutions in the event of breaches of EU law by the domestic supervisor, act as a mediator between national supervisors and coordinate actions in crisis situations. Setting up a college of supervisors for each cross-border group will also and most importantly promote best practices in European supervision and ensure convergence on these practices.

The ESFS and ESRB will be highly integrated. For example, the ESFS will centralise the microprudential information that the ESRB needs to perform its macroprudential tasks and to complete its range of stress tests. The proposed Omnibus Directive intended to specify the scope of the new authorities' powers is now being examined and the European Parliament should adopt all of the legislation so that the reforms can be implemented by the end of 2010.

A “rendez-vous” clause calls for a preliminary review of the reforms in three years.

The rapid pace of the process testifies to the strong political will to have Europe respond to the G20 recommendations in full. The G20 countries committed themselves to enhancing surveillance of financial risks at the international level with the creation of the FSB in April 2009. The FSB now has a more international base and is responsible for surveillance of financial stability in conjunction with the IMF, and for recommendations to reduce international systemic risks. The Basel Committee is still responsible for defining the standards and prudential supervision procedures applying to individual banks.

At the same time as these institutional reforms are implemented, the prudential rules applying to credit institutions will change. The Basel Committee membership was opened up to all G20 countries in 2009. It has announced several series of measures aimed at enhancing financial regulation and supervision, in line with the mandate of the G20 at the London and Pittsburgh Summits. In July 2009, the Committee published the new rules intended to enhance the Basel 2 system regarding prudential treatment of market risks and securitisation transactions, with implementation scheduled for the end of 2010, and more generally, regarding risk management under Pillar 2 (immediate implementation) and transparency under Pillar three (implementation at the end of 2010).

These measures were supplemented by a second set of proposals to enhance prudential regulations published in December 2009 and opened to public consultation until April 2010. These proposals call for raising the quality and quantity of regulatory capital, better assessment of counterparty risk, introducing a leverage ratio to supplement the risk-based solvency ratio under Pillar 2, counter-cyclical capital buffers and a stronger harmonised framework for liquidity risk management. The final content of these measures and the accompanying transitional provisions will not be announced until an in-depth impact study is carried out in the first half of 2010, at the same time as the consultation of industry professionals.



Heritage days

4|2 Support for financing for the economy

Government support measures during the financial crisis

The government measures to support banks were implemented back in October 2008, in accordance with the guidelines defined by the G7 Summit in Washington

on 10 October 2008 and the implementing measures decided by the Eurogroup meeting on the following day. Government action focused on two main areas:

- consolidation of banks' liabilities by providing government guarantees to enable banks to find medium-term resources and increase their own funds to improve their solvency, or by taking a direct stake in the banks' capital in some cases;

- dealing with illiquid assets by setting up different types of defeasance structures.

Harmonised overall framework

The Governing Council published its recommendations on government guarantee mechanisms for issues of banks' debt securities on 20 October 2008. In addition to helping to solve the problems financial institutions were having with access to liquidity, these measures should ensure harmonised conditions for competition and ensure a level playing field for managing the ECB's liquidity and monetary policy objectives. Rules were laid down regarding the pricing of government guarantees, calling for the cost of the guarantees to be calculated on the basis of CDS spreads on the beneficiary bank or the average CDS spreads for banks with the same rating.

France's reliance on dedicated entities to support banks: *Société de financement de l'économie française* and *Société de prise de participations de l'État*

Société de financement de l'économie française (SFEF) was created to raise funds with varying maturities under a government guarantee and then lend these funds to credit institutions authorised in France. The beneficiary banks must meet legal capital requirements and have good quality collateral to deposit with SFEF. The funds raised were lent to banks at the SFEF issuance rates for each bond issue, plus the cost of the government guarantee, which varied according to the specific risk of each institution.

The European crisis plan called for governments to strengthen banks' own funds by buying the securities issued by the banks and by taking equity stakes in troubled banks in some cases. As part of the plan to support French banks, the French government set up a public entity financed through government borrowing, *Société de prise de participations de l'État* (SPPE) for the

purpose of purchasing the super-subordinated debt securities or preferred shares constituting banks' own funds. In exchange, the banks made a commitment to increase lending to the real economy by 3% to 4% per year. The amounts per bank in each of the two injections were calculated to achieve an average increase of 0.5% in each banking group's Tier One capital. The government injected EUR 10.5 billion into banks' own funds with the first injection in December 2008, and a further EUR 11.85 billion in the second injection in 2009. Banks used some of the funds raised during the second injection to redeem the super-subordinated debt securities from the first injection.

The system implemented by France stands out for its originality, both in terms of liquidity support and solvency support. A special purpose vehicle that issues its own government-guaranteed securities and then lends the funds raised to banks turned out to be an effective and original instrument (see below). Similarly, the streamlined structure chosen to increase own funds made it possible to customise the government's action to support banks.

Impact of the support arrangements

The two support mechanisms protected French banks from liquidity and solvency risks, especially at the height of the crisis between September 2008 and March 2009.

French credit institutions are now raising their financing on the interbank market and the bond market on their own. Issuance volumes of bonds, covered bonds and medium-term notes are back up to significant levels, including long-dated issues. Consequently, SFEF ceased its activity in the fourth quarter of 2009.

In October 2009, all of the banks that received capital support from the government had either already reimbursed the government aid or announced its reimbursement following capital increases relying on private funds.

Box 15

Action of *Société de financement de l'économie française*

Société de financement de l'économie française (SFEF) was created in October 2008 to help provide medium-term financing for banks during the most acute phase of the crisis. The government owns 34% of the company, which is now dormant, and the other 66% is owned by a group of seven banks. The company granted medium-term and long-term collateralised loans to credit institutions authorised in France. In exchange, the banks made a commitment to support personal loans, business loans and loans to local authorities. The banks also made commitments relating to pay practices.

SFEF raised funds on the financial markets by issuing government-guaranteed bonds denominated in euros, dollars, Swiss francs and sterling (AAA-rated bonds with maturities up to five years) and then lent the proceeds to banks.

The formula for distributing the funds raised was based on each credit institution's share of the loan market (70% weighting) and its total assets (30% weighting).

If the bank receiving a loan defaults, SFEF has a direct right to repayments of the claims provided as collateral and the interest payments on these claims.

The Amending Finance Act of 16 October 2008 set the theoretical cap on the government guarantee for SFEF, which corresponds to the maximum government-guaranteed debt that the company could incur, at EUR 265 billion.

Financing costs for banks

The funds raised were lent to banks at the SFEF issuance rates for each bond issue, plus the cost of the government guarantee, which varied according to the specific risk of each institution. This meant that the premium for each bank was calculated on the basis of the median 5-year CDS spreads of the bank between 1 January 2007 and 31 August 2008, plus 20 basis points.¹

Checks and balances

In exchange, the Act stipulates that banks shall provide the SFEF with collateral from the approved list of asset categories that is equivalent in value, after a haircut that varies according to the type of assets, to the value of the loans granted. *Crédit foncier de France* was given the task of managing and monitoring the collateral by providing the middle office function and back office function for all of SFEF's activities.

The control system has several levels:

- the *Commission bancaire* monitors the business conditions and financial soundness of SFEF on behalf of the government;
- the Banque de France ensures that the collateral provided is not used simultaneously for the European Central Bank's refinancing operations;
- a government commissioner attends the SFEF board meetings and has a veto on any decision that affects the government's interests;
- an Audit Committee, a Parliamentary Oversight Committee and the Court of Auditors also participate in monitoring and supervising SFEF's activities.

¹ The recommendation of the ECB Governing Council meeting of 20 October 2008 called for 50 basis points to be added to cover operating costs and to avoid distorting competition. This margin may be less than 50 basis points if collateral is provided.

.../...

Outturn of *Société de financement de l'économie française* issues

SFEF stopped issuing bonds in October 2009 because of the improvement in financial market operations. It has not issued any new debt securities since then. The 2010 Budget Act provides for granting a new government guarantee for SFEF bonds only in the event of "exceptional circumstances involving severe disruption of credit institutions' access to financial markets to be acknowledged by a Decree issued on the basis of a report from the Minister for the Economy". In the end, SFEF issued some EUR 77 billion² of debt in euros, dollars, Swiss francs and sterling with maturities ranging from 15 months to 5 years. Redemption of this debt will take place up until the fourth quarter of 2014.

Diagram
Operations of *Société de financement de l'économie française*

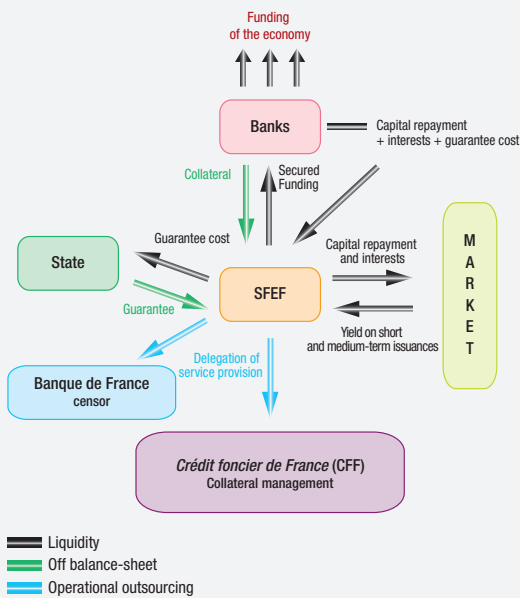
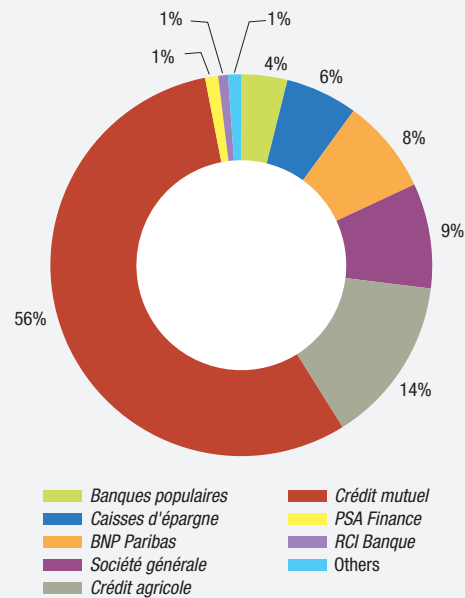


Chart
Application of the funds of *Société de financement de l'économie française* by subscriber



² This amount is calculated on the basis of the exchange rate on each issuance date in the case of foreign currency issues.

Examples of arrangements in other countries

By way of comparison, various other European countries implemented financing and own-fund support measures for banks, along with guarantees or ring fencing of assets in some cases. In Germany, the stabilisation programme consisted of a financing support arrangement through a public vehicle that guaranteed German banks' issues, an arrangement for recapitalising institutions and a programme to ring fence high-risk assets.

The United Kingdom, the Netherlands and Belgium created fairly similar asset relief mechanisms for certain institutions under which:

- losses borne by banks are limited and tail risk is incurred by the government and
- moral hazard is reduced in part by having banks continue to bear the first losses.

The role of the credit mediator in supporting financing for the economy

The credit mediation procedure, which was introduced at the start of November 2008, saw sustained activity in 2009. The main thrusts of the arrangement were to ensure that no business had to face its financial problems alone, to ensure that banks lived up to their commitments and to provide information and advice to the government. On 27 July 2009, the arrangement was incorporated into a market-wide agreement that will run until 31 December 2010. The mediator's task is to examine the applications from businesses that are turned down for financing in order to facilitate new talks between the borrower and credit institutions.

The arrangement is based on a network of local mediators, who are the Banque de France directors at the level of the *départements*. By the end of 2009, 20,000 applications were filed in metropolitan France, of which 3,500 were received in 2008, in the first two months of operation. Most of the applications were accepted (84%).

More than 14,300 cases have been examined since the procedure was introduced and a positive result was achieved in two out of three cases, to the advantage of the businesses and the financial partners. More than EUR 2 billion in loans was released to slightly more than 9,000 businesses. These companies were kept in business, thus helping to protect the 160,000 jobs that they provide.

Box 16

Measures to support financing of the economy and “exit strategies”

Nearly one and a half years after implementing support measures, governments and central banks are starting to implement “exit strategies”. The stability of banks and markets, as well as the strength of the economic recovery depend on the principles followed, the pace and the sequence in which these measures are withdrawn.

Common principles

The Leaders' Statement¹ from the G20 Pittsburgh Summit in September 2009 stipulates that the G20 governments will i) avoid premature withdrawal of the support measures and ii) implement “exit strategies” to end the exceptional measures implemented during the crisis. The Leaders' Statement also indicates that the scale and timing of this withdrawal may vary depending on the countries, but that these decisions will be designed and communicated clearly to anchor expectations and reinforce confidence.

Phasing out support measures

Decisions to end government support measures depend on several criteria: the effectiveness of the measures implemented, the level of use and the utility of maintaining them as the economic and financial environment improves. These criteria can be used to classify measures.

¹ G20 Leaders' Statement – 25 September 2009: “We will avoid any premature withdrawal of stimulus. At the same time, we will prepare our exit strategies and, when the time is right, withdraw our extraordinary policy support in a cooperative and coordinated way, maintaining our commitment to fiscal responsibility. [...] We task our Finance Ministers, working with input from the IMF and FSB, at their November meeting to continue developing cooperative and coordinated exit strategies recognizing that the scale, timing, and sequencing of this process will vary across countries or regions and across the type of policy measures. Credible exit strategies should be designed and communicated clearly to anchor expectations and reinforce confidence.”

.../...

For example:

- Support measures that have not been used: The American Federal Reserve's non-standard monetary policy instruments included a Money Market Investor Funding Facility (MMIFF)² that the money market funds never used in the end. The facility expired at the end of October 2009.
- Measures that have expired and are unlikely to be renewed: most of the liquidity support programmes, such as government guarantees for issues of debt securities, and capital support programmes, such as capital injections into financial institutions, are temporary, with known expiry dates.
 - In France, *Société de financement de l'économie française* (SFEF) suspended its activity in October 2009 because the financial institutions it supported were once again able to access financing on the interbank and bond markets. As economic and financial conditions improved at the end of 2009, most of the French banks that had received capital injections from *Société de prise de participation de l'État* (SPPE) had repaid the government.
 - In the euro area, the ECB decided to end its one-year refinancing operations. The last tender took place in December 2009 and allotted nearly EUR 100 billion.
- Temporary measures that are still in effect: many temporary government support measures are still in effect. However, the use of these measures has declined sharply since the beginning of the crisis, as market conditions improve (see charts below). Many of these measures come with expiry dates, which means that the beneficiaries and other market participants can prepare for their withdrawal. In other cases, governments have increased the cost of access to support measures and decreased the amounts available.
 - In the United States, the Fed's lending to banks under the Term Auction Facilities (TAF) and to non-bank financial institutions under the Term Securities Lending Facilities (TSLF) was down sharply. The Fed reduced the TAF amounts available from USD 150 billion at its peak to USD 75 billion in a tender in September 2009. Similarly, the amounts allotted through the TSLF were reduced from USD 50 billion at a tender in October 2009, to USD 25 billion at the tenders in November and December 2009 and January 2010.³ The mortgage-backed securities and US T-bill purchase programmes are still in effect as well.
 - The Eurosystem covered bond purchase programme is still in effect and is not scheduled to end until June 2010.⁴
 - The dollar swap agreements that the Fed signed with other central banks⁵ will expire in February 2010. The outstanding Fed swap lines have decreased significantly since the end of 2008.
- Arrangements made during the crisis that have become permanent. Some of the emergency measures implemented at the beginning of the financial crisis address structural weaknesses and could be maintained once the situation has been stabilised. For example, the European Parliament and Council increased the cap on deposit insurance on 1 July 2009. It has been increased, permanently, from EUR 20,000 to EUR 50,000 per depositor and per bank.⁶

² *Financing for special purpose vehicles (SPVs) to purchase certificates of deposit and commercial paper held by money market funds.*

³ *Fed Press Release – 24 September 2009.*

⁴ *The Eurosystem initiated a EUR 60 billion purchase programme in July 2009.*

⁵ *Central banks of Australia, Brazil, Canada, Denmark, England, Japan, Mexico, New Zealand, Norway, South Korea, Sweden, Switzerland, Singapore Monetary Authority and European Central Bank.*

⁶ *Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay.*

Developments in financing terms

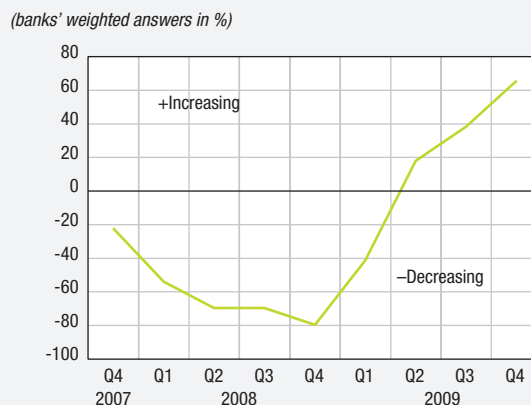
As the economy slumped, total outstanding loans to the private sector, which is the main source of monetary creation, was virtually stagnant from the end of one year to the next, both in France and throughout the euro area.

Loans to households in France

Growth of loans to households continued to slow down in 2009, primarily as a result of slower growth of housing loans (4.0% in December 2009, compared to 7.8% in January), which went hand in hand with a contraction of the real-estate market.

According to the banks questioned in the quarterly bank lending survey, the prospects of lower property prices and the gloomy economic climate dampened demand for housing loans from households in the first half of 2009. As the economy picked up, this demand started to grow again in the second half of the year. It was boosted by the first signs of a possible

Chart 14
Housing loan demand from households



stabilisation of property prices and more structural developments resulting from the various government measures implemented in recent years to promote home ownership.

Chart 13
Lending to households

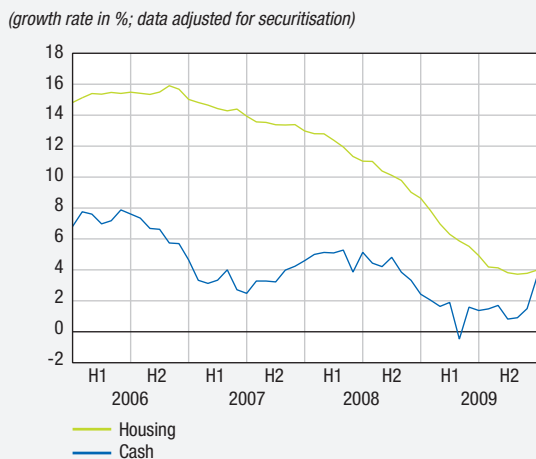


Chart 15
Criteria for granting housing loans

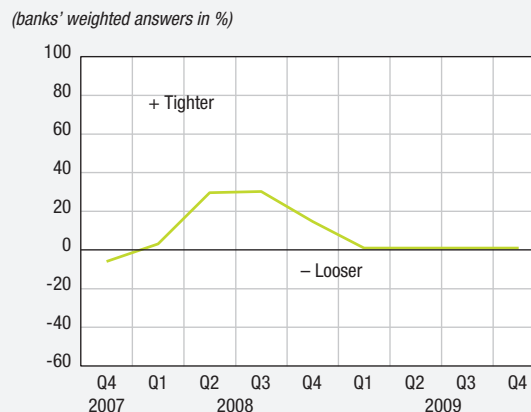
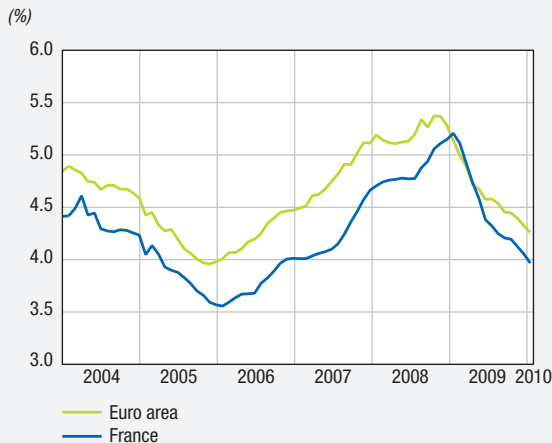
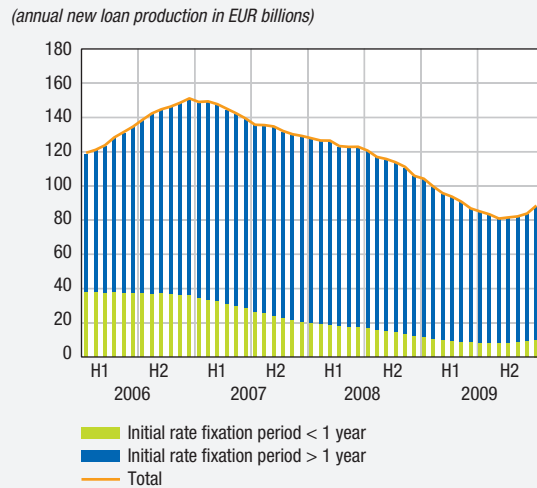


Chart 16
Rates on housing loans with IRFPs
of more than 10 years in France and the euro area



NB: IRFP: initial rate fixation period.
Sources: Banque de France, ECB.

Chart 17
Variable and fixed rate loans in France



Sources: Banque de France, ECB.

Interest rates on housing loans started to fall at the end of 2008, as market rates fell, and continued to decline in 2009. According to the bank lending survey, banks have generally promoted the recovery in demand for housing loans by leaving their credit standards virtually unchanged, after tightening them up slightly in 2008. The average interest rate for housing loans in France is still slightly higher than in the rest of the euro area. The differential stood at 31 basis points in December 2009 and stems from the preponderance of fixed-rate loans. Floating-rate loans¹ accounted for less than 10% of all new loans up until March 2009. Their share then increased to 13% of new housing loans granted in December 2009. If we compare the average interest rate on new housing loans in France and the euro area, looking at fixed-rate loans for terms of ten years or more, we see that the average rate

in France is still 30 basis points lower than the average rate for the euro area.

Loans to NFCs in France

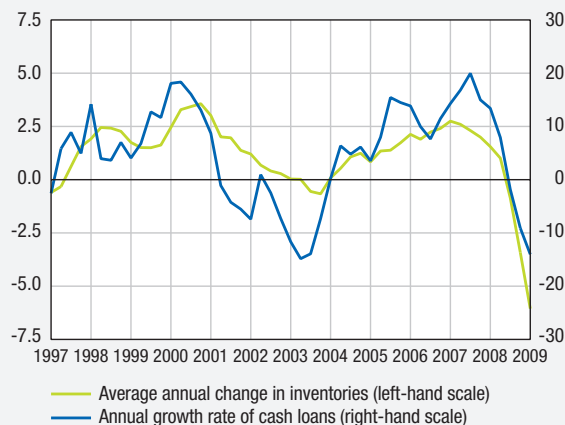
The annual growth rate of lending by French monetary financial institutions (MFIs) to resident non-financial corporations (NFCs) continued to decline in 2009 and became negative in the second half of the year: outstanding cash loans were down sharply, while investment loans continued to post growth, albeit at a slower pace. Inventory drawdowns (of EUR 30.0 billion) accounted for much of the contraction in outstanding cash loans, along with the reduction in NFCs' working capital requirements throughout the year in response to plunging sales and demand.

Nevertheless, NFCs' debt continued to grow in 2009, as businesses were able to supplement their financing by issuing medium and long-term debt securities on the market.

¹ Loans with an initial rate fixation period (IRFP) of up to one year.

Chart 18
Cash loans and changes in inventories at 30 September

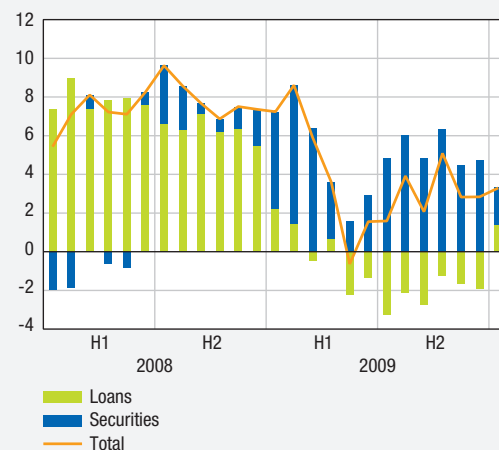
(annual average in EUR billions; annual growth rate)



Sources: Banque de France, INSEE.

Chart 20
Non-financial corporations' debt by financing source

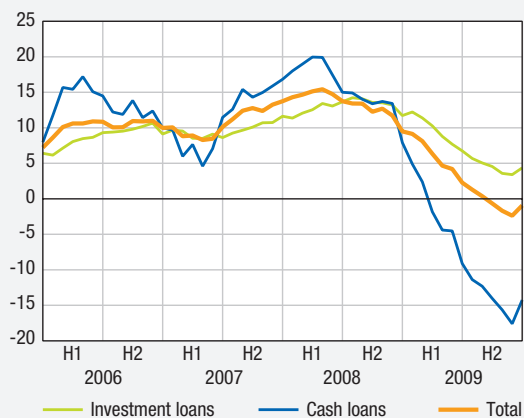
(seasonally adjusted monthly flows averaged over three months)



Source: Banque de France.

Chart 19
Lending to non-financial corporations

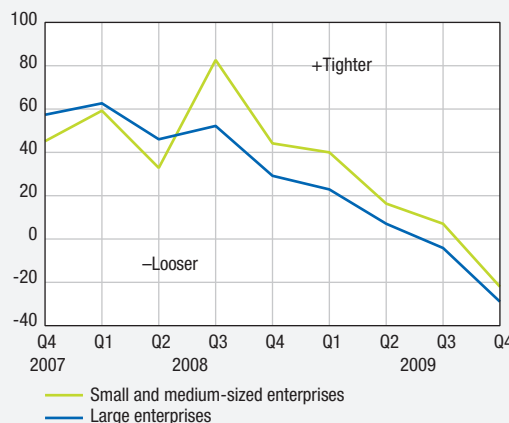
(annual growth rate in %)



Source: Banque de France.

Chart 21
Lending to non-financial corporations

(balance of opinions in %)

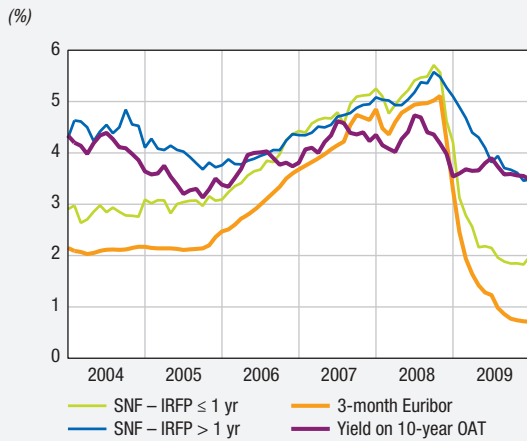


Source: Banque de France.

Starting in the second quarter of 2009, the return to normal operations on the markets enabled businesses to raise more funds on the market, increasing their market debt by 16.9% in December 2009, following growth of 8.2% in December 2008. The increase in net issuance of NFCs' debt securities was concentrated on medium and long-term securities.

The annual net issuance came to EUR 50 billion in December 2009, with EUR 63.8 billion in net issuance with maturities of one year or more and EUR 13.8 billion in net redemptions of securities with maturities up to one year. However, the substitution of market financing for bank borrowing did not reverse the trend of slower growth of NFCs' overall debt seen over most of the year.

Chart 22
Lending rates for non-financial corporations



NB: IRFP: initial rate fixation period.
Source: Banque de France.

As demand remained depressed, the quarterly bank lending survey shows that banks gradually stopped tightening up their credit standards for business loans and then started easing them in the fourth quarter. This shift in banks' lending policies stemmed primarily from the gradual return to normal conditions on the markets. This improved banks' refinancing conditions and enabled them to lower the cost of their funding and, to a lesser extent, led to slightly keener competition between lenders in this segment of the credit market.

The easing of credit standards for non-financial corporations followed a significant drop in lending rates in France and in the euro area. The cuts in the ECB's key rates and market rates were passed on to borrowers on the whole. More specifically, the lower money market rates were immediately passed on through floating-rate loans in the first half of the year. However, the spread between lending rates and money



Heritage days

market rates gradually widened during the second half of the year to reach levels of around 100 basis points, which were close to those seen before the crisis.

The decrease in market rates was not passed on as quickly in the case of fixed-rate loan terms, which were in line with long-term bond yields at the end of December.

Box 17

Changes in the outstanding lending of banking groups receiving support from *Société de financement de l'économie française*

Commitments made by the banking groups

Under the government plan to support financing for the economy, twelve banking groups¹ received medium-term financing from *Société de financement de l'économie française* (SFEF) totalling EUR 77.7 billion between October 2008 and September 2009. In exchange, they were asked to commit to a growth target for their total outstanding lending to the economy, which was set out in an agreement that each group signed with the government. As a general rule, the target was to keep the annual growth rate of their outstanding lending above a certain level throughout the year. The target growth varied from one group to the next (see Table 1), but it was set at between 3% and 4% in most cases. Furthermore, the agreements stipulated that if the group failed to meet the target, the government was entitled to review the terms of the agreement, and more specifically, the financial terms, with due regard to changes in the economic and financial situation.

The outstanding lending of the subset made up of the twelve banking groups that signed such agreements (hereafter referred to as "G12") accounts for more than 70% of outstanding lending to non-financial corporations (NFCs), 90% of outstanding lending to households and 60% of outstanding lending to local governments.

Monitoring system

In addition to setting a lending growth target, the agreements that the banking groups signed with the government call for them to provide the government with monthly data on the levels and flows of outstanding lending to individuals, businesses and local governments, broken down by purpose (cash, investment, housing, others) and by category of business borrowers (very small enterprises, small and medium-sized enterprises, large enterprises, holding companies, etc.).

The Banque de France was involved in implementing this monitoring system right from the start, for the sake of simplicity, rapidity and reliability. When the system was set up at the end of 2008, the urgency of the situation called for objective and indisputable data about outstanding lending that were immediately available. Therefore, the system relies on the lending data that the Banque de France gathers monthly and quarterly from banks for purpose of compiling monetary statistics and maintaining the central credit register.

The Banque de France calculates the annual growth rate of each group's outstanding lending each month using data pertaining to credit institutions under its supervision from banks' filings and the central credit register for the previous month. These data, which are confidential, are then sent to each group and it is up to them to validate the data and

Table A
Outstanding lending of the groups that signed agreements with the government

(amounts in EUR billions, annual growth rate in %)

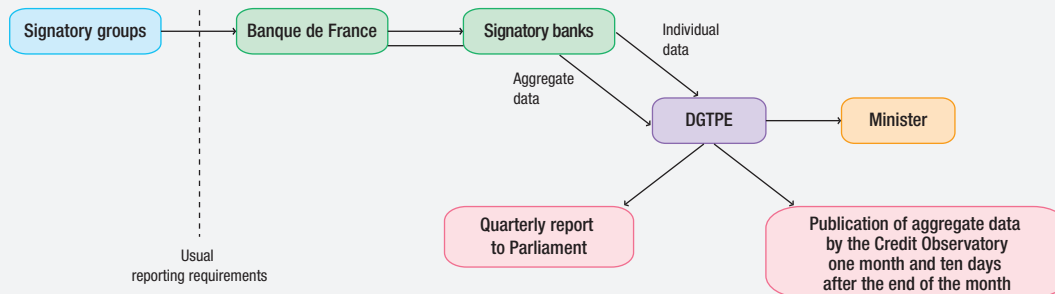
	December 2009	December 2009/ December 2008
Total	1,513.8	2.7
Individuals	738.1	5.1
o/w: housing	589.3	3.4
cash	121.8	-0.5
Businesses including sole proprietorships	680.2	-0.7
o/w: investment	333.4	2.6
cash	156.7	-12.0
Local government	95.6	10.3

Source: Banque de France.

¹ BNP Paribas, BPCE, Crédit agricole, Crédit mutuel, Société générale, Laser Cofinoga, 3CIF, GE Capital, S2P, PSA Finance, RCI Banque, VFS France

.../...

Diagram
System for monitoring the groups' commitments



NB: DGTPÉ = Treasury and Economic Policy Directorate General.
Source: Banque de France.

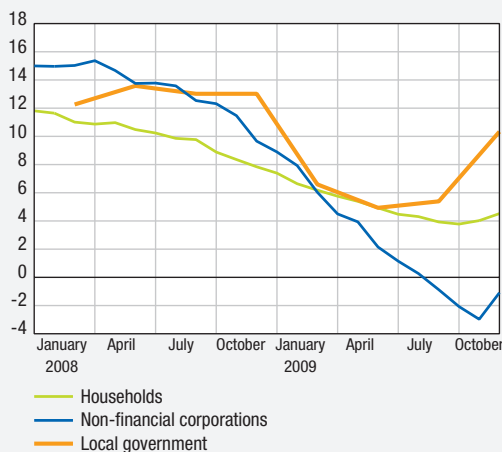
transmit them to the Ministry of the Economy, Industry and Employment (General Directorate of the Treasury and Economic Policy-DGTPÉ). At the same time, the Banque de France submits a summary of the monthly data pertaining to the aggregate outstanding lending of the G12 banks to the General Directorate (see diagram).

Outturn at the end of 2009

At the end of 2009, the annual growth rate of outstanding lending to the economy by the G12 banks stood at 2.7% (see Table A). However, the pattern was different for different categories of customers. Lending to individuals contributed 2.4 percentage points to growth and lending to local governments contributed 0.6 percentage point, whereas the contribution of lending to businesses (non-financial corporations and sole proprietorships) was negative at 0.3 point (see Chart A).

Chart A
Lending by type of customer

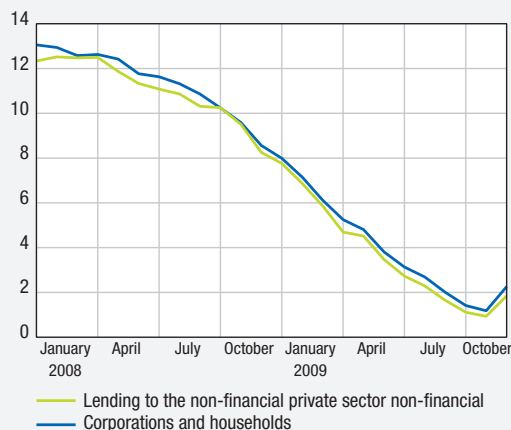
(annual growth rate in %)



Source: Banque de France.

Chart B
Lending to the non-financial private sector

(annual growth rate in %)



Source: Banque de France.

In the more specific field of lending to very small enterprises and small and medium-sized enterprises (see Table B), outstanding lending posted slight growth of 0.7% in 2009, which stems from the relatively strong growth of lending to very small enterprises, which was up by 3.0%, and lending to independent SMEs, which was up by 1.6%. This growth was partially offset by the decline of 6.0% in lending to SMEs belonging to groups.

.../...

If we look only at lending to the non-financial private sector (non-financial corporations and households), the growth rate of the G12 banks' outstanding lending stood at 2.3% in December 2009, which was significantly higher than the growth rate of 1.8% registered for all resident credit institutions.

The differential between the lending growth rates for both groups of institutions varied little over the year. Both growth rates followed roughly the same pattern and that of the G12 banks was higher than that of all resident credit institutions at all times (see Chart B).

Table B
Outstanding lending to SMEs by the groups that signed agreements with the government

(amounts in EUR billions, annual growth rate in %)

	December 2009	December 2009/ December 2008
Total VSE/SME	216,5	0,7
VSEs	128,3	3,0
Independent SMEs	42,7	1,6
Other SMEs	45,5	- 6,0

Source: Banque de France.

Box 18

Financial situation of non-financial corporations

Non-financial corporations' profit margins, which had fallen to 30.2% in March 2009, their lowest point since 1986, edged back up to 30.4% by the end of 2009, which was still 0.2 percentage point lower than one year earlier.

NFCs coped with the economic recession by operating four levers: inventories, which dropped two and a half times more in 2009 than in 1993, business investment, which was down by 7.5% in 2009, use of temporary workers, which showed a year-on-year decline of 18.6% at the end of 2009, and nominal per capita wage costs, where the average annual increase fell from 2.6% in 2008 to 1.8% in 2009.

These changes eliminated the NFCs' net borrowing. For the first time since 1999, NFCs posted net lending in 2009. The debt ratio of French NFCs, expressed as a percentage either of value added or of GDP, was lower than the average ratio in the euro area at the end of September 2009. The flow data also compare favourably for France. The debt ratio in France increased less rapidly than in the euro area.

Outstanding lending to NFCs was down by 0.9% over one year, primarily because of the reduction in their net borrowing. The changes show different patterns depending on the categories of lending and borrowers, as shown by the business statistics. If we add in the undrawn portion of lines of credit to the drawn portion, lending to businesses shows an increase of 0.8% over one year. The undrawn portion increased, following a sharp decrease at the beginning of the year (see Chart A).

The drawn and undrawn credit granted to independent SMEs and VSEs continued to increase by 2.8%, along with credit for real-estate activities, which was up by 4.2%. On the other hand, outstanding bank lending decreased by 4.3% to SMEs owned by groups, by 1.9% to large enterprises and by 1.6% to holding companies. However, these categories were able to raise funds on the market, which was particularly dynamic after the start of the year. Market financing posted growth of 16.9% in the year to December 2009.

Bank lending to manufacturing, construction and trading companies declined more sharply by 4.2%, 3.1% and 1.5% respectively owing to a particularly marked decline in short-term lending.

Right at the end of the period, the decrease in drawn and undrawn credit slowed as the contraction of short-term lending eased and undrawn lines of credit showed fresh growth.

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Drawn and undrawn credit at the end of December 2009

(year-on-year growth rate in %)

Chart A
By loan category

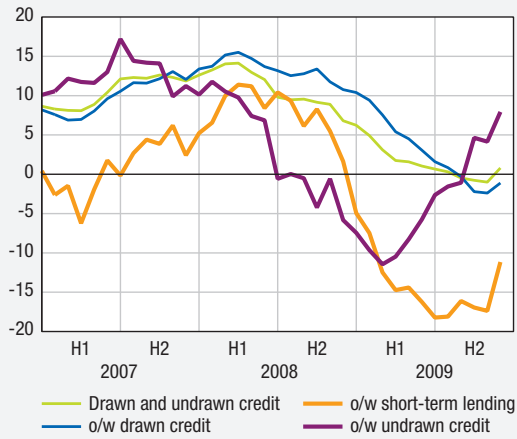
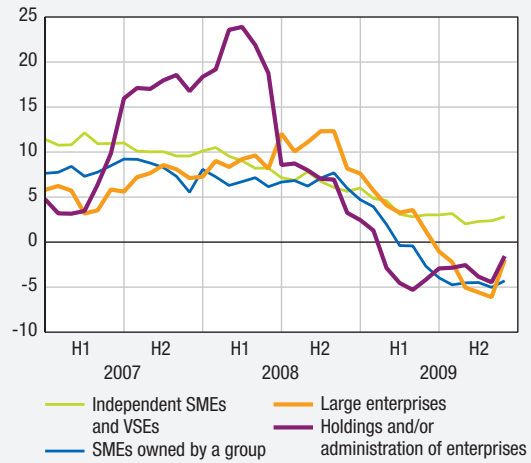


Chart B
SMEs, large enterprises and holding companies



Source: Banque de France (data available in early February 2010).

The Banque de France's business strategy and its implementation

Press conference with Christian Noyer on 23 June 2009
for the presentation of the *2008 Annual Report*



The strategic choices made by the Banque de France over the past few years enabled it to demonstrate its range of action in the management of the financial crisis.

Thanks to a series of reforms, it developed its adaptability and responsiveness, which it was able to draw on to rapidly meet the requirements arising from the crisis:

- the strong resilience of the French banking sector to the crisis has demonstrated the effectiveness of the close links between supervisors and the central bank and the quality of prudential control, for which it is entirely responsible;
- its recognised statistical expertise and its ability to carry out pertinent economic assessments enabled the Bank to take a proactive role vis-à-vis public authorities;
- Given its know-how in financial analysis and its knowledge about economic sectors, the Bank was entrusted by the government with the operational aspects of credit mediation, which it handled with success;
- against a backdrop of worsening economic conditions, household debt commission secretariats were able to cope with the strong rise in the number of cases submitted, by keeping to deadlines and ensuring a high-quality service;
- lastly, thanks to its analyses and proposals, the Banque de France was able to play a key role within European bodies (such as the Committee of European Banking Supervisors) and international fora (G20).

1| THE MAIN STRATEGIC PRIORITIES

1|1 Medium-term objectives

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

of the Eurosystem, etc. all have a profound impact on the exercise of these tasks.

In order to cope with these developments and enable the Banque de France to meet its responsibilities as best as possible, the Executive Committee has defined six strategic priorities for 2008-2012.

Being a leader in the field of economic and financial analysis

In order to carry out its tasks as monetary authority of the Eurosystem, the Banque de France must develop its capacities for economic and monetary analysis, studies and research to enable it to clarify monetary policy decisions and anticipate their consequences.

These capacities should allow it to weigh in discussions and exert a real influence within decision-making bodies at the national, European and international level, in particular the Governing Council of the Eurosystem.

Thanks to this strategic priority, the Banque de France was better prepared to face the crisis and provide concrete solutions to the adverse economic developments, both to public authorities and international bodies (in particular, the International Monetary Fund – IMF – and the G20).

This is why the Banque de France shall continue to develop its analysis and research activities, establish ties with academia and promote its studies through a new publications policy that should target both the general public and researchers.

Being a major player in the area of financial stability

Contributing to financial stability is one of the pivotal tasks of the Banque de France. In order to be a key player in the area of financial stability, the Bank needs to be able to detect as early as possible the emergence of systemic risks, to identify the factors of vulnerability for financial players and to be able to manage the failures of the financial system, in conjunction with all the players concerned.

In this respect, the backing of the banking supervisory authority by the central bank has proved to be very useful. Thanks to the prudential data to which

it has access and the information drawn from the market operations that it manages, the Banque de France has an extremely precise overview of the functioning of the financial system, in particular during the periods of tension or crisis.

This synergy between the functions of central banker and financial supervisor shall take a new turn with the setting up of the Prudential Supervisory Authority in charge of the supervision of both banks and insurance companies.

This overview is enhanced by the key role entrusted to the Banque de France regarding the supervision of means of payment, transfer systems and settlement systems. The information stemming from this supervisory activity complements the prudential and market data.

Taking up the challenge of the construction of European supervision

On the international scene, the Banque de France continued to take an active part in all the discussions that should lead to the adoption of suitable and well-harmonized prudential regulations, especially in Europe. In this perspective, it supports the development of colleges of supervisors for the control of cross-border groups.

The new European framework, the principles of which were decided on by the European political authorities at the end of 2009, correspond to the Bank's vision:

- a European decentralised supervision, i.e. coordinated and harmonised via the bodies that are being set up (the European banking and insurance supervisory agencies), but implemented by the national governments;
- a national supervisor backed by the central bank, a model whose relevance has been demonstrated by the crisis.

Being a leader in European Union market operations and common Eurosystem infrastructures

Adopting a leadership position with regard to monetary operations, by offering a wide range of reserve management services aimed at non-euro area central banks and financial institutions, is a guarantee of the Bank's high degree of operational capacity. In the context of the management of the crisis, this proved to be valuable. Indeed, it was possible to effectively raise sufficient liquid funds in order to supply the French banking sector with euro and foreign currencies.

In addition, European financial integration requires that efficient common infrastructures for managing liquidity be set up and managed at the level of the Eurosystem. In this context, the Banque de France affirms its ambition to remain one of the key players for developing and operating such infrastructures.

After having successfully set up TARGET2 (Trans European Automated Real-Time Gross Settlement Express Transfer System) in conjunction with the Bundesbank and the Banca d'Italia, the Banque de France is now involved in several European-wide structuring projects.

Strengthening the Bank's cash activities

Up until 2011, the Banque de France shall benefit from a euro-denominated banknote production quota determined according to its economic weight in the Eurosystem. As from 2012, the supply of new banknotes shall be governed by a centralised system of tenders: only the NCBs with their own printing works shall have the possibility of not taking part in the system and continue to benefit from a quota.

In order to prepare for this deadline and continue to secure a significant share of the production of euro banknotes, the Directorate General Banknote

Manufacturing has undertaken a number of in-depth reforms over the past ten years. Productivity and production costs are now close to those observed on the competitive market.

The Banque de France wishes to continue promoting its production, making its banknote manufacturing plant even more competitive and strengthening the cash industry in order to ensure the soundness of the cash cycle.

This last objective relies on two main levers: internally, the efficiency and effectiveness of the logistics and cash processing processes will be improved; externally, the soundness of the cash industry is ensured thanks to the implementation at the national level of a shared management between the central bank and private operators in charge of cash recycling, under the supervision of the Banque de France. The latter nevertheless wishes to remain the main player in order to be able to act as operator of last resort in the event of a crisis affecting all or part of the cash industry.

Improving the quality and efficiency of services to the national community

The Banque de France, through the *Public Service Contract* signed with the State, is the prime interlocutor and operator of the French public authorities for several activities of public interest, in particular as regards the monitoring of labour pools and the processing of overindebtedness cases. In this perspective, in order to carry out its tasks as best as possible, the Banque de France has, over the past few years, endeavoured to continuously improve the efficiency and quality of its services to the community.

It is this close involvement with economic agents and private individuals that led public authorities to call upon the Bank to contribute to the management of the financial crisis. Thus, as soon as the financial turmoil started to impact economic activity, the Banque de France was entrusted with the role of supporting

the new credit mediation activity and took an active part in the departmental commissions charged with monitoring the financing of the economy.

The efficiency and quality of services provided by the Banque de France at the local level were also highlighted by the Bank's ability to handle the strong rise in the number of overindebtedness cases that it received.

Faced with the growing expectations of the French public authorities and in view of the signing of the new *Public Service Contract* in 2010, the Banque de France pursued its objective of a rigorous management in order to carry out the tasks it has been entrusted with as best as possible.

1|2 Short-term objectives

Thanks to its medium-term strategy, the Banque de France is able to respond effectively to changes in its tasks and transformations in its environment.

As part of this strategy and in the wake of the actions conducted in 2009, three short-term priorities have been defined: setting up the new financial supervision framework, establishing the European and international position of the Banque de France, taking part in supporting economic activity.

The capacity of the Banque de France to meet these priorities depends on three key factors:

- the availability of adequate resources, both in terms of human resources and planned investments;
- the mobilisation, in particular across sectors, of all available competences by strengthening internal synergies;
- the promotion of equality and diversity as part of a resolute approach of corporate social responsibility.

2| THE ORGANISATION OF FINANCIAL SUPERVISION

At the national level, the setting up of the Prudential Supervisory Authority backed by the Banque de France is a historical opportunity for creating a strong supervisory authority, responsible for supervising all financial players. This extended responsibility should contribute to strengthening France's position on the international scene and promoting the French model of financial supervision.

The Banque de France brought the two entities in charge, respectively, of authorisations and prudential supervision together, by transferring the Credit Institutions and Investment Firms Directorate from the Directorate General Operations to the General Secretariat of the *Commission bancaire* on 1 October 2009.

In addition to its role in the reorganisation of prudential supervisory authorities at the national level, the Banque de France was involved in setting up, in the wake of the G20 reforms, new European and global architectures for financial supervision (see Chapter 1, 4|1).

At the European level, the Banque de France took part in setting up both the new European Systemic Risk

Council backed by the European Central Bank (ECB) and the European banking and insurance supervisory agencies, which, with strengthened powers, will replace the Lamfalussy committees.

Alongside the organisation of financial supervision, the Banque de France carried out much work on financial stability, which focused on the monitoring of the situation of markets and the financial system (see Chapter 1, 4|1). Given its responsibility for overseeing the conditions of issuance of negotiable debt securities, the Banque de France paid particular attention to developments on these markets (certificates of deposit issued by credit institutions, euro-commercial paper and commercial paper) during a still shaky post-crisis period.

Finally, in order to ensure business continuity in the case of an event likely to significantly and lastingly affect the smooth functioning of the Paris financial centre, the Banque de France chaired several meetings of the Paris Robustesse group. This group brings together representatives of the principal credit institutions, payment systems and supervisory and regulatory authorities. It thus coordinated the preparation of the Paris financial centre for the A/H1N1 flu pandemic, supplying communication facilities in order to meet the needs of the authorities and the Senior Official for Defense and Security.

Key data for 2009

Number of institutions subject to supervision: 883, of which 732 credit institutions and 151 investment firms

- *Commission bancaire*: 128 on-site inspections in the framework of the programme of on-site inspections for 2009 and about thirty additional inspections covering the pay of market professionals, the impact of the crisis on risk assessment models and credit risk.
- CECEI (Credit Institutions and Investment Firms Committee): 235 decisions, of which 19 authorisations and 33 withdrawals of authorisation

Key data for 2009

- 4 meetings of the Paris Robustesse group
- 9 audioconferences organised in 2009 in the framework of the coordination of the management by the Paris financial centre of the A/H1N1 flu pandemic
- 14 articles published in the *Financial Stability Review*
- 335 financial memoranda of negotiable debt securities issuers analysed in the framework of the annual updating exercise and 94 ad hoc updates, i.e. a total of 429 memoranda posted on the Banque de France's website in 2009

3| ESTABLISHING THE EUROPEAN AND INTERNATIONAL POSITION OF THE BANQUE DE FRANCE

The year 2009 was characterised by a wide range of international events and major decisions, in the fields of monetary policy and financial regulation. The Banque de France was closely involved in these decisions, both within the European framework through its participation in the Eurosystem and European Union decision-making bodies and in the international context through its contribution to the work of the G20, G7 and Financial Stability Board.

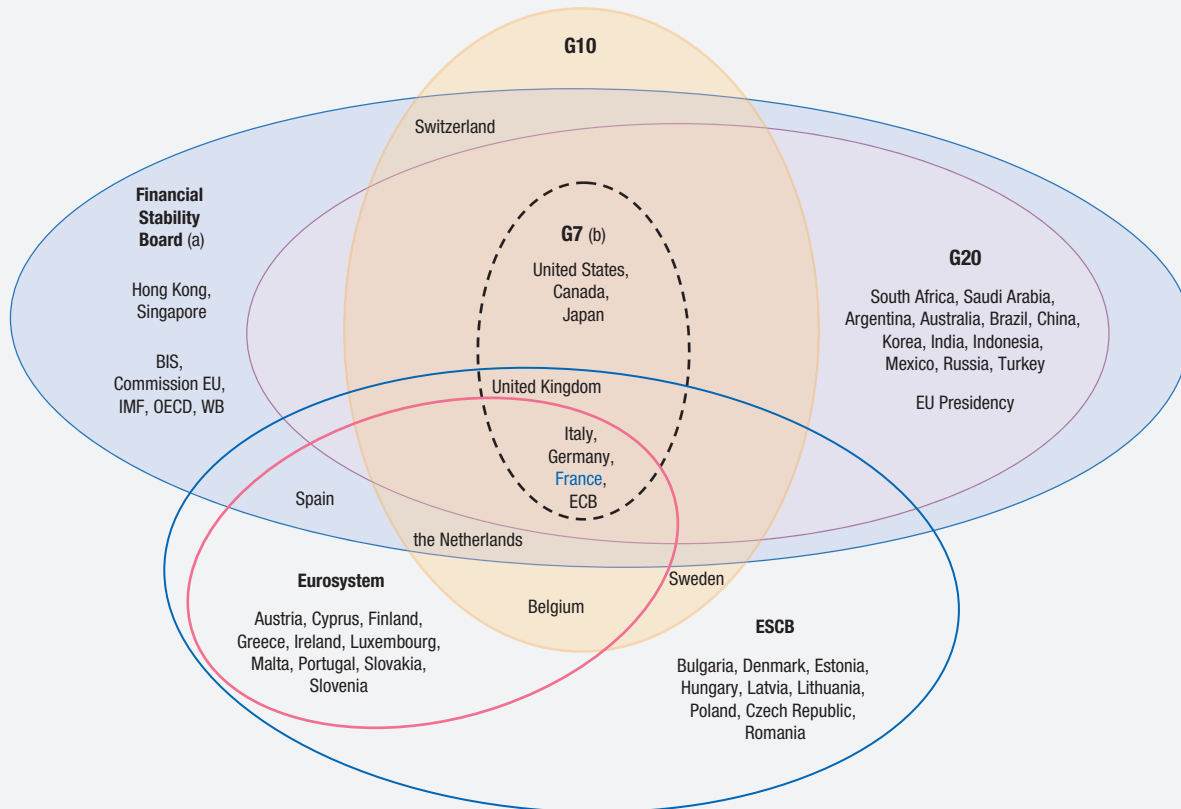
A priority of the Banque de France is to continue to be a major player in the development of the most structuring projects for the future, in cooperation with other national central banks. The success of the projects

currently underway is a pre-requisite for establishing the Bank's European and international position.

3|1 An active contribution within the framework of European bodies

The Governor of the Banque de France is a member of the ECB Governing Council, the Eurosystem's decision-making body, which comprises the governors of the national central banks of euro area countries (16 since Slovakia joined on 1 January 2009) and the six members of the ECB Executive Board. Like in 2008, the Governing Council organised an unusually large number of meetings and teleconferences in 2009 to ensure the liquidity of the money market and implement non-conventional monetary policy measures.

Diagram 1
The Banque de France's participation in European and international groupings



(a) The Financial Stability Board was set up in April 2009 to replace the Financial Stability Forum. Its membership was expanded to include 13 new countries (members of the G20 and Spain).

(b) Since January 2009, the EU Presidency takes part in G7 meetings when it is held by a country that does not belong to the G7.

The decisions of the Governing Council are prepared by a series of committees, in which all national central banks take part. Over a hundred Banque de France representatives regularly participate in these committees and in various related working groups. In 2009, a task force on the effectiveness of the financial sector support measures was set up; it met four times. The Banque de France is also a member of the EU Economic and Financial Committee that prepares the work of the Ecofin Council, which brings together the Economy and Finance Ministers of the Member States. It also takes part in the informal Ecofin Council, which includes central bank governors.

3|2 Participation in the implementation of major European projects

TARGET2 Securities

The purpose of TARGET2 Securities (T2S) is to facilitate the creation of a single financial market through the setting-up of a European platform for the settlement of securities transactions in central bank money. In July 2008, the ECB Governing Council confirmed the launching of the project and entrusted four central banks (the so-called 4CB), i.e. the Banque de France, the Deutsche Bundesbank, the Banca d'Italia and the Banco de España, with the task of developing the future platform. The four central banks defined and set up a transnational organisation acting as the project manager.

The Banque de France was put in charge of the management of the project and functional co-ordination, as well as of the development of the settlement engine, the statistical database and the T2S archiving platform. In addition, it chairs the "T2S France Users" group, in charge of the relations between the Paris financial centre and the T2S external governing bodies. In 2009, the organisation focused on completely formalising T2S user requirements and making headway on the definition of the platform's general specifications.

The final agenda and the overall budget of the T2S programme are expected to be submitted for validation by the Governing Council in the course of 2010.

Single Euro Payments Area

In 2009, the European harmonisation of cashless payments in the framework of the Single Euro Payments Area (SEPA) project continued. In November 2009, SEPA credit transfers accounted for 5.3% of all transfers in Europe. In France, they represented less than 1% of all payments in 2009, but this figure is expected to reach and exceed the European average in 2010, after the gradual migration of general governments.

In addition, the transposition of the Payment Services Directive, which came into force on 1 November 2009, now provides a harmonised legal framework that facilitates the use of SEPA payment instruments.

The National SEPA Committee, co-chaired by the Banque de France and the *Fédération bancaire française* (French Banking Federation), decided to launch the SEPA direct debit in France on 1 November 2010.

3|3 Oversight of means of payment

Following the publication by the Eurosystem of an Oversight Framework for Card Payment Schemes – Standards² in January 2008, an assessment of card payment systems in Europe was launched in 2008. The Banque de France completed its assessment of the eight French systems in 2009. These assessments gave rise to individual reports, including, where appropriate, a series of recommendations addressed to each one of these systems and the implementation of which will be monitored by the Banque de France. Furthermore, the Banque de France took part, together with other central banks, in the assessment of the international systems operating in France.

² Available on the ECB website at <http://www.ecb.int/press/pr/date/2008/html/pr080111.en.html>

In 2009, the Banque de France pursued its efforts to strengthen the security of online banking services and online card payments, which are growing strongly and are expected to grow further as SEPA payment instruments become increasingly widespread. Solutions designed to achieve stronger authentication are available and are starting to be used by French banks.

3|4 Oversight of transfer systems

The financial crisis has highlighted the importance of central counterparty clearing houses for OTC products, in particular credit derivatives. The G20 communiqué of September 2009 states that "All standardised OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest". As regards the euro area, in its decisions of 18 December 2008 and 16 July 2009, the ECB Governing Council confirmed that there was a need for at least one central counterparty clearing house for OTC credit derivatives in the euro area.

At the European level, the Banque de France contributed to drawing up the Recommendations for securities settlement systems and central counterparties in the European Union, prepared jointly by the ESCB and the Committee of European Securities Regulators (CESR) and published in June 2009. At the international level, it took part in adapting and strengthening the standards applicable to transfer systems and market infrastructures. This work, conducted jointly by the Committee on Payment and Settlement Systems (CPSS) and the International Organisation of Securities Commissions (IOSCO), was initiated in 2009 to adapt the recommendations for central counterparty clearing houses of OTC products and will continue in 2010 with a comprehensive revision of all standards. In addition, the Banque de France is

a member of the OTC Derivatives Regulators' Forum, set up in 2009, which brings together central banks, banking supervisors and market regulators from several countries. The Forum fosters cooperation and promotes homogenous oversight approaches for clearing houses and trade repositories. Trade repositories are a new category of infrastructures, whose main purpose is to record and store data on transactions in OTC derivatives, mainly used by public authorities for monitoring purposes.

In 2009, the Banque de France monitored and assessed the new services provided by the transfer systems based in France. In conjunction with the competent authorities belonging to the Coordination Committee on the Clearing of Euronext markets, it assessed LCH.Clearnet SA's proposed credit derivatives clearing project against the ESCB/CESR recommendations for central counterparties. The project was deemed to be in compliance with these recommendations. As regards payment systems, the clearing system for retail payments CORE set up, at the request of the Banque de France, a protection mechanism against settlement risk, the objective of which is to enable settlements to be made even if the participant with the largest settlement obligation fails.

Given the growth in the Bank's market operations conducted in the framework of monetary policy, for its own account or for international institutional clients, and its increased involvement in the various systems set up by the Eurosystem in this area, the Banque de France reinforced the internal control functions within the Directorate General Operations. The purpose of the new Operations Risk Directorate is to increase the weight and the independence of the market risk control function, by grouping together under a single entity the teams in charge of risk control (middle-office and operational risk) and the financial asset pricing functions.

3|5 International relations

The Banque de France is a member of the major international fora. In this capacity, it took an active part not only in the international management of the financial crisis but also in the discussions on the reform of the international financial architecture. In the framework of the G20, it put forward its analyses on the reform of the international financial and accounting regulatory system and international co-operation in the areas of supervision and information exchanges. It took an active part in the work on the implementation of the new G20 framework of multilateral surveillance and in the discussions on the crisis exit strategies or new subjects, such as the financing of actions with regard to climate change. Within the International Monetary and Financial Committee and the G7, it took part in the discussions on the reform of the IMF, its role, its instruments and its governance. In addition, it contributed to the work on the reform of the role and instruments of development banks.

In order to bolster the mechanisms and instruments for preventing crises, the Banque de France took part in the drawing-up of a new, more efficient and reactive international framework for macro-financial supervision, involving all economic players concerned (in particular the IMF and the Financial Stability Board). This framework is expected to take into account

the interactions between regulatory, financial and macroeconomic aspects in the detection of crises.

The Governor of the Banque de France participates in the meetings of Franc Zone ministers and governors that are organised twice yearly, once in Paris and once in Africa. The Banque de France is in charge of the secretariat and contributes to the preparation of these meetings. The meeting in October 2009 provided an opportunity for examining the economic policy measures for overcoming the economic crisis and, more generally, analysing the means of lastingly raising the growth potential of the Franc Zone economies.

As regards technical co-operation, the Banque de France continued to maintain a close co-operation with some central banks (BEAC and BCEAO, bilateral agreement with the Bank of Morocco) and took an active part in projects conducted by the ECB (in particular in Egypt and Russia).

4| SUPPORT TO THE ECONOMY

As a result of the crisis, the role of the Banque de France in the French economy has been broadened and strengthened in a number of areas. These new tasks will be particularly meaningful for preparing the crisis exit strategy.

At the Bank's headquarters, constructing forecasts is essential during the crisis, but also for anticipating recovery. Similarly, the Bank's capacity for analysis and action, which the Eurosystem called upon to find solutions for ensuring bank refinancing at the height of the crisis, remain useful for ensuring a return to normal.

In the branch network, the credit mediation and company rating activities play a key role for monitoring companies' ability to withstand the disruptions caused by the economic crisis. As regards the protection of consumers, the adoption of the law on consumer credit should strengthen the responsibilities of the Bank within the household debt commissions.

Key data for 2009

- 24 meetings of the ECB Governing Council
- 17 other European meetings (Economic and Financial Council, informal Ecofin, French-German Economic and Financial Council)
- Some thirty meetings of international (IMF, BIS, G7, G10, G20, OECD, FSF now FSB) and regional (e.g. the Franc Zone) organisations and bodies
- 66 short-term assignments, 3 long-term secondments and 17 study visits from foreign delegations in the framework of technical cooperation
- 57 international training sessions and 29 study visits organised for 2,473 trainees from foreign central banks

4|1 The role of economic analysis during the crisis

The crisis triggered an economic policy reaction that was exceptional both in terms of its scope and the originality of the fiscal, monetary and financial measures taken. In order to define these measures, it was important that economic diagnosis should be extremely responsive and provide a precise analysis of the mechanisms at the root of the crisis. On the one hand, it was necessary to constantly and efficiently monitor economic conditions in order to draw up solutions in real time. On the other, relying on its in-depth analysis of the situation, the Banque de France was able to take a proactive role in defining economic policy reactions within the Eurosystem and in the French debate.

This responsiveness was made possible thanks to the strengthening of the team of economists and a greater emphasis on studies and research. The publication of *Documents and Debates*³ on the financial crisis and of *Current issues*⁴ on non-conventional monetary policy measures and the impact of the crisis on long-term growth testify to the intensity of economic analysis during this period. Furthermore, a large array of working papers was posted on the website of the Banque de France⁵ in 2009 and a number of articles were published in scientific journals. Several seminars and workshops were organised in 2009, some of which in conjunction with French universities (Toulouse School of Economics, Paris School of Economics) or with other central banks (Banca d'Italia, Banco de España, Deutsche Bundesbank, Federal Reserve Bank of Chicago). These events, which brought together experts of all origins, were an opportunity for better analysing the causes of the crisis and the possible solutions, in terms of monetary policy and financial regulation, but also business conditions and asset price dynamics.⁶

³ <http://www.banque-france.fr/gb/publications/documents-and-debates/documents-and-debates.htm>

⁴ http://www.banque-france.fr/gb/publications/current_issues/current_issues.htm

⁵ http://www.banque-france.fr/gb/publications/ner/ner_10.htm

⁶ The list of these seminars is available at the following address <http://www.banque-france.fr/gb/publications/seminaires/seminaires.htm>.

The Banque de France also sponsors research in the fields of money, finance and banking through the Foundation Banque de France.

Key data for 2009

- 42 working papers
- 46 publications in scientific journals classified in the *Journal of Economic Literature*
- 11 conferences, seminars and workshops

Box 19

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

The Foundation awarded around EUR 160,000 worth of research grants, of which EUR 120,000 worth of "senior" research grants intended for research teams of world renown and EUR 40,000 worth of prizes for young researchers (including the thesis prize).

In the framework of its Visiting Scholars programme, with two calls for application per year (in January and June), it received ten French and foreign high-level researchers who worked together with Banque de France teams.

The Foundation also organised fifteen research seminars and subsidized ten research organizations and conferences.

Its newsletter is now published on a bimonthly basis. All the information concerning the Foundation is directly accessible on its website (www.banque-france.fr/fondation/gb/home.htm).

4|2 Credit mediation

The creation of a credit mediation procedure led the Banque de France to offer new applications, via a dedicated site, in order to receive the large number of mediation cases and to mobilize its resources at a local level, both from a qualitative and a quantitative perspective. The directors of the Bank's departmental branches, who have the status of departmental credit mediators, reorganized their units in order

The Banque de France's business strategy and its implementation

to take on the management of the mediation cases by entrusting them to their staff, both managerial and non-managerial, with a sound expertise in business analysis, thus ensuring the credibility of the system vis-à-vis business managers and bankers.

The departmental credit mediators were in contact with a wide range of players: they strengthened their relations with bankers and credit insurers; they established closer ties with the prefects and the paymasters-general with regard to the treatment of difficulties affecting businesses;

they tightened their relations with commercial court judges. Trade associations, professional organisations, employers' federations and business support bodies were encouraged to coordinate their on-the-ground actions aimed at advising business managers about mediation strategies. All the competences of the local Banque de France teams with regard to financial expertise, knowledge of the local economy and the Bank's branch network were thus put to use for the benefit of the community in the framework of the credit mediation mechanism.



From left to right:

Christian Noyer, Governor of the Banque de France; **René Ricol**, Credit Mediator until 30 September 2009; **Christine Lagarde**, Minister of the Economy, Industry and Employment; **Gérard Rameix**, Credit Mediator since 1 October 2009 and **Hervé Novelli**, Secretary of State for Trade, Crafts, SMEs, Tourism, Services and Consumption

4|3 Monitoring the financing of the economy via the resources stemming from regulated savings

The particular attention paid to regulated savings can be explained by the volume of funds collected on the "A" passbook, the "blue" passbook, the sustainable development passbook and the people's passbook, whose

total outstanding at end-December 2009 stood at roughly EUR 310 billion, and by the significance of this stock of savings both in terms of the resources of credit institutions and the financing of the economy (see Box 20).

4|4 Data on non-financial corporations

Assessing companies' financial situation and monitoring economic developments and labour pools in the regions

Box 20

Observatory for Regulated Savings

The Observatory for Regulated Savings was created by the law on the modernisation of the economy of 4 August 2008. Pursuant to this law, the Observatory (see article L.221.9 of the *Monetary and Financial Code*), chaired by the Governor of the Banque de France, is charged with monitoring the general distribution of the "A" passbook, in particular its impact on household savings, the financing of social housing and the development of access to banking services.

It is also responsible for overseeing the use of these resources, which is partly governed by the *Monetary and Financial Code*: the funds collected on the "A" passbook and the sustainable development passbook are partially centralised in savings funds, managed by the *Caisse des dépôts et consignations*, to finance loans for social housing and in the framework of urban policy. The funds that are not centralised must be used by collecting institutions to finance small and medium-sized enterprises, in particular when they are being set up or to support their development, and energy-saving renovation work in old buildings.

Every year, the Observatory for Regulated Savings shall present a report to Parliament and the Government including:

- a macroeconomic analysis of the savings flows collected on the "A" passbook and similar instruments during the year;
- an analysis of French households' savings behaviour vis-à-vis the « A » passbook according to different criteria determined by the Observatory;
- an assessment of the use of the centralised and non-centralised funds aimed at enlightening the public authorities as to the direction to be given to the rules on the subject at the end of a three-year transitional period (2009-2011);
- an analysis of the function of the "A" passbook with regard to the access to banking services and the specific role played by the *Banque Postale* in the achievement of this task of public interest.

Lastly, pursuant to the law on the modernisation of the economy, "credit institutions shall provide the Observatory with the information that it needs to perform its assignment". The Banque de France is thus charged with collecting annual and quarterly data on behalf of the Observatory; the scope of this collection is defined in the Order of 17 December 2009. The first batch of information, which is scheduled to be submitted in early 2010, includes data at end-2008 in order to cover the situation of regulated savings prior to the generalised distribution of the "A" passbook and to analyse the first effects of this reform.

(1) First report (2009) published in July 2010.

are of crucial importance during a crisis. The economic climate characterized in 2009 by a general deterioration in business conditions in the first half of the year, followed by a recovery from recession made it more difficult to analyse companies' individual situations on the basis of the information at the Bank's disposal (companies' accounting records, notifications of non-payment of bills, outstanding loans, information from the court registries, etc.). In particular, the analysis of balance sheet data and profit and loss accounts for 2008 was often completed by the qualitative data gathered during meetings with company managers. By taking into account these non-accounting data, the Bank was able to assign to companies a rating that reflects its overall assessment of their ability to meet their financial commitments over a three year horizon, in accordance with the methodological rules applied by the Bank.

Thanks to the data at its disposal, the Banque de France was able to provide public authorities with specific information meeting their requirements, notably on the automotive sector and on the issue of capital requirements of small and medium sized enterprises and intermediate sized companies. Every month, a summary table of bank outstandings broken down by business category is sent to the Ministry of the Economy, Finance and Employment. A similar document, highlighting local features, is also sent to the regional directors of the Banque de France in order to update and supplement the data already at their disposal for monitoring economic developments in their region.

Tasks carried out in respect of company data

The Banque de France has managed the FIBEN company database since 1982 for the purposes of collateral management in the conduct of monetary policy, financial supervision and the banking industry, and to provide company managers with an external assessment of their company's financial position.

As part of its task of monitoring the local economy, the Banque de France developed and implemented in 2009 a new version of its diagnosis service for the structural and cyclical analysis of the local economy (ACSEL), characterised by a finer analysis (new financial ratios, new indicators of concentration-dispersion, specialisation and technological intensity of economic activities carried out on the territory or in a specific branch) and by improved data.

Key data for 2009

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



A credit mediation team

5| THE OTHER TASKS

5|1 Banknote production and management of banknotes and coins

Production of banknotes

The Banque de France operates a paper-mill at Vic-le-Comte and printing works at Chamalières, both in the Auvergne. Both industrial sites have received a quality and environment certification. While it focuses on the production of euro banknotes, the Banque de France also supplies banknotes to foreign central banks in the framework of institutional partnerships and the provision of specialised engineering services.

In 2009, like in previous years, the volume of banknotes delivered increased and industrial performances were high at the Bank's paper mill and printing works, both in terms of quality (rate of imperfect banknotes) and in terms of the productivity of equipment and the productivity per employee. In addition, operating income was consolidated.

In 2009, the volume of banknotes produced and delivered posted a further increase compared with the previous year to reach a historical high. Like in 2008, banknote production benefited from the combined effect of a high quota of euro banknotes (2,212 million notes) assigned to the Banque de France as part of the pooling system⁷ and a sustained export market amounting to an average 600 million banknotes annually.

As regards internal management, 2009 was a year of consolidation characterised:

- in the area of human resources, by the completion of the roll-out of the pay and career management system, which results from the increased recruitment of contract staff;

⁷ Since 2002, a pooling system has operated between national central banks for the production of euro banknotes in the Eurosystem: each NCB specialises in the production of a number of denominations, which are then partly exchanged with the other members of the Eurosystem. In 2008, the Banque de France produced EUR 5, EUR 10 and EUR 20 banknotes.

Table 3
Banknote manufacturing
Results in 2008 and 2009

(annual volumes in billion banknotes, staffing levels in full-time equivalent terms at 31 December)

	Annual volumes manufactured and delivered	Headcount
Results 2008	2.24	959
Results 2009	2.65	955

- at the financial level, by the introduction of the new VAT regime on 1 January 2009 (banknotes produced subject to VAT and VAT refunded on purchases) and the transformation of the Directorate General Banknote Manufacturing into an autonomous accounting entity in order to better identify and monitor the financial performances of the activity;

- In the area of sustainable development, by the award of the AFNOR 1000 NR Maturity certification (following the certifications obtained in previous years and renewed: occupational health and safety OHSAS 18001, Quality ISO 9001 and Environment ISO 14001).

At the European level, the Directorate General Banknote Manufacturing actively contributed to the preparation of the second series of euro banknotes as leader of the public group including the central banks of France, Italy, Belgium, Spain and Austria. In 2009, the ECB entrusted this group with the development of the first denomination of this series.

In the medium term, the operational priorities of the Directorate General Banknote Manufacturing are along the same lines as the previous years and are focused on the consolidation of its financial break-even, especially in view of the implementation in 2012 of the Eurosystem's centralised system of tenders for the supply of euro banknotes. The three priorities defined in 2008 remain the roadmap of the Directorate General Banknote Manufacturing:

- complete the adaptation of the production facilities through the necessary investments and redeployment of machinery to a state-of-the-art technical level in the face of competition and with the capacity to produce the second series of euro banknotes;

Key data for 2009

- 2.65 billion banknotes delivered by the Directorate General Banknote Manufacturing, of which 2.21 billion in euro
 - 7.4 billion banknotes sorted
 - 7.7 billion banknotes distributed by the Banque de France
 - 7.4 billion banknotes received at the Banque de France
 - 2.1 billion coins put into circulation
-
- continue to systematically improve productivity by controlling the quality of production, optimising the performance of the machines and adapting the working structure to the workload schedule of the coming years;
 - endeavour to reduce all costs, notably by optimising supplies through systematic competitive tendering between suppliers and cutting back on operating costs.

Management of banknotes in circulation

The Banque de France puts euro banknotes and coins into circulation; through its branch network throughout France, it supplies cash to credit institutions, which are then responsible for distributing it to their clients.

The Bank is in charge of maintaining banknotes and coins, i.e. ensuring the quality of banknotes and coins in circulation throughout the country. It sorts the banknotes that it receives to identify and remove counterfeits and unfit, torn or stained banknotes.

It controls and supervises the cash industry. In particular, it is responsible for inspecting the processing of coins that it receives and the recycling of banknotes for the replenishment of ATMs (see Box 21).

Box 21

The recycling of euro banknotes and coins in 2009

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

Credit institutions that process and package coins for delivery to the Banque de France must conclude an agreement with the Bank regarding the processing of coins for delivery to the Banque de France or use the services of an operator that has concluded such an agreement.

These agreements specify the measures to be implemented by operators (equipment, procedures, etc.) and provide for on-site and documentary inspections by the central bank.

The system of inspection, which was put in place in 2006, is now totally operational.

At end-2009, 40 processing agreements were in force, concluded between the Banque de France, credit institutions, cash-in-transit companies and companies operating vending machines. Overall, at 31 December 2009, there were 163 sites in France handling coins for delivery to the Banque de France.

In 2009, 46 workshops were the subject of on-site inspections by the Banque de France. The inspections carried out identified a number of malfunctions (inadequacy of equipment, operating and internal control procedures, etc.) that were gradually rectified.

Having identified several serious shortcomings, the Director General Cash Management and Branch Network Activities gave notice to two of these sites to bring their processing procedures into compliance with the requirements of the agreements. The problems were sorted out.

.../...

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

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

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

In 2006, the decree's entry into force led many banks to review their practices concerning the replenishment of their ATMs. While some were able to take advantage of the transitional period provided for in the agreements, most of the banks that did not meet the requirements stipulated by the decree and the agreements stopped recycling banknotes.

Since then, most credit institutions have started to work on the possibility of recycling banknotes in-house in the framework of the target system laid down by the standard agreements. This has often resulted, after a series of experimentations, in the signing of an agreement. Most of the institutions concerned (86%) have invested in back office equipment, which is relatively cheap and easy to use. Some (7%) use bank counter equipment (automatic cash-recycling machines), others (7%) prefer to recycle via equipment integrated into their "cash walls".

At the end of 2009, 48 agreements concerning the "distribution by ATMs of banknotes not directly drawn from a Eurosystem central bank" had been signed between the Banque de France and credit institutions. 3,596 bank counters were distributing via ATMs banknotes not drawn from a central bank. These banknotes were generally processed by the credit institutions themselves and, more rarely, by service providers.

In 2009, the Banque de France carried out 106 on-site inspections in bank counters and workshops processing banknotes for the replenishment of ATMs. The on-site inspections and off-site monitoring having brought to light several serious shortcomings, the Director General Cash Management and Branch Network Activities gave notice to two operators to comply with the requirements of the agreements.

The transitional period provided for in the agreements regarding the authorised equipment for banknote processing came to an end in 2009. The credit institutions concerned were required to acquire the authorised equipment or stop processing banknotes.

Training bank employees in the authentication of banknotes

In accordance with the provisions of Article R122-6 of the *Monetary and Financial Code*, the Banque de France continued to give support to banks that requested it in training staff charged with the manual distribution of banknotes in bank branches. In 2009, 1,646 credit institution staff members were trained along these lines by the Banque de France.

Implementation of the Decree in overseas departments

The Banque de France has charged the French overseas note-issuing bank (IEDOM) with the administration of the system regarding credit institutions whose headquarters are located in the overseas departments and in Mayotte. Five agreements concerning the delivery by ATMs of recycled banknotes have been signed (Reunion, Martinique, Guadeloupe and French Guiana).

At end-2009, ten agreements covering the automatic processing of euro coins were in force in respect of ten production sites. The IEDOM conducted seven on-site inspections.

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

With a view to further modernising the processing of banknotes and coins, the Banque de France closed five so-called devitalised cash centres, i.e. cash centres used only marginally by cash-in-transit companies for cash withdrawals and deposits. Thus, since 1 July 2009, the branches of Agen, Aurillac, Bar-le-Duc, Châteauroux and Mende no longer carry out any cash activities, but continue to perform their other functions. The fitness sorting and distribution of banknotes and coins is still carried out by 72 cash centres (and the six IEDOM agencies).

Breaking with the trend observed since 2002, the volume of banknotes handled by the Banque de France and the IEDOM declined slightly in 2009. Withdrawals amounted to EUR 7.7 billion banknotes (down by 0.8%), worth EUR 180.5 billion. The volume of banknotes deposited with these institutions reached EUR 7.4 billion banknotes (down by 0.7%), worth EUR 173.9 billion.

In this context, the banknote authentication and fitness sorting activity slowed. The annual volume of banknotes processed dropped by 199 million banknotes, representing a decline of 2.6%, to stand at 7.4 billion banknotes.

The net issuance of banknotes⁸ in France grew at a sustained pace in 2009: it rose by EUR 6.6 billion, i.e. 9.5% year-on-year, to reach EUR 76.5 billion at end-December 2009. This increase, which was less pronounced than that in 2008 (12.5%), a year characterized by a strong rise in the demand for banknotes in October,⁹ was nevertheless slightly larger than that recorded in 2007 (8.1%). It was also higher than that in the euro area as a whole (5.7%, after 12.7% in 2008), where net issuance reached EUR 806.4 billion at end-December 2009. By convention, 18.7%¹⁰ of this banknote circulation, corresponding to EUR 151.2 billion, is recorded on the Bank's balance sheet. In terms of net issuance, France remained in fourth position in the Eurosystem,¹¹ behind Germany (EUR 348.1 billion), Italy (EUR 143.2 billion) and Spain (80.6 billion).

Chart 23
Volumes of euro banknotes handled by the Banque de France and the IEDOM

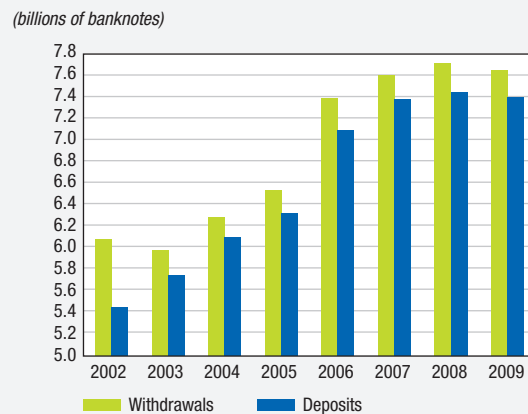
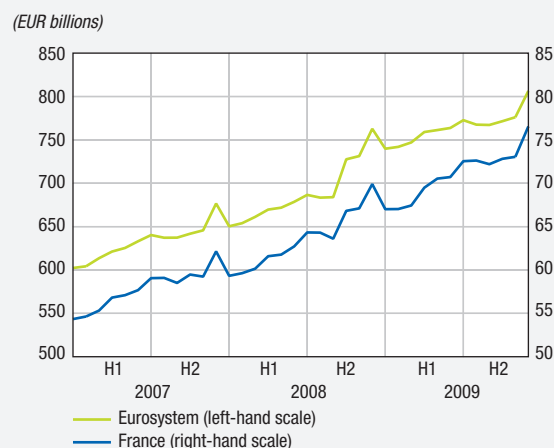


Chart 24
Net issuance of banknotes in 2009



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

9 EUR 2.2 billion, of which EUR 1 billion just for the EUR 500 banknote.

10 Pursuant to the ECB's Decision of 6 December 2001 on the issue of euro banknotes, amended on 12 December 2008, 8% of the total value of euro banknotes is allocated to the ECB, while the remainder is allotted to the NCBs in proportion to their paid-up shares in the ECB's capital.

11 Outstandings excl. national currencies.

In contrast to the situation observed in the rest of the euro area, the growth in net issuance in France was essentially fuelled by denominations used for transaction purposes (EUR 5, 10, 20 and 50), which rose by 10.2% in nominal terms in 2009, compared with 3.6% in the Eurosystem. Conversely, denominations used for hoarding purposes (EUR 100, 200 and 500) posted a lower increase than the euro area average (5.5%, compared with 6.4% in the Eurosystem).

The volume of coins handled by the Banque de France and the IEDOM declined sharply in 2009, both in terms of withdrawals (2,146 million coins, i.e. a fall of 3.0%) and deposits (1,169 million coins, i.e. a drop of 8.2%). In 2009, net issuance of coins in France in nominal terms posted slightly stronger growth than in 2008 (4.9% compared with 4.1%). At end-December 2009, net issuance of coins in France thus stood at EUR 2.6 billion.

French franc banknotes continued to be returned to the Banque de France in 2009, with a surge in activity recorded at the start of the year due to the end of the exchange period for the Delacroix 100 franc note on 31 January 2009. Over the year, exchanges of French franc notes reached a volume of 1.1 million banknotes with a value of FRF 212 million (EUR 32.3 million).

5|2 Services provided in the area of relations between private agents and the financial sphere

National payment incident databases

In response to the wish expressed by the Minister of the Economy, Industry and Employment to boost the FICP's role in preventing household overindebtedness, the Bank worked, together with the banking sector, towards improving the functioning of this database. The changes made, which will enter into force in 2010, concern more specifically the data supply and consultation methods. These will be modernised in order to improve the updating of data recorded in the FICP.

Key data for 2009

- 62.9 million consultations of the FCC
- 2.5 million individuals recorded in the FICP
- 147.2 million consultations of the FNCI

Tasks carried out in data management

The Banque de France manages the household payment incident databases:

- the *Fichier national des incidents de remboursement des crédits aux particuliers* (FICP – National Register of Household Credit Repayment Incidents), which records clear-cut payment incidents related to credit granted to private individuals as well as measures for handling cases of household overindebtedness;
- the *Fichier central des chèques* (FCC – Central Cheque Register) records clear-cut payment incidents related to the use of cheques and bank cards, with the aim of improving the security of payment instruments;
- the *Fichier national des chèques irréguliers* (FNCI – National Register of Irregular Cheques), which compiles and disseminates data, particularly on stolen or lost cheques, to merchants and service providers seeking to verify the validity of cheques.

Overindebtedness

The Banque de France contributed to the preparation of the bill on consumer credit, which includes a section on the reform of the processing of overindebtedness cases. In particular, it organised regional meetings, bringing together all of the players involved in the processing of overindebtedness cases, in order to generate ideas and good practices with a view to contributing to the legislative and regulatory work. These regional meetings gathered over 1,100 participants: members of household debt commissions and their secretariats, magistrates, social workers and representatives of consumer associations, all specialists of household overindebtedness problems and involved in providing concrete solutions on a daily basis.



Christine Lagarde, *Minister of the Economy, Industry and Employment*
and **Christian Noyer**, *Governor of the Banque de France*, in Saint-Denis on 12 October 2009

In 2009, the number of cases submitted to the household debt commission secretariats rose by 14.8% on the previous year. Despite this increase in the number of cases, the average processing time of the out-of-court settlement phase stood at 3.1 months at end-2009, which goes beyond the commitment set out in the *Public Service Contract* (4 months).

The functionalities for processing cases of overindebtedness, which had been implemented throughout the Bank's branch network in 2007, continued to be improved. The dematerialisation process made headway. Information from the secretariats of the household debt commissions is thus increasingly transmitted to the commission members in electronic form.

Other tasks carried out in respect of relations with private individuals

The Bank processes requests to allow individuals to exercise their right of access to banking services, which entitles all persons domiciled in France without a deposit account to open such an account.¹²

It provides the secretariat for the Banking Mediation Committee, which is chaired by the Governor and is responsible for supervising the mechanism set up in 2003 and drafting an annual report on mediation.

It performs administrative duties for the *Comité consultatif du secteur financier* (CCSF – Advisory Committee on the Financial Sector), which is charged with studying issues associated with relations between credit institutions, insurance companies and investment firms and their respective clients, and with proposing



Household debt management

appropriate measures in this area in the form of either opinions or general recommendations.

It helps to inform private individuals about banking regulations and practices via its “Infobanque” service.

It manages the database on banking and financial sales activities on behalf of the *Autorité des marchés financiers* (AMF – Financial Markets Authority), the *Comité des établissements de crédit et des entreprises d'investissement* (CECEI – Credit Institutions and Investment Firms Committee) and the *Autorité de contrôle des assurances et des mutuelles* (ACAM – Insurance Supervisory Authority) and now on behalf of the *Autorité de contrôle prudentiel* (ACP – Prudential Supervisory Authority).

Key data for 2009

- 216,400 cases submitted to the household debt commissions
- 33,700 applications for access to banking services

¹² See *Espace consommateurs on the Banque de France website: www.banque-france.fr*

Sustainable development: a corporate responsibility

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

In 2007, the Bank initiated efforts to identify the challenges it faces and define its own specific objectives. The result is a comprehensive, cross-sectoral strategy based on the three pillars of sustainable development.

- The Banque de France wishes to contribute to the international objective to limit global warming to 2°C by the end of the century, which was reaffirmed at the Copenhagen climate summit, and to the specific implementation of this objective in France, “factor 4”: reducing France's greenhouse emissions by a factor of four by the year 2050. This strategy is in line with the law of 3 August 2009 implementing the decisions taken at the *Grenelle* environment forum – the high-level environmental forum held in France.

From left to right :

School visit to the Banque de France
Secondary school children at the Banque de France
Sixth formers during an educational workshop
at the Press and Communication Directorate



- As it carries out its core tasks, the Banque de France puts particular emphasis on the financing conditions that enable sustainable growth and considers that the financial crisis calls for stricter ethical standards. It places financial stability at the heart of its research and initiatives in order to forestall systemic risk and to foster the continued financing of investment projects compatible with sustainable growth.

The Bank contributes to academic research on the requirements and challenges of low carbon sustainable growth. It intends to participate in thinking and debate on the impact of climate policies on the economy and finance.

- The Bank's social mission centres mostly on its public service tasks. The Bank plays a specific role in the area of social cohesion and in combating social exclusion through the support it provides for dealing with household overindebtedness. Also worthy of note is the role the Bank plays in the management of household payment databases, which are valuable prevention tools,

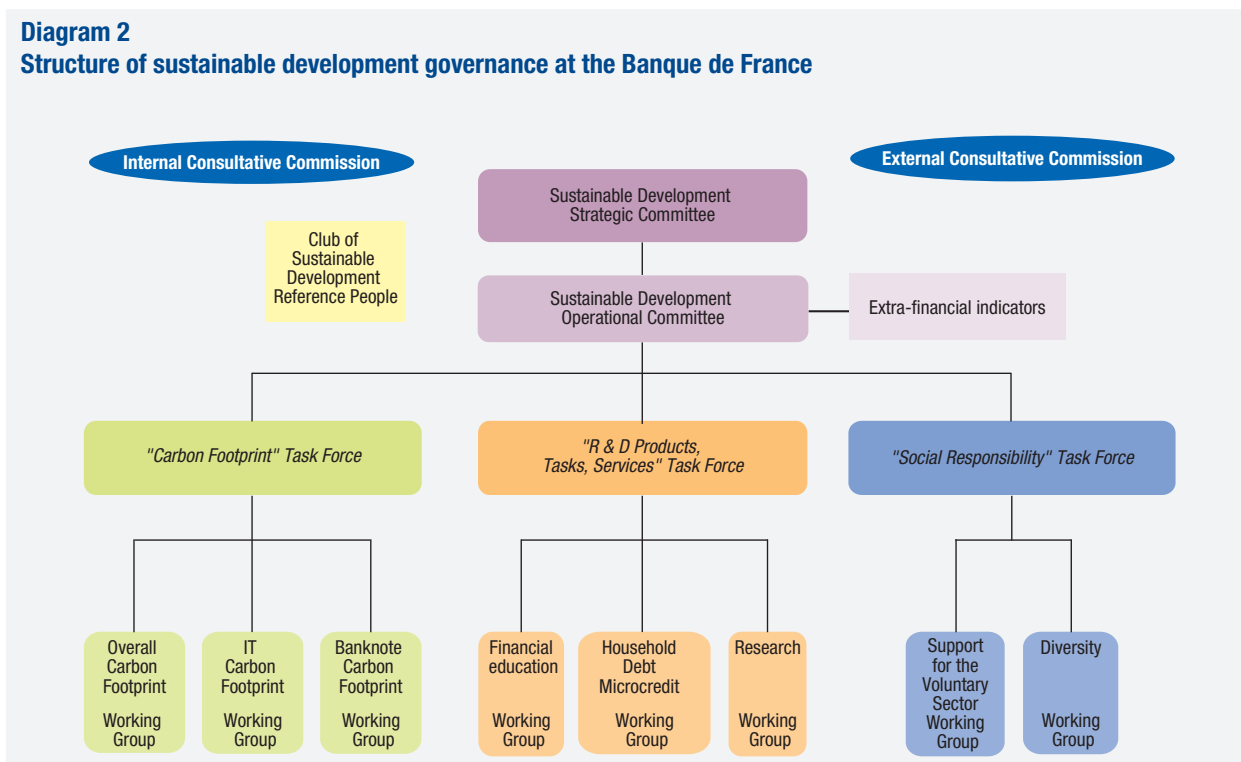
and in processing individuals' requests to exercise their right of access to banking services. The Banque de France seeks to enhance the public's knowledge and comprehension of financial issues. In 2009, it promoted diversity by setting up internship programmes in its branches to provide corporate exposure to over 400 secondary school students from priority education areas (*zones d'éducation prioritaire* – ZEP). For many years, the Bank has also been actively committed to supporting access to employment for persons with disabilities, in collaboration with the Work Adjustment and Rehabilitation Centre (*Centre d'adaptation et de réinsertion par le travail* – CART), *Club entreprises et handicap* and *Mission handicap*. It considers combating all forms of discrimination to be one of the preconditions for harmonious and inclusive development.

1 | STRATEGY AND GOVERNANCE

The sustainable development strategy is set out in the Banque de France's Sustainable Development Charter.



Diagram 2
Structure of sustainable development governance at the Banque de France



This Charter is adapted specifically to the central bank function and was drawn up using a participatory approach. A draft was presented to the General Council on 6 March 2009 and submitted for review to employees on 12 March during a day-long participatory sustainable development forum. At its first meeting on 25 May 2009, the Strategic Committee for Sustainable Development chaired by the Governor adopted the final version of the Bank's charter, which was enhanced by comments from an external consultative commission and from staff members through the dedicated blog.

1|1 The “sustainable development” strategy

The sustainable development strategy is made up of three components: economic, social and environmental. It is comprehensive and entails regulations that are progressively binding.

Integrate sustainable development into the bank's operations and tasks

At the environmental level, the Bank's desire to lessen its environmental impact translates into the implementation of a carbon footprint reduction master plan (*Schéma directeur de réduction de l'empreinte environnementale* – SDREE), which includes multi-year action plans. This approach is based, *inter alia*, on the implementation of a workplace travel plan, a carbon footprint analysis and the progressive refurbishment of the bank's buildings. It is spearheaded by the Sustainable development department, which was set up in January 2010 and reports directly to the Secretary General.

In the area of the economy, the Bank has undertaken to bring its economic and financial expertise to bear on certain sustainable development issues and anti-climate change initiatives, e.g. climate policies, carbon emission trading, carbon taxes and sustainable growth conditions.

The Bank is also contributing to the enhancement of financial ethics, i.e. governance of financial organisations and actions to combat money laundering.

With regard to the social component, the Bank consults with stakeholders to buy and sell eco-responsible products and services and increase the financial knowledge of economic agents. It has drawn up in-house action plans to ensure that all forms of diversity are respected, to combat discrimination, develop staff skills and awareness on sustainable development, and guarantee a work environment that protects the health and equal treatment of all employees.

Comply with more binding regulations

The Bank has taken an anticipatory stance with regard to future legal provisions that will ensue from the *Grenelle* environment forum: obligation to cut energy

consumption, eco-responsible property renovation, sustainable procurement planning, scoreboard and monitoring of sustainable development indicators based on the National Sustainable Development Strategy, which is in line with the European Sustainable Development Strategy. In addition, the Banque de France is proactively preparing to comply with the draft decree that aims to extend mandatory social and environmental reporting requirements to government institutions.

Obtain the best certifications

The Bank is striving to improve certifications relating to quality, social and environmental standards in its various projects and sectors of activity. This is a priority policy, which contributes actively to compliance with existing best practices: it is a requirement for all companies that produce goods and services and guarantees integrated and recognised performance (see Box 22).

Box 22

Certifications obtained at 31 December 2009

Business areas	Certifications
Banknote Manufacturing Cash Management	ISO 9001-2008, ISO 14001, OHSAS 18001 ISO 9001-2000 : national system of management of the "Banknote and coin maintenance" business line and 40 processing centres certified in 2009, certification process underway in 10 cash centres in 2010, continued roll-out in 2011 for the other cash centres OHSAS 18001: national system of management of the "Banknote and coin maintenance" business line and one processing centre certified in 2009 (cash centre and head office maintenance section) Subsequent and progressive extension to the other centres from end 2010 to early 2011
Operations	ISO 9001-2008: Supervision of Payment Systems Directorate
Finance, Administration, Communication	ISO 9001: Banking Services Directorate ISO 9001: Poitiers Administrative Centre, Information Systems and Telecommunications Directorate (DIT) and France TIP (DSB) In December 2009, AFNOR audit for ISO 9001 of General Services (excluding labour relations)
Finance, Administration, Communication Finance, Administration, Communication	ISO 9001-2000: Marne-la-Vallée Administrative Centre <i>Imprim'vert</i> : Printing, Supplies and Equipment, Ivry
Organisation and IT	ISO 9001-2008: DIT ISO 27001: SAREVA Operational Security Centre (DIT)
Supervision and risk prevention	ISO 9001-2008: Head office audit

The Bank is also considering possible entry points to an ISO 26000 approach. Applicable to all types of organisations, the future international standard, which is due to be released in autumn 2010, will offer guidelines on corporate social responsibility.

1|2 Governance devoted to corporate social responsibility

A special organisational structure (see Diagram 2, *Structure of sustainable development governance at the Banque de France*) has been set up to amplify the Bank's overall sustainable development strategy.

Chaired by the Governor or a Deputy Governor of the Bank, the Strategic Committee for Sustainable Development sets guidelines, approves the proposals of the Operational Committee and ensures their implementation.

An "external consultative commission" chaired by the Governor or his representative promotes consultations with external stakeholders (NGOs, companies, local authorities, etc.). Made up of representatives from the corporate sector, financial sector and independent organisations, it examines the Bank's general sustainable development policy, identifies areas for further research and action and assesses the actions taken (see Box 23, *List of members of the external consultative commission for sustainable development*).

The "internal consultative commission" comprises the Banque de France staff representative who sits on the General Council, the Secretary of the Works Council (*Comité central d'entreprise* – CCE) and a delegate from each representative trade union. This commission was set up in response to the wishes expressed during the consultation preceding the adoption of the Charter. It allows staff representatives to contribute to the Bank's sustainable development policies and projects. While it is in line with the participatory sustainable development approach, it does not seek to replace legal or traditional negotiating bodies.

Box 23

List of members of the External Consultative Commission for Sustainable Development

Arnaud Berger

Director – Sustainable development
Groupe Banques populaires – Caisses d'épargne

Jean-Pierre Bompard

Delegate for Energy, Environment and Sustainable development
Confédération française démocratique du travail (CFDT trade union)

Blaise Desbordes

Director – Sustainable development
Caisse des dépôts et consignations

Sophie Liger-Tessier

Director – Sustainable development
Mouvement des entreprises de France (MEDEF)

Yann Louvel

Head – Private Finance
Friends of the Earth, France

Laure Mandaron

Delegate for Sustainable development
Groupe La Poste

Pierre Radanne

Former President
Environment and Energy
Management Agency (Ademe)

Thierry Sibieude

Professor
Essec Group

Jean-Pierre Tardieu

Managing Director
Institut Veolia Environnement

The Operational Committee for Sustainable Development coordinates the various projects under the aegis of the General Secretariat.

Three task forces oversee the work carried out in the "Carbon footprint", "Tasks, products, services and R&D" and "Corporate social responsibility" working groups.

A Sustainable development department will be set up in January 2010. In the interim, an internal sustainable development laboratory is responsible for steering sustainable development strategy and coordinating it with a network of sustainable development point persons within each general and regional directorate.

2| THE ECONOMIC COMPONENT: STABILITY AS A PRECONDITION FOR REFORMS FOSTERING SUSTAINABLE DEVELOPMENT

For over 60 years, economic growth has enabled each new generation to enjoy a better standard of living than the generation preceding it. This prospect is currently undermined not only by the financial crisis, which has exposed fault lines in our economic systems, but also by diminishing natural resources, raising questions about our development model. Stabilising the economic and financial system is a prerequisite for restoring sustainable growth. However, given the potential impact of the crisis on long-term growth, structural reforms will also be required to revitalise France's economic growth. In addition, the crisis affords an opportunity to accelerate growth-enhancing reforms in line with an approach that is more sensitive to the environment and more socially responsible.

2|1 Monetary and financial stability and structural reform, preconditions for sustainable growth

Impact of the crisis on long-term growth

Lessons learned from past financial crises indicate that the current crisis could constitute a significant risk for the growth outlook of the advanced economies. A production function-based analysis of sources of growth shows that growth is ultimately determined by

changes in factors of production (capital and labour) and the efficient combination of these factors (measured by total factor productivity, TFP). The crisis could, to varying degrees depending on the time horizon considered, have an impact on all of these components.

Transmission mechanisms

The capital stock could be rapidly and permanently affected. The crisis could in fact lead to a lasting reduction in productive capital, notably as a result of the drop in investment and the permanent shutdown of idle production chains. While this consequence affects very small companies primarily, in the last few months it has had a greater impact on very small companies as well as SMEs. If, at the end of the crisis, investment makes only a weak recovery, the impact on capital stock levels could be lasting.

The potential employment level could drop temporarily in the medium term. The sharp rise in unemployment and the sustained slowdown in activity in certain sectors could result in persistently high unemployment levels, irrespective of changes in business conditions: the loss of jobs in sectors permanently impacted by the crisis may not necessarily lead to the creation of jobs in more dynamic sectors. The rise in structural unemployment could then also lead to a reduction in labour market participation rates, with some unemployed people becoming reluctant to enter the job market.

The crisis could have progressive and lasting effects on the efficiency of labour and capital. In the short term, TFP could be affected by the ageing of capital stock resulting from declining investment. However, the impact the crisis will have on TFP is expected to be mostly progressive due to a decrease in R&D expenditure. In times of recession, if companies face financial constraints, they can end up restricting their R&D expenditure.

The sectoral reallocation of activity resulting from all significant crises may also lead to a drop in TFP levels or even growth, if some highly-productive sectors permanently cut back their business activity (see Table 4).

Table 4
Channels and timing of transmission of the crisis to potential growth

Factor of production	Horizon		
	Short term	Medium term	Long term
Capital	Increased depreciation Investment cycle Financial constraints		Rise in the cost of capital
Labour		Hysteresis	
Total factor productivity	Ageing of capital stock		Sectoral reallocation R&D

Possible scenarios

Studies of the transmission channels of the crisis to potential output show that it is possible to anticipate effects on both potential output level and growth in the near to distant future, leading to consequences that are more or less permanent. Three scenarios are possible (see Diagram 3):

- the “air pocket” scenario in which potential output and its growth are not permanently affected by the crisis and can be restored rapidly;

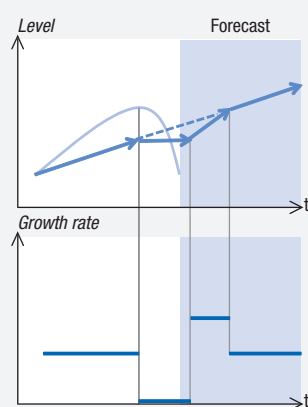
- a scenario in which potential output is durably affected by the crisis, with output growth only gradually achieving its pre-crisis level;
- a scenario in which potential output and its growth are affected over the long term.

Given the pitfalls of estimating potential output in real time, analysis of the impact of the crisis on potential growth is only robust ex post. Therefore, the three scenarios contemplated above all remain possible at this stage. However, several considerations lead us

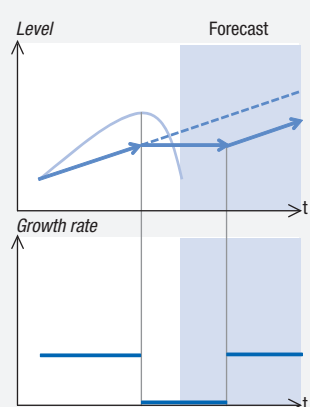
Diagram 3
Scenarios for changes in the level of potential output and its growth

(EUR billions, growth rate as a percentage)

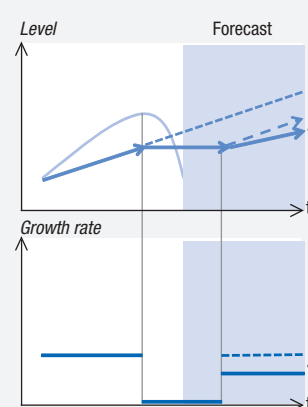
A – Air pocket



B – Level Effect



C – Growth Effect



— Actual output — Potential output

Source : Banque de France.

to give more credence to an effect on the potential output level (scenario B) in the advanced economies, without however ruling out a possible effect on the potential output growth rate (scenario C).

Recent economic studies have thoroughly examined past financial crises. If we consider four significant financial crises – Norway (1987), Finland (1991), Sweden (1991) and Japan (1992) – it is possible to compare Finland and Sweden to the air pocket (scenario A), but with a long catch-up period of some 10 years. Norway suffered a level effect (scenario B) and Japan a growth effect (scenario C). Econometric studies based on the financial crises identified by the International Monetary Fund show that these crises have effects on the level (leading to an average 4% loss in potential output in the most severe crises).

A relatively sustained effect of the crisis on the level of potential output and its growth is probable, due, notably to the observed pro-cyclicality of R&D expenditure, for example when companies face financing constraints. In addition, the global nature of the crisis may exacerbate the consequences of these constraints. For instance, a country affected in isolation by the crisis may subsequently benefit from the innovations emerging in other countries that have not decreased their R&D expenditure. Inversely, when several countries reduce their R&D expenditure simultaneously, there is a heightened risk of a permanent loss in potential output.

The scope of measures taken to support growth and the financial system in the different countries, as well as the speed at which these measures are implemented, could limit the risk of a disruption in economic behaviour, notably in the financial system, that could permanently affect potential output growth (scenario C).

Monetary and financial stability, a precondition for sustainable growth

The exceptional measures taken in the last two years have stabilised the economic and financial system, dispelling the threat of depression. In the longer term, the key to sustainable growth will be preventing

monetary and financial instability, which dampens growth and hampers long-term savings growth.

Inflation can indeed be costly for economic growth. The costs take several forms: inflation distorts the information delivered by changes in relative prices, which enables the proper allocation of resources in a market economy. It diverts resources away from productive activities towards inflation prevention efforts. It leads to the arbitrary transfer of wealth from lenders to borrowers and from households to the public sector. It increases interest rates through an increase in the inflation risk premium and thus drives down investment. Financial instability, for its part, hinders the efficient allocation of capital and amplifies economic cycles.

Moreover, significant investment will be required to enable growth in the coming years, not only to rebuild the productive capital wiped out by the financial crisis, but also to establish the infrastructure required for green growth. Development and growth of long-term savings should help to finance these investments.

This requires a stable monetary and financial environment. Inflation reduces returns on most investment instruments and deflects savings towards more short-term instruments or certain highly specific securities. By adopting a long-term investment strategy, investors can reduce the volatility of their returns thanks to the mean reversion tendency observed in the past. Nevertheless, both inflation and financial instability have been able to thwart this mechanism: the hyperinflation of the 1920s and the financial crisis of 1929 both led to real negative returns over very long periods.

Transparent financial information is also essential to the growth of long-term savings. In this regard, 2009 saw France playing a key role in significant international initiatives on relations with non-cooperative jurisdictions and the compensation of market professionals. The measures taken by the Financial Stability Board have been transposed into the French regulations that subject credit institutions to new transparency, governance and supervisory requirements in these areas. Credit institutions are now required

to disclose publicly, and on a yearly basis, the list of their branches and subsidiaries in countries or territories that do not have tax information exchange agreements with France, information on the activities and risk monitoring of these branches and subsidiaries, and also quantitative and qualitative data on their compensation policies and practices.

These increased transparency requirements, combined with the inclusion in internal control regulations of provisions relating to incident reporting, risk cartography and the identification of risks in compensation plans, should encourage institutions to behave more virtuously in the assessment and management of risks relating to these activities. Banking authorities, who carried out various supervisory initiatives in these areas in 2009, will be particularly attentive to compliance with these new rules.

Consolidating long-term growth through structural reform

Structural reforms adapted to the characteristics of the euro area countries could boost both productivity and workforce mobilisation. Economic studies have shown that where labour and goods and services markets are strictly regulated, a reduction in rigidity yields significant benefits for the economy. Such reforms appear to be necessary to consolidate public finances.

The macroeconomic effects of anti-competitive regulation of labour and goods and services markets are mostly transmitted through two mechanisms. First, this regulation affects the creation and distribution of economic rents. Companies' incentive to innovate or seek any other performance gains is lowered. Second, such regulation creates significant friction on the markets by, for example, erecting barriers to companies' entry into these markets. Market flexibility is thus reduced and as a result, so is efficient resource allocation. This results in:

- a high unemployment rate, particularly the long-term unemployment rate, accompanied by low labour market participation, and

- slowdown in growth rates in the most productive companies. Anti-competitive regulation is therefore harmful in the long term. However, implementing structural reforms may be costly in the short term. Coming on the heels of the crisis, these added costs could be not only detrimental for employees but also weigh on public finances. Priority reforms must therefore be identified.

Labour and goods and services market institutions have interacting effects on the economy. An optimal reform strategy would reduce rigidities on the goods and services market. This reduction would lead to decreased rents, thus lessening opposition to institutional reforms on the labour market. A look at regulation of the goods and services market shows that market services are much more strictly regulated than the manufacturing sectors. Services have become a major component of economic activity and significant producers of intermediate consumer goods. The regulation of these sectors is therefore a critical issue. It is essential to specifically identify, for each country, the service sectors in which reforms could generate the greatest productivity gains.

As a general rule, regulation has an effect on the productivity of the sector to which they apply. But regulation of services has, in addition, a considerable impact on the productivity of other sectors of the economy. This influence derives from the production of intermediate goods by service firms. Regulation strengthens the market power of firms that produce intermediate goods, which can then capture a share of the economic rents of the companies that use these goods. The rent that the firms that use these intermediate goods could realise through performance gains would therefore be partially siphoned off. Their efforts to earn these performance gains are therefore undermined. Ultimately, the productivity of companies that use intermediate goods diminishes, all the more sharply if their consumption of these goods is significant. Taking into account all these considerations, it is possible, for each country, to quantify the influence of market services regulation on the productivity of the economy as a whole.

For instance, in the case of France, it appears that reform of the retail sector would generate particularly high productivity gains. For Germany, the priority appears to be the reform of “professional services” (accountants, architects, engineers and lawyers).

2|2 What reforms are required for environmentally-sensitive and socially responsible growth?

Restoring sustainable growth means not only revitalising current growth potential but also striving to preserve future growth potential. Meeting this dual requirement would lead to a development model that is sustainable, i.e. “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”, as defined in the Brundtland Report (1987). Fulfilling all the conditions required for this development is a major challenge, which can only be met by changing our collective behaviour, particularly by conserving certain natural resources whose depletion could compromise long-term growth potential. To achieve this, we need to acquire the appropriate tools, firstly, by designing indicators that provide insight into the impact of our actions in the medium to long term and, secondly, by implementing suitable incentive policies.

Designing innovative indicators for assessing sustainability of growth

GDP growth measures the relative change in value added produced over a period of time and provides useful information on economic performance. However, this yardstick does not take into account changes in stocks of natural resources or pollution, even though the scarcity of these resources or excessive pollution may limit future growth potential. It is

therefore necessary to develop additional indicators that can assess the sustainability of growth. There are already a number of indicators, but, as underlined in the Stiglitz¹³ commission’s recent report, these indicators must be improved in order to provide reliable and consistent information. The report also pinpoints the difficulties inherent in the development of these indicators. A sustainability indicator cannot be designed solely on the basis of observations; it should also be based on projections, which means making normative choices when making these projections. In addition, sustainability is multi-dimensional and very difficult to aggregate into a composite indicator. These difficulties notwithstanding, the report has initiated a debate that should be pursued; it will make it possible to progressively develop a scoreboard of relevant indicators that will supplement traditional indicators.

At the same time, maintaining growth potential means implementing public incentive policies that can motivate behaviour change.

Implementing suitable economic policies: the example of fossil energy

The user cost of certain resources does not reflect the total costs arising from their use. This is the case for fossil fuels: while their consumption generates greenhouse gas emissions that have costly climate change effects, this cost is not factored into the price of this energy. It is incumbent on government authorities to price these greenhouse emissions. Raising the cost of the use of fossil energy will create the incentives required for a development model that is more sustainable, especially as regards technological innovations. Current policies that aim to make greenhouse gas emissions more costly must therefore be encouraged. They are necessary and justified because they correct an inefficient price system. However, for these policies to produce the desired incentive effects, they must be conceived as permanent and long-term policies. If they are

¹³ Stiglitz-Sen-Fitoussi report, *Commission on the Measurement of Economic Performance and Social Progress*, 14 September 2009.

credible, consistent and intelligible over the long term, the signals sent will influence behaviour while minimising shocks on economic agents. Particular attention must be paid to emissions trading systems in this respect. Their extremely rapid development requires us to be very vigilant regarding their functioning and stability. Failing this vigilance, they will not produce the expected effects.

Social responsibility and financial products:
socially responsible investment,
solidarity finance and microcredit

Microfinance is a key issue in sustainable development strategies. It has three constituents: microcredit, micro-insurance and solidarity-based savings.

Business microcredit has been available in France for 20 years or so and enables the start-up of small companies or self-employment businesses. Personal

microcredit emerged only in 2007 with the enactment of the Social Cohesion Law (also known as the “Borloo law”); it remains sporadic.

“Support” or “tutorial” programmes on both types of credit are provided to users by ad hoc organisations adapted to the borrowers’ profiles. Both forms of credit are a gateway to banking services for people excluded from traditional financing channels due to their lack of stable resources. They also help to reduce the excessive debt and bad debts arising from the inappropriate use of renewable credit. In addition, the government guarantees up to 50% of capital loaned through the Social Cohesion Fund (FCS) managed by the *Caisse des dépôts et consignations*. Microcredit therefore has ample room to develop in France. In January 2010, the French Banking Federation called on its members to contribute to the growth of personal microcredit in France.

Box 24

The Observatory for Microfinance

On 12 September 2006, by decision of Governor Christian Noyer, the Banque de France set up an Observatory for Microfinance to increase knowledge of microcredit operations. The Observatory is chaired by Michel Camdessus, Honorary Governor of the Banque de France.

In June 2009, the Observatory submitted its first report ¹ to the Governor, publishing it on the same date.

Written in close collaboration with the *Caisse des dépôts et consignations*, a key player in microfinance, the report reviews the main initiatives taken in France to develop microcredit for very small companies – facilitating their start-up – and for low-income individuals excluded from traditional sources of finance because of their lack of resources. It highlights the real barriers – be they legal and regulatory or related to banks’ and financial institutions’ prudential behaviour – that restrict many economic agents’ and households’ access to traditional credit. To help to lift these obstacles, in his report on the reform of the “A” passbook savings account submitted in December 2007, Michel Camdessus proposed to public authorities and banks that the distribution of microcredit be facilitated in exchange for wider distribution of “A” passbook savings accounts.

The Observatory’s report also describes the “solidarity-based” and “socially responsible” investment savings schemes which are currently attracting many savers. A significant proportion of the savings collected serves to finance microfinance institutions in developing countries, a concrete manifestation of solidarity efforts.

While microcredit outstandings and solidarity-based savings are limited compared to traditional financial loans and investments, they are nonetheless on the rise, no doubt reflecting new attitudes towards economic ties.

¹ May be downloaded from www.banque-france.fr/fr/instit/telechar/services/microfinance.pdf.
The 2009 report will be published in September 2010.

Micro-insurance is still in its infancy. Insurers are grouped into two organisations, which for a limited time, are offering tailor-made, inexpensive “kits” to micro-entrepreneurs only, to be used solely in the first few months following start-up. These schemes need to be closely monitored because they can strengthen the initiatives taken by individuals seeking to start new businesses.

Solidarity-based savings are clearly on the rise. This reflects some savers’ desire to not only realise financial gains but also to help to finance activities that are socially responsible or directly involve sustainable production or service activities. Various banks, financial institutions and websites are currently offering “solidarity finance” investments. While the savings collected are mainly used to finance microcredit in developing countries, there is currently an emergence of products aimed at financing business in the advanced economies.

Various tax measures are designed to encourage investments in solidarity-based savings.

3| THE SOCIAL COMPONENT: EQUALITY, DIVERSITY, PSYCHOSOCIAL RISK PREVENTION AND CITIZENS’ RESPONSIBILITY

3|1 Gender equality in the workplace

Signing a company agreement

On 4 May 2009, the Banque de France and six trade unions signed a company agreement on gender equality in the workplace. Gender equality considerations are not new at the Banque de France. The statutory and regulatory personnel management frameworks largely support equality. Cases in point are the highly-structured recruitment and promotion

Box 25

The Parenthood Charter and the Equality label



On 1 December 2009, the Banque de France’s Director General of Human Resources signed the Corporate Parenthood Charter at a ceremony chaired by the Minister of Labour, Social & Family Affairs and Solidarity.

The national labelling commission awarded the Equality Label to the Banque de France on 17 December 2009 for a period of three years. This label recognises the Bank’s commitments in the area of equality in the workplace and work-home life balance.

The actions taken in the following three core areas were assessed:

- structural initiatives promoting workplace equality: raising managers’ and employees’ awareness, internal communication, signing of an agreement with trade unions;
- staff management: equal access to on-the-job training, analysis of employment and wage conditions, increasing women’s representation at decision-making levels;
- taking parenthood into account in the workplace: flexible working hours, balancing careers and maternity and/or parental leave.

procedures, a much longer maternity leave than under French ordinary law and wide access to part-time positions.

In keeping with the findings of the joint working group set up in 2004 to study the report on the comparative situations of men and women, it appeared feasible and

opportune to step up efforts, with ambitious objectives measured against precise indicators. An observatory for workplace equality is responsible for carrying out these tasks and will publish its work annually.

3|2 Anti-discrimination and pro-diversity initiatives

Commitment to promote employment access
for persons with disabilities

Ambitious new objectives

The company agreement on the employment and integration of workers with disabilities was renewed for the seventh time, with all the trade unions, for the 2009-2011 period (see also Box 26).

The new agreement aims to increase the recruitment of workers with disabilities. It includes a target of 50 recruitments in three years, and the use of block-release training programmes to allow disabled workers to obtain recognised qualifications that enable them to enter the job market progressively. The agreement also aims to strengthen initial vocational and on-the-job training programmes for disabled workers as well as the development of initiatives to help them to remain in employment, as part of a multidisciplinary approach. Lastly, there will be an assessment of personal services that could be financed by the employer.

Employee awareness and communication campaigns

Communication campaigns will be launched to reach out to the staff as a whole. Awareness raising for employees and managers in host departments will be stepped up. Disability issues have been incorporated into the training programme for managers and human resource personnel with a view to preventing discrimination.

Box 26

The Work Adjustment and Rehabilitation Centre (CART), 30 years on



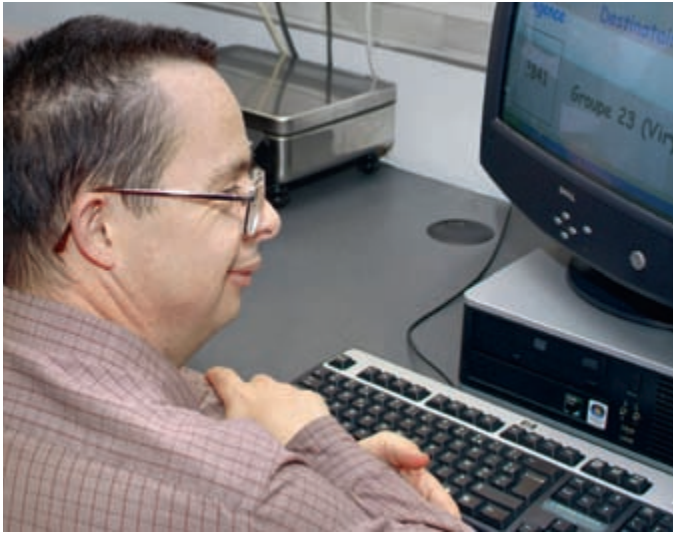
CART opened in February 1979 and is managed by an association founded by the Banque de France and its Works Council (CCE).

CART is open to mentally disabled persons above the age of 18. It can accommodate up to 22 workers. Admission priority is given to employees' children.

Workers with disabilities are closely involved in the life of the Bank. The centre is located in the head office premises and works exclusively for the Bank. The work assigned to CART is varied and based mainly on IT-related activities. Further, the Bank's strong desire to incorporate these workers means that it offers them increasingly long internships in the Bank's departments, leading for some to recruitment as part of the Bank's permanent staff.

The association and the educational team pursue a second goal: promoting the social integration of workers with mental disabilities and increasing their autonomy. To this end, workers at the centre participate in activities offered by a vocational centre (theatre, written expression, cookery, etc.) and "social life" trips.

Thirty years on, the assessment of CART's performance is very positive: it has taken in 72 workers with disabilities over the years, 32 of whom have been recruited as permanent staff members of the Banque de France.



has been designed to evaluate career development and consider career advancement prospects; phased retirement, which was open only to statutory staff, has been extended to contract workers who are at least 57 years old and have at least 10 years' seniority, in order to facilitate the transition between employment and retirement; in the area of skills development, a project has been set up to closely monitor security personnel's access to general training programmes in order to maintain their career advancement prospects; contract workers over the age of 55 who have the required skills will be encouraged to act as tutors and will be given the appropriate training to do so.

Ongoing negotiations for a general staff agreement

The action plan for contract workers is a first step. Negotiations for the entire staff began in 2009 and will continue in 2010. The negotiations are taking place in a context in which the proportion of permanent staff aged 55 or more is high – 21.2% in 2008 – and should continue to increase for a few more years.



Initiatives aimed at older workers

Action plan for contract workers

A plan for contract workers covered by the general pension scheme (i.e. 10% of staff) was finalised in December 2009, in accordance with Article 87 of the Social Security Financing Act of 2009.

This plan sets a target figure for preserving the jobs of contract workers over the age of 55 by keeping these jobs at a proportion of 30% of staff levels (36% in 2008). Initiatives to help staff to remain in employment are also planned in several areas: a mid-career interview

3|3 Prevention of psychosocial risks

Overview

The Banque de France has pursued the efforts to prevent psychosocial risks that it initiated several years ago. Firstly, it has taken the necessary steps to assess the situation. The joint union/management observatory for the prevention of work-related health risks set up in November 2006, has devoted itself specifically to studying psychosocial risks since 2008. In 2009, a specialised consulting firm conducted a survey in three pilot sites: one directorate general and two regional branches.

The survey findings show areas that need to be improved, but no serious risks, and corroborate the 2007-2008 study on “daily life at work” conducted by the in-house doctors of the head office's occupational health department. This assessment is supplemented by regular sociological qualitative studies by the social observatory and the Annual Social Barometer that has been conducted by a polling firm since 2008.

A comprehensive and concerted prevention approach

Based on the results of the survey conducted in the three pilot sites, the joint observatory for the prevention of occupational health risks agreed to focus more specifically on four areas: management, employee recognition (excluding promotions and compensation), professional burnout (physical and mental) and emergency management. Joint working groups were set up at the end of 2009 in these areas. They brought together managers, human resource managers, representatives of trade unions and health, security and work conditions committees, occupational health doctors and social workers. The groups will propose concrete actions by the end of the first half of 2010.

Concurrently, a training course on the prevention of psychosocial risks has been set up for managers and all interested employees. Course contents are adapted to their respective needs. This course will be offered to over 1,000 managers and employees in 2010 and will be renewed over a number of years.

In addition, cross-disciplinary meetings bringing together human resource managers and medical and social staff members have been held at the head office to seek solutions for employees in situations of professional distress. These meetings supplement the systems for dealing with individual situations that have been in place since the end of 2007 (telephone hotline providing counselling, occasional intervention of an external psychologist, emergency psychological assistance in the event of a crisis in a department or branch).

3|4 Increasing public knowledge of economic and financial issues

The Bank has from the outset produced and distributed fact sheets and technical and specialised

publications on currency and credit that are aimed primarily at an academic readership. In recent years, with a view to educating the public on economic and financial issues, the Bank has broadened its offer and is making its expertise and more resources available to the general public.

Initiatives geared towards teachers and school children

Organisation of educational workshops at the Banque de France

The Press and Communication directorate has designed an educational programme for the general public and regularly organises workshops and conferences for secondary school children, senior citizens and students from French and foreign universities. Media used for this purpose include video tools and programmes, multiple choice questionnaires and brochures. The workshops are held mainly in the Banque de France's information centre in Paris. Over 3,000 people visited the centre this year. Some 1,000 of these visitors participated in the activities.



Educational workshop at the Press and Communication Directorate

Box 27

Internships for secondary school students from priority education areas



The Bank has for many years had a policy of supporting youth who might find it difficult to enter the job market by offering them contracts.

In the 2008-2009 school year, the Banque de France hosted “Introduction to business” internships in its branches for year 9 (*troisième*) students from priority education areas (ZEP).

A total of 423 secondary school students served their internships in Banque de France branches all over France, mainly in the second term of the 2008-2009 academic year. This initiative was organised based on formal agreements established jointly by the Banque de France, the schools, the students and their legal guardians.

This extremely positive first experience encouraged the Banque de France to strengthen its ties with ZEP students. In addition to the internships for year 9 students, Bank staff made presentations in schools and school groups were invited to tour Bank branch premises. This initiative was renewed and expanded for the 2009-2010 academic year.



As part of this programme, 16,000 copies of the educational package “*L’euro, la Banque de France & nous*”, which includes a DVD and a brochure, were distributed free of charge to professors of economics and management sciences. The package can be used as a tool to enhance training courses on currency and monetary policy. It tracks the path to the euro and presents the Bank’s cash activities.

Internships for secondary schools students from priority education areas

In the 2008-2009 academic year, the Banque de France hosted over 400 secondary school students from the economically disadvantaged priority education areas (ZEP) in its branches for their compulsory “Introduction

to the business environment” internships (see Box 27). This first contact with the corporate world allowed the students to be personally involved in carrying out operational tasks. They also gained knowledge on the functioning of the banking system, banknote management and on how the Bank processes cases of household overindebtedness. The internship also included an introduction to various economic and financial issues.

Initiatives geared to the general public

Distribution of reference documents

With a view to sharing its expertise more widely with economic agents concerned by financial issues, the Bank distributed over 50,000 copies of a special issue of its publication *Documents et débats* entitled *La crise financière*.¹⁴ It also contributed to an exhibition on

¹⁴ http://www.banque-france.fr/fr/publications/doc_debat/doc_debat.htm

this subject at the *Cité des sciences et de l'industrie* science museum by providing experts, documents and an interview with the Governor. Banque de France economists also presented several papers on this issue and on the outlook for economic recovery. As part of France's "Heritage Days" events, the Bank organised a temporary exhibition and a question and answer session on the financial crisis.

Overhaul of the public access pages of the Bank's website

Today, it is, via the Internet, a vital medium of communication and transmission of knowledge, that the general public increases its knowledge on financial issues. To improve the user-friendliness of the website, a significant amount of information that answers users' questions on banking practices has been centralised under the *Espace consommateurs* heading and is easily accessible from the home page:

- bank account regulations, the different bank means of payment, questions relating to savings and loans and legal actions that customers may take in the event of conflict with their bank;
- bank databases, right of access to banking services, household overindebtedness;
- practical information on banknotes and coins.

This information, which aims to provide answers to specific questions from the public and, more generally, contribute to educating the public on financial issues, is presented in the form of simple and useful questions and answers. Reference documents, fact sheets and helpful links are also easily accessible.

The *Statistics and Surveys* section of the Bank's website was revamped at the end of the year for the same purpose and also to meet the needs of specialised groups. This new layout, which focuses on Internet users' needs, is easier to use, offers simpler navigation, has a single event calendar for new items posted online and presents statistical updates on the website.

The Banque de France sponsors the "*Journées de l'Économie*", which in 2009 were held in Lyons in November, and the "*Journée du livre d'économie*". It also subsidises the *Institut d'éducation financière du public*.

4| THE ENVIRONMENTAL COMPONENT: REDUCING OUR CARBON FOOTPRINT

In 2007, as part of efforts to cut back on its use of natural resources, the Banque de France adopted a master plan for reducing its carbon footprint (*Schéma directeur de réduction de l'empreinte environnementale* – SDREE). A real corporate project, this plan has two targets: reduce greenhouse emissions and hence, global warming, and curb the consumption of resources needed to preserve our planet.

4|1 Acquiring measurement and assessment tools

The Bilan Carbone® project

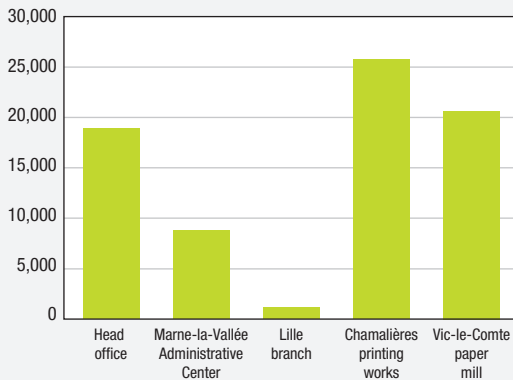
In the second half of 2008, the Banque de France launched a carbon footprint project (*Bilan Carbone®*) to measure its greenhouse gas emissions by identifying and analysing activity flows (mainly energy, transport, supplies and services) in the various Banque de France premises. Five pilot sites were initially chosen (the Chamalières printing works, the Vic-le-Comte paper mill, the Marne-la-Vallée Administrative Centre, the head office in Paris and the Lille branch) (see Chart 25). The *Bilan Carbone®* assessment project will subsequently be extended to the entire Bank network. The Bank outsourced the first *Bilan Carbone®* assessments to specialised service providers: it issued an invitation to tender in 2008, and two service providers were selected for the service and manufacturing sites. The providers began to collect and process the data in mid-2009.

The initial estimates are the following:

- following the assessment phase, the next phase of the *Bilan Carbone®* project will be to define recommendations to reduce CO₂ emissions to a level that is at least commensurate with the objectives of the *Grenelle* environment forum;
- the efficiency of the reduction measures chosen will need to be constantly monitored. The European Union has set an objective to lower greenhouse gas emissions

Chart 25
Bilan Carbone[®] assessment of the Banque de France

(at five pilot sites, tonnes CO₂ equivalent)



Source: Banque de France.

by 20% from 1990 levels by 2020. This objective was strengthened by the Grenelle law of 3 August 2009, which enforces a 20% reduction in CO₂ emissions by 2020 in the transport sector.

Travel assessment

The reduction in greenhouse gas emissions is also contingent on the implementation of a workplace travel plan (*Plan de déplacements d'entreprise* – PDE). As part of an inclusive study of all employee travel (commuting and business trips), the PDE (see Box 28) aims to reduce the use of the travel options that generate the greatest quantities of pollution and greenhouse gases, particularly car travel. This approach comes under the Air and

Box 28

The Banque de France's workplace travel plans

A workplace travel plan is a scheme that enables companies and government agencies to carry out a comprehensive study of all work-related travel so as to reduce the use of the travel options that generate the greatest amounts of pollution and greenhouse gases, in particular car travel.

The Banque de France, which is defined as a significant generator of traffic, sought to comply with the first measure of the Île-de-France Atmosphere Protection Plan approved on 7 July 2006 by launching a workplace travel plan in May 2008. The assessment and ensuing action plan were submitted to the regional directorate for Industry, Research and the Environment at the end of June 2009.

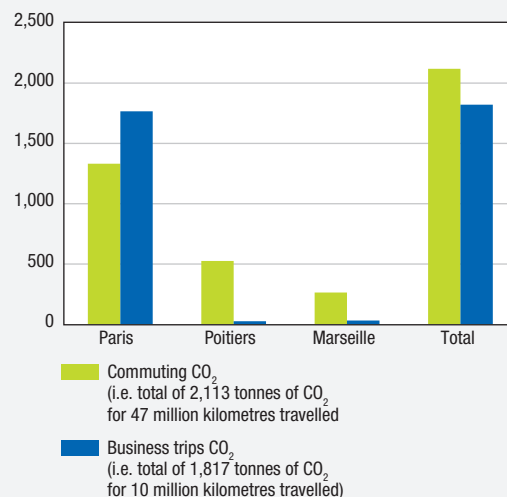
It was submitted for staff representatives' review as part of the internal consultative commission, and also to the legal representative bodies (*Comités d'établissement*).

The plan was also publicly presented to Île-de-France companies and administrative authorities during the *Club Mobilité Capitale* (network of workplace travel plan project leaders) forum "Prendre le tournant de la mobilité durable" ("Making the turn to sustainable travel") organised by the Île-de-France regional directorate of the Environment and Energy Management Agency (Ademe).

In order to further promote the reduction of greenhouse gas emissions, the plan, which was launched at the head office in accordance with the law, has been extended to Bank sites in Marseille and Poitiers. Data collection started in September 2008. A questionnaire on home/office commuting and business trips was sent to employees for this purpose. Data analysed was published in an assessment report that was released at the participatory sustainable development forum on 12 March 2009.

Chart
Greenhouse gas emissions
Summary assessment of three Banque de France establishments

(tonnes)



NB: Total CO₂ emissions (3,930 tonnes) represents the annual carbon sequestration of 327,500 trees, i.e. more than the combined number of trees in the Boulogne and Vincennes forests.

Source: Banque de France.

Rational Use of Energy Act, also known as the Laure Act, whose methodology was defined by Ademe.

The Île-de-France Atmosphere Protection Plan requires the Banque de France, as a significant generator of traffic, to draw up a workplace travel plan for its head office. The Bank has decided to extend the plan to two pilot sites: Poitiers (administrative centre and branch) and Marseille. The travel plan will be extended to all of the institution's sites in 2010.

The sustainable development information system

This project, which is vital to the institution, is part of the 2008-2012 strategy presented by the Governor, who expressed the wish that environmental footprint commitments become more specific and be gauged using indicators and quantifiable objectives.

The project therefore provides for the development of indicators and the monitoring of numerical objectives to bolster the Bank's sustainable development commitments. As a management tool for the institution's sustainable development strategy, it will make it possible to measure and monitor changes in the carbon footprint and other sustainable development indicators. A cross-disciplinary project, it covers all three components of sustainable development: environmental, economic and social.

4|2 Clear and consistent organisation of actions

Actions to save natural resources may be ranked in two categories:

- "behavioural": actions that each employee is capable of implementing individually;
- "structural": technical or organisational measures that are implemented as a result of decisions taken by the Bank's directorates or management.

Master plan for reducing the carbon footprint (SDREE)

The SDREE draws on the assessment of the Bank's carbon footprint. Conducted using Ademe methodology, the *Bilan Carbone*[®] project is the tool for analysing this footprint. In 2010, a level two SDREE will set quantifiable objectives for reducing the consumption of natural resources. The master plan is consistent with the objectives assigned to the public sector, which are in accordance with the government's commitments set out in the *Grenelle* environment forum, the Prime minister's decree of 3 December 2008, the eco-responsible government plan and the national sustainable development strategy. The master plan for reducing the carbon footprint breaks down the policies to be implemented by type: water, waste, energy, travel, etc.

It has five components:

- renovation of building stock;
- reduction of greenhouse gas emissions: workplace travel plan and *Bilan Carbone*[®] project;
- sustainable information technology;
- environmentally responsible procurement policies;
- conservation of natural resources (energy, water and paper waste).

Corporate property strategy

The Bank has for many years included sustainable development issues in its corporate property strategy. In 2009, it set this commitment out in the Environmental quality commitment charter.

The strategy covers a four-year period – 2009 to 2012. It is based on six core areas for action (energy, water, waste, clean building sites, living environment, training-awareness) and includes 19 main objectives, which are broken down in turn into action plans that are being implemented.

With regard to energy consumption, the Bank decided to comply with the “exemplary government” objectives defined by the *Grenelle* environment forum and the Prime minister’s decree of 16 January 2009 on government property policy. It therefore decided to conduct energy audits for all its buildings.

Two initial energy assessments were conducted in the first half of 2009 in order to validate the method before it is rolled out. The audits will be conducted on tertiary buildings in 2010. Then, in-depth audits will be conducted on the buildings that are considered the most energy-consuming on the basis of the ranking established at the end of the first phase.

The Bank has also started work to enhance energy performance in four pilot programmes: three extensive

renovations in the La Rochelle and Strasbourg branches and in the old wing of the Paris head office as well as a new construction programme in Avignon (see Box 29).

The feedback on these operations will make it possible to:

- create a repository of actions to reduce energy consumption, which will serve as a reference for actions to be taken for other buildings;
- quantify the energy-savings actually realised, once construction work is completed.

The Bank has designed a tool that allows it to monitor and analyse all water and energy consumption in

Box 29



The Avignon branch

The construction of the Avignon branch’s new premises is part of a “high environmental quality” approach.

The environmental focus of the different phases of the studies, construction and life-cycle of the building aims to reduce the negative and possibly harmful impacts of the building on its environment.

Targets were fixed from the outset in green construction, eco-management, comfort and health. They focus more specifically on energy, acoustics, health quality as well as the choice of products and materials.

Some of the green materials, techniques and procedures used on the building sites are:

- an all-season thermal well to treat new air naturally at 12°/14° before using it in the buildings; the new air is also filtered to prevent environmental allergies;
- external insulation of the outside walls, which greatly enhances the thermal inertia of the building particularly in the summer (the office building has no air conditioning);
- photovoltaic panels (114 m², producing about 15.2 kWc);
- stone sourced from local quarries;
- indigenous and non-allergenic plants.

In addition, the deal documents require bidding companies to use:

- wood that is solely from certified tree farms;
- products that do not contain chlorofluorocarbon (CFC);
- materials that emit low levels of volatile organic compounds (VOCs) and very low levels of radioactivity.

Additionally, a waste management charter has been drawn up. The Clean building site charter governs the processing of different types of waste throughout construction work.

An assessment of this approach – with a particular focus on energy – will be made after two years.

Sustainable development: a corporate responsibility

its various operational sites. Since 2008, it has also been examining building site waste production and management. The Clean Building Site Charter will be applied to all building sites as from 2010.

Also worthy of note with regard to the construction of new premises:

- ongoing studies on the construction of a new, high-energy performance IT centre;
- the acquisition, through a VEFA contract (contract of purchase of property under construction), of a building for the Lyons branch, which will bear the Minergie® label;
- the signing of a green lease for the leasing of a 10,000 m² property in the ninth arrondissement of Paris, which will house the new Prudential Supervisory Authority.

The Bank has enhanced its skills in the management of green areas in its Marne-la-Vallée site with a view to establishing a biodiversity protection centre. In the medium term, this centre will play a key advisory role for all existing gardens at the head office and in the branches.

Measures resulting from the Workplace Travel Plan

After being submitted for review to trade unions and management, an action plan was finalised and is currently being implemented. It contains 44 measures to improve and reduce work-related travel, mainly:

- encourage green travel options (reimbursement of subscriptions to smart bike systems, provision of bicycle parking and repair facilities, electric bicycles, etc.);
- encourage the use of public transport (increase reimbursement of travel card costs to 66%);
- encourage car pooling and the use of park-and-ride facilities (services for connecting drivers and passengers, contribution to park-and-ride fees);



- improve the fleet of cars (clean cars, car sharing schemes) and offer eco-driving training programmes;
- restrict access to car parks (e.g. to persons with reduced mobility that is permanent – disabled persons who hold French civil invalidity cards – or temporary, and employees who work very unsociable hours);
- regulate business trips to encourage the use of rail and public transport rather than air travel and taxis. Air travel is no longer authorised where there is a rail link that puts the destination at a travel time of three hours or less;

- acquire tools that allow remote work whenever possible (telecommuting or work from home, video conferencing);
- communicate with the staff, who are the key players in the area of transport.

The workplace travel plan should make it possible to achieve a 25% reduction in CO₂ (thousand tonnes) in all the pilot sites over a five-year period.

In addition, in 2006, the Banque de France launched a strategy to reduce the greenhouse gases emitted by its fleet of cars by reducing the number of high polluting cars and investing in low polluting vehicles. The Bank has tested electric cars and committed to providing eco-driving training courses for the drivers of these cars. Car charging stations have already been set up in the parking lot of the Marne-la-Vallée Administrative Centre.

The measures resulting from the IT plan

Some 50 measures were laid down by the IT Directorate for 2009 and 2010. Twelve of these measures have been finalised and over 20 are being defined.

They are in line with the following objectives:

- ensuring that disabilities are taken into consideration;
- reducing work-related travel (video-conferencing, telecommuting, etc.);
- promoting green recycling of materials;
- incorporating sustainable development aspects into projects and applications;
- reining in energy and IT consumption;
- optimising business area processes.

Ongoing work is focused on ten core areas for action:

- governance of O/IT sustainable development actions;

- the sustainable development and social responsibility framework of reference for IT-related activities;

- use of IT tools and IT-related behaviour;
- social and societal concerns;
- printing and IT consumables;
- IT procurement;
- technical equipment and infrastructure;
- projects and applications;
- recycling of IT equipment and consumables;
- transport.

The Bank has defined a new priority in investment in information systems and IT infrastructure which covers, in particular, the setting-up of a new high energy performance IT centre.

In the past three years, the Bank has embarked on a drive to reduce the financial and environmental costs of printing. At end-2009, these costs had dropped by 29% from 2006 levels. The institution's new objective is to reduce and rationalise its printing stock. This objective is part of a strategy to cut overheads and reduce the carbon footprint. It also comes more generally under the Fillon decree of 3 December 2008 on the exemplary role the government should play in the area of sustainable development through the functioning of its services and public institutions.

The Bank's eco-responsible procurement policy

As part of the master plan for reducing the carbon footprint (SDREE), the Bank's environmentally responsible procurement policy must incorporate the objectives of the National Action Plan for Sustainable Government Procurement, and those of the *Grenelle* environment forum law. Environmental and social

concerns are taken into consideration in procurement decisions from the time the need is expressed right up to the delivery of the contract. These concerns are laid out in the deal documents and underpin the selection of contractors and/or bids, particularly via the definition of environmental (use of green technologies and product eco-design) and social performance criteria (employment integration, employment of disabled workers, social and ethical charter, etc.). Compliance with these criteria is required throughout the execution of the contract.

With regard to its buildings, the Bank has integrated social and environmental criteria in the selection process for its suppliers, service providers and construction companies. It ensures, in particular, that the consideration of eco-responsibility criteria weighs heavily in the selection of a supplier.

Industrial policy

The Directorate General Banknote Manufacturing's (DGFB) sustainable development strategy for 2009 was centred on the following areas:

- reducing consumption: in 2009, the DGFB reduced its electricity consumption by 1.5%, its gas consumption by 4% and its water consumption by 7% from 2008 levels and per tonne produced;
- obtaining the AFNOR 1000 NR label: after obtaining the OHSAS 18001 certification for "Occupational Health and Safety" in 2008, in 2009 the DGFB initiated an approach encompassing the three (economic, environmental and social) pillars of sustainable development in order to obtain the 1000 NR label awarded by AFNOR. Based on the ISO 26000 that is being finalised, this label made it possible to evaluate the overall performance of the DGFB in the area of sustainable development by combining and extending the obligations already included in the ISO 9001 (quality), ISO 14001 (environment) and OHSAS certifications. In the course of the AFNOR assessment conducted in December, the auditors met with about 50 DGFB employees (managers, non-managerial staff, trade unions and employer organisations) and about

10 external stakeholders (suppliers, sub-contractors, city councils, regional directorate for Industry, Apave, etc.). AFNOR's assessment report indicates the DGFB's current level of maturity in the integration of sustainable development tenets and will make it possible to draw up concrete action plans.

AFNOR awarded the DGFB a rating of 558 points out of 1,000, i.e. the third performance level, corresponding to the "Maturity" rating.¹⁵

Investment in the modernisation of banknote and coin maintenance processes and, especially, in automated sorting equipment is long standing. In this context of growing industrialisation, a voluntary certification approach was initiated in 2003:

- first, meeting customer quality requirements for ISO 9001 standard certification of the management system (management, execution and support processes) and progressively, of all the sites in France that ensure banknote management activities (with 50 units already certified, the area covered currently represents close to 80% of the activity);
- second, obtaining the occupational health and safety OHSAS 18001 certification. In addition to workplace ergonomic issues, which have for long been taken on board, the Bank is now embarking on a more ambitious policy to protect employee health based on the following priority areas:
 - analysing and managing occupational health and safety risks and raising the awareness of all employees in order to guarantee that the principles of prevention are effectively applied,
 - ensuring compliance with all legal and regulatory texts, standards and existing best practices,
 - systematic information of trade unions and employer organisations that have a responsibility in occupational health and safety,

¹⁵ "Commitment" (< 300 points), "Progression" (301-500 points), "Maturity" (501-700 points) and "Benchmark" (701-1,000 points).

- regular revision of the occupational health and safety policy and all ensuing programmes in order to incorporate emerging risks and, especially, psychosocial risks.

After obtaining OHSAS certification for the national management system and the production centre at the Bank's head office (which processes 15% of domestic banknote volumes and 20% of coin flows) in early January 2010, the next target is the progressive extension of the approach to all 72 other units concerned. At the same time, a review of different processes has been launched to analyse and, insofar as possible, reduce the carbon footprint. Therefore, in the medium term, the Banknote and coin maintenance business line is seeking an integrated "Quality-health-environment" certification for all its activities.

4|3 Mobilising stakeholders

Internal communication initiatives

The participatory sustainable development forum

On 12 March 2009, a participatory sustainable development forum brought together all employees and their department heads in meetings presenting the challenges of sustainable development. Following the forum, staff were invited to propose a local commitment plan, making each employee an agent of change. Each commitment plan included a minimum of three actions to be taken on the Bank's carbon footprint, the social and societal components, as well as participation in economic studies and case studies on sustainable development.

Setting up a sustainable development intranet website

The website is designed to inform staff members of the Bank's overall sustainable development strategy, the goals set and the results of initiatives taken (workplace travel plan, *Bilan Carbone*[®] project, master plan for reducing the *Bilan Carbone*[®], etc.). It also aims to raise

employees' awareness on sustainable development. The website is also an educational tool that includes: a sustainable development glossary, a French/English sustainable development dictionary, book reviews, minutes of seminars and conferences, news updates, reference texts and a sustainable development bibliography.

Setting up a sustainable development blog

The blog is designed to gather employees' opinions on the planned charter, and also enable employees to make suggestions on the Bank's sustainable development strategy.

Monthly sustainable development news letter

The sustainable development newsletter is prefaced by the Secretary General and contains about ten sections dealing with current events at the international (international summits, European sustainable development strategy, etc.), national (*Grenelle* environment forum, national sustainable development strategy, etc.) and regional levels (climate plans, Agenda 21, local sustainable development initiatives, etc.). It also includes a calendar of major events in this area. It is published on the sustainable development intranet site and transmitted electronically to at least 2,000 Bank employees who have asked to be on the mailing list.

Organisation of an awareness-raising day on property issues

An awareness-raising day on sustainable development was organised for staff of the Property and General Services directorate at the end of 2009.

Performance Objectives

In 2007, the Bank engaged its staff for the first time in meeting an environmental performance objective under the corporate profit-sharing scheme. Spread out over a three-year period, this objective aimed to reduce paper consumption by an annual 10%, with 2006 being the reference year. The objective was to save paper in all of the Bank's business areas.

It has made it possible to:

- strengthen the Bank's commitment to sustainable development and ensure complete consistency with actions already initiated and carried out;
- engage:
 - Bank staff on environmentally responsible behaviour,
 - management to seek to optimise resource-consuming processes within their departments and to raise employees' awareness.

Paper consumption was slashed by 31% overall at the end of this three-year period. These efforts will be prolonged in 2010.

Participation in collective research

The Bank participates in various think tanks:

- Paris Europlace, study group with which the Bank is currently participating in negotiations to sign a Charter for the carbon neutrality of the Paris stock exchange;
- the public-sector companies' Sustainable Development Club, which coordinates work on the sustainable development indicators used by all public-sector companies and government agencies;
- the Ademe *Club Mobilité Capitale*, which is a forum for exchange on best practices to be implemented in work travel plans.

Box 30

The Banque de France – a patron of the Louvre

Fulfilling its corporate social responsibility, the Banque de France contributed, with four other patrons of the arts, to the Louvre museum's purchase of the "Portrait of Count Molé", by Ingres.

The portrait of a significant figure in 19th-century France

An important political figure of the nineteenth century, Mathieu Louis Molé enjoyed an exceptionally rapid rise to prominence under Napoleon I. After being appointed Minister of Justice at the age of 32, he rose to the highest offices of state – Minister of Foreign Affairs, and President of the Council – and was elected to the *Académie française*. A close associate of Chateaubriand and a tormented man prey to "*mal du siècle*", Count Molé was the perfect incarnation of nineteenth century glamour and melancholy.

The culmination of Ingres' talent as a portraitist

Portraits by Ingres from the time when the artist painted "Portrait of Count Molé" are rare. Already recognised as a master portrait painter, he no longer accepted commissions. "Portrait of Count Molé" is an exception and its acquisition constitutes a unique opportunity for a French museum to present one of the artist's masterpieces to the general public.

Ingres paints this prominent figure with surprising sobriety. Apart from the quill and book visible on the right behind the model, and the opulent and refined red fabric of the armchair, the only effects of light the artist uses are those that provide the almost dramatic lighting of the face and hands.



Louvre museum commentary

A restrained and elegant palette of blacks and browns emphasises the poetic universe of the painting. Balancing a precise expression of intimate feelings and mastery of composition, this portrait sums up Molé's own artistic tastes: "Classicism without its fetters, romanticism without the artifice."

The French Minister of Culture surrounded by sponsors, including the Governor of the Banque de France (second from right)

Governance, human resources and financial management

THE EXECUTIVE COMMITTEE

From left to right:

Gilles Vaysset, Deputy Secretary General, Committee Secretary

Yves Barroux, Director General of the IEDOM and the IEOM

Frédéric Peyret, Secretary General

Élisabeth Pauly, Director General Statistics

Hervé Le Guen, Director of Legal Affairs

Pierre Jaillet, Director General Economics and International Relations

Jean-Paul Redouin, First Deputy Governor

Danièle Nouy, Secretary General of the Prudential Supervisory Authority

Christian Noyer, Governor

Armand Pujal, Director General Cash Management and Branch Network Activities

Robert Ophèle, Director General Operations

Alain Armand, Comptroller General

Michel Perdrix, Director General Banknote Manufacturing

Jean-Pierre Landau, Second Deputy Governor and

Hervé Queva, Director General Human Resources, do not appear in this photograph.

1| GOVERNANCE

1|1 Executive bodies

The Governor and Deputy Governors

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

The independence of the Banque de France implies the independence of the Governor, who is a member of the Governing Council of the European Central Bank (ECB), and of



the Deputy Governors. In accordance with Article L141-1 of the *Monetary and Financial Code*, the Banque de France, represented by its Governor and Deputy Governors, shall neither seek nor accept instructions from the Government nor any other body in the performance of the tasks arising from its participation in the European System of Central Banks (ESCB).

The Governor is responsible for the executive management of the Banque de France. He chairs the Executive Committee, which is composed of the heads of the different business areas, and the Careers Committee, which gives its opinion on the appointment of the Bank's senior executives.

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

The Executive Committee

Both in its plenary and reduced form, the Executive Committee is at the heart of the operational functioning of the Banque de France. It constitutes the forum in which the Bank's managers exchange their viewpoints on all subjects of common interest in order to facilitate the collegial decision-making process. The Executive Committee, which is chaired by the Governor, is made up of the Deputy Governors, the Directors General, and the Deputy Secretary General for Strategy and the Legal Affairs Director. With a view to increasing integration with the Bank, the Director General of the French overseas departments note-issuing bank (*Institut d'émission des départements d'outre-mer* – IEDOM) and the French overseas note-issuing bank (*Institut d'émission d'outre-mer* – IEOM) is also a member of the Executive Committee.

The Executive Committee examines issues relating to the Bank's strategy and internal management. The meetings of the Executive Committee may be prepared, if necessary, by smaller committees involving the managerial staff directly concerned. It may also meet as a Careers Committee to express an opinion on the appointment of Head Office managers and regional managers.



Operational management bodies

Two bodies play a crucial role in the conduct of investment policies and market operations: the Assets-Liabilities Committee and the Risk Committee.

The Assets-Liabilities Committee, which is chaired by the Governor, advises the latter on the Bank's portfolio investment strategy (for both euro- and foreign currency denominated portfolios). In particular, it issues opinions on the volume of investment, its allocation by asset type and its duration.

The Risk Committee, chaired by a Deputy Governor, proposes the conditions under which market operations should be conducted for the Bank's portfolios as a whole. In this regard, it maintains the list of authorised issuers, countries and instruments, validates the methodologies for measuring risk and the performance of market activities, sets the risk limits for these operations and examines the audit, control and activity reports relevant to its field of competence.

The Bank's support functions are also managed on a collegial basis, through two committees placed under the aegis of the Secretary General: the IT Strategy Group, which is responsible for defining the Bank's short and medium-term policy with respect to IT investment, and the Real Estate Investment Committee, which is in charge of managing the Bank's real estate assets.

The College of regional managers and the branch network

The Banque de France network currently has 96 departmental branches (including 22 regional head offices), linked to which are 21 economic centres and 7 household debt centres. The activities related to currency in circulation are carried out at 66 of these sites and in 4 specialised centres.

In order to ensure that the requirements of the users of public services provided by the Bank are met (household debt, access to payment incident databases and the right to basic banking services), and in accordance with the Public Service Contract

concluded with the Government, 85 customer service and information offices have been set up in the towns where the Banque de France, after closing its branches in 2004-2006, retains neither an economic centre nor a centre for processing applications to the household debt commissions. These non-permanent offices are located on the premises of other administrative bodies, such as town halls or *sous-préfectures*.

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

- at the regional level, which is the management level: the regional manager, i.e. the manager of the branch in the region's administrative centre, co-ordinates and supervises the activity of the various branches throughout the region, and ensures the consistency and quality of the work carried out;
- at the *département* level, which is the operational level: *département* branches and, potentially, other associated specialised units, are in charge of implementing the objectives assigned to the branch network in close contact with the Banque de France's usual partners (banks, companies, private individuals, local authorities and administrative bodies).

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

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

Box 31

The Banque de France branch network at 31 December 2009



1|2 Decision-making and control bodies

The General Council

Pursuant to Article L142.3 of the *Monetary and Financial Code*, the General Council comprises the Governor and the two Deputy Governors, two members appointed by the President of the Senate, two members appointed by the President of the National Assembly, two members appointed in the Council of Ministers on the proposal of the Minister of the Economy and a representative elected by Banque de France staff. A Censor, or his/her alternate, appointed by the

Minister of the Economy, represents the French State. The Censor attends the Council's meetings and has access to all the information he/she requires; he/she may submit proposals to the Council and veto any of its decisions.

The General Council performs the main functions of an executive board at the Banque de France. It deals with issues relating to the management of activities that are not within the remit of the ESCB. It examines issues relating to the terms of employment of the Bank's staff, which are submitted for approval to the relevant ministers, and determines the rules applicable to the Bank's staff in areas where



Members of the General Council, from left to right:

1st row: Monique Millot-Pernin; Jean-Paul Redouin; Christian Noyer; Jean-Pierre Landau; Élisabeth Ducottet

2nd row: Henri de Richemont; Marie-Paule Georgel; Philippe Auberge; Serge Lepeltier; François Calvarin; Hervé de Villeroché

the provisions of the *French Labour Code* are incompatible with the Bank's statutes or public service tasks incumbent on it. The General Council decides on the use of the Bank's own funds. It also draws up the Bank's budgets and annual accounts and approves the allocation of profits and the State's share of the dividends.

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

As is the case for the Bank's Governors, the members of the General Council other than the Governor and the Deputy Governors are independent: Article L142-3 stipulates that the General Council shall ensure that the professional activities performed

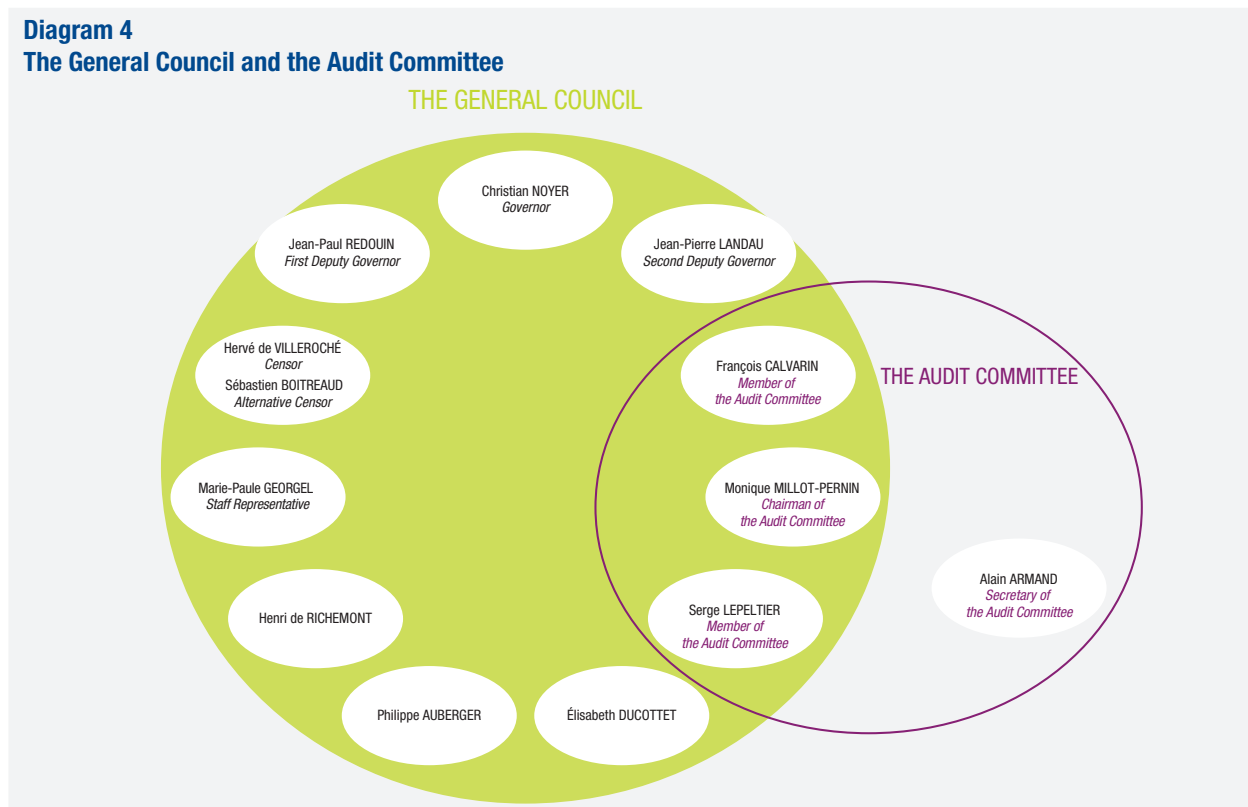
by their members are consistent with the principle of independence of the Banque de France.

The Audit Committee

The Banque de France Audit Committee was set up by virtue of the General Council's decision of 22 October 2004. Its chairman is appointed by the General Council, on the proposal of the Governor, and the Comptroller General of the Banque de France provides its secretariat. As a result of the Acts of 20 February 2007 and 4 August 2008 changing the Bank's governing authorities, the Committee's composition was reviewed at the beginning of 2009. The responsibilities and operating rules of the Audit Committee, specified in a charter appended to the General Council Decision, were revised at the same time.

In accordance with Directive 2006/43/EC of 17 May 2006, the Audit Committee is charged with informing the General Council about issues relating to financial reporting, external and internal auditing, internal control and risk management.

Diagram 4
The General Council and the Audit Committee



In all these fields, the Audit Committee may hear any Banque de France manager or the Bank's auditors.

The Audit Committee met four times in 2009. Its work focused mainly on the following:

- with regard to financial reporting, the Bank's auditors presented their report on the closing of the 2008 annual accounts to the members of the Committee;
- with regard to internal auditing, the Committee took note of the main conclusions of the internal audit and the progress report on the action plans drawn up by the audited units and examined the audit programme for 2010, which it approved;
- lastly, in respect of internal auditing and risk control, the Committee took note of the main findings of the procedure for the identification of operational risks and examined the risk management system put in place for several activities or processes (operations, operational continuity for major IT applications, and the human resources information system).

1|3 Internal audit and risk prevention

Internal audit

The internal audit has competence over all of the Bank's units, processes and activities. It is conducted at the Head Office, the regional administrative centres and in the branch network; its organisation is structured accordingly. The internal audit draws up its annual work programme using a risk-based approach with a view to, in accordance with the terms of its charter, ensuring the quality of management, risk management and internal audit processes. It also monitors the implementation of corporate social responsibility within the Bank. By helping the Bank to attain its objectives, the internal audit contributes to improving corporate governance. Both with regard to the organisation and the conduct of audit missions, the Banque de France's internal audit complies with the international

standards for the professional practice of internal auditing as defined by the Institute of Internal Auditors.

The work of the internal audit is also conducted within the framework of the ESCB. The Comptroller General, the Director of the Head Office Audit and her Deputy are permanent members of the ESCB Internal Auditors Committee (IAC) that meets several times a year at the ECB. Together with their NCB and ECB counterparts, they draw up the ESCB's audit programme and oversee the conduct of the audit missions. The Banque de France chairs the working group charged with defining the risk control framework applied to the Eurosystem's activities. The conclusions of the IAC task forces are submitted to the Audit Committee and to the ECB Governing Council.

Representatives of the internal audit take part in the methodological work conducted in the framework of the G10 conferences and working groups by the Bank for International Settlements (BIS). They also participate in benchmarking exercises aimed at identifying best professional practices. Furthermore, a large number of delegations of internal auditors from central banks in developing countries attend training sessions in Paris, while Banque de France inspectors conduct technical assistance missions abroad.

The Banque de France's Comptroller General plays an important role in coordinating the network of internal audit managers of the central banks of French-speaking countries which, after a conference in Paris in 2008, held its second conference in Rabat in 2009, at the invitation of the Bank Al-Maghrib.

Risk prevention

The Banque de France has for several years implemented an operational risk management approach (the AMARIS method) in order to:

- strengthen the internal control function through the use of a common framework for operational risk management;
- and promote the adoption of the best practices recommended by the Basel Committee in this area.

The organisation works as follows:

- in each Directorate General, risk managers are in charge of updating the mapping of operational risks and assisting in the implementation of risk-reduction action plans; in addition, in each regional branch, a risk management and control unit is responsible for ensuring that the control mechanisms are properly implemented in the branch network;
- within the Risk Prevention Directorate, attached to the Comptroller General, a special unit is in charge of providing assessments, co-ordinating and reporting to the Bank's authorities, while another unit is responsible for information security;
- the Internal Control Co-ordination Committee (3CI), which meets twice yearly, comprises the Directors General, the Legal Affairs and Audit Directors and risk managers, and is chaired by the Comptroller General. It is charged with supervising work aimed at enhancing operational risk management in all of the Banque de France's fields of activity;
- every year, the report on risk analysis, major incidents and the action plans based on an updated general risk map is presented to the Executive Committee.

In 2009, the Risk Prevention Directorate took over the chair of the international working group charged with implementing the operational risk management framework – which is based very substantially on the AMARIS method – to be applied to the Eurosystem's activities.

2| HUMAN RESOURCES MANAGEMENT

2|1 Total staff

While the statutory staff can be broken down almost equally between men and women, this is not the case at all levels, particularly the managerial level. Among contract staff, the large share of men is attributable to the overriding proportion of men among the security personnel.

Chart 26
Male/female breakdown of total staff

(full-time equivalent positions at 31 December)

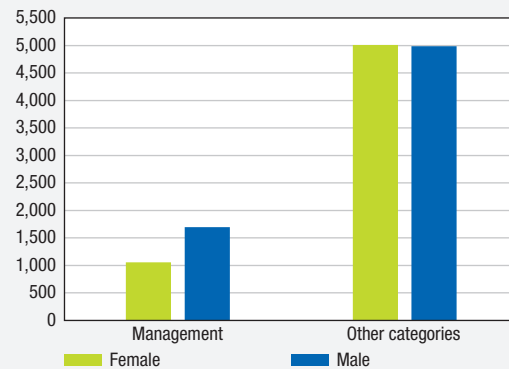
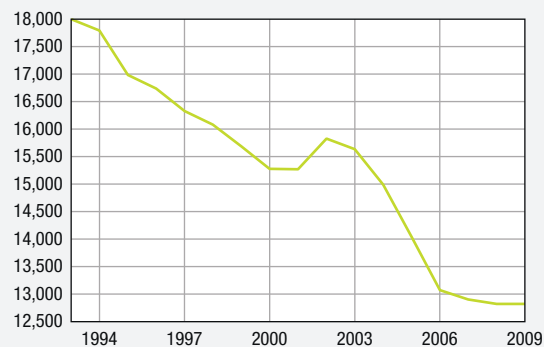


Chart 27
Total staff numbers

(full-time equivalent positions at 31 December)



At 31 December 2009, the Banque de France employed a total of 12,746 full-time equivalent staff, the same level as in 2008. Between 1993 and 2009, staff numbers fell by 28.9%.

The average age of the Bank's employees is 47.5. It has risen by 2.3 since end-2005.

Some 43.5% of staff members work at the central offices (the Head Office in Paris and the administrative centres in Marne-la-Vallée and Poitiers), 49.0% in the branch network and 7.5% in banknote manufacturing.

Table 5
Breakdown of total staff

(full-time equivalent positions at 31 December)

	2008	2009
STATUTORY STAFF	11,521	11,404
Male	5,787	5,716
Female	5,734	5,688
Central offices	5,168	5,134
Management	1,532	1,588
Other categories	3,636	3,546
Branch network	5,581	5,512
Management	804	789
Other categories	4,777	4,723
Banknote manufacturing	772	758
Management	9	8
Other categories	763	750
CONTRACT STAFF	1,225	1,342
Specially-recruited staff	468	581
Central offices and branch network	284	386
Banknote manufacturing	184	195
Other staff (excluding occasional workers)	757	761
Security staff	574	555
Cleaning and other staff	183	206
TOTAL	12,746	12,746
Men	6,707	6,686
Women	6,039	6,060

Chart 28
Average staff numbers by field of activity in 2009

(full-time equivalent positions)

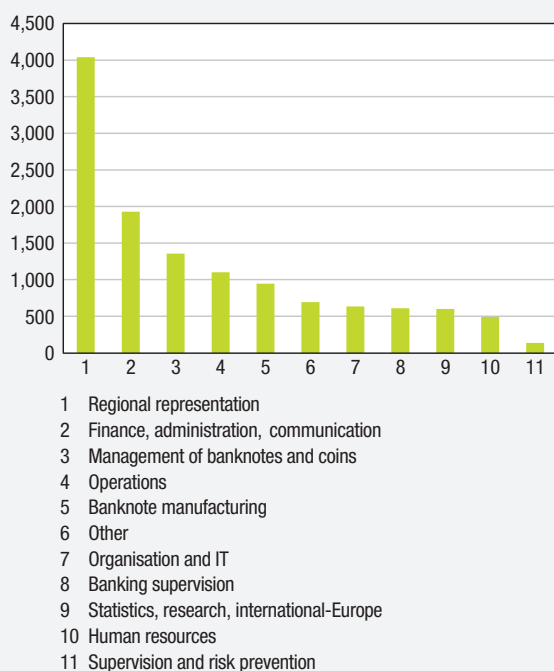
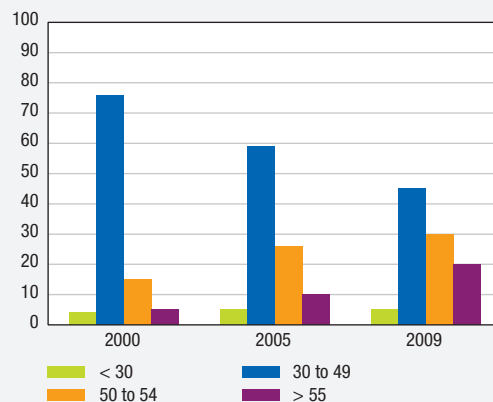


Chart 29
Breakdown of total staff by age bracket

(full-time equivalent positions at 31 December)



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

The Bank pursued its policy of seconding and assigning staff to external organisations. At end-2009, 139 staff members were concerned by this type of assignment:

- 52 members of the Bank's staff were on secondment to French organisations, including the *Autorité des marchés financiers* (AMF – Financial Markets Authority), the IEDOM and several ministries;
- 87 members of the Bank's staff were on secondment to European institutions, international organisations and embassies, in particular the European Central Bank (35 staff members), the International Monetary Fund (IMF) and the Bank for International Settlements (BIS).

2|3 Further modernisation of human resources management

The “professional development paths” are now part of the framework for the development of competencies and occupational mobility. They enable employees to identify the key competencies they need to effectively carry out their functions and give them a better overview of the other fields of activity that they might



Back-office of the Market Operations Directorate



Household debt management

transfer to at a later stage. The Banque de France has so far designed 55 types of professional development path, which identify the training employees can undergo based on the competencies listed in the framework documents defining different functions.

The career paths of senior management staff have been the subject of a far-reaching reform aimed at giving those concerned new prospects in terms of their professional development. This career path approach is based on access to functions with growing levels of responsibility or expertise. In addition, the reform makes it possible for managers to increase their pay while remaining at the same level, on the basis of their effective contribution and results achieved.

The framework for the management of contract staff has been completely updated. The aim was to design a system suited to a skilled population recruited in a medium- to long-term perspective. These employees now have a specific statute that forms part of the Bank's regulations, a categorisation of their functions, and harmonised conditions of recruitment, employment and pay, with the latter being determined by reference to the pay scale for statutory staff.

A website dedicated to recruitment and internships was launched on 4 June 2009.¹⁶ This website is consulted frequently and is well referenced by search engines.

¹⁶ www.recrutement-banquedefrance.fr

It has been designed to be accessible to disabled workers and to meet the international W3C and WAI standards. The Bank is preparing to apply for the AccessiWeb label.

An agreement on the introduction of teleworking was signed on 23 December 2009. Under the agreement, the first experiments will be conducted in 2010 in those units that are already well prepared or that have volunteered with respect to posts that are compatible with this type of arrangement. This agreement will make it possible for staff to work from home 1-3 days a week on the basis of a 14-month commitment and thus to achieve a better work-home life balance. Teleworking will also contribute to sustainable development by reducing the number of journeys between home and the place of work.

3 | FINANCIAL MANAGEMENT: ANALYSIS AND RESULTS

Net profit for the year ended 31 December 2009 totalled EUR 2,473 million, up by EUR 13 million on 2008.

The Banque de France derives the bulk of its earnings from the investment of resources from banknote issuance, be it in the form of loans to credit institutions granted within the framework of the implementation of monetary policy or in the form

of securities portfolios. It also receives dividends from the IEDOM and the ECB, the bulk of whose revenue also comes from the investment of the resources resulting from their share of banknote issuance in accordance with the banknote allocation key.

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

Several factors contributed to this positive result:

- on the revenue side, in 2009 the volume of banknotes in circulation remained at the very high levels observed in the fourth quarter of 2008, resulting in an annual average increase in the Bank's resources to be invested; in addition, the income from long-term investments made in 2007 and 2008, at a time when interest rates were significantly higher, limited the impact of the historic fall in key rates;
- on the expenditure side, in spite of the heavy demands on its resources occasioned by the financial crisis, the Banque de France slightly reduced its operating costs, thus reaping the benefits of the structural reforms that had long been under way.

3|1 The financial crisis had a mixed impact on the Bank's income

The persistence of the financial crisis and the rise in the volume of banknotes in circulation led to a fresh increase in the outstanding monetary policy operations carried out to support the banking sector and the economy. However, the sharp drop in interest rates resulted in a decline in the income from these operations as well as from the investment of foreign exchange reserves. This fall in income was nonetheless offset by the exceptional revenue constituted by the partial release of the provision established in 2008 in response to the failure of several Eurosystem counterparties.

Continuing strong demand for euro banknotes

After the sharp acceleration of growth in euro banknote circulation observed in the fourth quarter of 2008 in response to the concern sparked by several bank failures and the severity of the financial crisis, no easing-off was

recorded in 2009. During the year, total banknotes put into circulation by the Eurosystem returned to a growth rate in line with that observed previous to the crisis, with the main characteristics being the seasonal peaks corresponding to the Christmas and Easter periods.

Under the allocation mechanism defined within the Eurosystem, the Banque de France books as a liability its share in the total value of banknotes in circulation corresponding to its share in the ECB's capital key. This stood at EUR 151 billion at the end of 2009, up by EUR 6 billion year-on-year, and provided it with additional resources to invest, in average annual terms, of more than EUR 12 billion.

Chart 30
Main monetary policy operations

(interest rate as a %)

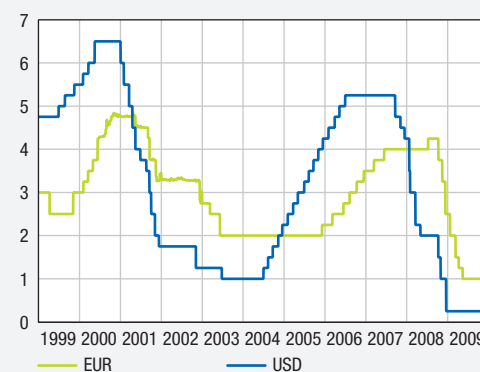
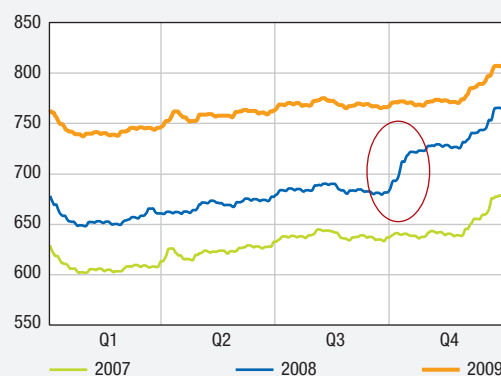


Chart 31
Euro banknotes in circulation

(in EUR billions)



The volume of monetary policy operations remained high

Since the euro area's money market is fully integrated, the growth in euro-denominated refinancing operations should be assessed at the Eurosystem level. As a corollary to the growth in banknotes in circulation, refinancing needs remained high, close to the levels seen in the fourth quarter of 2008. Moreover, the severity of the crisis and the malfunctioning of the money market resulting from it led the Eurosystem to broaden its refinancing framework in order to support the banking and financial sector: from 25 June 2009, it granted very substantial loans with an exceptional maturity of one year and, in July, launched a purchase programme for covered bonds, with a target amount of EUR 60 billion, to be implemented over one year.

Outstanding euro-denominated loans extended by the Banque de France to French credit institutions averaged EUR 97 billion, close to the level observed in the fourth quarter of 2008, but much higher than that prevailing prior to the financial crisis. Outstanding amounts of the portfolio of covered bonds purchased by the Banque de France within the framework of monetary policy operations amounted to EUR 4.2 billion at the end-2009, with the target figure for the Banque de France's share in the programme set at EUR 11.2 billion.

Chart 32
Net bank refinancing and euro banknote circulation at the Eurosystem level

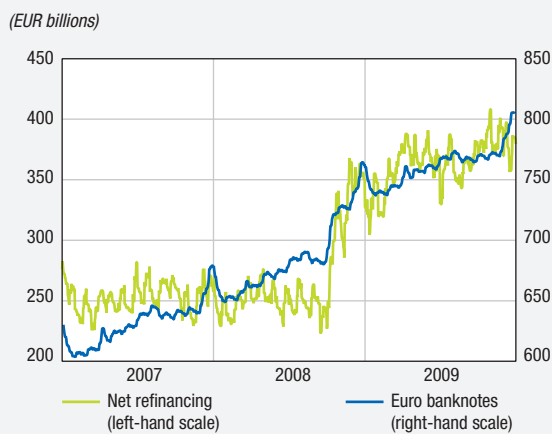
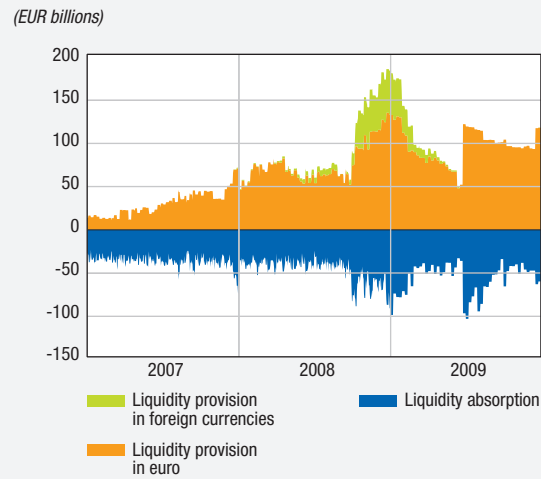


Chart 33
Liquidity provision and absorption by the Banque de France



In addition to monetary policy operations in euro, the Banque de France also made loans in foreign currencies to credit institutions on behalf of the central banks which issue the currencies concerned, within the framework of coordinated operations within the Eurosystem. These loans were concentrated on the fourth quarter of 2008 and the first quarter of 2009 and temporarily increased the volume of foreign currency denominated financial assets on the Bank's balance sheet. These operations, the impact of which was entirely neutral on the Bank's profit and loss account, had been completely repaid by 31 December 2009.

Excluding a one-off factor, monetary income fell

The bulk of the Bank's financial income is composed of so-called monetary income, i.e. it comes from the investment of revenue from banknote issuance in the form of operations with banks or the purchase of securities. This income amounted to EUR 5,486 million in 2009, up by EUR 482 million on 2008.

At a time when interest rates fell, this increase in monetary income resulted from a one-off factor: the partial release, involving the sum of EUR 356 million, of the EUR 1,184 million provision established in the 2008 accounts as a buffer against risks arising from the monetary policy operations conducted with Eurosystem counterparties that defaulted during

the financial crisis.¹⁷ This release of a joint provision by the national central banks of the Eurosystem resulted from sales carried out and the upward revaluation of securities lodged as collateral by the defaulting counterparties and still held in the portfolio.

If this one-off factor is excluded (establishment of the provision in 2008 and partial release in 2009), monetary income amounted to EUR 5,129 million in 2009, compared with EUR 6,188 million in 2008, i.e. a fall of EUR 1,059 million, which is attributable to:

- the sharp decline in income derived from the holding of foreign exchange reserves, which amounted to EUR 995 million in 2009, constituting a fall of EUR 701 million; the drop in average annual returns was more marked on foreign currencies than on euro-denominated reserves;
- a smaller decrease in monetary income in euro, amounting to EUR 358 million, due notably to the increase in average volumes of refinancing operations and the revenue generated by long-term securities portfolios acquired before the fall in interest rates. These portfolios helped to reduce the sensitivity of the Bank's profits to the low level of the key interest rate by fixing the yield at above 4%.

The fall in euro area interest rates was also the cause of the drop in the dividends received from the IEDOM and the ECB (down by EUR 64 million) as a result of the decline in the seigniorage income paid to national central banks by the latter (which has a claim on 8% of the total value of banknotes issued by the Eurosystem, which bears interest at the rate applied to main refinancing operations).

Lastly, the Banque de France continued with its gold sales, within the framework of the agreement reached between 15 European central banks, selling 56 tonnes in 2009, generating a capital gain of EUR 828 million, transferred to the revaluation reserve in accordance with the agreement on the management of foreign exchange reserves signed between the State and the

Banque de France. In total, since the beginning of the programme of sales initiated in 2004, 589 tonnes of gold have been sold for EUR 9.3 billion, thereby augmenting the volume of the Bank's interest-bearing investments and contributing to increasing its financial income.

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

Net profit from non-monetary activities totalled EUR 856 million, down slightly, by EUR 5 million, on 2008.

3|2 Controlling operating expenses in a challenging environment

The improvement in the Banque de France's net profit is also attributable to the fact that it has controlled operating expenses, thanks to the structural reforms that have been implemented over the past few years within the Bank.

The reform of the Banque de France's regional branch network and improvements in the industrial processes used in banknote manufacturing have helped to reduce the Bank's operating costs. The number of full-time equivalent staff has been cut by around 3,300 since 2002, constituting a reduction of 20%.

¹⁷ Five counterparties involved in the refinancing operations of three Eurosystem central banks defaulted in 2008. The risk of depreciation of securities lodged as collateral by defaulting counterparties (mainly illiquid structured securities) led the Eurosystem's central banks to make an appropriate provision, in proportion to their share in the ECB's capital key, pursuant to Article 32.4 of the Statute of the ESCB. The size of the total provision amounted to EUR 5.7 billion and constituted an expense of EUR 1,184 million in the Bank's 2008 accounts.

Chart 34
Staff levels and number of branches

(average full-time equivalent positions)

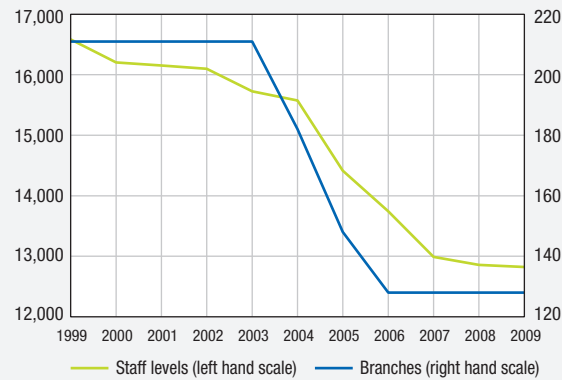


Chart 36
Payments by the Banque de France to the State

(EUR millions)

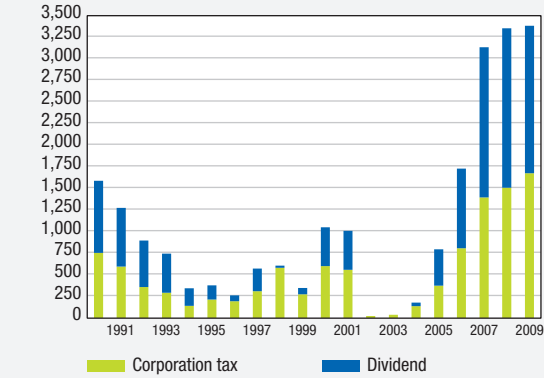
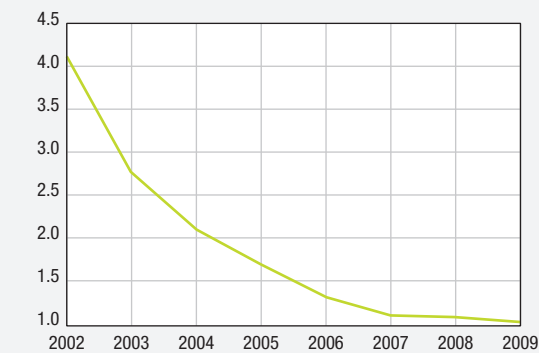


Chart 35
The Banque de France's break-even point

(as a %)



These reforms have made possible favourable developments in terms of operating expenses: they fell by EUR 35 million compared with 2008 (to EUR 1,976 million) in spite of the considerable mobilisation of resources required to cope with the consequences of the financial crisis, whether in the operational domain, banking supervision or financial stability. The Banque de France branch network also had considerable demands made of it throughout the year with respect to the processing of

household debt cases, the volume of which rose by 14.8% in 2009, and in the area of credit mediation.

Controlling expenses has made it possible to further reduce the Bank's break-even point, i.e. the average minimum return on assets necessary to cover expenses, which has decreased by 174 basis points since 2003, dropping from 2.77% to 1.03% in 2009.

Furthermore, the Bank has strengthened its financial position by continuing to increase provisioning for social purposes for both working employees and retirees and allocating resources to its fund for general risks to take account of its increased exposure to financial risks.

During its session on 28 May 2010, the General Council agreed to pay a dividend of EUR 1,702 million to the State. Taking into account the corporate income tax charge amounting to EUR 1,676 million, payments to the State during 2009 totalled EUR 3,378 million. For the fourth year running, the Banque de France has made a contribution to the State budget of over EUR 3 billion.

Comprehensive information on the annual accounts is provided in Chapter 5.

The accounts of the Banque de France

1| REPORT ON ASSETS, LIABILITIES AND RESULTS

The accounts for the year ending 31 December 2009 were approved by the General Council at its meeting of 1 April 2010. The Bank's net profit stood at EUR 2,473 million, a slight increase of EUR 13 million compared with 2008. Against the backdrop of the significant demands placed on the Bank in response to the ongoing financial crisis, this stability results from maintaining net income from activities at a high level despite the lower interest rates and from a decrease in operating costs.

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

1|1 Assets and liabilities

The Bank's financial position has changed little overall from one year-end to the next and

Financial position

(year-end amounts and change, EUR millions)

	2009	2008	Change 2009/2008
NETS ASSETS	186,124	192,769	-6,645
Net sources of funds from banknote operations	148,235	142,502	5,733
Net banking refinancing	2,162	23,749	-21,587
Net position with customers	27,417	17,772	9,645
Other	8,310	8,746	-436
NETS LIABILITIES	186,124	192,769	-6,645
Gold and net foreign exchange position	26,423	30,426	-4,003
Euro-denominated portfolios	76,446	77,857	-1,411
Position with Eurosystem	83,255	84,486	-1,231



was EUR 186.1 billion in 2009 compared with EUR 192.8 billion in 2008.

The rise in banknotes in circulation and the net position with customers were offset by the decrease in bank refinancing, whereas volumes attained at 31 December 2008 were exceptionally high.

Against a backdrop of major uncertainty about exchange rate movements there was a modest reduction in foreign currency holdings.

Net resources from banknote operations

Net resources from banknote operations			
<i>(year-end amounts and change, EUR millions)</i>			
	2009	2008	Change 2009/2008
Euro banknotes	147,609	141,664	5,945
Banknotes put into circulation by the Banque de France	76,548	69,902	6,645
Adjustment of banknotes allocated by the Eurosystem	74,626	74,960	-334
Advance to the IEDOM	-3,565	-3,198	-366
French franc banknotes	626	838	-212
NET SOURCES OF FUNDS FROM BANKNOTE OPERATIONS	148,235	142,502	5,733

Euro banknotes

After 2008, marked by the rapid increase in the volume of banknotes in circulation from one year-end to the next, rising by 12.2%, the growth of banknotes in circulation in 2009, up by 4.2%, was more modest against the backdrop of a deterioration in the economic outlook following the financial crisis.

Since the introduction of euro banknotes at the start of 2002, 92% of the total amount of euro banknotes in circulation has been allocated at each month-end between each of the national central banks (NCBs) in the Eurosystem in proportion to their subscription to the capital of the European Central Bank (ECB). The remaining 8% are allocated to the ECB. The difference between the share of euro banknotes allocated to the Banque de France and net issues of euro banknotes carried out by the Bank generates, on the assets side, a claim on the Eurosystem (balance sheet item A8.3). This claim bears interest at the marginal rate applied to the Eurosystem's main refinancing operations.

The IEDOM is the Banque de France's correspondent responsible for managing banknote circulation in



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

French franc banknotes

French franc legacy banknotes may still be exchanged at Banque de France branches during a period of 10 years. French franc banknotes that remain in circulation constitute a purely domestic source of funds, classified as a miscellaneous liability (balance sheet item P11). At end-December, French franc banknotes represented a liability of EUR 626 million, a fall of EUR 212 million compared with end-2008, principally due to the withdrawal of the FRF 100 denomination banknote with the effigy of the painter Delacroix.

Bank refinancing operations

This aggregate item groups together operations with credit institutions conducted in the context of monetary policy; operations carried out with banks as part of the Banque de France's activities with institutional customers are not included in it.

Bank refinancing			
<i>(year-end amounts and change, EUR millions)</i>			
	2009	2008	Change 2009/2008
Assets	120,984	184,974	-63,990
Euro-denominated loans in the framework of monetary policy operations	120,984	134,463	-13,479
Foreign currency loans in the framework of monetary policy operations	-	50,511	-50,511
Liabilities	123,146	208,722	-85,576
Current account of banks subject to minimum reserves	61,076	90,843	-29,767
Net position of French credit institutions with the euro area	62,071	67,369	-5,298
Counterpart of foreign exchange lending (non-interest bearing debt with the ECB)	-	50,511	-50,511
NET BANK REFINANCING	2,162	23,749	-21,586

Data at the accounts closure show lesser recourse to refinancing compared with 31 December 2008, reflecting the gradual recovery in the operation of the interbank money market.

In contrast to the previous accounts closure, where the contribution of foreign exchange liquidity was shown for a significant amount (EUR 50 billion) as part of the concerted operations with other foreign central banks, there is no foreign exchange loan shown at 31 December 2009.

Euro refinancing needs were less significant from one year-end to the next with euro-denominated liquidity allocated decreasing from EUR 185 billion to EUR 121 billion.

Holdings by French credit institutions in the accounts of the Banque de France at year-end decreased by around a third (from EUR 90 billion to EUR 61 billion). At the same time, the net lending position vis-à-vis the euro area decreased by EUR 5 billion.

Operations with institutional customers

Operations with institutional customers			
<i>(year-end amounts and change, EUR millions)</i>			
	2009	2008	Change 2009/2008
Assets	104,194	105,642	-1,449
Lending to the French Treasury (advance in respect of coins)	-	-	-
Back-to-back investment of customer deposits (other than the French Treasury)	104,194	105,642	-1,449
Liabilities	131,611	123,415	8,196
Liabilities vis-à-vis the State	19,005	13,045	5,960
Customer deposits	112,605	110,369	2,236
NET POSITION WITH CUSTOMERS	27,417	17,772	9,644

Operations with the French Treasury

The advance in respect of coins was fully repaid by the Treasury in 2008 and there was no other advance made in 2009.

However, the balance on the Treasury's account reached the exceptional amount of EUR 19.0 billion at year-end, being EUR 6 billion more than the previous accounts closure.

Other operations with institutional customers

The Banque de France provides non-euro area central banks with a range of services that, in particular, allow them to invest a proportion of their foreign reserves and to carry out foreign exchange transactions.

After the significant growth in the Banque de France's business in 2008, the volume of business conducted with institutional customers continued to be very high, at EUR 113 billion at 31 December 2009. Institutional customers' deposits and the back-to-back operations are recorded in dedicated accounts.¹⁸

Gold and foreign exchange transactions

Net gold and foreign exchange reserves increased by EUR 19.1 billion from one year-end to the next, primarily as a result of exchange rate fluctuations.

Gold and Foreign exchange transactions

(year-end amounts and change, EUR millions)

	2009	2008	Change 2009/2008
Assets	110,912	91,791	19,121
Gold	60,006	49,802	10,204
Foreign exchange assets and investments	37,771	39,666	-1,895
Relations with the IMF	13,136	2,323	10,813
Liabilities	84,489	61,365	23,124
Foreign exchange liabilities	9,801	8,356	1,445
Counterpart to SDR allocations	11,037	1,195	9,841
Revaluation accounts (gold, foreign currency and securities denominated in foreign currencies)	42,090	31,318	10,772
Revaluation reserve of State gold reserves	18,499	18,499	-
Revaluation reserve of State foreign exchange reserves	3,062	1,996	1,066
TOTAL GOLD AND FOREIGN EXCHANGE	-26,423	-30,426	4,003

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

¹⁸ See Note 27 of the Notes to the annual accounts.

¹⁹ From an accounting standpoint, this aggregate item comprises balance sheet item A7 "Euro-denominated fixed-income securities" and the portion of A4 "Euro-denominated claims on non-euro area residents" consisting of securities issued by non-euro area entities. Available-for-sale portfolios are stated net of revaluation accounts, which are shown on the liabilities side of the balance sheet in item P13.2.

Gold reserves

The Banque de France's gold reserves decreased by 56 tonnes and stood at 2,435 tonnes at year-end. Sales of gold were carried out in accordance with an agreement between 15 European central banks over a five year period that ended on 27 September 2009. Nevertheless, the value of the Bank's gold reserves increased by EUR 10.2 billion from one year-end to the next, with the sharp rise in gold prices (up by 23.3%) more than offsetting the reduction in the quantities held.

Following the entry into force of the second rider to the agreement between the State and the Bank of 29 December 2007, realised gains on sales of gold totalling EUR 0.8 billion were assigned to the revaluation reserve of State foreign exchange reserves. The gold revaluation account opened on 1 January 1999, which books unrealised capital gains from that date, stood at EUR 40.6 billion at year-end.

Foreign exchange assets and operations with the International Monetary Fund

Foreign exchange assets net of liabilities decreased by EUR 3.3 billion from one year-end to the next owing to exchange rate fluctuations and arbitrage transactions involving foreign exchange assets.

The claim on the IMF stood at EUR 13.1 billion, significantly increasing (by EUR 10.8 billion) as a result of the additional financing granted to the IMF by France in the context of the international efforts following on from the financial crisis.

Currency arbitrage and reimbursements of SDRs generated EUR 238 million of net foreign exchange gains, taken to the revaluation reserve of State foreign exchange reserves.

The Banque de France's euro-denominated portfolios

These comprise euro-denominated monetary portfolios and own funds investment portfolios.¹⁹

Euro-denominated monetary portfolios

The Banque de France has portfolio holdings for the use of its monetary resources within the framework adopted by the Eurosystem in 2003, which allows NCBs to build up their portfolios within annually-reviewed limits. With a backdrop of low interest rates, securities that matured in 2009 were not all reinvested and this explains the slight reduction in outstandings observed from one year-end to another, of EUR 1.8 billion.

Own funds investment portfolios

The increase in these portfolios, which stood at EUR 5.0 billion at end-December, reflects the expansion of own funds resulting from decisions regarding the appropriation of 2008 profits.

Euro-denominated portfolios			
<i>(year-end amounts and change, EUR millions)</i>			
	2009	2008	Change 2009/2008
Euro-denominated monetary portfolios	71,417	73,250	-1,833
Available-for-sale	19,454	16,812	2,642
Held-to-maturity	51,962	56,438	-4,475
Own funds investment portfolio	5,029	4,608	422
Available-for-sale	2,927	2,428	498
Held-to-maturity	873	938	-66
Participating interests	1,230	1,241	-11
<i>o/w ECB capital</i>	<i>825</i>	<i>836</i>	<i>-11</i>
EURO-DENOMINATED SECURITIES	76,446	77,857	-1,411

Net position with the Eurosystem

The Bank has several claims on the Eurosystem, notably:

- the claim reflecting the share of banknotes put into circulation by the rest of the Eurosystem that is allocated to the Banque de France under the allocation mechanism defined within the Eurosystem;
- the claim arising from gold (15%) and foreign exchange assets (85%) transferred to the ECB; it is

denominated in euro and 85% of this claim bears interest, with the remaining non-interest-bearing 15% corresponding to the gold transfer. These claims are remunerated at the marginal rate applied to the Eurosystem's main refinancing operations.

The other claims on the Eurosystem consist of income receivable from the ECB in respect of the net pooling of monetary income (EUR 0.6 million in 2009 compared with EUR 88 million in 2008) and in respect of the payment by the ECB of a share of its seigniorage income (EUR 160 million in 2009).

Net position with the Eurosystem

(year-end amounts and change, EUR millions)

	2009	2008	Change 2009/2008
Claim on the Eurosystem for banknotes in circulation	74,812	75,572	-761
Claim on the ECB for gold and foreign exchange assets transferred	8,283	8,577	-295
Other claims on the Eurosystem	161	337	-176
NET POSITION WITH THE EUROSYSTEM	-83,255	-84,486	1,231

Other transactions

The net balance of other line items was stable, reducing slightly by EUR 0.4 billion.

The reduction in provisions for liabilities and charges is principally explained by the release from the provision for monetary policy operations established in 2008. The ECB Governing Council in 2008 decided that any losses arising from the monetary policy would be shared between Eurosystem national central banks pursuant to Article 32.4 of the Statute of ESCB, in proportion to their share in the ECB's capital key in 2008. From a perspective of prudence, Eurosystem national central banks established provisions in their 2008 accounts, their respective shares covering appropriate provisions for risks arising from operations with counterparties that defaulted in the autumn of 2008. The total amount of the provision, initially established for EUR 5.7 billion at 31 December 2008, was revalued down to EUR 4.0 billion at 31 December 2009 as a result of disposals realised and the improvement in

market valuations of securities delivered as collateral for these operations. As a result the Banque de France released EUR 356 million from the provision to decrease the initial provision of EUR 1,184 million established in its accounts.

This reduction of provisions in the balance sheet is offset by a charge to the fund for general risks that takes into account the overall increase in the Banque de France's risk exposure in the course of operations that it undertakes in the discharge of its remit.

1|2 Breakdown of profit

Net profit for 2009 amounted to EUR 2,473 million, up slightly by EUR 13 million on 2008.

Other items			
<i>(year-end amounts and change, EUR millions)</i>			
	2009	2008	Change 2009/2008
Capital, reserves and retained earnings	4,309	3,820	489
Provisions for liabilities and charges	1,663	1,984	-321
Fund for general risks	1,345	870	475
Fixed assets	-867	-890	23
Other liabilities	-613	502	-1,114
Net profit for the year	2,473	2,460	13
TOTAL	8,310	8,746	-436

Net income from activities

Despite a market environment of generally falling interest rates, net income from Banque de France activities continued its upward trend: EUR 6,607 million in 2009 compared EUR 6,195 million in 2008, an increase of EUR 412 million.

While interest income is down, this improvement is principally explained by the release, totalling EUR 356 million, from the provision raised for

²⁰ The net result of the pooling of monetary income corresponds to the year-end adjustment for the difference between income originating from the Eurosystem for a national central bank and the income from operations that it has realised itself and pooled. In the case of the Banque de France, the pooling of monetary income generated additional income of EUR 0.6 million in 2009 compared with EUR 88 million in 2008.

the risk in relation to monetary policy operations. Net income from non-monetary operations remained approximately stable.

Net income on activities			
<i>(year-end amounts and change, EUR millions)</i>			
	2009	2008	Change 2009/2008
NET INCOME ON ACTIVITIES	6,607	6,195	412
Euro monetary income	4,491	3,309	1,182
Income from refinancing of the banking system	599	712	-113
Pooling of monetary income	945	2,819	-1,874
Provision for risk on monetary policy operations	356	-1,184	1,540
Income from available-for-sale and held-to-maturity portfolios	3,078	2,476	602
Interest on claims arising on transfer of reserve assets to the ECB	90	289	-199
Interest paid on minimum reserves	-508	-1,632	1,124
Other interest-bearing accounts	-71	-172	101
Foreign currency monetary income	995	1,696	-701
ECB and IEDOM dividends	265	330	-64
Net profit from non-monetary activities	856	861	-5

Net monetary income from euro transactions

Net monetary income from euro transactions is the largest component of income for the Banque de France. It represents the excess of income derived from euro monetary transactions (refinancing of the banking system, securities portfolios, allocation of Eurosystem monetary income) over the interest paid on deposits from credit institutions (minimum reserves and deposit facilities). This income includes the net result of the pooling of the Eurosystem's monetary²⁰ income and the interest on intra-ESCB balances corresponding to adjustments to banknotes in circulation.

In a context of a sharp fall in short term interest rates, all interest income streams are significantly down, notably for the line items remunerated at policy interest rates that attained historic low points in 2009 in Europe as well as the United States. The interest rate on the main refinancing operations remained on average in 2009 much lower than that observed in 2008: 1.26% compared with 4.01%. This fall in

interest rates resulted in lower interest revenues but also in the lower remuneration charge on compulsory reserves deposited by credit institutions in the accounts of the Bank.

Net monetary income from foreign exchange transactions

Foreign currency portfolios financed by monetary liabilities generated, in 2009, a profit of EUR 995 million, down EUR 701 million on the previous year. This decline can chiefly be ascribed to the sharp fall in the return on assets denominated in USD, with US interest rates attaining historic lows in 2009.

ECB and IEDOM dividends

The ECB paid a dividend to Eurosystem NCBs relating to the result obtained in 2008 and also paid an interim dividend as part of its seigniorage income in 2009. The contribution of these two amounts to the Bank's result was EUR 184 million in 2009.

Moreover, the dividend paid by the IEDOM in 2009 in respect of the year ended 31 December 2008

was EUR 81 million, which was the same as the previous year.

Net profit from non-monetary activities

Non-monetary activities generated a net profit of EUR 856 million, more or less similar to the previous year, slightly down by EUR 5 million.

Business with institutional customers remained sustained in 2009 in the following on from the very high level of activity brought about by the financial crisis, which enabled the profit to be very close to that achieved in 2008. The sale of goods to other central banks (exports of banknotes other than euro banknotes) and the provision of services to commercial banks (including management of payment media and databases) also continued to be stable. Income from the provision of services to the State, for its part, was up by EUR 3 million.

Income from the portfolios in which the Bank's own funds and the Employee Reserve Fund are invested amounted to EUR 221 million, up by EUR 15 million on the previous year.



Opérations pièces jaunes 2009: this is a charity drive that was introduced by the Paris and French Hospital Foundation to finance projects aimed at children in hospital. The Bank sorts and counts the small change collected.

Operating expenses

Operating expenses stood at EUR 1,976 million in 2009, down by EUR 35 million on 2008.

Staff costs rose by EUR 25 million due to the increase in pension expenses while staff costs related to working employees remained stable.

The increase in taxes (EUR 3 million) can be ascribed to the rise in professional tax and the social solidarity contribution.

Depreciation and amortisation expenses also rose (EUR 2 million) whereas credit to the profit and loss account arising from the transfer to the balance sheet of capitalised production costs came decreased by EUR 5 million, in line with the previous year, thanks to the continued completion of several major IT projects.

Other net operating expenses fell by EUR 68 million. This fall can largely be ascribed to the decrease in provisions to cover employee-related liabilities for both working employees and retirees. In 2009, the Bank negotiated a new collective agreement for complementary health insurance and updated its agreement on the work time savings account with trade unions representing employees.

Profit for the year

After an additional contribution of EUR 475 million made to the fund for general risks, reflecting the increased risks incurred by the Bank in relation to operations carried out in discharging its tasks, and an incremental accelerated tax depreciation charge of EUR 7 million, and after a corporate income tax charge of EUR 1,676 million, net profit for the Bank for the year ended 31 December 2009 amounted to EUR 2,473 million.

At its meeting of 1 April 2010, the General Council of the Banque de France approved the audited annual accounts of the Banque de France for the financial year 2009. It shall examine the appropriation of the Bank's profits at its next meeting.

Operating expenses			
<i>(year-end amounts and change, EUR millions)</i>			
	2009	2008	Change 2009/2008
OPERATING EXPENSES	-1,976	-2,011	35
Staff costs			
and pension expenses	-1,387	-1,362	-25
Taxes other than income tax	-57	-54	-3
Depreciation charges on fixed assets	-140	-138	-2
Capitalised production	35	40	-5
Other operating expenses	-428	-496	68

In accordance with the methods for financing the pension obligations defined in the framework of the reform of the Banque de France statutory employees' pension scheme, the General Council decided, on the one hand, to appropriate EUR 127 million to the Employee Reserve Fund in order to cover the pension entitlements acquired by employees over the past year, and, on the other, to allocate EUR 358 million to a special reserve. An additional charge of EUR 124 million was made to the unallocated reserve fund and a provision for investment of EUR 8 million was established.

The dividend paid to the State amounted to EUR 1,702 million. The balance of EUR 154.6 million was carried forward as retained earnings.

Main profit and loss account balances			
<i>(year-end amounts and change, EUR millions)</i>			
	2009	2008	Change 2009/2008
Net income on activities of the Banque de France	6,607	6,195	412
Operating expenses	-1,976	-2,011	35
Profit before tax and exceptional items	4,631	4,184	447
Net transfer to fund for general risks and accelerated tax depreciation	-482	-215	-267
Exceptional items	-	-	-
Corporate income tax	-1,676	-1,509	-167
PROFIT FOR THE YEAR	2,473	2,460	13

2| ANNUAL ACCOUNTS

2|1 Balance sheet and profit and loss account

Balance sheet at 31 December				
<i>(EUR millions)</i>				
Notes to annual accounts	Item	Description	2009	2008
Assets				
1	A1	Gold	60,006	49,802
2	A2	Foreign exchange assets (excl. relations with the IMF)	37,771	86,986
		2.1 <i>Foreign exchange assets held with non-euro area residents</i>	23,817	21,393
		2.2 <i>Foreign exchange assets held with euro area residents</i>	13,954	65,593
3	A3	Relations with the IMF	13,136	2,323
		3.1 <i>Financing provided to the IMF</i>	2,553	1,629
		3.2 <i>Acquisitions of Special Drawing Rights</i>	10,583	694
5	A4	Euro-denominated claims on non-euro area residents	2,940	5,793
4	A5	Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations	120,984	134,463
5	A6	Other euro-denominated loans to euro area credit institutions	11,668	20,711
6	A7	Euro-denominated securities issued by euro area residents	68,717	68,740
		7.1 <i>Securities held for monetary policy purposes</i>	4,201	–
		7.2 <i>Other securities</i>	64,516	68,740
	A8	Relations within the Eurosystem	84,087	85,322
		8.1 <i>Participating interest in ECB</i>	825	836
7		8.2 <i>Claims arising on the transfer of reserve assets to the ECB</i>	8,283	8,577
8		8.3 <i>Claims on the Eurosystem for euro banknotes in circulation</i>	74,811	75,572
9		8.4 <i>Other claims on the Eurosystem</i>	168	337
10	A9	Advance to the IEDOM	3,565	3,198
	A10	Claims on the French Treasury	–	–
11	A11	Other euro and foreign currency denominated financial assets	97,483	86,882
12	A12	Miscellaneous	4,422	7,504
13	A13	Fixed assets	1,273	1,295
		13.1 <i>Tangible and intangible assets</i>	868	890
		13.2 <i>Participating interests (other than interest in the ECB)</i>	405	405
		TOTAL ASSETS	506,050	553,019
Liabilities				
14	P1	Banknotes in circulation	151,174	144,862
4	P2	Euro-denominated liabilities to euro area credit institutions in the framework of monetary policy operations	61,076	90,843
		2.1 <i>Current accounts</i>	34,314	67,693
		2.2 <i>Other liabilities</i>	26,762	23,150
	P3	Other euro-denominated liabilities to euro area credit institutions	62	139
15	P4	Euro-denominated liabilities to non-euro area residents	22,375	21,566
2	P5	Foreign exchange liabilities	9,801	8,356
3	P6	Counterpart to SDR allocations	11,037	1,195
16	P7	Relations within the Eurosystem	62,077	117,880
17	P8	Euro-denominated liabilities to other euro area residents	25,083	17,112
		8.1 <i>Treasury's account</i>	19,005	13,045
		8.2 <i>Other liabilities</i>	6,078	4,067
18	P9	Items in course of settlement	258	279
19	P10	Banking transactions	84,091	74,465
20	P11	Miscellaneous	4,688	14,637
21	P12	Provisions for liabilities and charges	1,663	1,984
22	P13	Revaluation accounts	42,892	31,978
	P14	Fund for general risks and accelerated tax depreciation	1,430	948
23	P15	Revaluation reserve of State gold reserves	18,499	18,499
23	P16	Revaluation reserve of State foreign exchange reserves	3,062	1,996
24	P17	Capital, reserves and retained earnings	4,309	3,820
	P18	Profit for the year	2,473	2,460
		TOTAL LIABILITIES	506,050	553,019

2009 Profit and loss accounts

(EUR millions)

Notes to annual accounts	Item	Description	2009	2008
	1.	Net income on activities of the Banque de France	6,607	6,195
30	1.1	Net interest income	5,283	6,236
		1.1.1 Interest and related income	8,506	14,404
		1.1.2 Interest and related expenses	-3,223	-8,168
31	1.2	Net income/loss on financial transactions	219	207
		1.2.1 Net of realised gains/losses and unrealised losses on foreign exchange	-1,066	-908
		1.2.2 Net of charges to/releases from the revaluation reserve of State foreign exchange reserves	1,066	908
		1.2.3 Net of other income and expenses on financial transaction	219	207
	1.3	Commission	14	9
		1.3.1 Commission (income)	44	44
		1.3.2 Commission (expense)	-30	-35
32	1.4	Income from equity securities and participating interests	310	364
33	1.5	Net result of pooling of monetary income	357	-1,096
34	1.6	Net of other income and expenses	424	475
	2.	Operating expenses	-1,976	-2,011
35	2.1	Personnel and related expenses	-1,387	-1,362
	2.2	Taxes other than income tax	-56	-54
	2.3	Provisions, depreciation and amortisation	-140	-138
	2.4	Net of other operating income and expenses	-393	-456
		PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS (1 + 2)	4,631	4,184
	3.	Net charge to the fund for general risks and accelerated tax depreciation	-482	-215
	4.	Extraordinary items	-	-
	4.1	Extraordinary income	-	-
	4.2	Extraordinary charges	-	-
36	5.	Corporate income tax	-1,676	1,509
		PROFIT FOR THE YEAR (1 + 2 + 3 + 4 + 5)	2,473	2,460

2|2 Notes to the annual accounts

Accounting principles and valuation methods

Legal framework

The annual accounts of the Banque de France are presented in accordance with the Order of the Minister of the Economy, Finance and Industry of 7 February 2000. Their structure is designed to reflect the specific nature of the tasks carried out by the Bank within the framework of the ESCB and its diverse range of activities. The accounts are expressed in millions of euro.

The accounting and valuation methods applied by the Banque de France are defined in Article R 144–6 of the Monetary and Financial Code, which specifies that:

- The Banque de France must comply with the accounting and valuation methods laid down by the Governing Council of the ECB in its 10 November 2006 Guideline for all activities carried out within the framework of the ESCB. This Guideline establishes in particular the accounting rules applicable to refinancing operations for the banking sector, securities, foreign currency transactions carried out in the course of foreign exchange reserve management, and the issue of banknotes.

- The accounting rules established by the *Comité de la réglementation comptable* (CRC – Accounting Regulations Committee) apply to all the other activities of the Bank. However, the Bank's General Council may also decide to apply the accounting and valuation rules recommended by the ECB to its other activities.

With effect from 1 January 2003, the Banque de France has extended the accounting methods laid down by the Governing Council of the ECB in its 5 December 2002 Guideline to cover the securities portfolios recorded in asset item A11 (since replaced by the Guideline of 10 November 2006).

Valuation methods

Foreign exchange gains/losses

Spot and forward purchases and sales of foreign currencies are recorded in off-balance sheet accounts at the trade date. They are recognised in the balance sheet at the settlement date.

Foreign exchange gains/losses on State gold and currency reserves

Realised gains/losses are computed for each currency. Every day, a weighted average price is calculated, firstly on inflows (spot or forward purchases on the trade date and income in foreign currencies, in particular daily accrued interest), and secondly on outflows (spot or forward sales on the trade date and expenses in foreign currencies, in particular accrued interest in foreign currencies). The realised gain/loss is calculated by applying the difference between these average prices to the lower of the day's inflows or outflows.

Where outflows exceed inflows, a second realised gain/loss is calculated, equating to the difference between the net outflows of the day valued at the average outflow price on the one hand, and at the average price of the day's opening position on the other. Where inflows exceed outflows, the net inflow is added to the assets held at the beginning of the day, thus changing the average price of the position.

Gold and foreign exchange positions are valued at year-end on the basis of the rates/prices prevailing on the last business day of the year. Unrealised gains

are recorded as liabilities in revaluation accounts (item P14). Unrealised losses are taken to the profit and loss account in item 1.2.1. Unrealised gains and losses are not netted.

Revaluation reserve of State gold reserves and revaluation reserve of State foreign exchange reserves

In order to neutralise the impact on the Bank's profit and loss account of realised gains and losses and of unrealised losses at year-end, the 31 March 1999 agreement between the State and the Banque de France on management of and accounting for State foreign exchange reserves (as supplemented by the rider dated 26 November 2002) requires the impact to be cancelled out by debiting or crediting the profit and loss account, with the matching entry posted to the revaluation reserve of State foreign exchange reserves or the revaluation reserve of State gold reserves. However, the amount of net foreign exchange gains taken to the revaluation reserves is limited to the net profit for the year before the transfer to the reserves.

Furthermore, with effect from 31 December 2007, pursuant to the rider of 27 December 2007, net foreign exchange gains realised from sales of gold are allocated to the revaluation reserve of State foreign exchange reserves. This rider also stipulates that foreign exchange gains realised from sales of gold during the 2004-2006 period be transferred from the revaluation reserve of State gold reserves to the revaluation reserve of State foreign exchange reserves.

Other foreign exchange gains/losses

The Banque de France applies Regulation 89-01 of the Banking and Financial Regulation Committee (*Comité de la réglementation bancaire et financière* – CRBF) to foreign exchange operations that are not connected to its main responsibilities. Foreign currency deposits and investments are marked to market on the last business day of the year. Realised and unrealised foreign exchange gains and losses are posted to the profit and loss account in item 1.2.3 "Net of other income and expenses on financial transactions". Accrued income and expenses are converted into euro at the rate prevailing on the day the transaction is recorded. Forward foreign exchange hedges are valued at the closing date exchange rate.

Securities portfolio (excluding pension fund – see Note 29 – and securities held for monetary policy purposes)

Fixed income and variable yield securities are recorded in asset item A2, when they are denominated in foreign currencies, or in asset items A4 or A7, when they are denominated in euro, and depending on whether they are issued by residents or non-residents. However, euro-denominated securities earmarked against the Bank's own funds, provisions and customer deposits recorded in liability items P4 or P10 are recorded in asset item A11. Securities held in the pension reserve fund of Banque de France employees are recorded in asset item A12 (see Note 29).

Fixed income securities that the Banque de France has decided to hold to maturity are recognised in the accounts at amortised cost but may be subject to impairment in the event of the risk of non-recovery.

The other fixed income securities that may be sold before their maturity, and variable yield securities, are revalued line by line at their market price on the last business day of the year. Unrealised gains are recorded as liabilities in revaluation accounts (item P14). Unrealised losses are booked as expenses on financial transactions (profit and loss account item 1.2.3). Unrealised gains and losses are not netted. Gains and losses arising from sales realised during the year are calculated on the basis of the weighted average price of each line of securities; they are booked in the item 1.2.3 "profits or losses on financial transactions" of the profit and loss account.

For all fixed-income securities, differences between the acquisition and redemption price are spread over the remaining life of the securities on a discounted basis.

Securities held for monetary policy purposes

Following the decisions of the ECB Governing Council of 7 May and 4 June, the ECB and the national central banks started to purchase covered bonds denominated

in euro and issued in the euro area for the purposes of monetary policy. These securities are valued at amortised cost and are subject to impairment tests. They are recorded in asset item A7 (see Note 6)

Financial futures instruments

Interest rate financial futures traded on organised markets are recorded off-balance sheet at the notional amount, while daily margin calls paid or received are recognised in item 1.2.3 of the profit and loss account.

Interest rate swaps, denominated in foreign currencies and in euro, are revalued at market value at 31 December. Unrealised gains are recorded as liabilities in revaluation accounts (item P14) and unrealised losses are booked as expenses on financial transactions (item 1.2.3 of the profit and loss account). Unrealised gains and losses are not netted. Unrealised losses are amortised over the remaining life of the contract. The interest is recorded in item 1.1 of the profit and loss account on an accruals basis.

Currency option premiums are recorded on the asset side of the balance sheet if they relate to currency purchases and on the liabilities side if they relate to currency sales. In the event that the option is exercised, the premium is included in the price of the currency purchased. If the option is not exercised, at its expiry date the premium is recorded in the profit and loss account "Net balance of foreign exchange realised gains and losses and unrealised losses". At the end of the year, the premium amounts booked to the profit and loss account during the year are transferred to the revaluation reserve of State foreign exchange reserves in the same way as realised foreign exchange gains and losses.

Open positions on currency options at the balance sheet date are valued at their market price. Unrealised gains are recorded as liabilities in revaluation accounts (item P14). Unrealised losses are booked in item 1.2.3 of the profit and loss account. Unrealised gains and losses are not netted.

Synthetic instruments

A synthetic instrument is a financial instrument created artificially by combining two or more instruments with the aim of replicating the cash flows and valuation patterns of another instrument.

At the end of the year a synthetic instrument, that replicates a fixed income security that is not intended to be held to maturity, is marked to market using the market prices of the instruments that make it up. The unrealised gain or loss of the synthetic instrument is calculated for the net amount of the unrealised gains and losses of the instruments that make it up.

Unrealised gains are recorded as liabilities in revaluation accounts (item P14). Unrealised losses are booked as expenses on financial transactions (profit and loss account item 1.2.3). Unrealised gains and losses between different synthetic instruments are not netted. Gains and losses arising from sales realised during the year are booked, if need be, in item 1.2.3 “profits or losses on financial transactions” of the profit and loss account.

Tangible and intangible fixed assets

Tangible and intangible fixed assets are accounted for and valued in accordance with CRC regulations.

Land is valued at acquisition cost. Buildings and equipment are carried at historical cost, less depreciation or provisions for impairment set up since they were brought into service. Costs incurred in developing computer applications intended to be used over a number of years are capitalised using the following method: project management and ownership costs are recorded in the profit and loss account as operating expenses; an intangible asset of the same amount is recognised in the balance sheet, but cancelled out by a matching credit recorded under profit and loss item 2.4 “Net of other operating income and expenses”.

In accordance with Article 322-1 of the French General Chart of Accounts (*Plan comptable général* – PCG), the depreciation period for each asset is determined on the basis of its probable useful life. Components of the Bank’s property assets are depreciated over 50, 33, 20 or 10 years, depending on the type of asset. Computer equipment is depreciated over 4, 5 or 10 years, and most other equipment over periods ranging from 2 to 10 years. Purchased software is amortised over 3 or 5 years. All fixed assets are depreciated using the straight line method. In accordance with CRC regulation No. 2002-10, the useful lives of long-term assets are reviewed regularly and modified as required.

Accelerated tax depreciation is applied for assets that can be depreciated more rapidly for tax purposes than for accounting purposes.

Banknotes in circulation

See Note 14.

Fund for general risks

A fund for general risks was established in 1998 to cover any general risks inherent in the activities of a central bank. This fund is booked as a liability in item P14; with counterparty entries for charges and releases from this fund through item 3 of the profit and loss account.

Pension scheme

See Note 29.

Information on balance sheet, off-balance sheet and profit and loss items

A certain amount of confidential information relating to operations carried out in the exercise of the Banque de France’s core tasks is not disclosed, in accordance with decisions taken by the General Council and pursuant to Article R144-6 of the Monetary and Financial Code.

Balance sheet

NOTE 1: GOLD

In 2009, the Eurosystem central banks, the Swiss National Bank and the Sveriges Riksbank renewed the agreement capping their sales of gold. Under the new agreement, entered into for a five-year period commencing on 27 September 2009, annual sales by the 19 central banks may not exceed 400 tonnes.

Under the previous agreement that ended on 26 September 2009, the Banque de France continued with its gold sales, selling 56 tonnes, and at 31 December 2009 the gold stock was 2,435 tonnes. Despite these sales, the sharp increase in the price of gold (see Note 23) resulted in an increase in the euro exchange value of the gold reserve at the year-end.

NOTE 2: FOREIGN EXCHANGE ASSETS AND LIABILITIES

Foreign exchange reserves are invested in overnight deposits, fixed-term deposits, reverse repo transactions with delivery of securities, and fixed-income securities. The Bank may also borrow foreign currencies in the form of repurchase agreements with delivery of securities, recorded in liability item P5.

Foreign exchange assets and liabilities (excl. relations with the IMF)

Asset item A2 and Liability item P5

(EUR millions)

	2009	2008
ASSETS		
Foreign currency assets		
Overnight deposits	147	493
Fixed-term deposits	12,233	7,876
USD liquidity providing program	–	47,320
Securities received under repurchase agreements	1,186	5,831
Fixed income securities	23,919	25,063
Accrued interest receivable	285	404
TOTAL	37,771	86,986
LIABILITIES		
Foreign exchange liabilities		
Securities delivered under repurchase agreements	9,799	8,353
Accrued interest payable	1	3
TOTAL	9,801	8,356

Fixed-income securities denominated in foreign currencies comprise securities that the Bank has the intention of holding to maturity and securities that may be sold. These two portfolio categories are subject to different valuation rules that are described in the section above on accounting principles and valuation methods. Securities intended to be held to maturity totalled EUR 9,015 million at 31 December 2009 compared to EUR 9,803 million at 31 December 2008.

The item “foreign currency assets” in 2008 included claims on euro area residents denominated in foreign currency, taking the form of securities repurchase agreements; and, for an equivalent value in euro of EUR 47,320 million (EUR 964 million in 2007), loans that had been granted in the framework of the temporary reciprocal currency arrangement (swap line) put in place by the US Federal Reserve System and the ECB. This measure continued to be used by French banks in the first half of 2009. Under this programme, the US Federal Reserve System provided the dollars to the ECB through a EUR/USD swap. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct liquidity-providing operations with Eurosystem counterparties. These back-to-back swap transactions resulted in non-remunerated intra-Eurosystem balances between the ECB and the NCBs, reported under liability item P7 “Relations within the Eurosystem”.

There were no outstandings shown in the balance sheet at 31 December 2009 for these transactions. The US Federal Reserve System and the ECB have decided to suspend this programme from 31 January 2010.

NOTE 3: RELATIONS WITH THE IMF

The amount of financing provided to the IMF is equivalent to the euro value of:

- the drawing rights under the reserve tranche that corresponds to the fraction of France’s share in the capital of the IMF settled in gold and other foreign currency assets, uplifted for net euro usage by the IMF, notably, for euro-denominated drawings and repayments by member countries vis-à-vis France;

- the loans granted to the IMF as part of the agreement that came into effect on 2 December 2009 (see below).

The item “Acquisitions of SDRs” (Special Drawing Rights) includes the euro equivalent of the SDRs held by France.

During 2009, the IMF allocated an additional 9 billion SDRs to France, comprising 7.96 billion as a general allocation and 1.096 billion as a special allocation.

In parallel the IMF has entered into three types of agreement with France as part of its policy to sustain global growth. These agreements came into force in December 2009. The forms of these financings are as follows:

- a loans agreement between France and the IMF for which the limit is capped at EUR 11,060 million. In December 2009 a loan under this programme was granted to Serbia of up to 277 million SDRs (equivalent to EUR 302 million);
- SDR voluntary trading arrangements between the euro or the dollar;
- a loan for a total of 1.4 billion SDRs from the Banque de France to the IMF’s “Poverty Reduction and Growth Facility and the Exogenous Shocks Facility (PRGF-ESF)” account.

The EUR 925 million increase of financing to the IMF observed in 2009 is the result of:

- an increase in the net euro usage of EUR 623 millions; IMF drawings on France’s share, intended to fund new loans, exceeded repayments of previous drawings;
- a loan of EUR 302 million to the IMF for Serbia.

The amount of acquisitions of special drawing rights should be taken together with that recorded in liability item P6 “Counterpart to SDR allocations” to determine France’s net SDR position.

Relations with the IMF

Asset item A3 and Liability item P6

(EUR millions)

	2009	2008
ASSETS		
Financing provided to the IMF	2,553	1,628
Acquisitions of Special Drawing Rights	10,578	693
Accrued interest receivable	5	3
TOTAL	13,136	2,323
LIABILITIES		
Counterpart to SDR allocations	11,032	1,193
Accrued interest payable	5	2
TOTAL	11,037	1,195

NOTE 4: MONETARY POLICY OPERATIONS

The total receivables held by the Eurosystem in relation to monetary policy operations totalled EUR 749,906 million of which the Banque de France held EUR 120,499 million. In accordance with Article 32.4 of the ESCB Statute, any risks from monetary policy operations, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

Asset item A5 and liability item P2.2 show operations carried out by the Banque de France within the framework of the single monetary policy of the Eurosystem.

Main refinancing operations were the most important open market operations until 2008; they play a key role in steering interest rates, bank liquidity management and signaling the stance of monetary policy. They are conducted through weekly tenders in the form of temporary sales of assets (repurchase agreements) for a one-week maturity.

Longer-term refinancing operations (LTROs) are carried out through monthly tenders for loans of one month or more. They were used constantly throughout 2009.

Since October 2008 these two types of financing of credit institutions have been carried out at fixed rates.

Euro-denominated loans to euro area credit institutions within the framework of monetary policy operations

Asset item A5

(EUR millions)

	2009	2008
Main refinancing operations	1,980	16,750
Longer-term refinancing operations	117,275	116,117
Fine-tuning operations	–	–
Structural operations	–	–
Marginal lending facility	1,244	1,106
Margin calls paid	–	–
Accrued interest receivable	485	490
TOTAL	120,984	134,463

Marginal lending facilities are overnight facilities granted in the form of repurchase agreements to Banque de France counterparties at their request. Interest is paid on these facilities at a rate fixed by the Eurosystem.

Liability item P2.1 comprises the current accounts opened by credit institutions in the books of the Banque de France. These accounts mainly comprise minimum reserves. The minimum reserve build-up period begins on the main refinancing operation settlement date following the Governing Council meeting at which the monthly assessment of monetary policy direction is made (Article 7 of EC Regulation 1745/2003 of the ECB, dated 12 September 2003). Minimum reserves are remunerated at the marginal rate applied to main refinancing operations.

Deposit facilities enable Banque de France counterparties to make overnight deposits. There was a significant increase in these operations in 2009. The interest rate on the deposit facility is set by the Eurosystem and provides a floor for the market rate.

Finally, the Eurosystem may ask counterparties to invest cash assets in the form of remunerated fixed term deposits with the national central bank of the Member State in which the counterparty is established. These **collections of fixed term deposits** are only considered for fine tuning with a view to withdrawing liquidity from the market. Deposits accepted from counterparties have a fixed maturity and interest rate.

Euro-denominated liabilities to euro area credit institutions within the framework of monetary policy operations

Liability item P2

(EUR millions)

	2009	2008
Current accounts	34,285	67,616
Remaining liabilities	26,749	23,136
<i>Deposit facilities</i>	26,749	23,136
<i>Collection of fixed-term deposit</i>	–	–
<i>Repurchase agreements</i>	–	–
<i>Margin calls received</i>	–	–
Accrued interest payable	42	91
TOTAL	61,076	90,843

NOTE 5: ITEMS A4 “EURO-DENOMINATED CLAIMS ON NON-EURO AREA RESIDENTS” AND A6 “OTHER EURO-DENOMINATED LOANS TO EURO AREA CREDIT INSTITUTIONS”

These items include euro-denominated investments earmarked against euro-denominated deposits recorded in liability item P4 (see Note 15). These claims and loans, which do not relate to monetary policy operations, are split between these two asset items A4 and A6 according to whether the counterparty is located within or outside the euro area.

Claims in euro on non-euro area residents

Asset item A4

(EUR millions)

	2009	2008
Securities held until maturity	2,866	4,621
Other claims	6	1,063
Accrued interest receivable	68	109
TOTAL	2,940	5,793

NOTE 6: ASSET ITEM A7 “EURO-DENOMINATED SECURITIES ISSUED BY EURO AREA RESIDENTS”

A7.1 Securities held for monetary policy purposes

Item 7.1 contains securities acquired within the scope of the purchase programme for covered bonds announced by the ECB Governing Council on 7 May 2009 (see the section above on “securities held for monetary policy purposes” in the section dealing with valuation methods).

In order to report securities held for monetary policy purposes separately, item A17 “euro-denominated securities issued by euro-area residents” has been divided into two sub-positions: “securities held for monetary policy purposes”, which was introduced in order to reflect the euro-denominated covered bond portfolio for which acquisitions commenced in July 2009; and “other securities” that are shown below.

A7.2 Other securities

Item 7.2 includes euro-denominated securities issued by residents of the euro area, other than those that are specifically earmarked against the Bank’s own funds, to the Employee Reserve Fund and to customer deposits that are recorded in asset item A11 (see Notes 11 and 27). In addition to fixed income securities this item includes a UCITS bond fund.

Euro-denominated securities issued by euro area residents Asset item A7

(EUR millions)

	2009	2008
A7.1 Securities held for monetary policy purposes	4,201	–
Covered bonds	4,166	–
Accrued interest receivable	35	–
A7.2 Other securities	64,516	68,740
Securities held until maturity	47,953	50,798
Other securities	15,302	16,781
Accrued interest receivable	1,261	1,161
TOTAL	68,717	68,740

NOTE 7: CLAIMS ARISING ON THE TRANSFER OF RESERVE ASSETS TO THE ECB

This claim held by the Banque de France results from the transfer of foreign reserve assets to the ECB. The claim is denominated in euro and is equivalent to the euro value of the transferred foreign exchange reserves as at the date of the transfer. It is remunerated at the marginal rate applied to the main refinancing operations, adjusted to reflect a zero return on the gold component. The adjustments on 1 January 2009 to the proportions of the capital subscription of the ECB’s capital has also led to adjusting the claim of Banque de France with respect to the foreign reserve assets transferred to the ECB. In order to reflect its decreased capital key share, the claim of the Banque de France decreased by EUR 96 million.

Claims arising on the transfer of reserve assets to the ECB Asset item A8.2

(EUR millions)

	2009	2008
Claims arising on the transfer of reserve assets to the ECB	8,192	8,288
Accrued interest receivable	91	289
TOTAL	8,283	8,577

NOTE 8: CLAIM ON THE EUROSISTEM FOR EURO BANKNOTES IN CIRCULATION

The intra-ESCB claim arising from the allocation of euro banknotes within the Eurosystem and the liability to the ECB relating to the 8% share of euro banknotes in circulation is shown as a net amount in item A8.3 “Claim on the Eurosystem for euro banknotes in circulation”, along with accrued interest receivable as at 31 December 2009. The remuneration of this net claim is shown in profit and loss item 1.1.1 “Interest and related income” (see Note 14 on banknotes in circulation).

NOTE 9: OTHER CLAIMS ON THE EUROSISTEM

This item includes any income receivable from the ECB in respect of the distribution of the balance of monetary income (see Note 33 of the profit and loss account) as well as the ECB’s interim distribution of profit (see Note 14 on banknotes in circulation.)

Other claims on the Eurosystem Asset item A8.4

(EUR millions)

	2009	2008
Other claims on the Eurosystem	8	88
ECB interim dividends	160	249
TOTAL	168	337

NOTE 10: ADVANCE TO THE IEDOM

The circulation of banknotes in the overseas departments, the territorial unit of Saint Pierre and Miquelon and the departmental unit of Mayotte is managed by the French overseas departments note-issuing bank (*Institut d’émission des départements d’outre-mer* – IEDOM) in the name of, on behalf of and under the authority of the Banque de France.

To this end, the Banque de France grants the IEDOM a non-interest-bearing advance for

an amount corresponding to an estimate of the value of the banknotes in circulation in the territories concerned.

NOTE 11: OTHER EURO AND FOREIGN CURRENCY DENOMINATED FINANCIAL ASSETS

Other euro and foreign currency denominated financial assets		
Asset item A11		
<i>(EUR millions)</i>		
	2009	2008
Fixed income securities held until maturity (a) (b)	66,304	61,172
Other fixed income securities and variable-yield securities	3,670	3,029
Other operations	27,398	22,537
Accrued interest receivable	111	144
TOTAL OF OTHER EURO- AND FOREIGN CURRENCY-DENOMINATED FINANCIAL ASSETS	97,483	86,882

(a) In 2009, none of these securities were transferred to another portfolio and none of these securities were sold before maturity.
(b) Of which foreign currency denominated securities: EUR 44,845 million, of which EUR 60,254 million in collateralised securities (see Note 28).

Asset item A11 includes, notably, securities linked to customer deposits, recorded in liability items P4 and P10, the Bank's own funds and provisions.

Securities portfolios				
Extract from Asset item A11				
<i>(EUR millions)</i>				
	2009		2008	
	Fixed income securities held until maturity	Other securities	Total	Total
Fixed income securities				
Government securities	65,755	177	65,931	60,693
Securities issued by public bodies	137		137	184
Other issuers	413		413	460
Accrued interest receivable	108		108	156
NET BALANCE SHEET VALUE	66,412	177	66,589	61,493
Equities and other variable-yield securities				
French and foreign mutual funds		1,115	1,115	862
Capitalisation mutual funds		2,309	2,309	1,952
Other variable-yield securities		70	70	52
NET BALANCE SHEET VALUE	3,494	3,494	3,494	2,866

NOTE 12: MISCELLANEOUS

Miscellaneous		
Asset item A12		
<i>(EUR millions)</i>		
	2009	2008
Deferred income, accrued expenses, etc.	2,077	4,136
Accrued income	329	990
Prepaid expenses	15	14
Other items	1,733	3,132
Miscellaneous	2,345	3,368
TOTAL	4,422	7,504

The other accruals accounts included in 2008 notably the impact of the revaluation of off-balance sheet foreign exchange positions held in relation to the temporary reciprocal currency arrangement (swap line) put in place between the US Federal Reserve System and the ECB (see Note 28). As far as the swaps are concerned, the overall impact of these operations (on- and off-balance sheet) on the net foreign exchange gains or losses is nil.

They also include the revaluation impact of off-balance sheet foreign exchange positions held in relation to retail banking operations (see Note 20). Their impact on the profit and loss account is cancelled out by the revaluation of foreign exchange positions in the balance sheet, the overall foreign exchange position from these activities being close to zero.

NOTE 13: FIXED ASSETS

Participating interest in the ECB

Pursuant to article 28 of the ESCB Statute, the capital of the ECB is held solely by the NCBs of the ESCB. The formula for determining the capital subscription of each NCB to the ECB (the "capital key") is defined in article 29.3 of the ESCB Statute and adjusted every five years. The most recent adjustment took effect on 1 January 2009.

Based on the ECB Governing Council's decision of 15 July 2003 on the statistical data to be used for the determination of the capital subscription key of the ECB, the capital key share of NCBs were adjusted on 1 January 2009 by means of transfers among national central banks.

Fixed assets				
Asset item A8.1 and A13				
<i>(EUR millions)</i>				
	2009	Increase	Decrease	2008
Participating interest in the BCE (gross value)	819		12	831
FX translation difference on participating interest in the ECB	6			5
Participating interest in ECB (balance sheet value)	825			836
Non-ECB participating interest (gross value)	405			405
<i>Intangible fixed assets (gross value)</i>	<i>444</i>	<i>66</i>	<i>139</i>	<i>517</i>
<i>Amortisation</i>	<i>237</i>	<i>52</i>	<i>130</i>	<i>315</i>
Net value of intangible fixed assets	207	14	9	202
<i>Tangible fixed assets (gross value)</i>	<i>2,110</i>	<i>234</i>	<i>220</i>	<i>2,096</i>
<i>Depreciation and provisions</i>	<i>1,449</i>	<i>89</i>	<i>48</i>	<i>1,408</i>
Net value of tangible fixed assets	661	145	173	688
Total tangible and intangible fixed assets (net value)	868	159	181	890

Note: Increases and decreases also include transfers between fixed asset accounts.

Information relating to subsidiaries and participating interests at 31 December 2009						
Asset item A8.1 and A13.2						
<i>(EUR millions, share as a %)</i>						
	Asset item	Listed	% share capital held	2009 Share-holders' equity	2009 profit/loss equity	2009 book value
Bank for International Settlements	A 13.2	No	9.16	14,446	486	405
ECB	A 8.1	No	20.38	19,100	2,253	819
La Prévoyance immobilière	A 13.2	No	98.20	na	na	ns
Banque de France Gestion	A 13.2	No	99.99	3	5	ns

ns : not significant
na : not available

Note: The interest in the capital is the BdF's share in all of the NCBs that are members of the euro area. It is this key that is used for the allocation of dividends.

The Banque de France's share in the ECB's capital after the five-yearly update at 1 January 2009 has declined slightly to 14.2212%, having previously been 14.3875%. This update resulted in a repayment of EUR 9.580 million of our share in the ECB's capital at 1 January 2009.

Under article 49.3 of the ESCB Statute, the called-up share of the ECB's capital is automatically increased when a new country joins the euro area. This increase is determined by multiplying the amount

of the called-up capital before the entry of the new member by the ratio of the weighting of the entering NCB and the weighting of other NCBs already members of the Eurosystem. The entry of Slovakia into the Eurosystem on 1 January 2009 has modified the ECB's capital which has changed from EUR 4,137 million at 31 December 2008 to EUR 4,142 million at 31 December 2009. This increase has resulted in a readjustment to the value of the Banque de France's investment of EUR 1.760 million.

Share of the Banque de France in the capital of the ECB

(as a %)

To 31 December 2003	16.8337
From 1 January 2004 to 30 April 2004	16.5175
From 1 May 2004 to 31 December 2006	14.8712
From 1 January 2007 to 31 December 2008	14.3875
From 1 January 2009	14.2212

NOTE 14: BANKNOTES IN CIRCULATION

The ECB and the 16 euro area NCBs, which together make up the Eurosystem, issue euro banknotes. The total value of euro banknotes in circulation in the Eurosystem is allocated on the last working day of each month in accordance with the banknote allocation key.²¹

The ECB has been allocated an 8% share of the total value of euro banknotes in circulation; the remaining 92% has been allocated to euro area NCBs according to their weightings in the ECB's capital key. The share of banknotes in circulation allocated to each NCB is disclosed in the liability item "Banknotes in circulation".

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes actually put into circulation also gives rise to remunerated intra-Eurosystem balances (see asset item A8.3).

For a five-year period from the year of adoption of the euro,²² intra-Eurosystem balances resulting from euro banknote allocation are being adjusted in order to avoid significant changes in the NCBs' income positions compared to previous years. These adjustments are effected by taking into account the differences between, on the one hand, the average value of banknotes in circulation of each

NCB in the reference period²³ and, on the other hand, the average value of banknotes that would have been allocated to them during that period under the ECB's banknote allocation key. These adjustment amounts will be reduced each year until the first day of the sixth year following euro adoption, after which income on banknotes will be allocated fully between the NCBs in proportion to their paid-up share in the ECB's capital. The adjustment period for Cyprus and Malta will end on 1 January 2013 and for Slovakia on 1 January 2014.

Interest income and expense on these balances are cleared through the accounts of the ECB and included in "Net interest income" in the profit and loss account.

The ECB Governing Council has decided that the ECB's seigniorage income arising from the 8% share of euro banknotes in circulation allocated to it is due to the NCBs in the same year it accrues and distributed to them on the second working day of the following year in the form of an interim distribution of profit.²⁴ This income is distributed in full unless the ECB's net profit is less than the income earned on euro banknotes in circulation or unless the Governing Council decides to reduce the redistribution by the amount of the costs incurred by the ECB on the issuance and storage of euro banknotes. The Governing Council may also decide to transfer all or part of the ECB's seigniorage income to a provision for foreign exchange rate, interest rate and gold price risks. For 2009, the ECB Governing Council decided to distribute all of its seigniorage income to the NCBs. The portion allocated to the Banque de France in relation to this, in the form of an interim distribution of profit, totaled EUR 160 million. It is included in item 1.4 of the profit and loss account "Income from equity securities and participating interests".

French franc banknotes, which ceased to be legal tender on 17 February 2002, may still be exchanged until 17 February 2012. Prior to that date, French franc banknotes in circulation but not yet remitted to the Treasury will continue to be recorded as a liability of the Banque de France. This liability has since 1 January 2003 been included in balance sheet item P11 "Miscellaneous" (see Note 20).

²¹ ECB decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15).

²² The year of adoption of the euro corresponds to the year in which euro banknotes became legal tender in the member country concerned; this was in 2008 for the central banks of Cyprus and Malta and in 2009 for Slovakia.

²³ The reference period is the 24 months that commence 30 months before the date on which euro banknotes have legal tender in the member states concerned.

²⁴ ECB decision of 17 November 2005 (ECB/2005/11) on the distribution of the income of the ECB on euro banknotes in circulation to the NCBs of participating Member States.

NOTE 15: EURO-DENOMINATED LIABILITIES

TO NON-EURO AREA RESIDENTS

This item comprises credit balances in euro (excluding TARGET) with central banks, commercial banks and non-financial customers in non-Eurosystem member countries. In most cases, the assets matching these liabilities are included in asset items A4 or A6 (see Note 5) or asset item A11 (see Note 11), depending on whether they are invested in the same currency or are covered by cross-currency swaps (see Note 27).

**Euro-denominated liabilities
to non-euro area residents**

Liability item P4

(EUR millions)

	2009	2008
Euro-denominated liabilities to non-euro area residents	22,344	21,485
Accrued interest payable	30	81
TOTAL	22,375	21,566

NOTE 16: EURO-DENOMINATED LIABILITIES TO EUROSISTEM

Euro-denominated liabilities to the Eurosystem comprise France's net debt arising on cross-border transfers via TARGET 2 with other NCBs in the ESCB. These liabilities were significantly lower during 2009, following the abandonment of foreign exchange swaps entered into with the ECB during 2009 under the framework of the dollar-denominated temporary Term Auction Facility (see Notes 2 and 27). Non-interest bearing liabilities totalled EUR 50,510 million in 2008.

Euro-denominated liabilities to non-euro area system

Liability item P7

(EUR millions)

	2009	2008
Euro-denominated liabilities to the Eurosystem	62,008	117,684
Accrued interest payable	62	195
Accrued expenses relating to monetary income	7	–
TOTAL	62,077	117,880

NOTE 17: LIABILITIES TO OTHER EURO AREA RESIDENTS

DENOMINATED IN EURO

- Liability item P8.1 comprises:
 - the Treasury's account, which since 1 May 2002 has been remunerated at the marginal rate

applied to main refinancing operations up to EUR 300 million; above this amount, it is remunerated at the deposit facility rate. Interest is credited to the Treasury's account on the last business day of the month. The high balance of the Treasury's account was due to temporary difficulties in investing the funds at 31 December 2009;

- the account of other Government agencies.

- Liability item P8.2 "other liabilities" mainly comprises the current account with the IEDOM, the assets matching this liability being mainly recorded in asset item A9 "Advances to the IEDOM" (see Note 10).

**Euro-denominated liabilities
to other euro area residents**

Liability item P8

(EUR millions)

	2009	2008
Liabilities vis-à-vis the State	19,004	13,036
Other liabilities	6,075	4,059
Accrued interest payable	4	18
TOTAL	25,083	17,112

NOTE 18: ITEMS IN COURSE OF SETTLEMENT

In compliance with banking rules, balance sheet item P9 "Items in course of settlement" includes only items (primarily cheques) debited or credited to a customer's account but not yet credited or debited to a credit institution's account, and vice versa.

NOTE 19: BANKING TRANSACTIONS

This item mainly comprises overnight and fixed-term deposits denominated in foreign currencies constituted by French or foreign public bodies. The management of such foreign currency transactions is totally separate

Banking transactions

Liability item P10

(EUR millions)

	2009	2008
Overnight deposits	13,496	13,538
Other banking transactions	70,320	59,954
Accrued interest payable	275	973
TOTAL	84,091	74,465

from the management of the State's foreign exchange reserves. The assets matching these liabilities, which may be covered by cross-currency swaps, are included either in asset items A11 (see Note 11) or in item A4 or A6 (see Note 5), depending on whether they are invested in a foreign currency or in euro.

For the record, euro-denominated deposits made by institutional customers (other than monetary financial institutions) and private customers are recorded in liability item P8.2.

NOTE 20: MISCELLANEOUS

In 2009, this item includes mainly:

- the capital of the Banque de France Employee Reserve Fund (see Note 29);
- French franc banknotes still in circulation (see Note 14).

In 2008 this item incorporated the revaluation impact of off-balance sheet foreign exchange positions held in relation to retail banking operations (see Note 20). Their impact on the profit and loss account is cancelled out by the revaluation of foreign exchange positions in the balance sheet, the overall foreign exchange position from these activities being close to zero.

- provisions for changing the age pyramid, relating to the early retirement incentive scheme for employees reaching the end of their working life;
- provisions for retirement benefits;
- provisions for various social liabilities in relation to current employees (death benefits, long-service medals, extended sick leave, pensions for industrial injuries, unemployment);
- provisions for various social liabilities in relation to retirees (death benefits, etc.) that are not funded by the pension scheme;
- other provisions include, notably, a provision for tax disputes and provisions for major repairs.

In 2008, the Bank created a provision in relation to its complementary health plan. This provision covers the Bank's commitment to fund a portion of the complementary health plan for personnel. The exact level of the Bank's commitment was only known when the union organisations signed an enterprise agreement relating to the introduction of a collective agreement for complementary health coverage by the Bank; this occurred in October 2009 with the agreement to be put in place on 1 January 2010.

Miscellaneous Liability item P11

(EUR millions)

	2009	2008
Deferred income, accrued expenses, etc.	306	10,534
Accrued expenses	305	399
Deferred income, etc.	1	10,134
French banknotes in circulation	627	838
Miscellaneous	3,755	3,265
TOTAL	4,688	14,637

NOTE 21: PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges mainly comprise:

- provisions for restructuring, relating to the "cash activities" and "banknote manufacturing" plans, the plan to adapt the Banque de France's branch network, and the plan to discontinue retail banking activities;

Provisions for liabilities and charges

Liability item P12

(EUR millions)

	2009	Increase	Decrease	2008
Provisions for restructuring	151		42	193
Provisions for changing the age pyramid	24			24
Provisions for retirement benefits	146	12		134
Provisions for the complementary health plan	180	30		150
Other miscellaneous provisions in relation to current employees	69	2	2	69
Other miscellaneous provisions in relation to retired employees	160	14		147
Provisions relative to monetary policy operations	828		356	1,184
Other	104	42	21	83
TOTAL	1,663	100	421	1,984

The amount of the provision was adjusted as a result (an additional provision of EUR 30 million).

In accordance with the general accounting principle of prudence, the ECB Governing Council has deemed it appropriate to establish a buffer totalling EUR 4,011 million against counterparty risks in monetary policy operations. In accordance with Article 32.4 of the ESCB Statute, this buffer will be funded by all NCBs of participating member states in proportion to their subscribed capital key shares in the ECB prevailing in 2008. As a result, a provision for EUR 828 million, equivalent to 20.64313% of the total provision recorded by the Eurosystem is shown in the Banque de France accounts at 31 December 2009.

NOTE 22: REVALUATION ACCOUNTS

Gold and foreign exchange assets and liabilities are revalued at the reference prices indicated by the ECB on 31 December 2009. The unrealised gain on gold was calculated using a price of EUR 24,639 per kilogram of fine gold (compared to EUR 19,983 at end-2008).

The revaluation rates used at 31 December 2009 for the main currencies held were the following:

- 1 euro = 1.4406 US dollars (compared with 1.3917 at end-2008);
- 1 euro = 0.9186 SDRs (compared with 0.9051 at end-2008).

Revaluation accounts

Liability item P13

(EUR millions)

	2009	2008
Revaluation account – gold	40,620	30,001
Revaluation account – foreign exchange	1,388	1,105
Revaluation account – securities	865	870
Revaluation account – forward financial instruments	19	2
TOTAL	42,892	31,978

NOTE 23: REVALUATION RESERVE OF STATE GOLD RESERVES AND REVALUATION RESERVE OF STATE FOREIGN EXCHANGE RESERVES

In accordance with the rider of 27 December 2007 to the agreement of 31 March 1999 between the State and the Banque de France on the management of and accounting for State foreign exchange reserves:

- Foreign exchange gains realised from sales of gold in 2009 were transferred to the revaluation reserve of State foreign exchange reserves (see Note 31).
- The revaluation reserve of State gold reserves remained unchanged at EUR 18,499 million.

NOTE 24: CAPITAL, RESERVES AND RETAINED EARNINGS

Capital, reserves and retained earnings

Liability item P17

(EUR millions)

	2009	2008
Capital	457	457
Reserves	3,851	3,362
Statutory reserves	457	408
Long-term capital gains	100	100
Special pension reserve fund (see Note 29)	886	446
Other reserves (a)	2,408	2,408
Retained earnings	–	–
TOTAL	4,309	3,820

(a) Under the Decree of 3 December 1993, the Bank must maintain reserves to finance its investments. The Bank is also its own insurer with respect to civil liability risks, claims on property it owns and damages to this property by third parties. The "Other reserves" item chiefly comprises these two types of reserves.

Off-balance sheet items

NOTE 25: SECURITIES COMMITMENTS

Securities commitments

(EUR millions)

	2009	2008
Securities to be received	2,016	2,215
Securities to be delivered	29	149

NOTE 26: FINANCIAL FUTURE CONTRACTS

National amount of forward contracts		
<i>(EUR millions)</i>		
	2009	2008
Outright transactions on organised markets		
Interest rate contracts denominated in foreign currency		
<i>Purchases</i>	–	2,384
<i>Sales</i>	15,196	1,329
Interest rate contracts denominated in euro		
<i>Purchases</i>	401	1,019
<i>Sales</i>	8,299	4,894
Over-the-counter markets		
<i>Interest rate swaps denominated in foreign currency</i>	659	679
<i>Interest rate swaps denominated in euro</i>	20	20

NOTE 27: FORWARD FOREIGN EXCHANGE TRANSACTIONS WITH CUSTOMERS AND THE ECB

The Banque de France collects euro-denominated deposits from non-euro area residents, in particular foreign central banks and international bodies; these deposits are recorded in liability item P4. The Banque de France also collects foreign currency denominated deposits, mainly from non-resident institutions; these deposits are recorded in liability item P10.

These euro-denominated or foreign currency denominated deposits are invested either in the same currency or in a different currency (euro-denominated investments are recorded in asset items A4 or A6 depending on the area of residence of the counterparty, while foreign currency investments are recorded in item A11); where necessary, foreign exchange risk is neutralised by cross-currency swaps of the same amount and maturity as the deposit. These foreign-currency deposits and investments, and the related spot and forward foreign exchange transactions, form part of an activity that is totally separate and independent from the management of foreign exchange reserves. Consequently, they are recorded in dedicated accounts separate from those used for the management of foreign exchange reserves, and are valued in accordance with the standards issued by the CRC (see “Other foreign

exchange gains/losses” in section 2|2 “Accounting principles and valuation methods”, and Note 20).

The table below shows amounts of foreign currency receivable and deliverable in respect of transactions carried out with customers.

Amounts of foreign currency receivable and deliverable in respect of transactions carried out with customers		
<i>(EUR millions)</i>		
	2009	2008
Euro to be received against foreign currency to be delivered		
Euro to be received	9,915	12,911
Foreign currency to be delivered	9,814	12,861
Foreign currency to be received against euro to be delivered		
Foreign currency to be received	20,370	14,170
Euro to be delivered	20,013	14,005
Foreign currency to be received against foreign currency to be delivered	62,931	62,169
Foreign currency to be delivered against foreign currency to be received	61,089	70,956

In addition, at 31 December 2008, the amount remained of the forward contract commitment to deliver dollars to the ECB with a value equivalent to EUR 47.320 million, under the temporary dollar-denominated Term Auction Facility introduced by the Federal Reserve System (see Notes 2 and 16).

There were no outstanding amounts in the balance sheet for these transactions as at 31 December 2009.

In addition, at end-2008, a commitment to deliver Swiss francs to the ECB arose from the mechanism introduced with a view to providing Swiss franc liquidities to Eurosystem counterparties. Swiss francs were made available to the ECB by the Swiss National Bank through EUR/CHF swaps. The Swiss francs were lent by the Banque de France to Eurosystem counterparties by way of EUR/CHF currency swaps. There were no foreign exchange swaps relating to this in place at 31 December 2009.

NOTE 28: COLLATERAL RECEIVED FROM THE STATE IN RELATION TO BANQUE DE FRANCE OPERATIONS WITH THE IMF

In the amended finance act for 2008, the State has extended its guarantee to the loan which will be granted by the Banque de France to the International Monetary Fund's "Poverty Reduction and Growth Facility and the Exogenous Shocks Facility (PRGF-ESF)" account. This loan corresponds to a commitment taken by France at the annual general meeting of the IMF held in Istanbul on 4 October 2009 to grant a special drawing right (SDR) loan for an amount equivalent to USD 2 billion. When the loan is drawn down, this amount is converted into SDRs at the dollar rate for the day which should represent slightly less than 1.4 billion SDRs and the repayment schedule will also be denominated in SDRs.

No financing had been put in place by the Banque de France in relation to this at 31 December 2009.

NOTE 29: PENSION OBLIGATIONS

Banque de France employees benefit from a pension scheme set up by an Imperial Decree of 16 January 1808. This scheme is currently governed by Decree 2007-262 of 27 February 2007, which entered into force on 1 April 2007 and aligned the Banque de France pension scheme with that of the civil service.

The Employee Reserve Fund (CRE)

The Banque de France has a pension fund known as the *Caisse de réserve des employés de la Banque de France* (CRE – Banque de France Employee Reserve Fund), which is designed to service the pensions of the Bank's statutory employees.

The CRE does not have a legal personality distinct from that of the Bank; it constitutes, as the *Conseil d'État* set out in its decisions of 5 November 1965 and 28 April 1975, "a means for the Bank to manage itself assets that are assigned to a special purpose and whose separate financial identity has been recognised with the sole purpose of showing the results of this management in a special account."

As a consequence, the CRE is subject to separate accounting treatment. However, its assets, liabilities, income and expenses are an integral part of the Bank's accounts.

The pensions provided by the CRE to retirees are partly funded by the income on a securities portfolio, which has been set up over time and is specifically devoted to this purpose. The securities acquired by the CRE appear in balance sheet item A12 "Miscellaneous". The CRE's capital is shown in liability item P11 "Miscellaneous".

Securities purchased by the CRE are recorded, in accordance with CRBF Regulation 90-01, as available-for-sale and held-to-maturity securities. Differences between the acquisition and redemption price are spread over the remaining life of the securities according to the internal rate of return method. Unrealised losses on available-for-sale securities are provided for on a line-by-line basis. However, under the CRE's rules, realised gains and losses and unrealised losses recognised in the profit and loss account require a matching charge to or withdrawal from the CRE's capital.

Pension liabilities and funding

(EUR millions)

	Liabilities		Funding	
	2009	2008	2009	2008
Liabilities in respect of the special retirement scheme	9,755	9,453	Funding	4,364
o/w to current workforce	4,351	4,248	o/w Employee Reserve Fund	3,478
o/w to retirees	5,404	5,205	o/w Special pension reserve	886
Liabilities in respect of the additional seniority granted as part of restructuring plans	122	126	Provisions	122
Total gross liabilities	9,877	9,578	Total funding	4,486
NET LIABILITIES	5,391	5,703		

Retirement expenses are included in the profit and loss account item 2.1 “Personnel and related expenses”. The proceeds of the CRE’s securities portfolios are recorded in profit and loss account item 1.6 “Net of other income and expenses”.

Other sources of financing for pensions

In order to ensure the progressive financing, by 2014-2016, of the unfunded portion of liabilities in respect of pension rights acquired before the entry into force of Decree 2007-262 of 27 February 2007, in 2007 the General Council set up a **Special Reserve Fund**, in accordance with the third indent of Article R144-4 of the French Monetary and Financial Code. This reserve fund will be regularly replenished, within the limits permitted by the gross income of the Banque de France and the payment to the State of the predominant share incumbent on it. The special reserve fund for pensions appears in liability item P17 “Capital, reserves and retained earnings”.

In addition, as part of the restructuring programmes implemented since 1999 (“cash activities” and “banknote manufacturing” plans, the plan to adapt the Banque de France’s branch network and the plan to discontinue retail banking activities), early retirement schemes were set up, with additional seniority granted to retirees. This additional seniority, including that resulting from the neutralisation of the effects of the pension scheme’s reform on employees benefiting from the early retirement scheme at the date of the reform’s entry into force have been entirely provisioned. The corresponding **provisions** appear in liability item P12 “Provisions for liabilities and charges”.

The resources constituted by this reserve fund and these provisions have been invested in a securities portfolio that appears in asset item A11. This portfolio is recorded in accordance with the rules set out in the section on the valuation methods used for securities portfolios. The income from this portfolio is shown, depending on the case, in items 1.1 “Net interest income”, 1.2.3 “Net of other

income and expenses on financial transactions” or 1.4 “Income from equity securities and participating interests” of the profit and loss account.

Actuarial assumptions

The amount of pension liabilities has been calculated in accordance with actuarial standards (using the projected unit credit method), taking into account all current employees, retirees and their dependants. The amount of obligations vis-à-vis current employees was determined using a prospective method with career-end salaries.

For the calculation of pension liabilities as at 31 December 2009, the same mortality tables as in 2008 have been used; these were mortality experience tables by sex based on the TGH-TGF 2005 statutory tables.

Since the reform of the pension system with effect from 1 April 2007, pension entitlements may be accessed between 60 and 65. The increase in the number of quarters required to obtain a full pension will take place gradually at the rate of one quarter per half-year to reach 164 quarters in the second half of 2013 (as against 150 until 2006). The pensionable age is being raised in parallel (from 60 to 65) to allow employees to acquire the requisite number of quarters to obtain a full pension. In addition, a system of supplements/reductions will progressively be put in place from 1 January 2009 and will apply to employees who start drawing their pension with a greater/smaller number of quarters than that required to obtain a full pension.

The level of pensions is adjusted at the beginning of every year with reference to projected developments in the household consumer price index excluding tobacco.

Calculations of pension liabilities and the underlying assumptions used are validated and monitored by the Bank’s actuary. In 2009, as in previous years, a discount rate of 4.5% was applied.

Profit and loss account

NOTE 30: NET INTEREST INCOME

Net interest income

Profit and loss item 1.1

(EUR millions)

	2009	2008
Interest on foreign exchange assets	1,085	1,916
<i>o/w: Interest held-to-maturities securities</i>	450	478
Interest on claims on the IMF	18	43
Interest on euro-denominated claims on non-residents		
Interest on lending to credit institutions	1,637	3,353
Interest on euro-denominated securities	2,967	2,585
<i>o/w: Interest held-to-maturities securities</i>	2,372	1,900
<i>o/w: Interest on securities held for monetary policy purposes</i>	33	–
Interest on claims arising on transfer of reserve assets to the ECB	90	289
Interest on net claims on the Eurosystem (a)	–	–
Interest on the net euro banknote position	945	2 731
Total of other euro and foreign currency denominated financial assets	1,764	3,487
<i>o/w: Interest on available-for-sale securities</i>	1	1
Interest on held-to-maturity securities	314	351
Other interest	1,449	3,134
Total interest and related income (1)	8,506	14,404
Interest on euro-denominated liabilities to monetary financial institutions in the euro area	-685	-1,987
<i>o/w: Interest paid on minimum reserves</i>	-508	-1,632
Interest on euro-denominated liabilities to non-euro area residents	-242	-2,551
Interest on foreign exchange liabilities	-163	-525
Interest on counterpart to SDR allocations	-13	-30
Interest on net claims on the Eurosystem (a)	-915	-2,450
Interest paid on the Treasury account	-12	-46
Other interest	-1,193	-579
Total interest and related expenses (2)	-3,223	-8,168
NET INTEREST INCOME (3 = 1 + 2)	5,283	6,236

(a) Interest on the Banque de France's net position within the TARGET system (see Notes 9 and 16)

NOTE 31: NET INCOME/LOSS ON FINANCIAL TRANSACTIONS

In 2009, the net balance of realised gold and foreign exchange gains and losses and unrealised foreign exchange losses was a gain of EUR 1,066 million.

In accordance with the agreement of 31 March 1999 between the State and the Banque de France on management of and accounting for State foreign exchange reserves, supplemented by riders dated

26 November 2002 and 27 December 2007, the realised gains on gold and foreign exchange amounting to EUR 1,066 million were allocated to the revaluation reserve of State foreign exchange reserves (*réserve de réévaluation des réserves en devises de l'État* – RRRDE), with the matching entry taken to the profit and loss account (item 1.2.2).

Net of other income and expenses on financial transactions

Extract from profit and loss item 1.2.3

(EUR millions)

	2009	2008
Net gain/loss on foreign currency denominated securities (a) (b) (c)	70	306
Net gain/loss on euro-denominated securities included in item A7 (b) (c)	136	-100
Net gain/loss on available-for-sale securities included in item A11 (b)	–	-15
Net foreign exchange gain/loss (excluding foreign exchange reserve management)	13	16
TOTAL	219	207

(a) Excluding the impact of foreign exchange fluctuations, shown in profit and loss item 1.2.1.

(b) These items include realised gains and losses, and unrealised losses at year-end.

(c) These items also include margin calls on interest rate futures and profits and losses on synthetic instruments.

NOTE 32: INCOME FROM EQUITY SECURITIES AND PARTICIPATING INTERESTS

Under the terms and conditions of a decision of the Governing Council, EUR 787 million from the 2009 net profit and including all ECB seigniorage income from euro banknotes in circulation was distributed to the national central banks (NCBs) on 5 January 2010. The Banque de France has received an interim distribution of profit of EUR 160 million. Moreover, the ECB paid a dividend of EUR 24 million in 2009 relating to its 2008 result.

Income from equity shares and participating interests

Profit and loss item 1.4

(EUR millions)

	2009	2008
ECB dividend	184	249
Dividends from other participating interests	99	99
Dividends from available-for-sale securities	19	16
Other income	8	–
TOTAL	310	364

NOTE 33: NET RESULT OF POOLING OF MONETARY INCOME

This item includes the pooling of monetary income for 2009, totalling EUR 0.6 million compared with an income of EUR 88 million in 2008, and the Banque de France's share of the decrease in provision for counterparty risk in relation to Eurosystem monetary policy operations.

The monetary income of each NCB is determined by measuring the actual annual income derived from the earmarkable assets held against its liability base.

The liability base is composed of the following items: banknotes in circulation; liabilities to credit institutions in connection with euro-denominated monetary policy operations; intra-Eurosystem liabilities arising from TARGET transactions; and net intra-Eurosystem liabilities arising from the allocation of euro banknotes within the Eurosystem. Any interest accruing on liabilities included in the liability base is deducted from the monetary income to be pooled.

Earmarkable assets consist of the following items: euro-denominated loans to euro area credit institutions in the framework of monetary policy operations; claims arising on the transfer of reserve assets to the ECB; the net intra-Eurosystem claim arising from TARGET transactions; the net intra-Eurosystem claim arising from the allocation of euro banknotes within the Eurosystem; and a limited amount of gold in proportion to each NCB's interest in the ECB's capital under the capital key. Gold is deemed not to generate any income. Where the value of an NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference is offset by applying to the value of the difference the average rate of return on the earmarkable assets of all the NCBs taken together.

The monetary income pooled by the Eurosystem is allocated between NCBs according to the subscribed capital key. The difference between the monetary income pooled by the Banque de France (EUR 2,314 million) and that reallocated to the Bank (EUR 2,315 thousand) constitutes the net result arising from the calculation of monetary income recorded in profit and loss item 1.5.

Moreover, in accordance with Article 32.4 of the Statute, the provision for counterparty risk relating

to monetary policy operations is distributed amongst the national central bank members of the Eurosystem pro rata to their capital subscription as it existed when the default was recorded. Pursuant to the general prudence principle, the Governing Council has re-examined the amount of this provision which was reduced from EUR 5,736 million at 31 December 2008 to EUR 4,011 million at 31 December 2009. These adjustments have been reflected in the profit and loss accounts of the national central banks. In the case of the Banque de France, this resulted in 2009 in a decrease in provision of EUR 356 million.

NOTE 34: NET OF OTHER INCOME AND EXPENSES

Net of other income and expenses		
Profit and loss item 1.6		
<i>(EUR millions)</i>		
	2009	2008
Remuneration for services rendered to the State	152	149
Other income (a)	278	334
Total other income (1)	431	483
Total other expenses (2)	-7	-8
NET OF OTHER INCOME AND EXPENSES		
(3 = 1 + 2)	424	475
<i>(a) This item notably includes fees charged for use of the databases managed by the Banque de France (FNCI, FICP, FCC, FIBEN).</i>		

NOTE 35: PERSONNEL AND RELATED EXPENSES

Personnel and related expenses		
Profit and loss item 2.1		
<i>(EUR millions)</i>		
	2009	2008
Salaries, wages and related taxes	-758	-743
Social security expenses	-176	-167
Retirement expenses	-415	-418
Profit-sharing and incentive plans	-38	-34
TOTAL PERSONNEL EXPENSES	-1,387	-1,362

NOTE 36: CORPORATE INCOME TAX

Under Article 8 of Act 2007-212 of 20 February 2007 on various measures concerning the Banque de France, the taxable profit or loss of the Banque de France is calculated using accounting rules defined in accordance with Article L144-4 of the Monetary and Financial Code and the agreement in Article L141-2 of the same Code.

These new provisions have been in force since 1 January 2007.

Other information

Corporate income tax

Profit and loss item 5

(EUR millions)

	2009	2008
Income taxes for the year	1,676	1,509
on recurring income	1,676	1,509
on exceptional items	–	–

Remuneration of management bodies

(EUR millions)

	2009	2008
Total remuneration paid to management bodies	2.9	3.0

Notes: The members of the General Council and the Executive Committee constitute the Bank's management bodies. Remuneration comprises gross remuneration plus payment in kind, where relevant. The Staff Representative and the Censor are not remunerated for positions they hold in the General Council.

2|3 Auditors' report on the annual accounts of the Banque de France

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AUDITORS' REPORT ON THE ANNUAL ACCOUNTS

Year ended 31 December 2009

In accordance with the assignment entrusted to us by the Banque de France's General Council, we hereby report to you for the year ended 31 December 2009 on:

- the audit of the accompanying annual accounts of the Banque de France;
- the basis for our assessments;
- the specific procedures required by Article R144-8 of the Monetary and Financial Code.

The annual accounts have been approved by the Governor. Our responsibility is to express an opinion on these annual accounts based on our audit.

1| Opinion on the annual accounts

We conducted our audit in accordance with professional standards applicable in France; these standards require that we plan and perform the audit to obtain reasonable assurance as to whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis or via other selection methods, evidence supporting the amounts and disclosures in the annual accounts. It also includes assessing the accounting principles used and significant estimates made as well as evaluating the overall financial statement presentation. We believe that the information we have collected provides a reasonable basis for our opinion.

In our opinion, the annual accounts give a true and fair view of the results of its operations for the year to 31 December 2009, and of the financial position and assets and liabilities of the Banque de France

.../...

at that date, in compliance with the accounting rules and principles set out by the European System of Central Banks (ESCB) for central banking activities and securities portfolios (other than those of the Banque de France Employee Reserve Fund), and with French accounting rules and principles for other activities.

Without qualifying our opinion, we draw your attention to the following matters:

- The Notes to the annual accounts provide a detailed description of the presentation and accounting principles applied by the Bank, a number of which are specific to the ESCB.
- As explained in Notes to the annual accounts, the General Council, exercising the right provided for in Article R144-6 of the Monetary and Financial Code, assessed the level of detail of the financial information published.

2| Basis for our assessments

The accounting estimates contributing to the preparation of the financial statements for the year ended 31 December 2009 were drawn up in an economic context and market conditions that remain weak. It is in this context that, as required by Article L823-9 of the Commercial Code relating to the basis for our assessments, we draw your attention to the following:

- The Banque de France books provisions for risks and charges to cover risks such as those detailed in Note 21 of the Notes to the annual accounts. Our work consisted in evaluating the data and assumptions on which these estimates are based, reviewing the documentation concerning calculations and controls carried out by the Banque de France and the ESCB, comparing the accounting estimates in previous periods with the corresponding actual figures, and examining the procedures in place for the validation of these estimates by the Bank's management. We used these elements to carry out an assessment of the reasonableness of these estimates.
- Note 29 to the annual accounts sets out the method for assessing pension obligations and other related liabilities. These obligations have been assessed by actuaries. Our work consisted in examining the data used, evaluating the assumptions utilised, checking the calculations and verifying that Note 29 provides appropriate information. We carried out an assessment of the reasonableness of these estimates.

Our assessment of these issues was made within the context of our audit approach to the annual accounts taken as a whole, and contributed to our opinion as expressed in the first part of this report.

3| Specific procedures

We have also carried out specific procedures as required by law.

We have no comment to make as to the fair presentation and consistency with the annual accounts of the information given in the Report on the Bank's assets, liabilities and results.

Courbevoie and Neuilly-sur-Seine, 1 April 2010
The Auditors

Mazars
Patrick de Cambourg
Max Dongar

Deloitte & associés
José-Luis Garcia

3| COMBINED ACCOUNTS

3|1 Combined balance sheet and profit and loss account

Combined balance sheet at 31 December 2009

(EUR millions)

Notes to combined annual accounts	Item	Description	2009	2008
ASSETS				
	A1	Gold	60,006	49,802
	A2	Foreign exchange assets (excl. relations with the IMF)	37,771	86,986
		2.1 Foreign exchange assets held with non-euro area residents	23,817	21,393
		2.2 Foreign exchange assets held with euro area residents	13,954	65,593
	A3	Relations with the IMF	13,136	2,323
		3.1 Financing provided to the IMF	2,553	1,629
		3.2 Acquisitions of Special Drawing Rights	10,583	694
	A4	Euro-denominated claims on non-euro area residents	2,940	5,793
	A5	Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations	120,984	134,463
	A6	Other euro-denominated loans to euro area credit institutions	11,668	20,711
	A7	Euro-denominated securities issued by euro area residents	68,717	68,740
		7.1 Securities held for monetary policy purposes	4,201	–
		7.2 Other securities	64,516	68,740
	A8	Relations within the Eurosystem	84,087	85,322
		8.1 Participating interest in the ECB	825	836
		8.2 Claims arising on the transfer of reserve assets to the ECB	8,283	8,577
		8.3 Claim on the Eurosystem for euro banknotes in circulation	74,811	75,572
		8.4 Other claims on the Eurosystem	168	337
2	A9	Claims on the French Treasury in respect of coins	–	–
	A10	Other euro and foreign currency denominated financial assets	97,485	86,885
1	A11	Miscellaneous	4,851	7,854
	A12	Fixed assets	1,308	1,329
		12.1 Tangible and intangible assets	894	915
		12.2 Participating interests (other than interest in the ECB)	414	414
		TOTAL ASSETS	502,952	550,207
LIABILITIES				
	P1	Banknotes in circulation	151,174	144,862
	P2	Euro-denominated liabilities to euro area credit institutions in the framework of monetary policy operations	61,076	90,843
		2.1 Current accounts	34,314	67,693
		2.2 Other liabilities	26,762	23,150
	P3	Other euro-denominated liabilities to euro area credit institutions	62	139
	P4	Euro-denominated liabilities to non-euro area residents	22,375	21,566
	P5	Foreign exchange liabilities	9,801	8,356
	P6	Counterpart to SDR allocations	11,037	1,195
	P7	Relations within the Eurosystem	62,077	117,880
	P8	Euro-denominated liabilities to other euro area residents	21,382	13,700
		8.1 Treasury's account	19,138	13,175
		8.2 Other liabilities	2,244	525
2	P9	Items in course of settlement	264	303
	P10	Banking transactions	84,091	74,465
	P11	Miscellaneous	4,699	14,646
	P12	Provisions for liabilities and charges	1,677	1,997
	P13	Revaluation accounts	42,892	31,978
	P14	Fund for general risks	1,345	870
	P15	Revaluation reserve of State gold reserves	18,499	18,499
	P16	Revaluation reserve of State foreign exchange reserves	3,062	1,996
1	P17	Capital, reserves and retained earnings	4,942	4,375
		17.1 IEDOM capital grant, reserves and retained earnings	147	137
		17.2 Banque de France capital, reserves and retained earnings	4,795	4,238
	P18	Profit for the year	2,498	2,538
		TOTAL LIABILITIES	502,952	550,207

2009 combined profit and loss account

(EUR millions)

Notes to combined annual accounts	Item	Description	2009	2008
	1.	Net income on the activities of the Banque de France	6,585	6,261
	1.1	Net interest income	5,330	6,366
		1.1.1 Interest and related income	8,506	14,404
2		1.1.2 Interest and related expenses	-3,176	-8,038
	1.2	Net income/loss on financial transactions	219	207
		1.2.1 Net balance of realised gains/losses and unrealised losses on foreign exchange	-1,066	-908
		1.2.2 Net of charges to/releases from foreign exchange revaluation reserves	1,066	908
		1.2.3 Net of other income and expenses on financial transactions	219	207
	1.3	Commission	14	9
		1.3.1 Commission (income)	44	44
		1.3.2 Commission (expense)	-30	-35
2	1.4	Income from equity securities and participating interests	229	283
	1.5	Net result of pooling of monetary income	357	-1,096
	1.6	Net of other income and expenses	436	493
	2.	Operating expenses	-2,025	-2,062
	2.1	Personnel and related expenses	-1,403	-1,382
	2.2	Taxes other than income tax	-57	-55
	2.3	Provisions, depreciation and amortisation	-143	-140
	2.4	Other operating expenses	-421	-485
		PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS (1 + 2)	4,560	4,199
	3.	Net charge to the fund for general risks	-475	-200
	4.	Extraordinary items	-	-
	4.1	Extraordinary income	-	-
	4.2	Extraordinary charges	-	-
1	5.	Corporate income tax	-1,587	-1,461
		PROFIT FOR THE YEAR (1 + 2 + 3 + 4 + 5)	2,498	2,538

3|2 Notes to the combined annual accounts

Scope of consolidation

Undertakings excluded from the consolidation

At 31 December 2009, the Banque de France held a participating interest in four undertakings (see Note 13 to the balance sheet of the Banque de France).

The Banque de France holds an interest of over 20% in three of these undertakings.

The interests in *Banque de France Gestion* and *La Prévoyance immobilière* are excluded from the consolidation on grounds of immateriality.

Under the Statute of the ESCB and ECB, the ECB Governing Council functions in such a way that the Banque de France does not exert control or significant

influence over the ECB. Monetary policy is defined by the Governing Council, composed of seventeen members, on the basis of the “one member, one vote” principle, in compliance with Article 10.2 of the Statute.

Consolidation of the *Institut d'émission des départements d'outre-mer* (IEDOM)

In compliance with Order No. 2000-347 of 19 April 2000, amending Order No. 59-74 of 7 January 1959 reforming issuance arrangements in the overseas departments of Guadeloupe, French Guiana, Martinique and Réunion, the French overseas departments note-issuing bank (IEDOM) came under the control of the Banque de France as from 1 July 2000. The Banque de France does not, however, hold an equity interest in the IEDOM.

The IEDOM is a national, financially autonomous, public institution with legal personality. It receives a capital grant from the State.

The accounts of the Banque de France

It is administered by a supervisory board composed of 15 members, seven of whom are appointed by the Governor of the Banque de France for a four-year term. The Governor, or his representative, chairs the supervisory board.

The Director General of the IEDOM is appointed by the chairman of the supervisory board.

The IEDOM pays the balance of its net profits, after the constitution of reserves, to the Banque de France. Any losses are borne by the Banque de France.

Article 9 of the aforementioned Order states that the accounts of the IEDOM are to be consolidated with those of the Banque de France.

Activities of the IEDOM

The IEDOM's catchment area is the four overseas departments of Guadeloupe, French Guiana, Martinique and Réunion, the territorial unit of Saint Pierre and Miquelon and the departmental unit of Mayotte.

Its tasks are:

- tasks carried out within the framework of the ESCB (putting banknotes into circulation, and implementing the minimum reserve system);
- relations with the Treasury (keeping current accounts of paymasters-general and their accredited representatives, and centralising transactions);
- executing transfers of public and private funds between metropolitan France and the territorial units in its catchment area;
- providing services to the banking community and the public (keeping of data files, economic and monetary studies, processing of household debt files) within the framework of legal, regulatory and contractual provisions.

Accounting principles and valuation methods used in the combined accounts

The same accounting principles and valuation methods apply to both the combined accounts and the individual annual accounts of the Banque de France, except in the computation of corporate income tax which, in

the combined accounts, takes into account all temporary timing differences arising for tax purposes.

Information on individual items in the combined balance sheet and profit and loss account

NOTE 1: DEFERRED TAXES

A net deferred tax asset of EUR 420 million is included in item A11 "Miscellaneous" in the combined balance sheet. It arises solely on temporary timing differences between the recognition of expenses and income for accounting purposes and their recognition for tax purposes. This asset is made up of the items shown in the table below.

Deferred tax assets and liabilities

(EUR millions)

	Deferred tax assets	Deferred tax liabilities
Income temporarily exempted from taxation		21
Tax on unrealised gains and losses on mutual funds	174	
Other deferred tax relating to securities	1	
Provisions not deductible for tax purposes	285	
Charges deducted for tax purposes but not yet recognised in the accounts	11	
Other recurring timing differences		30
TOTAL	471	51

The matching entry for this deferred tax asset is split between:

- the tax charge for the year, which is EUR 88 million lower than in the individual annual accounts for fiscal 2009;
- item P17 "Capital, reserves and retained earnings", which includes the balance of EUR 332 million, representing the net deferred tax asset at the start of fiscal 2009.

Apart from the recognition of deferred taxes, the principal consolidation adjustments are (i) the elimination of inter-institutional transactions with the IEDOM and (ii) the elimination of tax-regulated provisions from the balance sheet and of charges to/releases from the profit and loss account.

NOTE 2: ELIMINATION OF INTER-INSTITUTIONAL TRANSACTIONS

Elimination of inter-institutional transactions relate to:

- the advance to the IEDOM (asset item A9 in the individual balance sheet of the Banque de France);
- the IEDOM's current account with the Banque de France (included in liability item P8.2 in the individual balance sheet);
- interest paid on the IEDOM current account (included in item 1.1.2 "Interest and related expenses" in the individual profit and loss account);
- and the dividend paid by the IEDOM (included in item 1.4 "Income from equity securities and participating interests" in the individual profit and loss account) and the related ongoing management expenses and income.

3|3 Auditors' report on the combined annual accounts

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AUDITOR'S REPORT ON THE COMBINED ANNUAL ACCOUNTS

Year ended 31 December 2009

In accordance with the assignment entrusted to us by the General Council, we have audited the accompanying combined annual accounts of the Banque de France and the *Institut d'émission des départements d'outre-mer* – IEDOM (French overseas departments note-issuing bank) for the year ended 31 December 2009.

The combined annual accounts have been approved by the Governor. Our responsibility is to express an opinion on these annual accounts based on our audit.

1| Opinion on the combined annual accounts

We conducted our audit in accordance with professional standards applicable in France; these standards require that we plan and perform the audit to obtain reasonable assurance as to whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis or via other selection methods, evidence supporting the amounts and disclosures in the annual accounts. It also includes assessing the accounting principles used and significant estimates made as well as evaluating the overall financial statement presentation. We believe that the information we have collected provides a reasonable basis for our opinion.

In our opinion, the combined annual accounts, prepared in accordance with article 9 of Order no. 2000-347 of 19 April 2000, give a true and fair view of the results of the operations of the Banque de France and the IEDOM combined for the year to 31 December 2009, and of their financial position and assets and liabilities at that date, in compliance with the accounting rules and principles set out by the European System of Central Banks (ESCB) for central banking activities and securities portfolios (other than those of the Banque de France Employee Reserve Fund), and with French accounting rules and principles for other activities.

.../...

Without qualifying our opinion, we draw your attention to the following matters:

- a) In establishing the combined annual accounts of the Banque de France and the IEDOM, inter-institutional transactions have been eliminated and deferred taxation has been recognised. These adjustments are described in the summary Notes to the combined annual accounts. With the exception of deferred taxes, the impact of which is described in the Notes to the combined annual accounts, these adjustments do not materially affect the overall annual accounts.
- b) The Notes to the annual accounts and to the combined annual accounts provide a detailed description of the presentation and accounting principles applied in the combined annual accounts, a number of which are specific to the ESCB.
- c) As explained in the Notes to the annual accounts, the General Council, exercising the right provided for in Article R144-6 of the Monetary and Financial Code, assessed the level of detail of the financial information published.
- d) For reasons set out in paragraph a) above, the combined annual accounts are not specifically commented on in the Report on the Bank's assets, liabilities and results.

2| Basis for our assessments

The accounting estimates contributing to the preparation of the financial statements for the year ended 31 December 2009 were drawn up in an economic context and market conditions that remain weak. It is in this context that, as required by Article L823-9 of the Commercial Code relating to the basis for our assessments, we draw your attention to the following:

- The Banque de France books provisions for risks and charges to cover risks such as those detailed in Note 21 of the Notes to the annual accounts. Our work consisted in evaluating the data and assumptions on which these estimates are based, reviewing the documentation concerning calculations and controls carried out by the Banque de France and the ESCB, comparing the accounting estimates in previous periods with the corresponding actual figures, and examining the procedures in place for the validation of these estimates by the Bank's management. We used these elements to carry out an assessment of the reasonableness of these estimates.
- Note 29 to the annual accounts sets out the method for assessing pension obligations and other related liabilities. These obligations have been assessed by actuaries. Our work consisted in examining the data used, evaluating the assumptions utilised, checking the calculations and verifying that Note 29 provides appropriate information. We carried out an assessment of the reasonableness of these estimates.
- As indicated in the Notes to the combined accounts, the Banque de France shows a net deferred tax asset of EUR 420 million as at 31 December 2009. The Bank believes that profits earned in future periods will enable this asset to be recovered. As part of our assessment, we reviewed documentation supplied by the Banque de France in support of these positions, and satisfied ourselves as to its reasonableness.

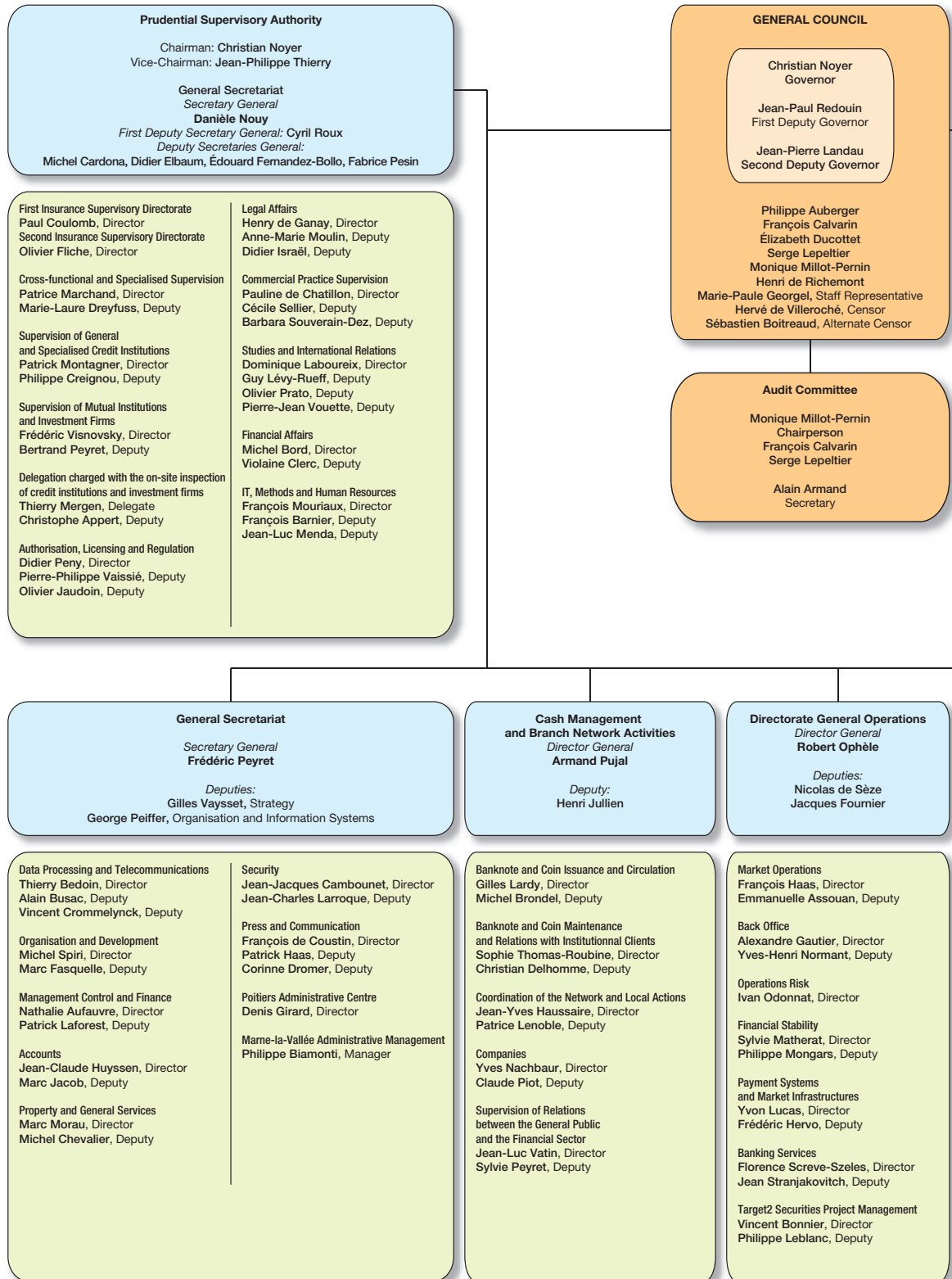
Our assessment of these issues was made within the context of our audit approach to the combined accounts taken as a whole, and contributed to our opinion as expressed in the first part of this report.

Courbevoie and Neuilly-sur-Seine, 1 April 2010
The Auditors

Mazars
Patrick de Cambourg
Max Dongar

Deloitte & associés
José-Luis Garcia

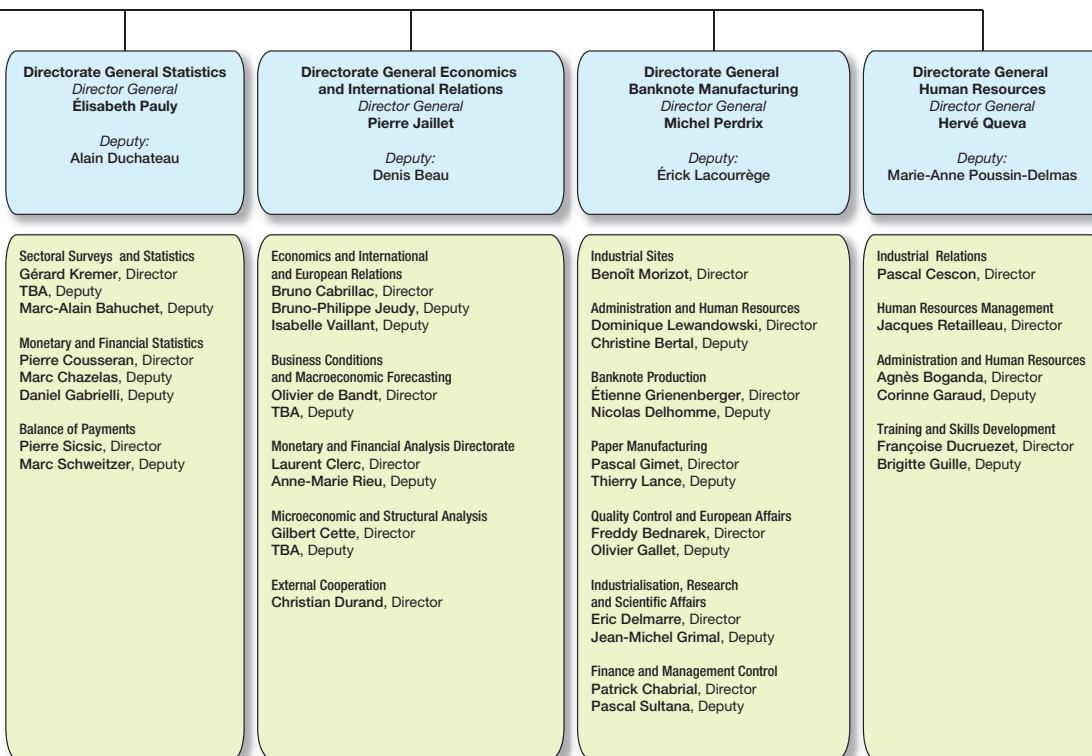
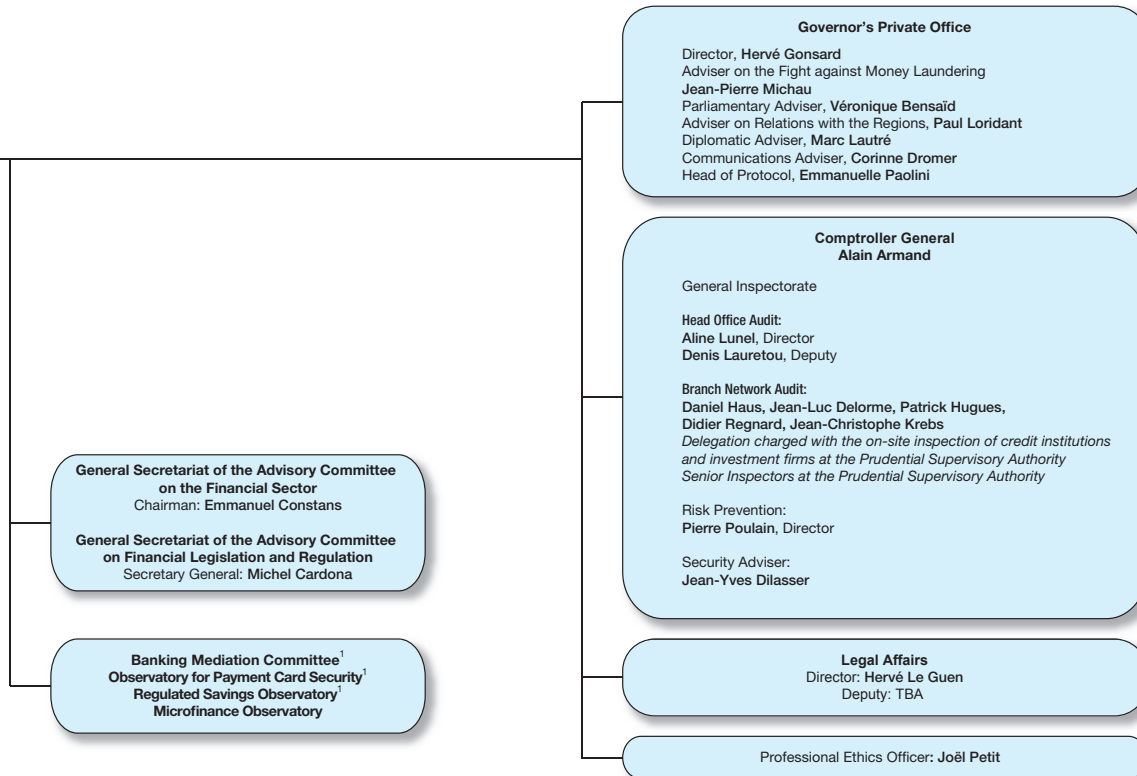
ORGANISATION OF THE BANQUE DE FRANCE



96 departmental directorates including 22 regional directorates.

¹ The Governor chairs the Banking Mediation Committee, the Observatory for Payment Card Security and the Regulated Savings Observatory.

AT 21 APRIL 2010



21 economic centres, 7 household debt centres and 4 currency circulation management centres.

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