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# New housing loans to households: trends up to mid-2014

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*After rising sharply between the start of 2013 and mid-2014, lending for house purchases has slowed slightly in France in recent months. In a context marked by exceptionally low interest rates, banks reported a recovery in household demand for credit in the second and third quarters of 2013, while large volumes of loans were renegotiated or repaid early throughout the year.*

*Different regions saw contrasting trends in housing loans, reflecting their particular demographics or employment market. Financing of existing dwellings increased, while financing for new dwellings was adversely affected by the downturn in the new housing market.*

Keywords: new housing loans, bank interest rates, maturity of housing loans

JEL code: G1

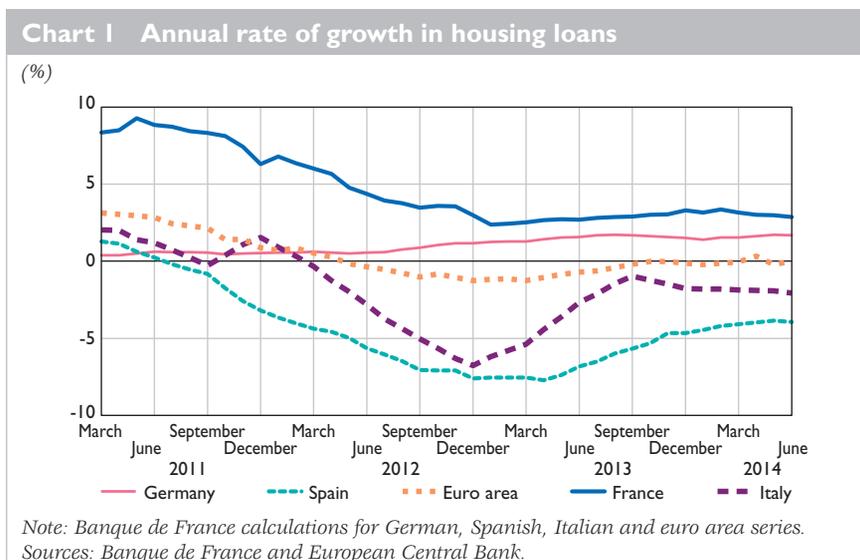
## I | Lending for house purchases proved robust

### I | I Stronger growth in France than in the rest of the euro area

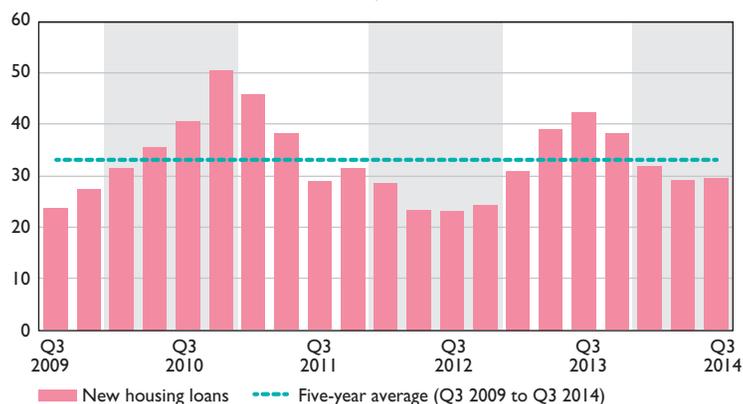
After slowing sharply between mid-2011 and January 2013 (from a year-on-year growth rate of 8.7% to 2.4%), the annual rate of growth in housing loans to households<sup>1</sup> returned to a level of around 3% in the first half of 2014, outstripping the rise in all other major euro area countries (see Chart 1).

At close to EUR 30 billion, the quarterly flow of new lending (or new loan production) remained below the levels observed between 2005 and 2007, but was nonetheless higher than the lows of 2009 and mid-2012 (see Chart 2).

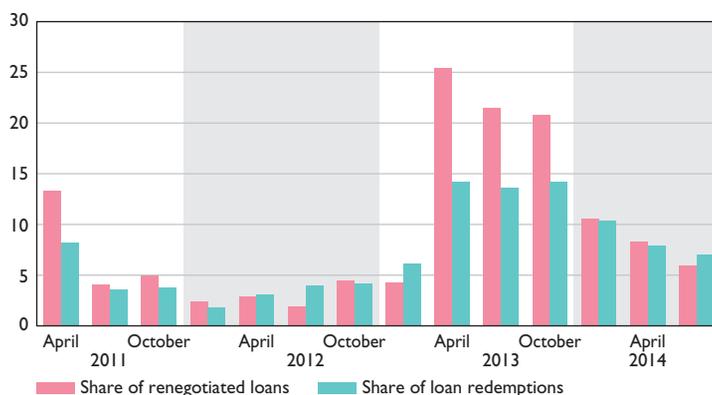
In 2013, around 35% of this new lending flow (see Chart 3) resulted from loan renegotiations or redemptions as households took advantage of the drop in interest rates after April 2012 (see below). In 2014, however, this share fell steadily, with loan renegotiations and redemptions accounting respectively for just 6% and 7% of all new loans in July 2014.



<sup>1</sup> Adjusted for securitisations.

**Chart 2 New housing loans***(quarterly flow of new lending, in EUR billions)*

Source: Banque de France.

**Chart 3 Loan renegotiations and redemptions as a share of new housing loans***(%)*

Source: Banque de France.

## I | 2 Fall in lending for purchases of new dwellings

New lending for purchases of new dwellings fell by 7.4% year-on-year in the second quarter of 2014 and accounted for 24% of total housing loan production for the period (see Chart 4). The decline reflects the deterioration in the new housing market in 2013, with sales of new-build properties dropping by 12.1% year-on-year in the second quarter of 2014, and total housing starts for the 12 months to the end of Q2 2014 falling

to 305,654 from 342,294 a year earlier;<sup>2</sup> selling times for new homes – both flats and houses – have also increased continuously since the second quarter of 2013.

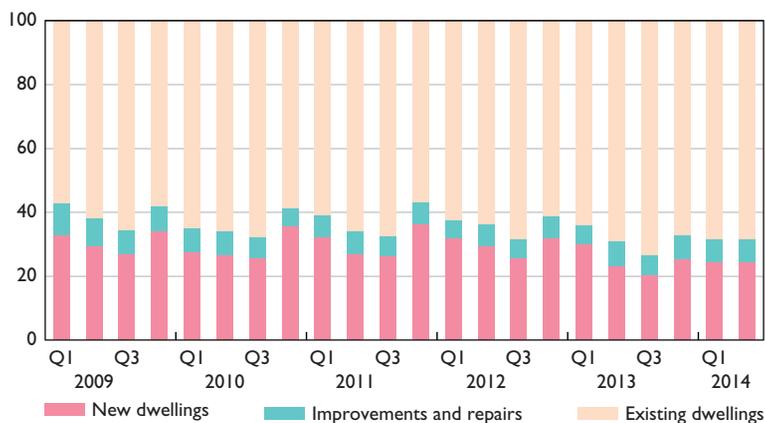
These trends are also partly linked to adjustments made in recent years to the tax incentives for buy-to-let investment and to the interest-free loan scheme (PTZ) (see Box).

In contrast, new loan production for the existing dwelling market rose by 14.3% year-on-year in June 2014, reflecting the increase in the number of transactions over the period: purchases of existing homes rose by 9.2% in June versus a year earlier, helped by a moderation in prices (after falling steadily throughout 2012, prices of existing dwellings in metropolitan France remained relatively stable in 2013 and at the start of 2014; see Chart 5).<sup>3</sup>

The upturn in new lending for existing dwellings was accompanied by a fall in the size of borrowers' down payments,<sup>4</sup> due mainly to an increase in the number of transactions where the loan value exceeded that of the property.<sup>5</sup> These loans are generally extended to existing homeowners to help finance buy-to-let investments under the current tax saving schemes.

**Chart 4 Breakdown of new housing loans**

(as a % of total new lending)



Source: Banque de France.

2 Source: Commissariat général au développement durable (French sustainable development commission), Observation and Statistics Department.

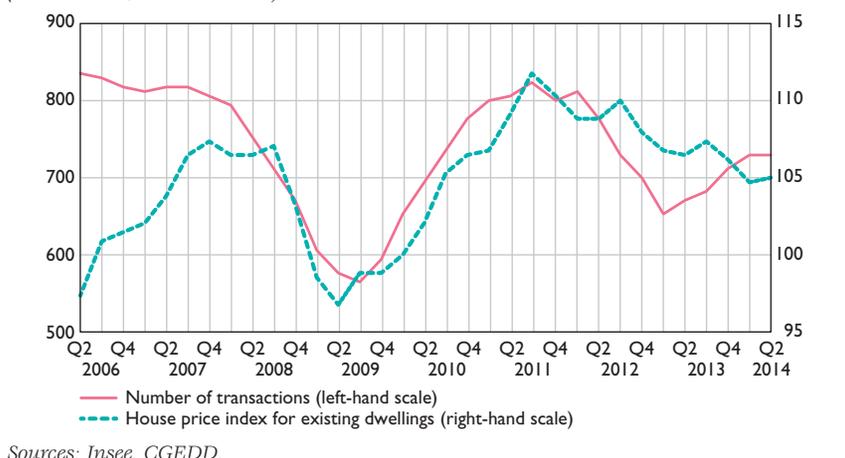
3 Source: Insee. According to seasonally adjusted preliminary data, prices of existing dwellings remained stable in the second quarter of 2014. Year-on-year, prices shrank by 1.2%.

4 Source: ACPR, Suivi mensuel de la production de crédits à l'habitat. The average loan-to-value ratio, which is the ratio between the initial amount of the loan and the purchase price of the property, excluding transaction and transfer taxes, rose throughout 2013 and stood at 84% at the start of 2014.

5 For example, loans where the down payment is negative, i.e. where the bank finances the price of the property plus the associated conveyancing fees and stamp duty, and/or the cost of the credit guarantee (source: ACPR, Analyses et Synthèses No. 32, July 2014).

**Chart 5** Number of transactions and prices of existing dwellings

(in thousands, Q1 2010 = 100)



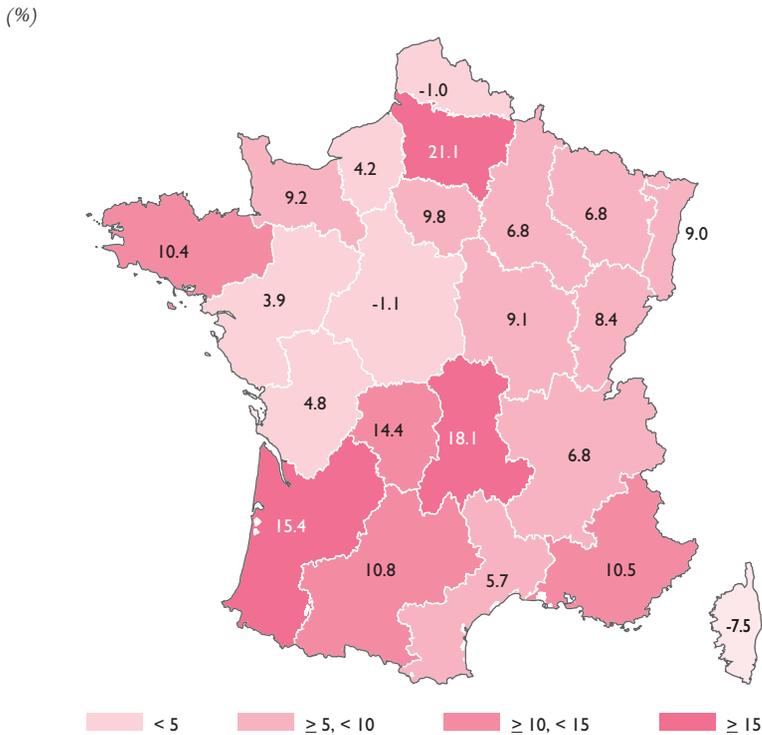
Some 70% of new housing loans in the first half of 2014 were for purchases of existing dwellings; the share of new lending for home improvement or repairs, meanwhile, remained stable at close to 7% (see Chart 4).

### 1 | 3 Contrasting trends between regions

The property market and, by extension, the housing credit market, vary markedly from one region to another due to disparities both in local employment markets and in demographics. The year-on-year change in new housing loan production thus ranges from a contraction of 7.5% to a rise of 21.1%.<sup>6</sup> Between mid-2013 and mid-2014, the regions with the strongest growth were Picardy, Auvergne and Aquitaine, where production rose by more than 15% year-on-year; by contrast, Corsica, Centre and Nord-Pas-de-Calais posted the worst performances, with loan production falling over the period. The Île-de-France and PACA regions, which together account for nearly a third of the total market for housing loans, both reported rises of around 10% in new lending over the year (see Chart 6).

<sup>6</sup> Source: Centralisation of new housing loans, conducted on a quarterly basis by the Banque de France.

**Chart 6 Annual rate of growth in new housing loans at end-June 2014**



Source: Banque de France.

## Box

### Recent fiscal measures

#### The reinforced interest-free loan scheme (PTZ+)

- **Modification of the terms of the PTZ+**

The PTZ+ scheme was first introduced in 2011 with the aim of facilitating access to property ownership for families on low incomes.

As of 1 October 2014 (Journal Officiel of 06/08/2014) the upper income threshold to qualify for a PTZ+ loan, the maximum loan-to-value ratio, the transaction limits and the repayment terms were modified and differentiated by geographical region, in order to ensure a more balanced distribution of financial aid. The government hopes thereby to increase the number of people benefiting from a PTZ+ loan from 44,000 a year at present to some 75,000 a year.

.../...

Under the 2015 draft budget, the PTZ scheme has been extended until 31 December 2017 and its terms have been eased even further: the energy performance requirement has been removed, it is now easier to use the loan to buy social housing, and the scheme has been extended to include purchases of existing dwellings in a bid to revitalise rural areas.

The eco-PTZ loan scheme, aimed at financing energy-efficiency renovations, has also been extended until 31 December 2015. Loans can now only be used for renovations carried out by companies meeting specific criteria (i.e. companies with RGE green certification), and it is now easier to qualify for an eco-PTZ loan on top of a sustainable development tax credit (CIDD) (Decree No. 2014-812 of 16 July 2014).

#### • Growth in the net flow of interest-free lending

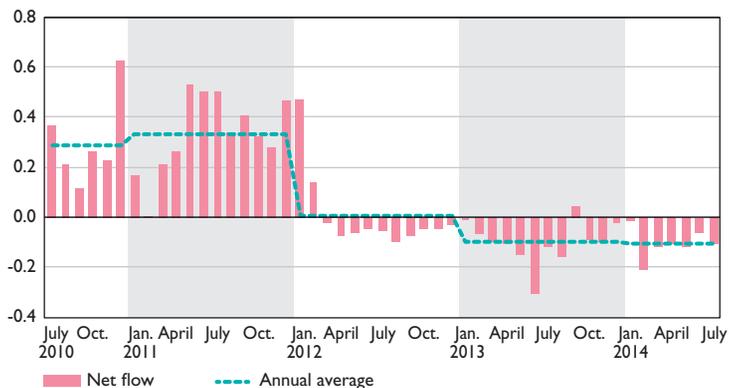
The launch of the PTZ+ at the start of 2011 led to an increase in the flow of interest-free loans (see chart below, which also includes eco-loans).<sup>1</sup> However, since the introduction of restrictions to the PTZ scheme at the start of 2012 and the decision to refocus PTZ+ loans on purchases of new dwellings, new loan production has slowed sharply, leading to a decline in the net flow of interest-free lending since March 2012.

#### Modification of the tax incentive scheme for buy-to-let investments

The Duflot buy-to-let tax incentive scheme, which followed the previous Scellier, Robien and Borloo Populaire schemes, was replaced on 1 January 2015 by the Pinel scheme, with retroactive effect as of 1 September 2014.

#### Change in the net flow of interest-free lending

(in EUR billions)



Source: Banque de France.

.../...

<sup>1</sup> Eco-loans were introduced under the 2009 budget and work in the same way as interest-free loans, but are used to finance renovations and any associated costs designed to make an existing dwelling more comfortable and energy efficient, and reduce its greenhouse gas emissions. They nonetheless represent far lower amounts than interest-free loans (see statistics of the Fonds de garantie de l'accès social à la propriété, available at the following address [www2.sfgas.fr](http://www2.sfgas.fr)).

The principle of the scheme remains the same: the aim is to encourage acquisitions of new housing and, to qualify, investors have to let the property for a given duration; moreover, in some cases, the rent cannot exceed a maximum set by law.

Under the Pinel scheme, however, the size of the tax reduction now varies depending on the number of years for which the property is let (12% of the value of the property purchase price if it is let for 6 years, 18% for 9 years, and 21% for 12 years). Investors can now also let the property to an ascendant or descendant.

### Change in the conditions for qualifying for a tax deduction on capital gains realised on the sale of a second home or a property occupied by a third party

As of 1 September 2013, the government changed the conditions for qualifying for tax deductions on capital gains realised on the sale of property other than a principal residence, which are calculated on the basis of the holding period of the property. The period after which capital gains are entirely exempt from social charges was reduced from 30 years to 22 years (they are still only exempt from all taxes after 30 years). Moreover, sales carried out between 1 September 2013 and 31 August 2014 qualify for an additional tax deduction of 25% on the amount of the capital gain.

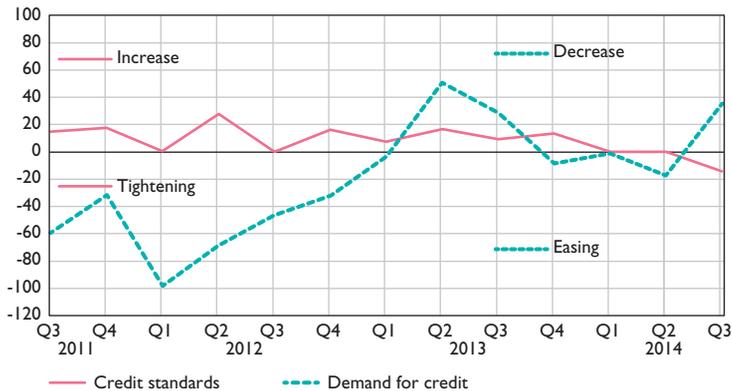
## 2| Rebound in demand, driven by an improvement in financing conditions

### 2|1 Healthy demand for housing loans

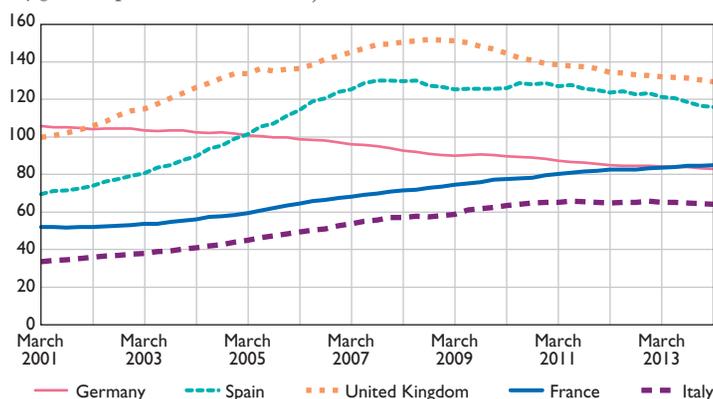
After reporting an almost continuous decline in demand for housing loans in 2011 and 2012, the banks in our lending survey said they saw

Chart 7 Credit standards and demand for housing loans

(balance of opinion, %)



Source: Banque de France.

**Chart 8 Household indebtedness***(as a % of gross disposable income – GDI)**Note: Seasonally adjusted data for France.**Sources: Insee – Banque de France.*

a rebound in the market in the second and third quarters of 2013. Demand subsequently remained stable, then declined slightly between end-2013 and mid-2014, before rising again in the third quarter of 2014 (see Chart 7), helped by an improvement in the outlook for the housing market and, to a lesser extent, a pick-up in consumer confidence.

The recovery in housing loan demand also comes against a backdrop of record household indebtedness in France: the ratio of debt to gross disposable income has risen to a high of 84.9%, although this is still in line with the levels seen in Germany, and relatively moderate compared with that of other major European countries (see Chart 8).

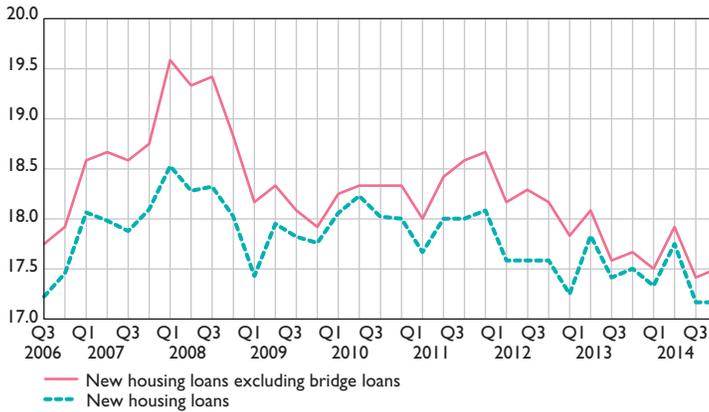
## 2|2 Attractive borrowing conditions

Credit standards on housing loans depend primarily on the characteristics of the borrower (such as his/her type of employment contract, debt-to-income ratio, age, etc.). In France, standards are traditionally strict at the outset and are not often revised over the term of the loan. One notable rule applied by banks is that housing loan repayments should not exceed one third of household income at the time the loan is approved.

According to the Banque de France quarterly bank lending survey (see Chart 7), commercial banks made no changes to credit standards on housing loans in the first half of 2014. However, some banks subsequently eased standards in the third quarter due to tighter competition and declines in the cost of financing.

Chart 9 Average initial maturity of new housing loans

(in number of years)



Source: Banque de France.

On the whole, housing loans for households are currently very cheap in France, as interest rates have fallen to record lows both on fixed rate loans (2.85% in September 2014) and on short-term floating rate loans (2.42%). Since April 2012, the average rate on fixed interest loans with an initial maturity of more than 10 years (which account for over two thirds of housing loans to households) has fallen steadily, in line with financial market rates, hitting a record low of 2.90% in September 2014.

The drop in interest rates has also been accompanied by a reduction in housing loan maturities. Since 2009, the average initial maturity of new housing loans has declined, falling to 17.5 years in 2013 then to 17.3 years in the first three quarters of 2014 (see Chart 9).

In conclusion, lending for house purchases has held up well in France, despite the deterioration in the economic environment. This is mainly due to the ECB's accommodative monetary policy which has enabled banks to offer attractive rates to prospective buyers. Despite this, it is unlikely that a property bubble will emerge, particularly as the provision of housing loans to households is not one of the financing objectives banks are required to meet under the ECB's Targeted Longer-Term Financing Operations (TLTROs).

## Appendix

### Data used

The data used in this article cover loans obtained by households residing in France. They are primarily drawn from four sources:

1) **The quarterly bank lending survey** conducted by the Banque de France among a representative sample of credit institutions. This qualitative survey, conducted by all Eurosystem national central banks according to a harmonised methodology focuses on credit standards and lending conditions, the perception by lenders of the direction of business and household demand, as well as the factors that might explain changes in supply and demand for credit.

2) **The monthly statistics on interest rates and new business**, transmitted to the European Central Bank in the framework of France's contribution to the Eurosystem's bank interest rate statistics. These data collected from a representative sample of credit institutions cover both new business rates and amounts. They are broken down into household loans and loans to non-financial corporations and, within the "household" category, between consumer credit and housing loans. Contrary to the centralisation of new housing loans, subsidised loans (such as interest-free loans) are included in these statistics, as well as contract renegotiations. A detailed presentation of these statistics is available on the Banque de France website. The monthly interest rate statistics published by the Banque de France include, among others, the rate on new housing loans together with a breakdown by initial rate fixation period (IRF). In the case of fixed-rate loans, the IRF corresponds to the initial maturity of the loan. In the case of variable-rate loans, the IRF corresponds to the period between the time at which the loan is secured and the first rate revision. As housing loans are most often long-term loans, those with an IRF of up to one year usually correspond to floating rate loans and bridge loans.

3) **The quarterly survey on the cost of credit**, conducted with a view to calculating usury rates. This survey identifies, line by line, all loans extended in the first month of each quarter by a representative sample of bank branches and specialised credit institutions. The amount, the interest rate, the purpose and the maturity of each loan are specified. This survey helps to identify bridge loans among new housing loans. It also provides a breakdown of new loans by maturity, unlike the collection of monthly interest rates on new business, which breaks down housing loans according to the initial rate fixation period.

4) **The centralisation of new housing loans**, conducted on a quarterly basis by the Banque de France among a panel of credit institutions signatory to a specific agreement. This survey identifies all unsubsidised new housing loans (competitive sector loans, contractual loans and housing savings loans) extended by participating credit institutions, provided that the total amount of the loan is taken into account from the first instalment. Loans are broken down by purpose between construction or acquisition of a new build home, acquisition of an existing dwelling, and major repairs or improvements. Data are collected by department and then aggregated at the national level.

# Change in French households' financial investment flows between June 2013 and June 2014 and the impact on bancassurance groups

---

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and Guillaume Ferrero**

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**Jean-Baptiste Feller**

**General Secretariat**

**Autorité de contrôle prudentiel et de résolution**

Research Directorate

*The overall volume of households' net financial investment flows stayed largely the same between mid-2013 and mid-2014, but the composition changed dramatically.*

*Flows into life insurance picked up over the period, after the 2012 outflow, while growth in bank deposits slackened. Inflows into regulated savings products, namely Livret A, Livret Bleu and sustainable development (LDDs) passbooks, surged after the ceilings on these products were raised, but ultimately recorded a small outflow. Home savings plans (PELs) drew sharply higher investment flows as falling interest rates and inflation made their returns more attractive. Net flows remained negative for debt securities while improving among other classes of securities.*

*Given their size, the main bancassurance groups continued, unsurprisingly, to capture the bulk of the market for household saving flows. They gave up some ground in bank products while gaining in life insurance, particularly in non-unit linked products. Other insurers saw brisker business in unit-linked products.*

*A closer analysis of the flows by entity type shows how certain trends are tied to economic developments (low interest rates, muted inflation) or prudential reforms (incentive for credit institutions to step up the share of deposits in their liabilities, incentive for insurance entities to sell unit-linked products), whilst highlighting positioning differences.*

Keywords: financial savings, French households, investments, life insurance, savings passbooks, Livret A passbooks, PEL home savings plans, CIS securities, equities, debt securities, bancassurance group

JEL codes: E21, E22, E31, E41, E50

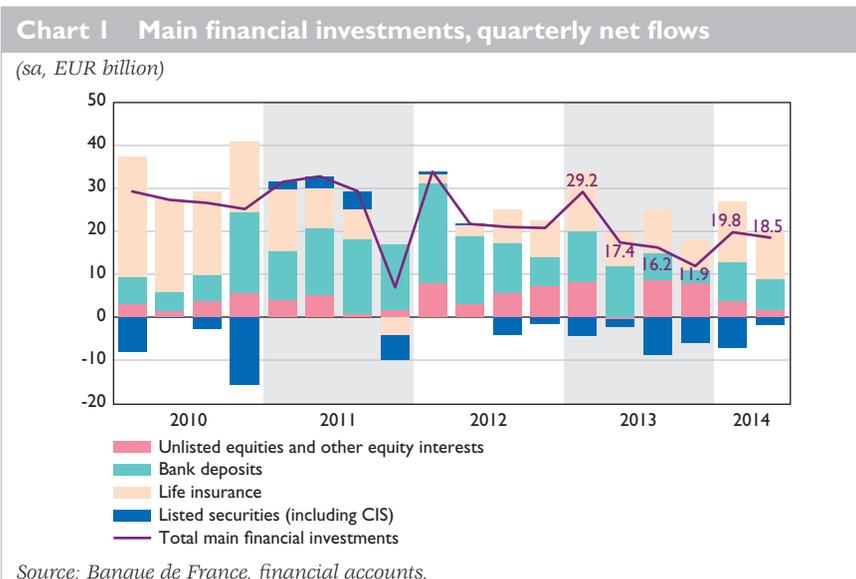
## I | Partial recovery in households' financial investments

In 2013, French households' financial investments totalled EUR 74.8 billion (cf. Table 1), which, though high, still marked a decline for the third year running. Over the last year, the structure of these investments changed as households steered more of their money into life insurance contracts, at the expense of bank deposits. They also sold off securities, particularly those of collective investment schemes (CIS).

A sub-annual analysis reveals that investment flows were especially high in Q1 (cf. Chart 1).

### I | Investments partly rechanneled into life insurance contracts

French households have traditionally allocated a substantial portion of their investment flows to life insurance, particularly because of the guaranteed return, which compares favourably to the rates offered on bank products, the lack of capital risk for non-unit linked contracts and the tax benefits. At end-June 2014, total outstanding amounts held in life insurance came to EUR 1,565.9 billion, or 33.1% of households' total financial wealth.<sup>1</sup>



<sup>1</sup> An analysis of household wealth is provided in an article entitled Le patrimoine économique national en 2013 – Deuxième année de stabilité, Bulletin de la Banque de France n° 198.

**Table 1** Main financial investments of households resident in France*(annual net flows, EUR billion)*

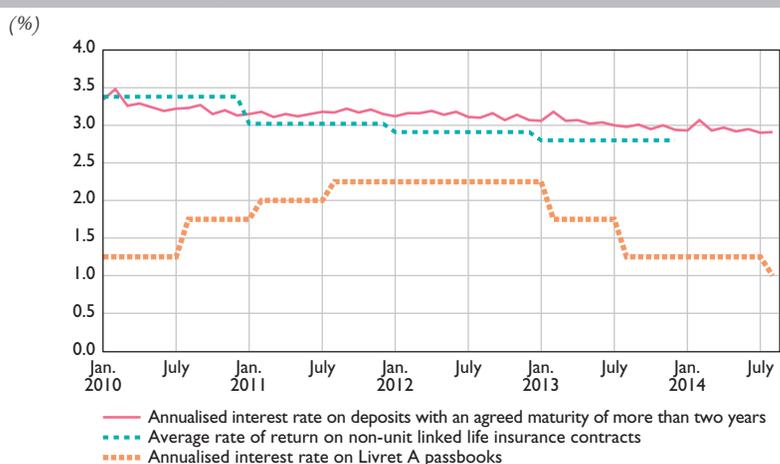
	Bank deposits	Non-bank investments	Of which life insurance contracts <sup>a)</sup>	Of which listed securities (including CIS)	Of which unlisted equities and other equity interests	Total main financial investments
2010	35.4	73.0	85.7	-26.5	13.8	108.4
2011	59.8	40.8	26.1	2.9	11.8	100.6
2012	57.0	40.2	20.9	-4.9	24.2	97.2
2013	33.2	41.6	38.3	-20.7	24.0	74.8

Source: Banque de France, financial accounts.

Scope: Households and non-profit institutions serving households.

a) Life insurance flows are measured by flows of technical provisions across all contracts (group and individual).

In 2011 and 2012, however, households shied away from life insurance, with net investment flows tumbling from EUR 85.7 billion in 2010 to EUR 20.9 billion in 2012, before recovering in 2013 to EUR 38.3 billion. The upswing continued into 2014, with investment flows reaching EUR 38.5 billion by end-September, as the 2014 Finance Act maintained the tax framework for life insurance, allaying investor fears of tougher tax treatment. The average return offered by life insurance, which is fairly disconnected from current long rates, also exerted appeal. The Autorité de contrôle prudentiel et de résolution (ACPR) keeps a close watch on revaluation rates provided to policyholders as part of its prudential oversight and monitoring of marketing practices in life insurance<sup>2</sup> (cf. Chart 2).

**Chart 2** Monthly rates of return

Source: Banque de France, monetary statistics.

2 Cf. particularly Étude sur les taux de revalorisation des contrats individuels d'assurance-vie au titre de 2013 and Étude sur les taux de revalorisation des contrats collectifs d'assurance-vie et PERP au titre de 2013 available on the ACPR website, [http://acpr.banque-france.fr/fileadmin/user\\_upload/acpr/publications/analyses-syntheses/201405-Etude-taux-revalorisation-contracts-individuels-assurance-vie-titre-2013-2.pdf](http://acpr.banque-france.fr/fileadmin/user_upload/acpr/publications/analyses-syntheses/201405-Etude-taux-revalorisation-contracts-individuels-assurance-vie-titre-2013-2.pdf) and [http://acpr.banque-france.fr/fileadmin/user\\_upload/acpr/publications/analyses-syntheses/201405-Etude-taux-revalorisation-contracts-collectifs-assurance-vie-et-PERP-titre-2013.pdf](http://acpr.banque-france.fr/fileadmin/user_upload/acpr/publications/analyses-syntheses/201405-Etude-taux-revalorisation-contracts-collectifs-assurance-vie-et-PERP-titre-2013.pdf).

**Table 2 Technical provisions of life insurance contracts, quarterly net flows***(sa, EUR billion)*

	2013				2014		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Life insurance contracts</b>	<b>13.5</b>	<b>7.8</b>	<b>10.0</b>	<b>6.9</b>	<b>14.0</b>	<b>11.3</b>	<b>13.2</b>
Unit-linked	0.9	1.0	0.8	0.5	1.6	1.8	1.9
Non-unit linked	12.6	6.8	9.2	6.4	12.4	9.5	11.3

Sources: Banque de France, financial accounts, and FFSA for September 2014 data.

Although they make up a minority share of the total amount of contracts taken out, unit-linked contracts and products saw their share of quarterly net flows rise from 9% in the first three quarters of 2013 to 13.7% at end-September 2014. At that date, the total amount taken out since the start of the year, net of surrenders and other benefits, was already EUR 5.3 billion, compared with EUR 3.3 billion over 2013 as a whole (cf. Table 2). The launch of new “euro-growth” funds and “life generation”<sup>3</sup> contracts in the second half of 2014 could support this trend.

However, rising investment flows into life insurance contracts failed to offset the decline in investments in bank deposits.

## I | 2 Decline in the relative share of bank deposits

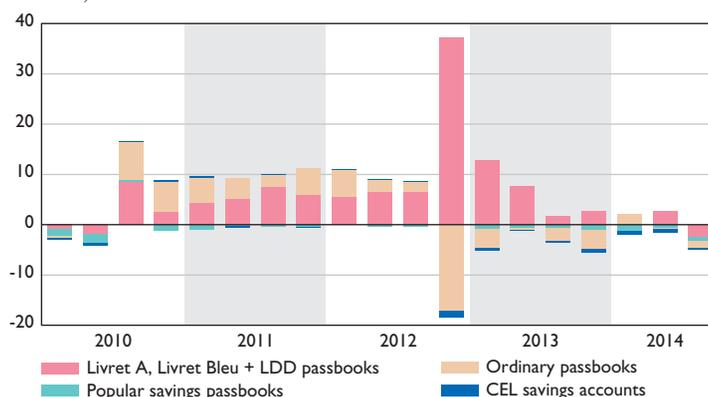
The reallocation of household investments towards bank deposits in 2011 and 2012 slowed in 2013, as net flows into bank deposits fell to EUR 33.2 billion from EUR 57 billion in 2012 and EUR 59.8 billion in 2011 (cf. Table 1). Bank investments accounted for 26.5% of households' financial wealth in Q2 2014.

Investments in regulated savings products, namely Livret A, Livret Bleu and LDD passbooks, and in ordinary taxed passbooks accounted for virtually all the investment flows into savings passbooks (cf. Chart 3). Flows into both categories of passbooks were substantial until September 2012. Increases in the ceilings for Livret A and LDD passbooks (from EUR 15,300 to EUR 19,125 in October 2012 and then EUR 22,950 in January 2013, and from EUR 6,000 to EUR 12,000 in October 2012 respectively) stimulated inflows into these products ahead of ordinary passbooks and at sight deposits between Q4 2012 and Q2 2013.

<sup>3</sup> Modelled closely on non-unit linked balanced funds not marketed directly to individual investors, “euro growth” (euro-croissance) funds offer policyholders a capital guarantee, the proportion of which they choose, with a minimum eight-year term. By providing this guarantee at maturity rather than at any time as with traditional non-unit linked funds, insurers can invest more in equity products and hope to offer policyholders returns that beat those of non-unit linked funds on average, while the guarantee at maturity limits the risk taken on by the policyholder. This type of contract is thus half-way between a non-unit linked and a unit-linked product. However, to market such contracts, the insurer must have complex accounting management tools and satisfy specific obligations in terms of providing advice to the policyholder. With a “life generation” (vie génération) life insurance contract, policyholders get more favourable tax treatment when passing on wealth than with other types of contract, but in return agree to their assets being channelled partly into financing for businesses (particularly via retail private equity funds), the socially responsible sector and low-cost/affordable housing.

**Chart 3 Savings passbooks, quarterly net flows**

(sa, EUR billion)



Source: Banque de France, monetary statistics.

Flows into these two categories of passbooks have eased considerably since that time. Returns on ordinary passbooks experienced the same decline in nominal rates as those on regulated savings passbooks (cf. Chart 2).

By contrast, non-taxable returns on home savings plans (PELs) remained set at 2.5%<sup>4</sup> not including the government subsidy, i.e. well above the return on Livret A passbooks and virtually the same as the return on non-unit linked life insurance contracts. The rate on PEL plans thus became sharply disconnected from long-term market rates and the inflation rate. The enhanced relative advantage of PEL returns, at a time of falling interest rates, was not lost on households, particularly wealthier ones, whose investment flows into these plans totalled EUR 9.5 billion in 2013, after EUR 1.6 billion in 2012 (cf. Table 3). This trend continued into 2014,

**Table 3 Bank deposits, quarterly net flows**

(sa, EUR billion)

	2013				2014		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Total bank deposits</b>	11.2	11.0	4.7	1.6	7.8	5.6	1.8
<b>Overnight deposits</b>	5.4	4.2	4.8	2.2	5.6	2.1	5.4
<b>Savings passbooks</b>	9.7	7.4	-2.7	-3.5	2.1	0.3	-6.5
Of which: Livret A, Livret Bleu and LDD passbooks	12.8	7.6	1.6	2.6	-0.1	2.6	-2.5
Ordinary passbooks	-3.7	-0.5	-2.4	-3.9	2.0	-0.3	-1.3
<b>Deposits with agreed maturity</b>	-3.9	-0.6	2.6	2.9	0.1	3.2	2.9
Of which: Home savings plans	1.3	2.1	3.0	3.1	4.3	3.2	4.8
Time deposit accounts	-4.9	-2.4	-0.1	0.0	-4.0	0.3	-1.6

Source: Banque de France, financial accounts and monetary statistics.

<sup>4</sup> The return is guaranteed if the investor maintains the contract for two years. He or she can then close the PEL, keeping the return but forfeiting the right to a property loan and the government subsidy.

with EUR 12.3 billion in seasonally adjusted (sa) inflows between January and September 2014. By contrast, home savings accounts (CELs), whose returns are fixed at two-thirds of the Livret A rate, have been recording negative flows since end-2012.

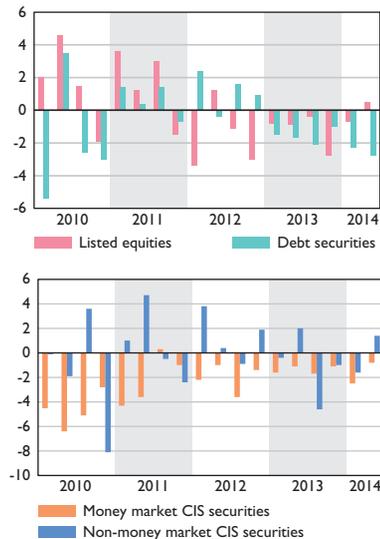
In an annual report submitted to the Minister for Finance and Public Accounts, the President of the Senate and the President of the National Assembly, the Observatory for Regulated Savings chaired by the Governor of the Banque de France describes the change in regulated savings, holdings of these savings and the use made of invested funds.<sup>5</sup>

### I | 3 Direct securities holdings remain at low levels

Household investment flows taking the shape of direct purchases of listed securities, including CIS securities, remain weak and changeable. As at mid-2014, securities portfolios accounted for 10.6% of households' financial wealth. Since the beginning of 2014, households have sold EUR 8.8 billion worth of securities overall, stepping up their net disposals of debt securities but trimming those of listed equities (cf. Chart 4). They were also net sellers of money market and investment fund shares/units (including property CIS). In Q2 2014, however, household investment flows into listed equities and non-money market CIS turned positive again, with increases of EUR 0.5 billion and EUR 1.4 billion respectively.

**Charts 4 Net securities subscriptions/redemptions including CIS**

(sa quarterly flows, EUR billion)



Source: Banque de France, financial accounts.

<sup>5</sup> The annual report by the Observatory for Regulated Savings is posted on the Banque de France website. It provides extensive information on regulated savings ([https://www.banque-france.fr/fileadmin/user\\_upload/banque\\_de\\_france/publications/OER2013\\_INTERNET.pdf](https://www.banque-france.fr/fileadmin/user_upload/banque_de_france/publications/OER2013_INTERNET.pdf)).

## 2| Market shares of bancassurance groups stabilised

### 2| I Bancassurance groups saw their positions strengthen in life insurance and shrink slightly in bank savings

France's six main bancassurance groups<sup>6</sup> manage a very large proportion of households' financial wealth, with 58.8% of life insurance mathematical reserves and 96.0% of total outstanding bank investments at 31 December 2013 (cf. Tables 4 and 5) and, at 30 June 2014, 53.7% of outstanding CIS securities issued in France.

**Table 4 Provisions for redeemable life insurance products**

(EUR billion)

	Data at 31 December 2013
Six main bancassurance groups	774.9
Other institutions and entities	542.3

Source: Weekly data collection on life insurance flows (ACPR).

**Table 5 Total outstanding bank products**

(EUR billion)

	2013		2014
	30 June	31 December	30 June
Six main bancassurance groups	1,133.6	1,142.8	1,151.9
Other institutions and entities	47.4	48.0	49.4

Source: Client\_Re reporting template (ACPR).

### The bulk of net flows into life insurance go to bancassurance groups

The six main bancassurance groups have strengthened their position in the life insurance sector since 2012.<sup>7</sup> Between 1 July 2013 and 30 June 2014, they attracted 63.6% of net inflows<sup>8</sup> into redeemable contracts, or EUR 8.9 billion (cf. Table 6). This particularly reflected sizeable inflows in the first half

**Table 6 Redeemable life insurance products, net flows**

(EUR billion)

	2013		2014		Total from July 2013 to June 2014
	Q3	Q4	Q1	Q2	
Six main bancassurance groups	1.2	0.3	4.8	2.6	8.9
Other institutions and entities	1.5	1.0	1.5	1.1	5.1

Source: Weekly data collection on life insurance flows (ACPR).

<sup>6</sup> The six groups are BNP Paribas, BPCE, Cr dit Agricole, Cr dit Mutuel, La Banque Postale and Soci t  G n rale, plus CNP Assurances, which has ownership and commercial ties to BPCE and La Banque Postale.

<sup>7</sup> For an overview of the life insurance market in France, see the ACPR's 2013 report on the French insurance market (<https://acpr.banque-france.fr/publications/rapports-annuels/chiffres-du-marche-francais-de-la-banque-et-de-l'assurance.html>).

<sup>8</sup> Only premiums, benefits and switching between products are recorded in the ACPR's weekly collection of data on life insurance flows. Changes in the valuation of funds (capital growth for non-unit linked products, market fluctuations for unit-linked products) are not taken into account.

of 2014, which generated a EUR 7.4 billion surplus over benefits paid out. By contrast, in the second half of 2013, flows to bancassurers were slightly lower than those of other entities, at EUR 1.5 billion compared with EUR 2.6 billion.

Relative to total outstanding amounts, net flows between July 2013 and June 2014 were modest, at 1.1% on average for the six bancassurance groups and 0.9% for the other groups. During the period of sharp outflows between July 2011 and June 2012, net flows averaged 0.8% and 1.5% respectively of the outstanding amounts.

### Despite smaller inflows compared with the other entities, bancassurance groups maintained their dominant position in bank savings

By virtue of their relative size, the six bancassurance groups shape the major market trends (cf. Part 1). Their total outstanding bank products increased by EUR 18.4 billion between July 2013 and June 2014 (cf. Table 7).

Outstanding amounts increased less evenly among other institutions. Even so, the growth rate was still more than two and a half times higher than that of the six bancassurance groups. With an increase of EUR 2.0 billion over the period under review, the total outstanding products of these institutions rose by 4.2%, compared with just 1.6% for the bancassurance groups.

In the last three years, bancassurance groups have raised their share of households' bank deposits still further, maintaining it at a very high level – approximately 96% (cf. Chart 5).

**Chart 5 Share of the six bancassurance groups in resident households' bank deposits**



Source: Client\_Re reporting template (ACPR).

**Table 7 Change in total outstanding bank products**

(EUR billion)

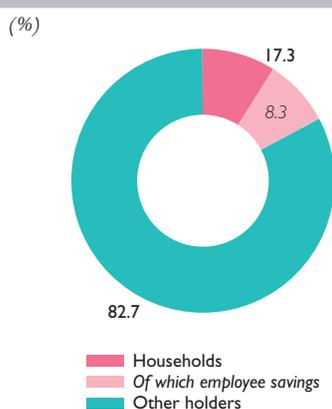
	2013		2014		Total, July 2013 to June 2014
	Q3	Q4	Q1	Q2	
Six main bancassurance groups	2.4	6.9	2.5	6.7	18.4
Other institutions and entities	0.7	-0.1	0.9	0.4	2.0

Source: Client\_Re reporting template (ACPR).

## Outstanding CIS securities held by resident households and managed by bancassurance groups increased despite the investment outflow

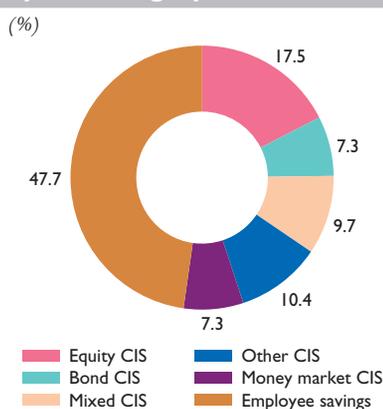
The share of outstanding CIS securities issued in France held by households fell by 0.4 of a percentage point year-on-year to 17.3% (cf. Charts 6 and 7 and Table 8). However, the outstanding amount held by households excluding employee savings (EUR 117.9 billion) increased by EUR 11.0 billion (9.1%) owing to valuation effects, even though net subscriptions contracted by 11.7% to a negative EUR 14.2 billion. The outstanding amount of employee savings (EUR 107.7 billion) was lifted by even stronger valuation effects (EUR 13.7 billion increase) and saw a smaller net outflow (EUR 1.6 billion).

**Chart 6 Household holdings of CIS securities**



Source: Banque de France, entity data.  
Note: total outstanding CIS, June 2014: EUR 1,305.5 billion.

**Chart 7 Household savings by CIS category**



Source: Banque de France, entity data.  
Note: outstanding amounts held by households, June 2014: EUR 225.6 billion.

**Table 8 CIS securities held by households and managed by bancassurance groups, outstanding amounts and investment flows**

(EUR billion, % change)

	Outstanding amounts		Net flows		Value	
	June 2013	June 2014	Amount	Change	Amount	Change
<b>Total CIS</b>	<b>1,228.9</b>	<b>1,305.5</b>	<b>-23.4</b>	<b>-1.9</b>	<b>+100.2</b>	<b>+8.2</b>
<b>Of which CIS held by households:</b>	<b>217.0</b>	<b>225.6</b>	<b>-15.8</b>	<b>-7.3</b>	<b>+24.6</b>	<b>+11.3</b>
Other than employee savings:	121.4	117.9	-14.2	-11.7	+11.0	+9.1
Non-money market						
Managed by bancassurance groups	58.7	58.4	-2.8	-4.7	+3.3	+5.7
Not managed by bancassurance groups	41.8	43.0	-7.0	-16.8	+7.6	+18.1
Money market						
Managed by bancassurance groups	8.7	7.1	-1.5	-17.9	+0.0	+0.1
Not managed by bancassurance groups	12.2	9.4	-2.9	-23.7	+0.1	+0.4
Employee savings (employee investment funds)	95.6	107.7	-1.6	-1.6	+13.7	+14.3

Source: Banque de France, entity data.

Note: The change in outstanding amounts between June 2013 and June 2014 is entirely attributable to net flows, valuation effects and reclassifications (not shown in the table).

Population: resident CIS, excluding property funds (OPCI and SCPI funds).

The six bancassurance groups managed 55.5% of outstanding CIS securities held by households at end-June 2014 (EUR 65.5 billion, excluding employee investment funds) via their asset management subsidiaries, divided into EUR 58.4 billion for non-money market CIS and EUR 7.1 billion for money market CIS.

The net outflow between July 2013 and June 2014 affected all bancassurance groups and was seen in money market and non-money market CIS alike.

## BOX

### Employee investment funds put in a strong performance

These types of investment funds are reserved for company employees. They are classified as non-money market CIS ("other" funds subcategory) irrespective of which investment strategy they pursue. Information about their investment approach is used to place them in one of six sub-categories, comprising money market employee investment funds, equity employee investment funds, bond employee investment funds, balanced employee investment funds, employee investment funds invested in their listed and unlisted company securities, and structured employee investment funds. Employee shareholder open-ended investment undertakings (SICAVAS) are also included.

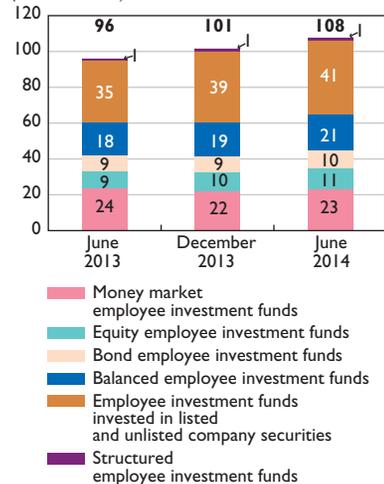
At end-June 2014, the outstanding amount held by employees in these funds stood at EUR 107.7 billion, or 12.7% more than at end-June 2013.

Average total assets per fund rose from EUR 45 million at end-June 2013 to EUR 53 million at end-2014, while the number of funds shrank from 2,100 at end-June 2013 to 2,023 at end-June 2014.

The distribution of funds by sub-category reveals a marked increase in the share of employee investment funds invested in their listed and unlisted securities company (cf. chart opposite).

#### Net assets of employee investment funds in France by category

(EUR billion)



Source: Banque de France, entity data.

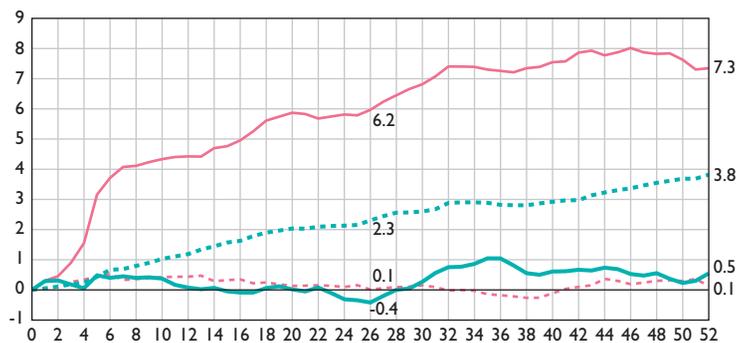
## 2|2 Bancassurance groups attracted more money into non-unit linked products, other undertakings into unit-linked products

The six bancassurance groups recorded net inflows into non-unit linked products and extremely weak net inflows into unit-linked products. By contrast, other undertakings reported sharply positive inflows into unit-linked products and smaller net inflows into non-unit linked products (cf. Charts 8).

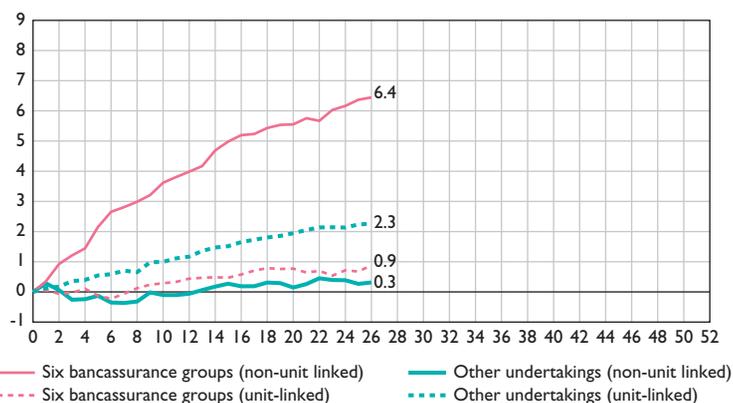
**Charts 8 Comparison of inflows into redeemable non-unit linked and unit-linked products at the six main bancassurance groups and other insurance undertakings**

(EUR billion)

**2013**



**First half 2014**



Source: Weekly data collection on life insurance flows (ACPR).

Net inflows into unit-linked products among entities not linked to bancassurance groups represented the market's fastest-growing segment. Annualised net inflows averaged more than 3% of outstanding provisions. By contrast, net inflows into non-unit linked products were marginal for this group in relation to existing mathematical reserves.

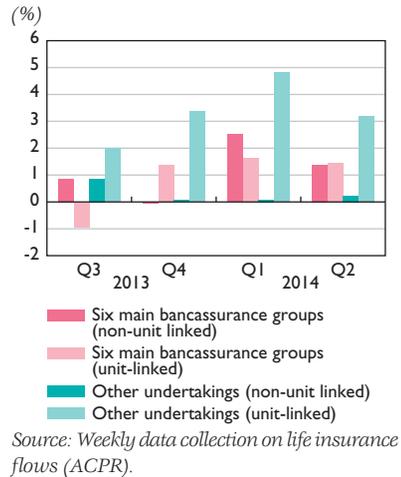
The average growth rate of net inflows among bancassurance groups over the period was close to 1% of outstanding amounts, both in non-unit linked and unit-linked products (cf. Chart 9).

The asymmetry between the two market segments reflects two countervailing sets of incentives for insurance entities.

- Non-unit linked products remain key on the life insurance market. Their mathematical reserves account for 82.8% of those of the sample used for the weekly data collection and approximately 84% of the life insurance market.<sup>9</sup> Entities wishing to offer clients a comprehensive range of savings products have to sell them. The guarantee on the invested principal is one reason why this savings vehicle is so widespread in France, but it also creates a financial risk for the entity marketing the contract that asset/liability management restrictions cannot totally remove. Accordingly, under both the Solvency I and Solvency II regimes, capital requirements for these products are theoretically higher than for unit-linked contracts not offering complex guarantees. Furthermore, by requiring flows to be re-invested in fixed income securities paying historically low rates, the guarantee creates risk for the future profitability of entities.

- By contrast, policyholders essentially bear the market risk on unit-linked contracts. As a result, the capital that the insurance entity is required to hold against unit-linked commitments is theoretically lower than for non-unit linked contracts.<sup>10</sup> This may give insurance entities an incentive to prioritise the sale of this type of contract, which allows them to advertise the potential for better returns in the event of strong performances on financial markets.

**Chart 9 Redeemable insurance products, annualised flows**  
(As a proportion of mathematical reserves at 31 December 2013)



<sup>9</sup> Cf. "The French banking and insurance market in figures 2013" (<https://acpr.banque-france.fr/publications/rapports-annuels/chiffres-du-marche-francais-de-la-banque-et-de-l'assurance.html>).

<sup>10</sup> The favourable treatment of unit-linked products under Solvency I is set down in Article R33413 of the Insurance Code. Capital requirements under Solvency II are based on the risks to which entities are exposed, which also results in favourable treatment for unit-linked products.

There are two possible explanations why non-bancassurance entities might specialise in unit-linked contracts: they might make a strategic decision to concentrate on less capital-intensive products; or their clients could be less risk averse.

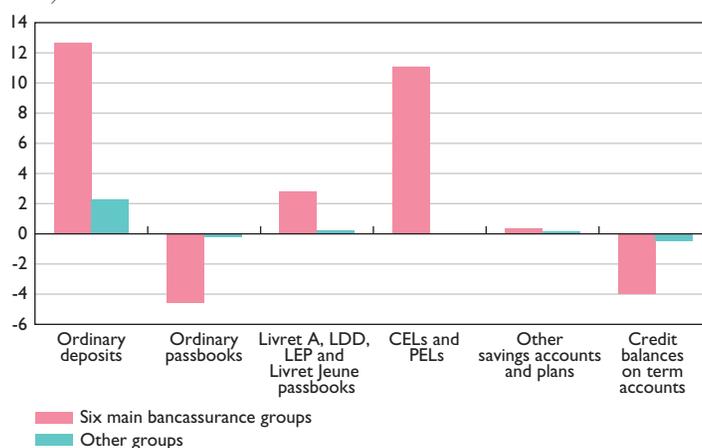
In all cases, the decision to market such savings products is not merely about the sales and strategic choices made by institutions and entities. The duty to provide advice to customers, policyholders and members, particularly when products include the risk of capital loss,<sup>11</sup> also has to be considered.

## 2|3 Bancassurance groups and other institutions post contrasting performances in terms of inflows to regulated savings

The increase in home savings since July 2013, with a 4.9% market-wide increase in outstanding amounts in CELs and PELs (cf. Part 1), is attributable to the EUR 11.1 billion increase in outstanding amounts for bancassurance groups (cf. Chart 10).

**Chart 10 Change in total outstanding bank products**  
(July 2013 – June 2014)

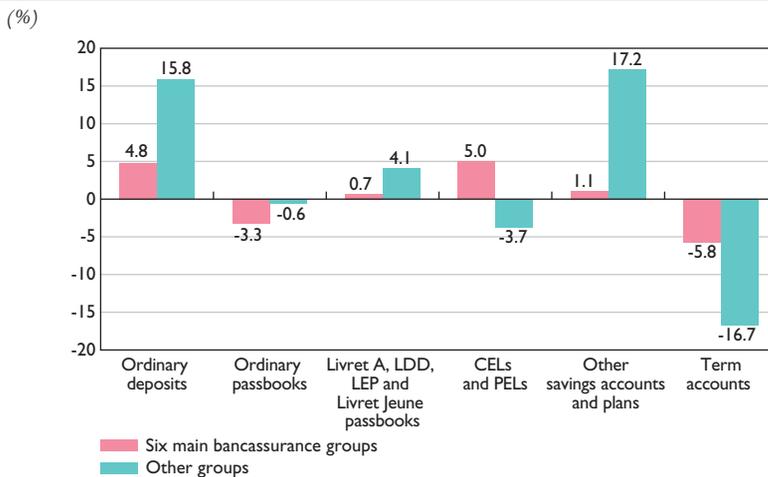
(EUR billion)



Source: Client\_Re reporting template (ACPR).

<sup>11</sup> Since it was established in 2010, the ACPR has published several recommendations on the marketing of unit-linked products involving specific risks as part of its oversight of marketing practices (Recommendation 2010-R-01 – [http://acpr.banque-france.fr/fileadmin/user\\_upload/acpr/publications/registre-officiel/20140708-Recommandation-2014-R-01-de-l-ACPR.pdf](http://acpr.banque-france.fr/fileadmin/user_upload/acpr/publications/registre-officiel/20140708-Recommandation-2014-R-01-de-l-ACPR.pdf), Recommendation 2011-R-02 – [http://acpr.banque-france.fr/fileadmin/user\\_upload/acpr/publications/registre-officiel/Recommandation-2011-R-02-de-l-ACPR.pdf](http://acpr.banque-france.fr/fileadmin/user_upload/acpr/publications/registre-officiel/Recommandation-2011-R-02-de-l-ACPR.pdf) and Recommendation 2011-R-03 – [http://acpr.banque-france.fr/fileadmin/user\\_upload/acpr/publications/registre-officiel/Recommandation-2011-R-03-de-l-ACPR.pdf](http://acpr.banque-france.fr/fileadmin/user_upload/acpr/publications/registre-officiel/Recommandation-2011-R-03-de-l-ACPR.pdf)).

**Chart 11 Total outstanding bank products, growth rate (July 2013 – June 2014)**



Source: Client\_Re reporting template (ACPR).

The increased market share for institutions that are not affiliated with the six bancassurance groups stemmed essentially from ordinary deposits, which make up the lion's share of overnight deposits (cf. Part 1). Outstanding ordinary deposits with these institutions grew by 15.8% (EUR 2.3 billion) in the space of a year compared with a 4.8% increase for bancassurance groups.

By contrast, these institutions saw a small outflow from home savings products, while the 17.2% increase in outstanding amounts in other savings accounts and plans reflected marginal movements (less than EUR 0.2 billion, cf. Chart 11).

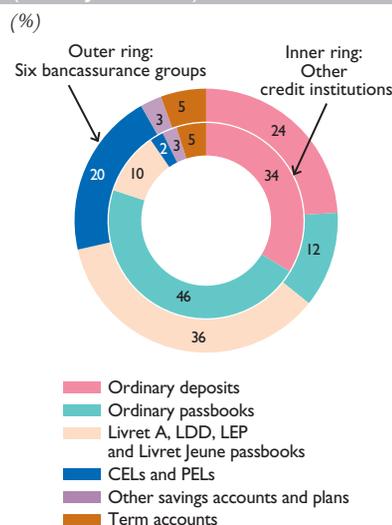
At the overall market level, the low rates paid on regulated savings passbooks and ordinary passbooks would appear to explain why savers shifted to home savings. Yet this broad trend was not in evidence at all credit institutions. Structural effects may account for the differences.

The structure of household deposits with bancassurance groups is very different from that of deposits held with other institutions. Ordinary passbooks account for 46.4% of the household deposits held with other institutions, compared with just 11.7% for the six bancassurance groups and a market average of 13.1%. By contrast, regulated passbooks and home

savings make up more than half the outstanding amounts deposited with the six bancassurance groups but a mere 12.6% of the outstanding amounts at other institutions (cf. Chart 12). The types of customers served go a long way to explaining these structural differences in resources.

Whereas the six bancassurance groups serve a diversified client base through their general networks, other institutions often cater to more specific customer types. Private banking institutions serving wealthy clients or online banking specialists such as branches of European groups and automotive group “captives”,<sup>12</sup> for example, are overrepresented in this category. The products offered by these institutions differ from those of the large networks and give a larger place to contractual savings (negotiated rates on passbooks, for example). In addition, online banks have taken steps recently to structure their at sight deposit product lines (multiple movements, overdraft options, associated management of payment instruments, etc.), while complying with the specific due diligence requirements for this type of product, particularly in terms of anti-laundering rules.

**Chart 12 Composition of outstanding amounts held by credit institutions (At 30 June 2014)**



Source: Client\_Re reporting template (ACPR).

### 3| Individual and overall trends

Banque de France/ACPR joint publications have been conducting comparisons of the six main bancassurance groups and other institutions since 2012. The findings point to contrasting developments but also, more rarely, parallel trends, in some cases across all markets. Other differences may be identified beyond this basic structure of the French market, reflecting the diversity of financial sector participants and the ability of these players to adjust to changing prudential regulations.

<sup>12</sup> The term “captive” refers to credit institutions that are the subsidiaries of industrial, commercial or insurance groups.

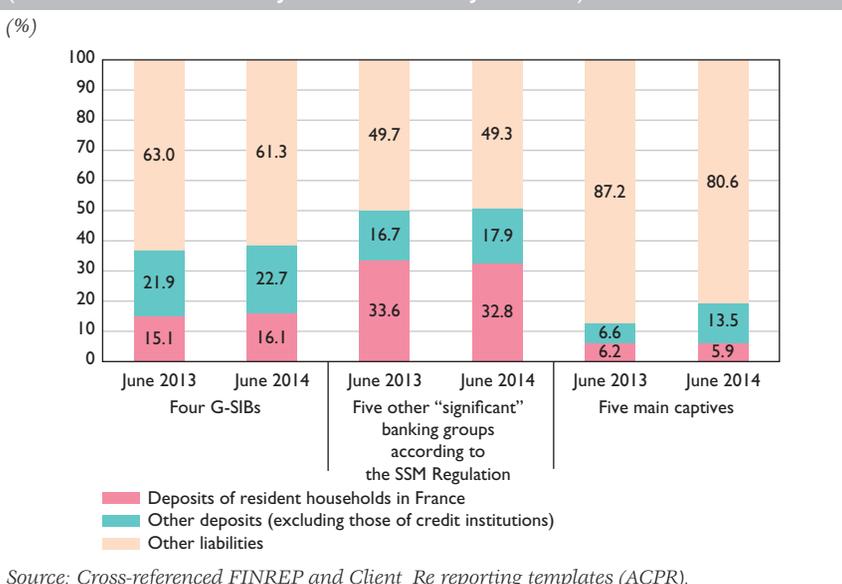
### 3 | Prudential regulations are prompting an increase in the proportion of deposits in bank liabilities

Deposits account for a variable share of liabilities depending on the business model of banking groups, but the proportion is tending to increase across the board

Credit institutions mainly finance themselves by taking deposits from customers, by borrowing on the interbank market via unsecured loans or repos, or by issuing short-term (deposit certificates) and medium-to long-term securities (bond market).

Systemically important banking groups<sup>13</sup> are universal banks that for the most part conduct major business abroad. Customer deposits account for a large proportion of their liabilities (37.0% in June 2013 and 38.7% in June 2014, cf. Chart 13). One-third of these deposits are held in France by resident households. Other deposits belong to French and foreign companies and to foreign households. Their significance reflects the high international component of these groups.

**Chart 13 Composition of liabilities, three credit institution categories**  
(Consolidated data at 30 June 2013 and 30 June 2014)



<sup>13</sup> The four French banking groups that have been identified as global systemically important banks (G-SIBs) by the Basel Committee or as global systemically important institutions (G-SIIs) under European law are BNP Paribas, BPCE, Crédit Agricole and Société Générale.

Aside from these four groups, six others have been identified as "important" within the meaning of Regulation (EU) 1024/2013, which established the Single Supervisory Mechanism (SSM). Since 4 November 2014, they have been subject to direct supervision by the ECB. They include Bpifrance, Crédit Mutuel, HSBC France, La Banque Postale, Société de Financement Local and Caisse de Refinancement de l'Habitat. The last of these was not included in this chart because of its specific features.

The five main captives are the Banque Accord (Auchan), Carrefour Banque, Banque PSA Finance (Peugeot), Groupama Banque and RCI Banque (Renault) groups. Together, these three categories account for over 97% of the bank deposits of resident households.

The other “important” French groups as defined by the SSM Regulation have smaller international operations and do less capital market business. Accordingly, deposits account for most of their liabilities (50.7% in June 2014), despite the presence among these groups of two institutions that collect little in the way of deposits (Bpifrance and Société de Financement Local). The deposits of resident households in France account for two-thirds of their deposits, underscoring the importance of French retail activities to their balance sheets.

The five captive entities in the sample reflect the presence of another business model. The credit institutions of these non-bank groups are, for the most part, specialised in retail lending and generally finance themselves on the markets. But these institutions are substantially increasing the share of deposits in their financing, particularly to adjust to the new prudential rules. Deposits accounted for 12.8% of their liabilities in June 2013, of which 6.2% for households resident in France. By June 2014, this proportion had risen to 19.4%. However, the share of deposits of resident households fell slightly, to 5.9%.

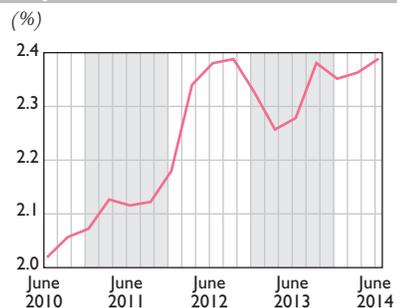
### Spurred on by technological innovation and prudential rules, captives and online banks are looking to boost inflows into deposits

During the 2000s, the rise of the internet and mobile access supported the emergence of the online banking business model. Alongside the subsidiaries of the incumbent banking groups, many captive banks set up ranges of savings products, often operating either partially or totally as online banks.

From June 2010 to September 2012, the outstanding deposits of captives and online banks increased steadily in absolute terms. Their share in total household deposits remained small, however, edging up from 2.0% in June 2010 to 2.4% in September 2012. After a contraction in Q4 2012 and Q1 2013, which coincided with the increase in the ceiling amounts for regulated savings products, the market share of these entities settled at around 2.4% (cf. Chart 14).

A closer institution-by-institution analysis reveals several phases. During the late 2000s and until the beginning of 2012, the subsidiaries of French and foreign banking groups and “assurbanking” operators (i.e. insurers providing banking services) primarily gathered new saving flows. These entities

**Chart 14** Share of captives and online banks in total household deposits on the French market



Source: Client\_Re reporting template (ACPR).

were gradually joined from 2012 by other participants, particularly the captives of industrial groups. This multi-phase development dovetails neatly with the main explanations for the development of this business model.

First, the rise of internet technologies and online consumption practices supported the establishment of operationally robust online banking platforms and promoted the emergence of a pool of potential customers from the mid-2000s. Meanwhile, changes to prudential rules have given all credit institutions an incentive to hold more customer deposits. With this in mind, some captives are using the online banking business model to change the structure of their liabilities.

### **The Basel III accords give credit institutions a strong incentive to boost their deposits**

Prior to the entry into force of the Basel III Accords, there were no international rules harmonising the prudential oversight of liquidity risk. In France, banks are subject to regulations in this area that were strengthened in 2010. These remain in effect until the new liquidity rules apply, requiring credit institutions to ensure that their cash assets allow them to meet their liabilities at all times.<sup>14</sup>

The Basel III Accords introduced a similar ratio called the liquidity coverage ratio (LCR), which measures coverage of liquidity needs on a 30-day horizon. It was introduced into European Union law in 2013 by the CRR/CRD IV package. The LCR will be implemented by a delegated act adopted by the Commission on 10 October 2014 for application in 2015. It is fairly close in spirit to the former French system. However, the LCR introduces more demanding run-off assumptions, with according weighting adjustments for liquid asset categories. The most stable liquid assets, i.e. retail deposits, have lower run-off rates, while market refinancing is subject to a larger haircut. In general, credit institutions thus have an incentive to boost the proportion of deposits in their liabilities to comply more easily with LCR requirements.

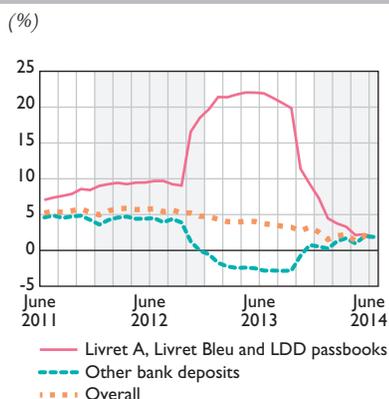
*14 Within this framework, the one-month liquidity ratio takes into account liquidity available at more than one month and certain run-off assumptions for all sources of funds, as well as the existence of long-term refinancing agreements.*

### 3 | 2 Size and specialisation explain the differences between financial institutions

The increase in the ceiling amounts for Livret A, Livret Bleu and LDD passbooks affected inflows of savings differently depending on the credit institution

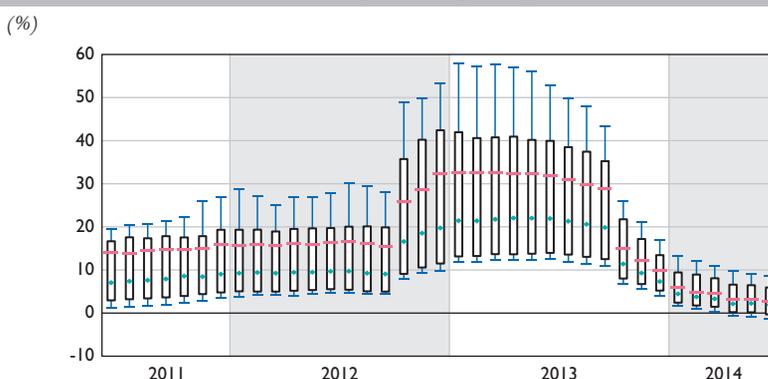
Even before the maximum investment amounts were raised, there was a sizeable gap between the first and last deciles of the annual growth rates for total assets in Livret A, Livret Bleu and LDD passbooks (more than 18 percentage points in June 2011 for example, Chart 16). Structurally the long-standing distribution networks for Livret A and Livret Bleu passbooks (La Banque Postale, Caisses d'épargne and Caisses de Crédit mutuel) have lower collection rates than other credit institutions, which continue to benefit from base effects. These differences may be further exacerbated by networks' sales and marketing choices.

**Chart 15**  
Outstanding household deposits, year-on-year growth rate



Source: *M\_Client\_Re* reporting template (Banque de France/ACPR).

**Chart 16** Total assets in Livret A, Livret Bleu and LDD passbooks held with credit institutions, year-on-year growth rate



Explanation: the two ends of the bars show the first and ninth deciles. The rectangles show the difference between the second and third quartiles. The red line shows the median, and the green dot shows the average. Population: Credit institutions filing *M\_Client\_Re* reporting templates and managing more than EUR 500 million in outstanding bank products held by households at 30 June 2014 (61 to 65 individuals depending on filing dates).

Source: *M\_Client\_Re* (Banque de France/ACPR) reporting template.

The increase in the ceilings further supported the spread in growth rates within the population (cf. Chart 16), with widening interquartile and interdecile spreads. Some smaller institutions doubled their total amounts in less than a year. In June 2013, one-quarter of institutions increased total outstanding amounts in these regulated savings passbooks by more than 40%. These mainly included small credit institutions, however, as reflected by the fact that the average rates of change remain below the median in the long run.

### Insurance inflows were higher among small entities

A cross-cutting analysis of inflows by size of insurance undertakings (regardless what group they belong to) further refines the comparison between bancassurance group subsidiaries and other entities.

During the period from July 2013 to June 2014, the strength of inflows seems to have been linked to entity size (cf. Table 9).

Inflows to undertakings with more than EUR 50 billion in mathematical reserves were less vigorous. During the period under review, these entities took in a net EUR 3.7 billion (0.3% of their reserves) into non-unit linked products and EUR 1.1 billion into unit-linked products (0.8% of their reserves).

The profile of mid-size undertakings (EUR 10 to 50 billion in mathematical reserves) is fairly similar to that of the main entities. However, they collected more in unit-linked products (EUR 1.9 billion, or 3.2% of total outstanding amounts) thanks to a higher level of premiums and switching patterns that were less systematically unfavourable to non-unit linked products.

Undertakings with EUR 2 to 10 billion in mathematical reserves on their balance sheet recorded flows of higher intensity proportionate to their size.

**Table 9 Net inflows by insurer size**  
(July 2013 – June 2014)

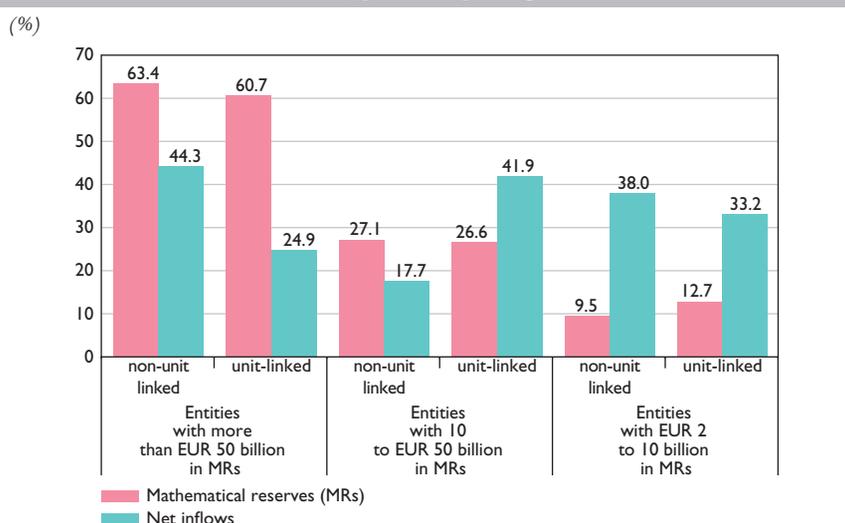
(EUR billion)

	Non-unit linked products	Unit-linked products
Insurance undertakings with more than EUR 50 billion in mathematical reserves	3.7	1.1
Insurance undertakings with EUR 10 to 50 billion in mathematical reserves	1.5	1.9
Insurance undertakings with EUR 2 to 10 billion in mathematical reserves	3.2	1.5

*Explanation: the seven Insurance undertakings with more than EUR 50 billion in mathematical reserves account for 62% of reserves in the sample on life insurance flows. The 14 Insurance undertakings with EUR 10-50 billion in mathematical reserves account for 27% of the reserves, while the 29 entities with EUR 2-10 billion in mathematical reserves account for 10% of the total mathematical reserves of the sample.*

*Source: Weekly data collection on life insurance flows (ACPR).*

**Chart 17 Total assets in Livret A, Livret Bleu and LDD passbooks held with credit institutions, year-on-year growth rate**



Source: Weekly data collection on life insurance flows (ACPR).

Note: Sub-sample of 50 entities with more than EUR 2 billion in mathematical reserves, or 98.9% of the sample.

Premiums on non-unit linked products came in at a rapid clip, in some cases exceeding 15% of total outstanding amounts year-on-year. It is true that the benefits paid on non-unit linked products are also higher than those for larger undertakings but the balance remained markedly positive, reaching EUR 3.2 billion over the period or 3.1% of mathematical reserves. Net inflows to unit-linked products were also high, at EUR 1.5 billion, or more than 5.3% of their reserves.

Chart 17 compares the contribution of each of these categories of undertakings to the overall statistics.

Several reasons may explain the brisk inflows into smaller undertakings, including in unit-linked products. In some cases, base effects are at work, owing to late entry on the unit-linked market, for example. In others, niche positioning on fast-growth markets is the reason. This is the situation for many smaller undertakings, including some that are independent and others that are attached to larger groups, which have specialised in distributing products to independent wealth management advisers or to less risk averse customers generally. Larger undertakings may also suffer from their long-standing presence on the market, as an older portfolio of contracts may be held by customers with a less favourable age structure. Such portfolios also generally include more annuity contracts in the payout phase and fewer capital growth contracts.



# Financial situation of France's major listed groups in H1 2014: a combination of prudence and deleveraging

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The 80 largest French industrial and commercial groups listed on segment A of Euronext posted organic growth of 1% in the first half of 2014. However, this was masked by a 5% contraction in aggregate turnover, caused by the negative impact of recent changes in accounting standards (estimated at -3 percentage points) and a similar scale of impact from foreign currency conversions.

Overall profitability remained stable over the period, as a surge in operating profits in manufacturing (+22%) helped to offset difficulties in other sectors (energy, services, trade, information and communication). The groups' operating margin rose by 1 percentage point to 9%; moreover, net profit increased for the first time since 2011, climbing 14%, which in turn drove the aggregate net profit margin up from 4.5% to 5.3%.

The groups strengthened their overall cash position over the period, adding a total of EUR 13 billion to liquid assets (a rise of 9.4% year-on-year). This was achieved without reducing dividend payouts. However, it was primarily attributable to sound financial management rather than to higher operating cash flows, as certain French groups are finding it increasingly hard to generate surpluses solely through their operating activities.

As in 2013, the leading French groups continued to pursue opportunistic liability management policies, with the aim of obtaining better financing conditions. They thus reduced levels of outstanding debt by EUR 15 billion compared with a year earlier and transformed a share of their bond borrowings into quasi-equity.

With the economy still not showing any concrete signs of recovery, the groups in the sample opted to support their market valuation by improving their cash positions and continuing to deleverage. Their total equity rose to EUR 628 billion, the highest level since 2009 when the Banque de France first began conducting this study, while their total market capitalisation also hit a record for the period at EUR 1,193 billion, up 7% versus 31 December 2013.

For the first time, dollar-denominated financial statements were included in this study (three groups).

Keywords: consolidated financial statements, IFRS, earnings, major industrial and commercial companies, major French groups, other comprehensive income (OCI), companies listed on segment A of Euronext

JEL codes: F23, G30, G32, L25

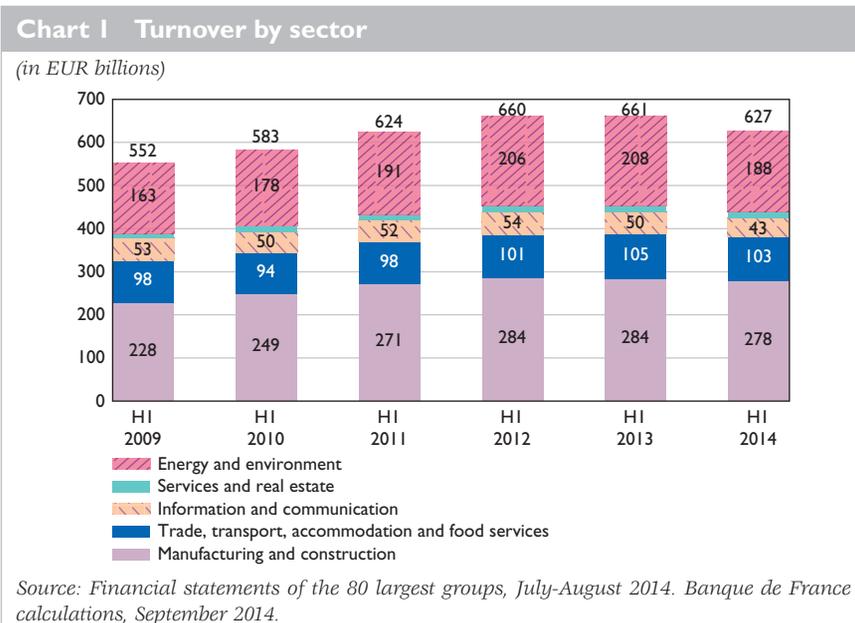
## I | A decline in turnover and limited organic growth

### I | I Business activity slowed in the first half

After stabilising in 2013, the total turnover of the 80 largest French groups contracted by 5% year-on-year in the first half of 2014,<sup>1</sup> falling from EUR 661 billion in the first half of 2013 to EUR 627 billion (see Chart 1).

The principal cause of the decline was a negative foreign currency impact (-3.3%; see 1|2 below). However the application of new accounting standards also shaved 3%, or some EUR 20 billion, off overall turnover – since 1 January 2014, all companies have been required to apply IFRS 10, 11 and 12, which have a significant impact on the way turnover is measured (see Box 1).

Organic growth was weak over the period (just 1% year-on-year). Continental Europe, the traditional focus of French groups' activities, is currently the main source of uncertainty in the global economy, and countries within the region are continuing to grapple with economic



<sup>1</sup> The groups in the sample account for around 60% of total turnover for all French groups publishing consolidated accounts.

**Box 1****Application of IFRS 10, 11 and 12**

*The accounting standards IFRS 10, 11 and 12 came into effect on 1 January 2014. IFRS 10, “Consolidated Financial Statements”, changes the way the concept of “control” is defined. IFRS 11, “Joint Arrangements”, classifies partnerships into two categories – joint ventures and joint enterprises – and no longer permits the use of proportionate consolidation for joint enterprises. IFRS 12, “Disclosure of Interests in Other Entities”, sets out a range of disclosures that companies are required to make in their consolidated financial statements.*

*These standards have led to a change in consolidation methods and have affected the accounts of the 80 groups under review to varying extents. In particular, the replacement of the proportionate consolidation method with the equity consolidation method led to a drop in turnover at the time of application, as groups could previously incorporate a share of their subsidiaries’ activities into their own (a share proportionate to the size of their stake in the subsidiary). Part of the impact of this change was recognised in the full-year 2013 accounts, as around a dozen groups opted to apply the standard in advance.*

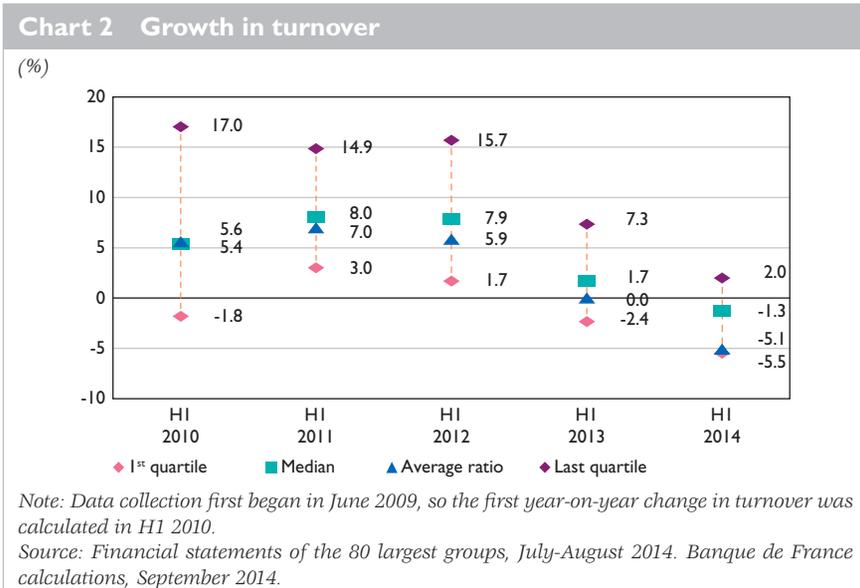
difficulties such as weak levels of public and private investment, concerns over the threat of deflation and of course fears over the size of government debt. The European recovery thus remains elusive. Added to that, emerging markets, until now the main engine of economic growth, are experiencing a slowdown, as at the end of 2013.

Taking into account the change in accounting methods and adverse currency effects, aggregate sales declined in the first six months of the year, although performances varied across individual sectors. The worst-hit sector was energy and environment, where turnover contracted by 5% and most companies saw a downturn in activity. In information and communication, sales fell by 2.5%, due primarily to tighter competition in the telephone market. Manufacturing, trade, transport, accommodation and food services also saw falls in sales.

Against this backdrop, the distribution of turnover tended to become more even. However, three out of four companies reported sales growth of less than 2%, with the majority of these registering a contraction (see Chart 2).

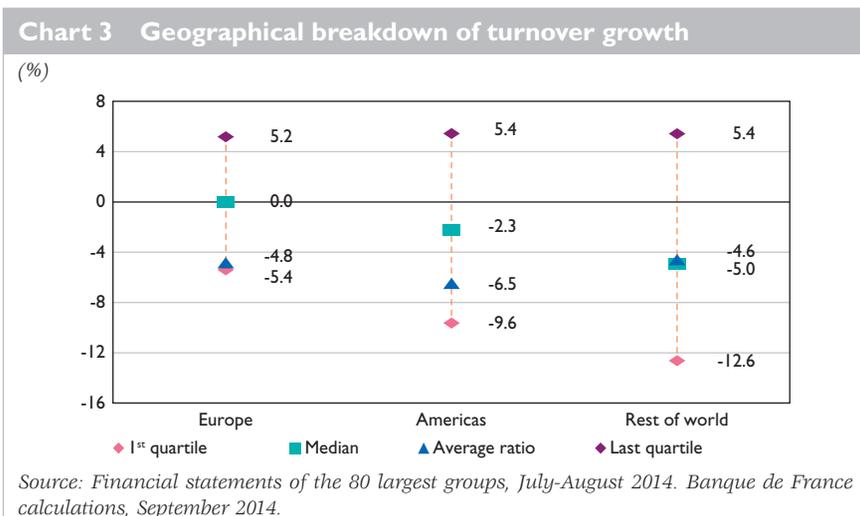
**Fall in foreign sales**

The start of 2014 marked a lull in the leading French groups’ international expansion, with the breakdown of sales between Europe, the Americas



and the rest of the world remaining unchanged versus the first half of 2013. Europe remained the main focus of activity, accounting for 61 % of turnover; however, the long-term trend is still one of gradual expansion into markets further afield (see Table 1).

That said, sales momentum tended to slow in all regions throughout the world, meaning there was less of an offsetting effect between geographical zones than in the past (see Chart 3).



**Table 1 Geographical breakdown of turnover**

(%)	30/06/2009	30/06/2010	30/06/2011	30/06/2012	30/06/2013	30/06/2014
Europe	67	66	63	63	61	61
Americas	13	14	14	15	16	16
Reste of world	20	20	23	22	23	23
<b>Total turnover</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

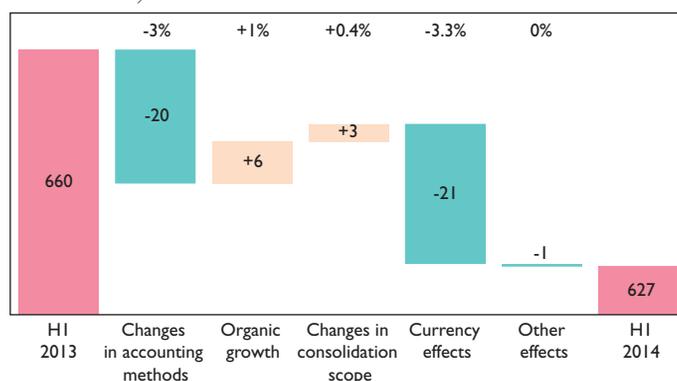
## 1 | 2 Currency effects were the main factor behind the sales fall

Total turnover for the 80 largest French groups fell by EUR 33 billion year-on-year in the first half of 2014. After stripping out the negative EUR 20 billion impact of the change in accounting methods, the remaining EUR 13 billion decline is attributable to negative currency effects, which were offset to an extent by the positive impact of changes in consolidation scope and by organic growth (see Chart 4).

The groups' expansion into international markets has been accompanied by a more or less marked increase in their exposure to currency risk. In addition to the day-to-day difficulties this poses in terms of finding effective hedging strategies, it also obliges groups to convert foreign subsidiaries' accounts into euro, which automatically has an impact on their consolidated turnover (turnover is almost always published in euro).<sup>2</sup>

**Chart 4 Breakdown of turnover growth for the 80 largest groups (H1 2014 vs. H1 2013)**

(in EUR billions and %)



Note: other effects include increases in commodity prices, and other marginal impacts.

Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

<sup>2</sup> The sample currently includes three groups that publish their accounts in US dollars: ST Microelectronics, CGG and, since end-2013, Total.

In practice, the effect is purely an accounting one, as it is linked to the consolidation method used and to the valuation of the flows generated by foreign subsidiaries;<sup>3</sup> it is thus not a specific cost incurred to hedge currency risk.

The currency effects indicated in the interim financial statements were once again negative, wiping 3.3 percentage points off overall turnover growth between the first half of 2013 and the first half of 2014. This impact can be broken down into two components: the appreciation of the euro against the dollar and the yen between June 2013 and June (by 5% and 6% respectively); and the sharp drop in currencies in emerging countries, many of which are major export markets for French groups. The Brazilian real, for example, shed 4% against the euro, the Indian rupee 5%, the Russian rouble 7%, the Thai baht 9%, the South African rand 11%, the Turkish lira 14% and the Argentine peso 37%. Although these currencies are now gradually recouping some of the lost ground, conversions into euro still had a negative impact on all sectors of activity.

### **I | 3 Slightly positive impact from changes in consolidation scope**

The groups under review do not have rigid structures; their make-up evolves regularly as they acquire or divest subsidiaries. As a result, half-yearly turnover incorporates the effects of changes in consolidation scope, reflecting the contribution by entities that entered the scope minus the contribution of those exiting it. Most groups report these changes in consolidation or provide enough elements to make it possible to assess the role played by external growth.

Thirty-five groups adopted dynamic external growth policies in the first half of 2014, particularly in high-growth emerging markets, with the aim of expanding or diversifying their business as well as achieving synergies. Around 20 groups also sold off non-core assets as part of geographical or sectoral repositioning, thereby reducing their scope of consolidation.

The changes in consolidation scope were particularly concentrated, with a single transaction in the retail sector accounting for half the overall scope effects for the period. The remainder of the impact can be broken down evenly between the other sectors. In contrast with H1 and full-year 2013, the consolidation scope effect was positive in the first six months of 2014, boosting turnover growth by 0.4 percentage point year-on-year.

<sup>3</sup> These transactions are initially booked in a foreign currency, either because they are carried out in a non-euro area market or because they are linked to a product that is always invoiced in a foreign currency (e.g. oil).

Stripping out the negative impact of the new accounting standards, adverse currency effects and the slightly positive impact of changes in consolidation scope, the groups in the sample posted organic growth of 1%. Their performance was thus better than it appears at first glance, although sales growth was still only modest.

## 2| Overall operating profitability remained stable

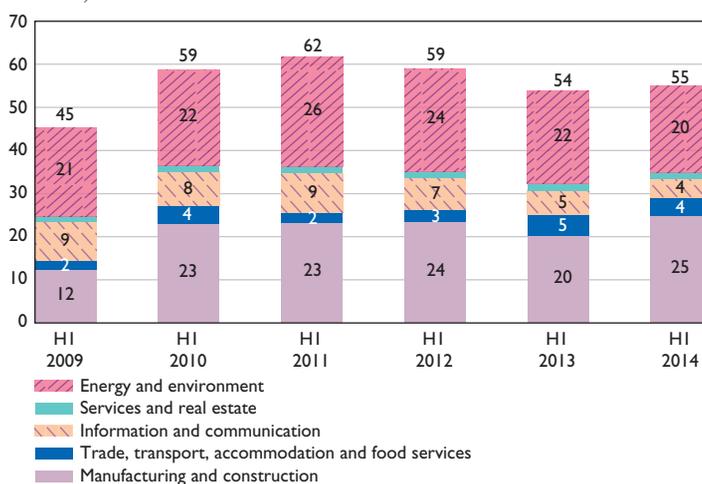
### 2|1 Divergences between sectors

Operating profit measures the intrinsic performance of a business, before taking into account financial gains/losses and taxation.

The 80 groups in our sample reported operating profit of EUR 55 billion at end-June 2014, up EUR 1 billion with respect to June 2013 (see Chart 5). This relative stagnation in reality masks disparities between sectors, notably caused by asset write-downs. The manufacturing and construction sector, for example, saw operating profit rise from EUR 20.3 billion to EUR 24.7 billion (+ 22%), contrasting with the other sectors where the period proved more difficult: groups in the energy and environment sector managed to limit the fall in operating profit to 7%; in the trade sector,

**Chart 5 Operating profit by sector**

(in EUR billions)



Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

however, the decline hit 10%, while the business services and real estate sectors reported a 12% fall. Information and communication groups were the worst performers over the period, with operating profit dropping by 21% (from EUR 5.4 billion to EUR 4.3 billion), in large part due to the difficulties faced by telecoms operators.

Despite the stagnation in operating profit, the decline in turnover meant the operating margin (i.e. the ratio between operating profit and turnover) was boosted by one percentage point, rising from 8% in the first half of 2013 to 9% in the same period in 2014.

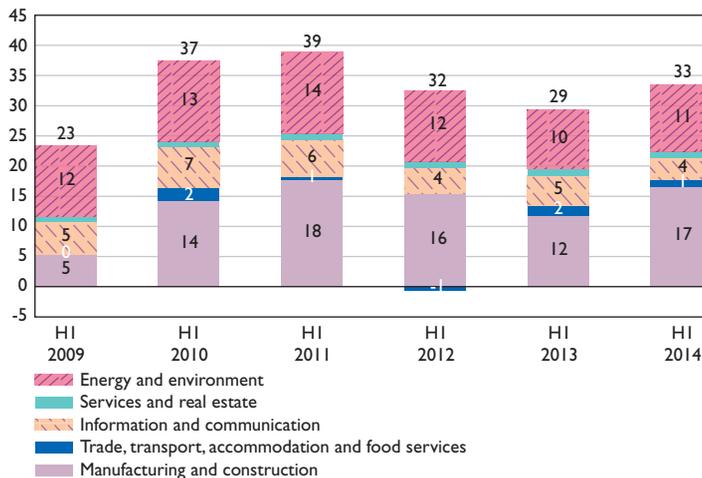
## 2|2 Net profit increased by 14%

In the first half of 2014 net profit rose for the first time since 2011, with the manufacturing and energy and environment sectors showing the most notable improvements. Total net profit for the 80 groups (calculated by incorporating financial income, profit from activities in the process of being sold, and tax expenses into operating profit) rose by 14% year-on-year, from EUR 29 billion to EUR 33 billion (see Chart 6).

The stagnation in operating profits thus had no direct impact on net profitability. This was in part attributable to a fall in other expenses

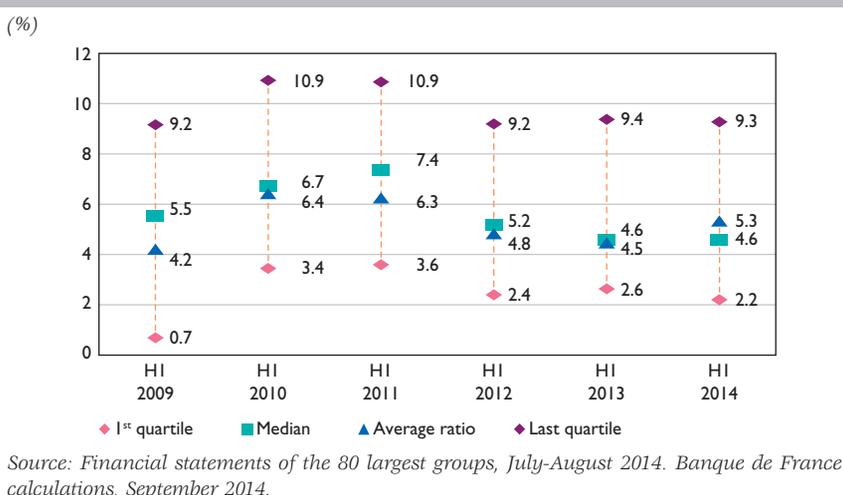
**Chart 6 Net profit by sector**

(in EUR billions)



Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

**Chart 7 Net profit margin**  
(distribution and average margin)



affecting the bottom line, such as the groups' aggregate tax expense which was EUR 0.7 billion lower than in the first half of 2013 due to the fall in pre-tax profit. The application of IFRS 5 also generated additional one-off financial income, as an increased volume of activities in the process of being sold were recognised under net profit. In some cases, the impact was significant, amounting to several hundred million euro.

In contrast with the three previous years, therefore, the average net profit margin (ratio of net profit to turnover) for our sample rose in the first half of 2014, increasing to 5.3% from 4.5% a year earlier. Closer analysis, however, reveals marked disparities between performances (see Chart 7).

### 3| Cash flows: financing activities outweigh operating activities

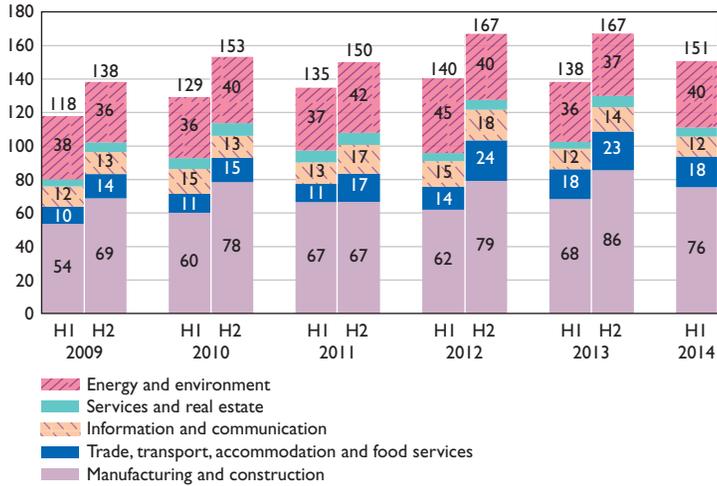
#### 3| I Groups strengthened their cash positions without cutting dividend payouts

At end-June 2014, the 80 largest French groups had a total cash position of EUR 151 billion, representing a rise of EUR 13 billion, or 9.4%, relative to end-June 2013 (see Chart 8). This was the highest volume of cash holdings ever observed at end-June in the six years since the Banque de France began collecting data. The trend of cash hoarding was clearly driven by the manufacturing and energy sectors, where positions climbed

**Chart 8 Cash position at end of period**

(end-June and end-December)

(in EUR billions)



Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

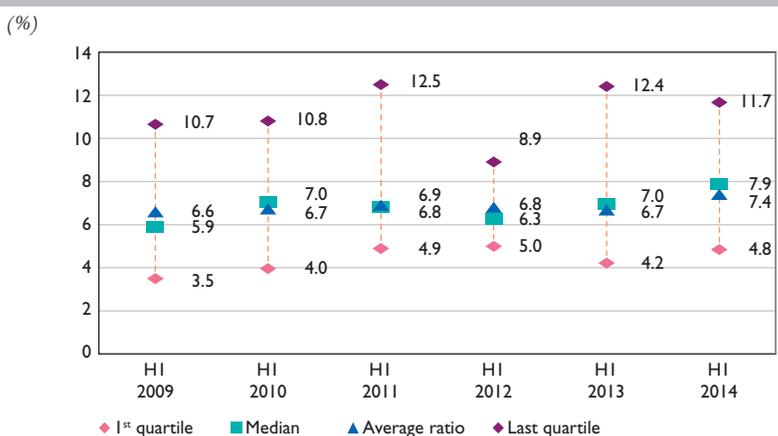
by EUR 8 billion and EUR 4 billion respectively between end-June 2013 and end-June 2014.

This renewed growth in cash holdings led to a sharp rise in the cash-to-asset ratio: as a percentage of total assets, cash positions at the end of the period edged up by 0.7 percentage point, from 6.7% to 7.4% (see Chart 9). This nonetheless masked a number of divergences: an analysis of the distribution of changes in the cash-to-asset ratio shows that, for groups in the first quartile, the ratio increase was more or less in line with the average for the entire sample (rise of 0.6 percentage point, adding 1.0 percentage point to the median), while in the last quartile, ratios fell by 0.7 percentage point.

A chart showing the half-yearly change in cash positions since the start of 2009 also indicates that there is a seasonal effect at play, with levels of available cash systematically falling between the end of the year and the middle of the following year.

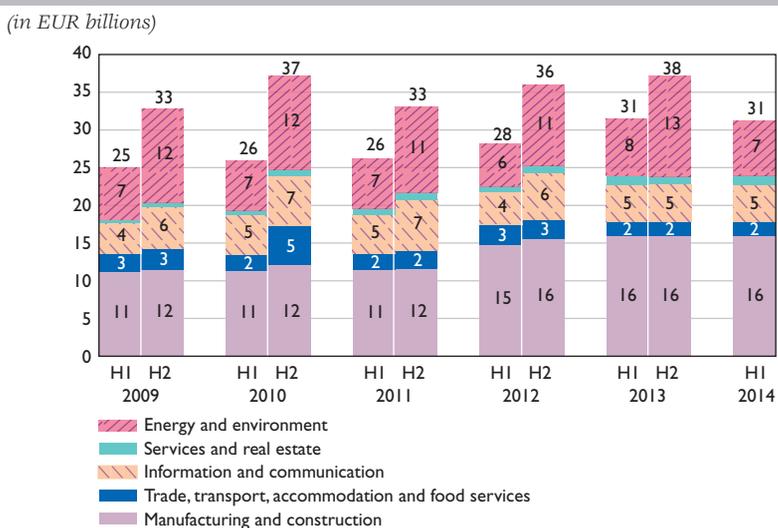
Moreover, these half-yearly variations reflect the general upwards trend in cash levels. In the past three years, the 80 main French groups have accumulated a cash surplus equivalent to around six months of net profit.

The increase in cash holdings was achieved with no notable change to the dividend payout policy: some EUR 30.7 billion had already been

**Chart 9 Cash position at end of period as a share of total assets**

Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

distributed to shareholders at 30 June 2014, signalling that 2014 is set to be a record year for dividends for the groups in our sample. Although their reference documents do not provide a full breakdown of the items deducted from cash, they do show that dividends were by far the largest drain on holdings in the first half of the year (see Chart 10). Moreover, the

**Chart 10 Total dividends paid out by the largest groups in H1 and at year-end**

Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

bulk of dividends are paid out before 30 June, as shown by the structurally high payout ratio at this date.<sup>4</sup>

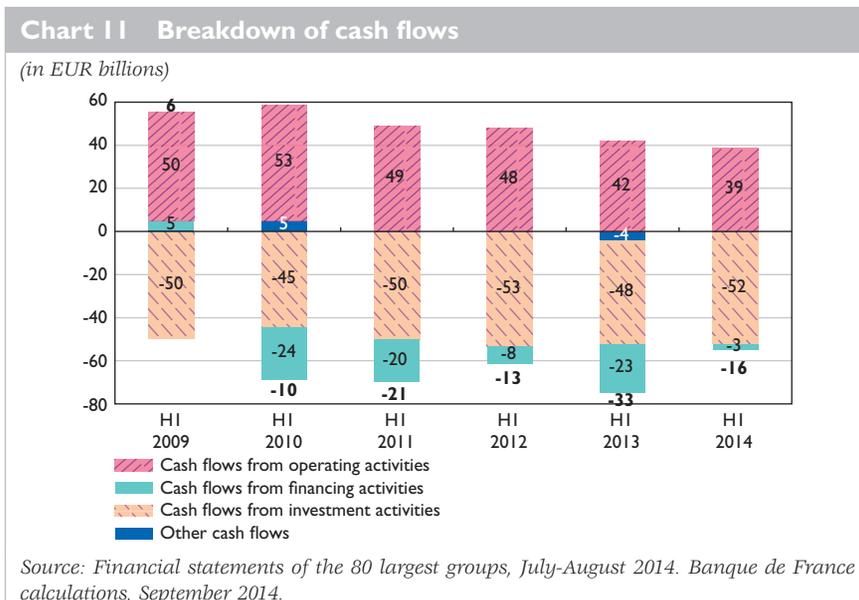
### 3|2 Smaller contribution from operating cash flows

For a more in-depth analysis of the changes in groups' savings levels over the first half of 2014, it is useful to look at the internal structure of cash flows. The latter can be broken down into three different types: cash flows from operating activities, flows linked to investments and flows arising from financing activities (outlined below).

Continuing the trend seen between 2009 and 2013, the groups in the sample posted a net cash outflow in the first half of 2014, this time in the amount of EUR 16 billion. Inflows from operating activities continued to decline, while investment outflows remained high (see Chart 11).

#### Decline in inflows from operating activities

According to the standard definition used in financial analysis, operating cash flows correspond to the difference between a company's internal financing capacity and the changes in its operating working capital



<sup>4</sup> This rate is calculated at the end of the year. Between 2009 and 2012, it averaged 77%, or 88% excluding the energy sector. The latter is the only sector which puts off a large share of its dividend payment until the second half of the year, giving it an average pay-out ratio at 30 June of around 55%.

**Table 2 Formation and sector breakdown of operating working capital requirement**

(in EUR billions)

	H1 2009	H1 2010	H1 2011	H1 2012	H1 2013	H1 2014
Trade receivables (A)	236.0	245.6	255.8	269.9	269.0	248.7
Trade payables (B)	198.4	217.4	221.0	230.7	233.2	220.7
Inventories (C)	138.1	145.8	154.9	163.1	161.4	161.9
<b>Total OWCR (A – B + C)</b>	<b>175.7</b>	<b>174.0</b>	<b>189.8</b>	<b>202.4</b>	<b>197.1</b>	<b>189.9</b>
<b>Sector breakdown</b>						
Trade, transport, accommodation and food services	5.7	2.0	4.8	5.9	4.7	5.1
Energy and environment	44.8	47.5	51.9	54.2	56.1	46.7
Manufacturing and construction	128.5	127.0	134.7	144.3	138.1	139.3
Information and communication	-4.4	-4.5	-4.5	-4.8	-3.7	-3.2
Services and real estate	1.1	2.0	2.9	2.8	1.9	2.1

Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

requirement (OWCR) over a given period.<sup>5</sup> As a result of the ongoing economic uncertainty, first half operating cash flows declined steadily year-on-year between 2010 and 2013. At the end of June 2014, they registered another fall relative to the first six months of 2013, shedding 7% to a total of EUR 38.8 billion.<sup>6</sup>

These repeated declines indicate that French groups are finding it harder and harder to generate a cash surplus from their operating activities. Since 2012, the downward trend has also reflected an even starker decline in the groups' internal financing capacity, a factor which has been offset to an extent by a reduction in their OWCR (down EUR 7 billion relative to the first half of 2013, see Table 2). Although on the surface a lower OWCR helps to prop up cash levels, it nonetheless reflects a deterioration in a company's operating activities. This is notably the case with energy and environment companies: trade receivables in the sector plummeted 20% or EUR 15 billion year-on-year in the first half of 2014, while inventories grew by close to EUR 2 billion.

### Lower financing outflows

Flows related to financing activities primarily include equity transactions (dividend payments, share issues and buybacks), and financial debt (debt issues, repayments). In the first six months of 2014, the groups under review posted a net financing outflow of EUR 2.6 billion, a substantial drop compared with the outflow of EUR 22.6 billion a year earlier.

The impact of dividend payouts was offset by a number of factors in the first six months of 2014: on the one hand, various companies chose to raise

<sup>5</sup> The operating working capital requirement is the amount of funding required for a group's current operations.

<sup>6</sup> Total first-half cash flows from operating activities for the largest French groups have shrunk by 27% over the past four years.

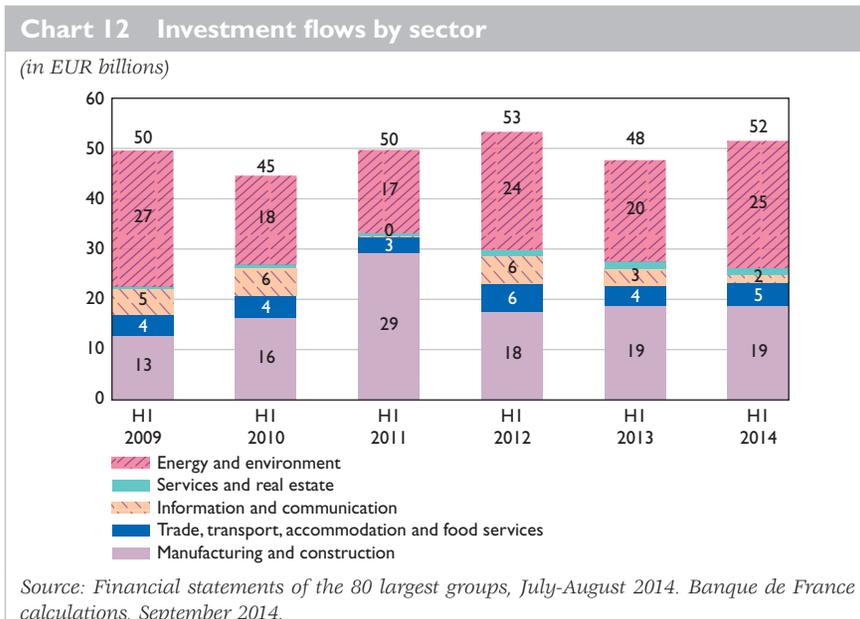
financing through share issues, as demonstrated by the increase in equity which will be discussed below; on the other hand, none of the groups in our sample paid back or issued any large amounts of debt.

### Investment stabilised thanks to acquisitions of financial assets

In the groups' financial statements, investment flows are divided into five different categories:

- acquisitions of tangible and intangible fixed assets;
- acquisitions of financial fixed assets;
- disposals of tangible and intangible fixed assets;
- disposals of financial fixed assets;
- "other changes", which corresponds to the net balance of operations not classified under the previous headings.

In the first half of 2014, these transactions generated a net investment outflow of EUR 51.5 billion (see Chart 12), a rise of EUR 4 billion or 8% versus the same period in 2013. This reflects the incorporation of a large share of surplus liquidity into tangible fixed assets, notably in the energy and environment sector (where investment spending jumped 25% versus



the same period in 2013), as well as in manufacturing (where spending was unchanged at EUR 19 billion) and in trade (EUR 1 billion rise in spending year-on-year).<sup>7</sup>

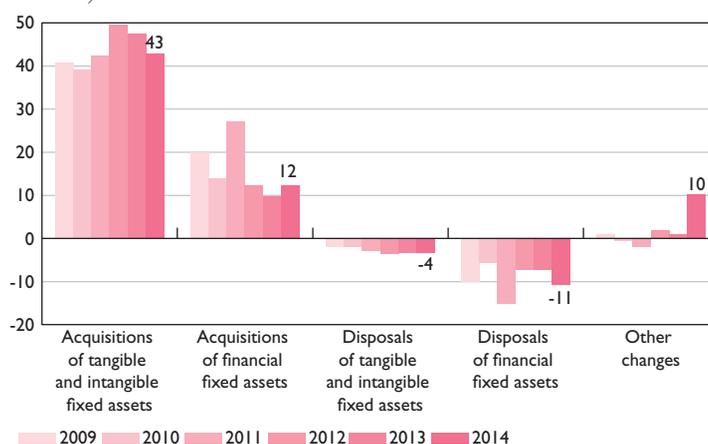
The increase in spending does not, however, reflect a rise in investment in production capacity (i.e. in fixed tangible assets). It was instead closely linked to the changes in consolidation scope which occurred at the start of the year, notably the acquisition and disposal of capital stakes (i.e. financial fixed assets) in existing targets. A major share of these investment flows were recognised in 2014 under “other changes”, leading the groups to book a total net outflow of EUR 10.3 billion under this item in the first half of the year, EUR 9 billion more than in the first half of 2013 (see Chart 13). The energy and environment sector alone booked a net outflow of EUR 7 billion for the acquisition of financial assets, accounting for 68% of the item “other changes”.

Overall, the groups in the sample spent some EUR 4.5 billion less on acquisitions of tangible and intangible fixed assets than in the same period in 2013, while the amount of disposals remained more or less stable. Spending generally took the form of investments in other companies, as part of a policy of external growth.

The lack of improvement in investment in production capacity indicates that groups are still adopting a “wait-and-see” attitude in the face of lingering economic uncertainty.

**Chart 13 Investment flows by type, H1 2014**

(in EUR billions)



Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

<sup>7</sup> In contrast, investment spending in the information and communication sector has fallen sharply (by close to 50% year-on-year, and by 70% versus 2012).

## 4| Groups continued to shore up their financial structure

### 4| I A net EUR 15 billion reduction in debt

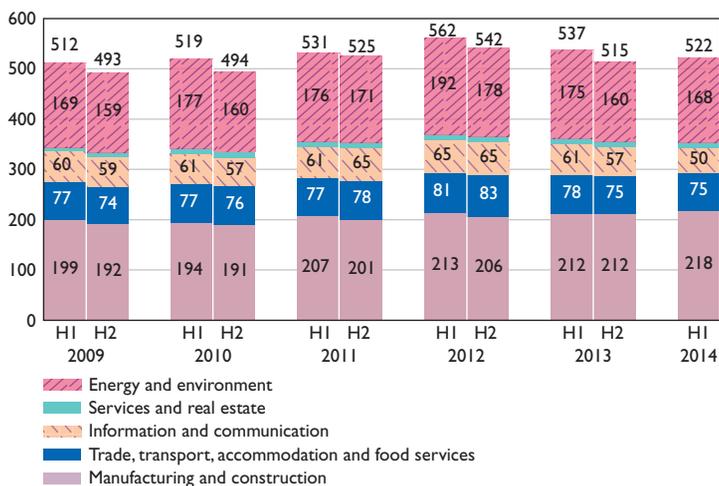
In line with the trend observed in the first and second half of 2013, the main French groups continued their policy of deleveraging in the first six months of 2014. Between 30 June 2013 and 30 June 2014, total outstanding financial debt shrank by EUR 15 billion or 2.8%, fuelled primarily by renewed debt reduction in the energy and environment, trade, and information and communication sectors which have all been cutting back their borrowings since the middle of 2012 (see Chart 14).

Just over half the groups under review (43) reduced their debt in the first half, paying back a net total of EUR 41.5 billion. The remaining groups, notably those in the manufacturing sector, increased their financial debt by a net EUR 26.5 billion compared with a year earlier, in order to pay for acquisitions of financial assets.

Among those increasing their borrowing were the two main French energy players, who launched a new debt product in the French market, the “green” bond. Between November 2013 and May 2014, the two groups raised close to EUR 4 billion via these instruments (see Box 2).

**Chart 14 Financial debt by sector (2009-2014)**

(in EUR billions)



Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

**Box 2****Launch of green bonds**

*Green bonds were developed to finance investments that are environmentally friendly or help to reduce the impact of climate or environmental change. They offer issuers a way of diversifying their sources of financing, and attracting investors concerned about environmental and social issues. Green bonds are part of a wider initiative to promote corporate social responsibility (CSR), a theme which is attracting increasing focus in the global economic debate. However, they are still only in their early stages: the bonds were initially restricted to programmes run by the World Bank or the European Investment Bank, and in 2012 the global market for green bonds amounted to EUR 4.5 billion. It is now gradually opening up to major corporations, mainly in the oil and energy sectors, and specialists expect it to grow exponentially, reaching around USD 20 billion in 2014, and even USD 100 billion by 2016.*

*In France, the market for green bonds began to take off in 2013-2014, driven by the two main players in the energy sector. EDF was the first to take the plunge in November 2013, issuing EUR 1.4 billion worth of 7.5 year bonds, followed by GDF-Suez in May 2014 which raised EUR 2.5 billion. The issues were used to finance windfarms, methanisation plants and energy-efficiency projects (remote control systems to limit consumption, low emission biomass plants).*

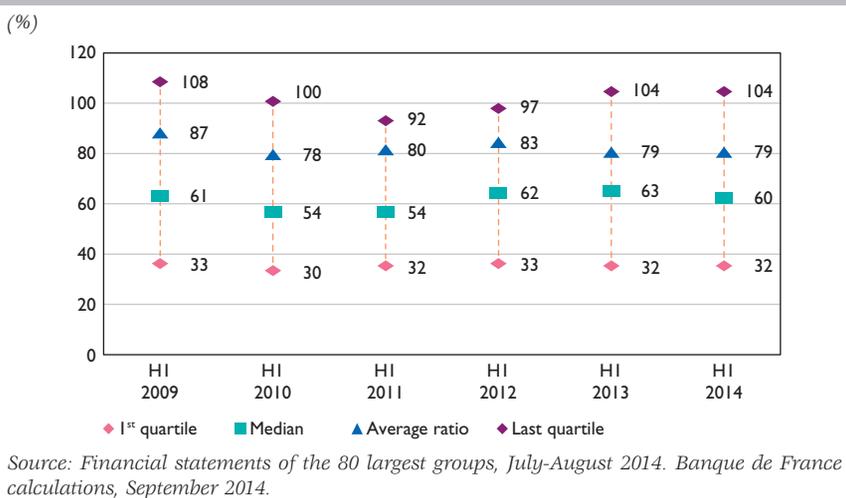
## **4|2 The impact of disposals and debt restructuring**

Around half of the total reduction in financial debt (by value) stemmed from currency effects and from changes in the consolidation scope of just a small number of groups. Changes in scope directly affect levels of debt when they involve the disposal or closure of a business and allow the debts taken on by those entities to be removed from the consolidated balance sheet. They can also have an indirect impact, in that the consolidating group can use the proceeds of a disposal to pay down its debts.

Among the remaining groups, many opted to take advantage of their strong credit ratings and ongoing favourable market conditions to optimise the maturity and cost of their borrowing. In the first half of 2014, therefore, they raised substantial funds through the capital markets in order to pay back older tranches of debt or reduce existing lines of credit. These transactions generally have a neutral impact on the level of external debt.

A significant portion of funding needs continued to be met through the issue of perpetual subordinated bonds; this type of instrument reduces the weight of debt as a share of total financial resources, but still constitutes external

Chart 15 Financial debt to equity



funding.<sup>8</sup> Only a few very large groups use perpetual subordinated bonds, which enable borrowers to raise high volumes of particularly stable funding; for example, in the first half of 2014, three groups in the sample reclassified some EUR 6 billion of financial debt as perpetual subordinated bonds.

The current deleveraging trend thus needs to be put into perspective, as it stems in large part from straightforward financial engineering. Nonetheless, it still helps to make the groups' financial structure stronger, as shown by the fact that their overall financial debt to equity ratio has remained below 80% since June 2013 (see Chart 15).

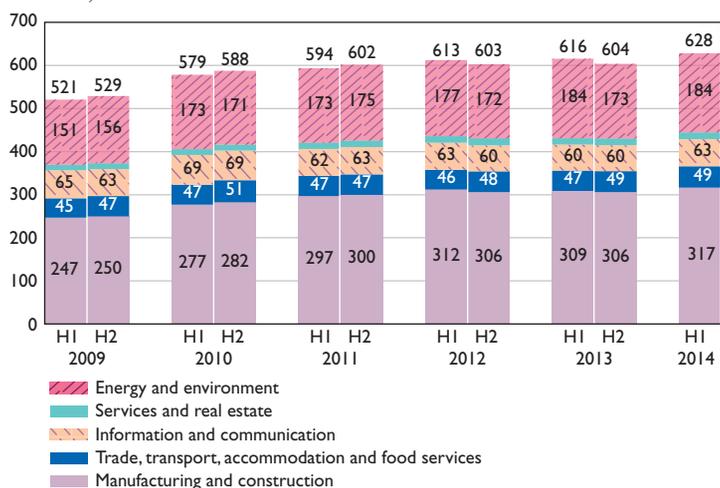
### 4|3 Record levels of equity

The factors discussed above led to a rise in equity levels for the groups under review: total equity stood at EUR 628 billion at mid 2014, the highest since 2009 (see Chart 16). Although levels appeared to stabilise year-on-year between the end of 2012 and the end of 2013, the latest half-year figures indicate a return to the upwards trend in equity observed between 2009 and 2012. Year-on-year, equity rose by EUR 12 billion in the first half of 2014, with the manufacturing sector alone accounting for EUR 8 billion of this growth.

<sup>8</sup> Under IFRS (IAS 32), perpetual subordinated bonds are recognised as equity instruments as they have no fixed maturity date and the issuer can decide to push back the coupon date.

Chart 16 Equity – group share (2009-2014)

(in EUR billions)



Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

Equity levels were boosted in particular by a number of successful major capital increases in the second half of 2013 and first half of 2014. Admittedly, some of these transactions took the form of increases in quasi-equity (perpetual subordinated bonds), or involved the incorporation of current accounts or conversions of bonds into shares. However, the majority of the capital increases indicated in the main issuers' reference documents since the second half of 2013 were transactions with shareholders, consisting either of new share issues (public issues or reserved for certain categories of shareholders) or the payment of dividends in the form of shares.

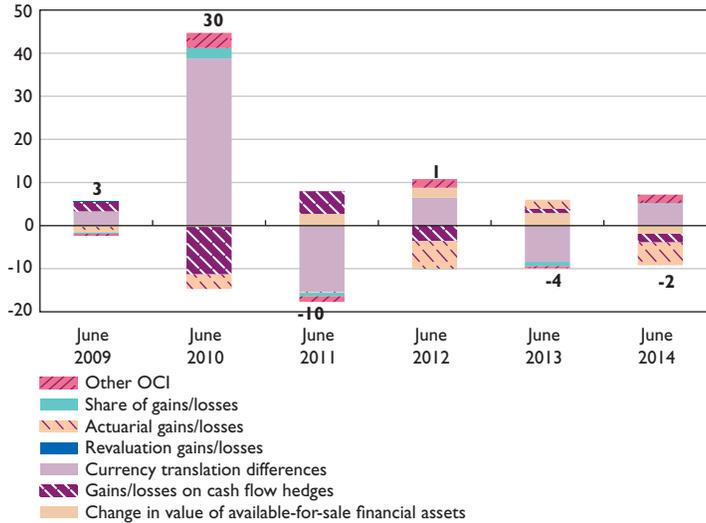
Other comprehensive income (OCI) had a modest negative impact of EUR 2 billion on equity<sup>9</sup> (see Chart 17). Levels of OCI depend on highly volatile exogenous factors such as exchange rates or hedging strategies for operational risks.<sup>10</sup> The fact that they fluctuate so rapidly means that their impact is sometimes smoothed out between the half-year analysis and full-year analysis. A comparison of first half 2014 figures with the same period in 2013 shows there were no major changes in OCI, although the breakdown of OCI differed radically from one period to the other.

<sup>9</sup> In contrast, in H2 2013, OCI had a negative net impact of EUR 13 billion. See "Major French groups were less profitable in 2013, but their cash position was stable and their financial structure strong", Carliano L., Dairay G., Mangin C. and Servant F., Banque de France Quarterly Selection of Articles No. 196, summer 2014.

<sup>10</sup> In the case of risk hedging, a large number of parameters have to be taken into account in the financial statements, such as the choice of instrument, the impact of changes in rates of return on the underlying assets on actuarial gains/losses, whether or not there were any exceptional transactions over a given period (sales or recognition of losses, etc.).

Chart 17 Breakdown of OCI at end-June, from 2009 to 2014

(in EUR billions)



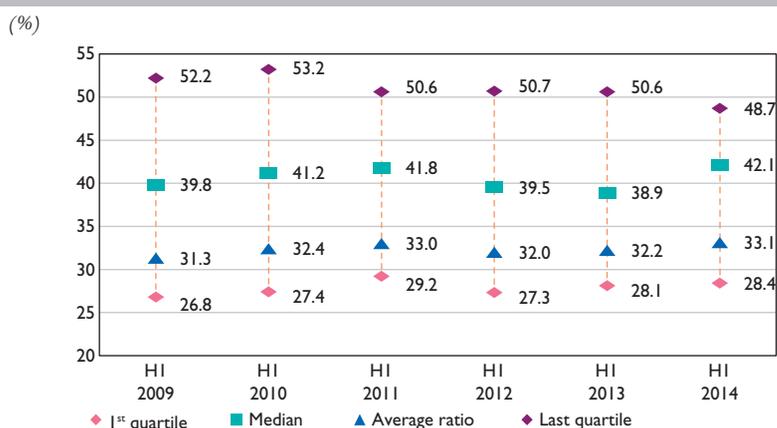
Note: other comprehensive income or OCI corresponds to all other items which contribute to total comprehensive income. The income and expense entries under OCI are not included in the calculation of net profit and have no impact on the cash position. They are posted directly to equity.

Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

The high volume of share issues coupled, to a more modest extent, with the positive impact of OCI, allowed the groups to maintain a high equity-to-asset ratio (fixed assets + WCR) (see Chart 18). At the end of June the ratio averaged 33.1% (up 0.8 point year-on-year), while half of the groups in the sample had a ratio of 42% or above (up 2 points year-on-year). At the same time, the groups' shares, which entitle holders to a stake in this equity, are continuing to perform well in the market: the total market capitalisation of the 80 groups stood at EUR 1,193 billion at end-June 2014, up 7% versus end-December 2013. The distribution of price-to-book ratios shows a similar scale of increase in both quartiles since June 2013 (see Chart 19).

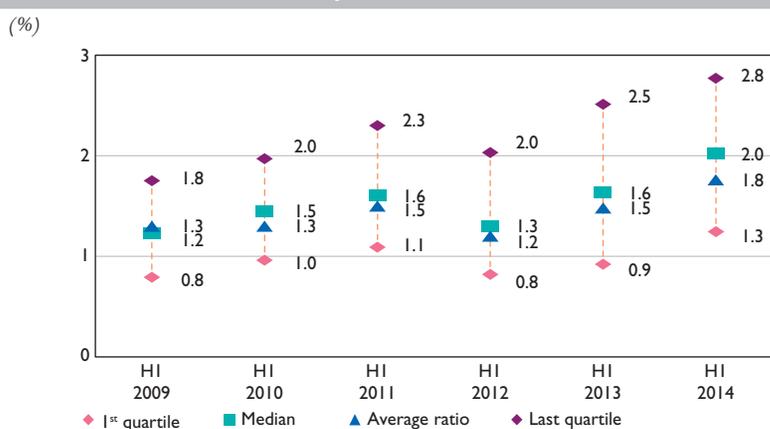
In an uncertain global economic environment, France's main groups have thus opted to focus on shoring up their financial structure by actively managing their liabilities, with the aim of attracting further investment and boosting the price of their shares.

Chart 18 Equity to total assets, 2009-2014



Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

Chart 19 Distribution of price-to-book ratios, 2009-2014



Source: Financial statements of the 80 largest groups, July-August 2014. Banque de France calculations, September 2014.

## Appendices

### I | Methodology

The study sample includes non-financial groups listed on the Paris market and which had published interim financial statements at 30 June 2014. The groups are all listed on segment A of Euronext which comprises entities which have had a market capitalisation in excess of EUR 1 billion for at least two financial years. There are thus 80 groups in the sample.

The study looks at the interim consolidated financial statements for 2009 to 2014 and the groups are broken down into the following sectors:

Groups in the sample	
Energy and environment	Areva, EDF, GDF-Suez, Maurel & Prom, Suez Environnement, Total, Veolia Environnement
Manufacturing and construction	Airbus group (ex EADS), Air Liquide, Alcatel Lucent, Arkema, Bic, bioMérieux, Bouygues, CGG, Ciments Français, Danone, Dassault Aviation, Eramet, Essilor, Eurofins, Groupe Bel, Hermès, Imerys, Ingenico, Ipsen, Legrand, L'Oréal, Lafarge, LVMH, Michelin, Nexans, Peugeot SA, Plastic Omnium, Renault, Safran, Sartorius Sted, SEB, Saint Gobain, Sanofi, Schneider Electric, STMicroelectronics, Somfy, Thales, Valeo, Vallourec, Vicat, Vinci, Virbac
Trade, transport, accommodation and food services	Accor, ADP, Air France KLM, Bolloré, Carrefour, CFAO, Eiffage, Eurotunnel, Kering (ex-PPR), Orpéa, Rallye, Rexel, Rubis
Information and communication	Atos, Capgemini, Dassault Systèmes, Orange, Gemalto, Iliad, Ipsos, Lagardère, Métropole TV, Vivendi
And real estate	Bourbon, Bureau Veritas, Edenred, Havas, <sup>a)</sup> JCDecaux, Nexity, Publicis, Technip, Téléperformance

*a) Havas was included in the sample from 2009 to 2012, but from 2013 onwards was consolidated by the Bolloré Group.*

The following groups are excluded from the sample:

- groups whose majority shareholders are not resident in France or only carry out a non-significant share of their activities in France: ArcelorMittal, Schlumberger;
- financial institutions and similar entities: AXA, BNP Paribas, CIC, CNP, Crédit Agricole, Euler Hermès, Eurazéo, Natixis, NYSE Euronext, Scor SE, Société Générale;
- groups whose financial year does not end on 31 December: Alstom, Eutelsat Communications, Neopost, Pernod Ricard, Rémy Cointreau, Sodexo, Vilmorin & Cie, Zodiac Aerospace;

- property companies: Altarea, FDL, Foncières des murs, Foncière des régions, Foncière lyonnaise, Gecina Nom., Icade, Klépierre, Mercialis, Silic, Unibail-Rodamco;
- groups consolidated by another group or investment fund: APRR, Cambodge Nom., Casino Guichard, Christian Dior, Colas, Faurecia, Financière de l'Odet, Havas (as of 2013).

## 2| Data analysed

Main items analysed for the 80 groups in the 2014 sample:

### GENERAL INFORMATION

Company name  
SIREN No.  
NACE code for the principal activity

### INCOME STATEMENT

Turnover  
*o/w turnover in France*  
*o/w turnover by geographical area*  
*(Europe, Americas, rest of world)*

EBITDA  
Operating profit  
Current operating profit  
Net profit

### COMPREHENSIVE INCOME

Currency translation differences  
Change in value of available-for-sale financial assets  
Gains/losses on cash flow hedges  
Revaluation gains/losses  
Actuarial gains/losses  
Gains and losses booked directly to equity of companies consolidated by the equity method  
Other comprehensive income  
Total comprehensive income

### BALANCE SHEET

Goodwill – gross value  
Goodwill – net value  
Other intangible fixed assets  
Tangible fixed assets  
Inventories  
Trade receivables  
Total current and non-current assets  
Total financial debt  
*o/w bond debt*  
Minority interests  
Equity  
Trade payables  
Total current and non-current liabilities

### CHANGES IN EQUITY

Change in issued share capital  
Dividends paid (group share + minority share)  
Currency translation differences  
Gains/losses on financial instruments  
Gains/losses on revaluation of other assets  
Actuarial gains/losses  
Companies consolidated by the equity method

### CASH FLOWS

Cash flow from operating activities  
Cash flow from investment activities

- acquisitions of tangible and intangible fixed assets
- acquisitions of financial fixed assets
- disposals of tangible and intangible fixed assets
- disposals of financial fixed assets
- other changes

Cash flow from financing activities  
Change in net cash position  
Year-end net cash position

### MARKET CAPITALISATION



# The performance of French firms in 2013: supported by large enterprises, profitability recovered

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**Laurent Carlino and Dominique Lefilliatre**

*Companies Directorate*

*Companies Observatory*

*Activity in French companies continued to slow down in 2013, both on the domestic and export markets. Companies of all sizes were affected by this deceleration, as also were most economic sectors. However, due to a reduction in intermediate consumption, especially within large enterprises, economic value added (EVA) increased significantly, up by 2.6%.*

*After taking into account staff costs, corporate margins stopped declining, thus enabling a slight recovery in the savings rate and internal financing ratio.*

*The financial structure of companies remained solid, with a slight increase in capital, particularly within the manufacturing and transport industries.*

*In a context of reduced pressure from working capital requirements (WCR) and investment, financial debt varied little in all sizes of companies, even declining in larger entities. As a result, the debt ratio contracted noticeably, except in the construction and accommodation and restaurant sectors. At the same time, a preference for substituting bank debt with bond financing was also apparent.*

*Net cash continued to improve but at a slower pace than in 2012, while debt capacity, which was stable overall, strengthened in SMEs.*

*The cost of debt declined due to the fall in debt and to more favourable credit conditions.*

Keywords: activity, profitability, debt, investment, groups, SMEs, ISEs

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

## I | Profitability increased whilst activity slowed down

### I | I | An increase in sales turnover, weakened by limited momentum of large enterprises

With an annual growth rate of 0.7%, the rate of increase of sales turnover for companies in France slowed down in 2013, confirming the deceleration of activity in French productivity that has been evident for the last three years (see Table 1). Large enterprises (LEs) and intermediate-sized enterprises (ISEs) were most affected, increasing their sales turnover by 0.2% and 0.6% respectively. Small and medium-sized enterprises (SMEs) were slightly less affected by this decline, with a 1.8% increase in their annual sales turnover.

At sector level, the manufacturing industry is the only sector in which activity slowed, decreasing by 1.5%. Although trends in most other sectors were positive, they did not exceed 1.6% and remained far below the rates

**Table 1** Changes in activity

(%)

	Turnover			O/w exports			Value added			Gross operating surplus		
	2011/ 2010	2012/ 2011	2013/ 2012	2011/ 2010	2012/ 2011	2013/ 2012	2011/ 2010	2012/ 2011	2013/ 2012	2011/ 2010	2012/ 2011	2013/ 2012
SMEs	7.9	2.8	1.8	13.8	4.7	3.6	5.7	2.0	1.6	5.8	-4.7	0.1
ISEs	8.3	3.3	0.6	12.1	3.5	-0.3	4.6	1.6	1.1	2.1	-4.3	1.3
LEs	7.3	1.5	0.2	13.0	2.6	-0.4	3.5	-1.8	4.4	0.5	-13.3	-13.7
<b>Total</b>	<b>7.8</b>	<b>2.4</b>	<b>0.7</b>	<b>12.8</b>	<b>3.2</b>	<b>0.1</b>	<b>4.5</b>	<b>0.3</b>	<b>2.6</b>	<b>2.4</b>	<b>-8.1</b>	<b>5.1</b>
<i>O/w main sectors:</i>												
Manufacturing industry	9.4	0.0	-1.5	14.0	0.1	0.1	2.8	-3.4	4.3	-2.6	-26.8	16.4
Energy, water, waste	1.7	6.0	0.3	19.7	21.9	-3.3	-1.2	4.1	3.3	-3.8	12.3	4.6
Construction	5.9	1.8	1.3	-5.5	-24.4	-4.9	4.1	-0.4	1.1	1.8	-14.2	-0.4
Trade	7.6	2.7	1.6	15.5	3.3	0.3	4.1	1.3	1.1	2.6	-4.6	-2.3
Transport and warehousing	6.6	3.9	1.2	6.6	7.5	3.6	3.4	3.1	0.4	4.6	1.3	1.2
Information and communication	13.6	0.6	4.5	6.2	19.7	5.4	11.6	0.3	7.9	16.3	-6.3	16.0
Services to businesses	7.1	3.1	1.2	-0.5	19.3	-1.5	7.5	1.1	0.8	2.8	-0.9	-1.9
Education, health and social work	6.2	6.5	4.8	26.8	-3.5	-12.7	6.1	6.1	4.9	2.4	5.8	9.4

Scope: Non-financial companies as defined by the LME (Loi de modernisation de l'économie – Economic Modernisation Act).

Note: The changes are calculated on a sample of companies whose balance sheets are recorded in the FIBEN database for two consecutive years (balanced sample). Entries and exits to the sample resulting from mergers, defaults or creations, are not taken into account. The size and sector used are those of the year N-1 irrespective of the position of the companies in year N (for instance, we take the size and sector in 2012 when we compare 2013 to 2012, and that of 2011 when we compare 2012 to 2011). For further details on the FIBEN database and the definition of company sizes according to LME criteria, see Appendices 1 and 2. For the study's full sector data (charts), please refer to Appendix 5.

Source: Banque de France, FIBEN, November 2014.

recorded in 2012. Only the information and communication sector reported a real rebound in its sales turnover, increasing by 4.5% after the dip of 2012.

## I | 2 International activity stagnated

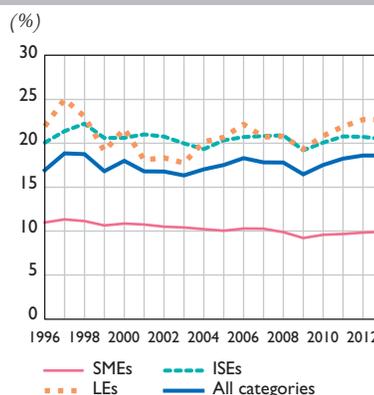
As with the overall activity of companies, sales turnover abroad slowed over a three-year period (see Table 1), increasing by just 0.1%. This indicates that, in 2013, in contrast to preceding years, international activity in French companies slowed down, with an even weaker growth rate than that of the domestic market.

The slowdown of French exports in 2013 affected companies of all sizes as a result of a deceleration in global trade. While SMEs continued to benefit from buoyant sales turnover abroad, which increased by 3.6% compared to 2012, international activity in larger enterprises declined by 0.4% for LEs and 0.3% for ISEs, compared to increases of 2.6% and 3.5% respectively in 2012.

Growth in export sales turnover slowed in all sectors but differed widely between sectors. In fact, the only sectors in which exports increased were trade (by 0.3%), transport (by 3.6%), and information and communication (by 5.4%) (see Chart A of Appendix 5).

Ultimately, the share of exports as a proportion of sales turnover grew in 2013, as it did in 2012, to 18.6% (see Chart 1). Although the level was slightly lower for ISEs, it remained stable for large enterprises and increased marginally for SMEs.

Chart 1 Share of exports in turnover



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

Source: Banque de France, FIBEN, November 2014.

## I | 3 Value added rebounded, reflecting a reduction in production costs in large enterprises

Despite the slowdown in activity during the 2013 financial year, value added ceased to decline (see Table 2) and benefited from good control over intermediate consumption.

**Table 2** Changes in production costs

		(%)						
		Production and sale of goods	Total production costs	Purchases of goods	Purchases of raw materials	Other purchases and external costs	Value added	Staff costs
SMEs	2011/2010	8.0	9.0	8.5	12.9	7.7	5.7	5.7
	2012/2011	2.6	2.9	2.9	1.9	3.6	2.0	3.8
	2013/2012	1.6	1.6	1.6	0.5	2.2	1.6	1.9
ISEs	2011/2010	8.8	9.9	11.0	13.7	5.4	4.6	5.6
	2012/2011	2.5	3.6	2.1	0.7	8.4	1.6	3.3
	2013/2012	0.3	0.3	1.2	-1.3	0.2	1.1	1.8
LEs	2011/2010	7.8	8.9	9.2	13.1	5.9	3.5	5.0
	2012/2011	1.4	2.4	2.5	2.5	2.2	-1.8	1.8
	2013/2012	-0.5	-1.4	2.9	-6.0	-1.6	4.4	1.1
<b>Total</b>	2011/2010	<b>8.2</b>	<b>9.3</b>	<b>9.7</b>	<b>13.3</b>	<b>6.2</b>	<b>4.5</b>	<b>5.4</b>
	2012/2011	<b>2.1</b>	<b>2.9</b>	<b>2.4</b>	<b>1.8</b>	<b>4.3</b>	<b>0.3</b>	<b>2.9</b>
	2013/2012	<b>0.3</b>	<b>-0.1</b>	<b>1.9</b>	<b>-3.3</b>	<b>-0.2</b>	<b>2.6</b>	<b>1.6</b>

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

Note: See Table 1. Other purchases and external costs are adjusted for external staff costs and leasing costs.

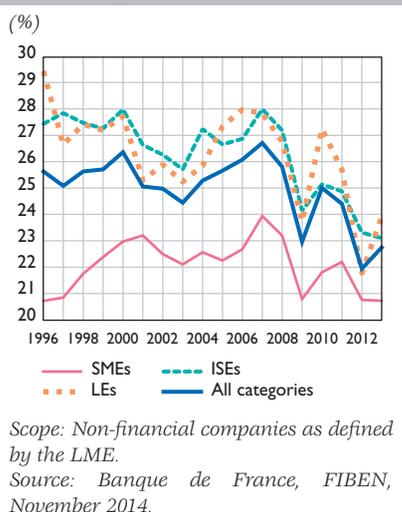
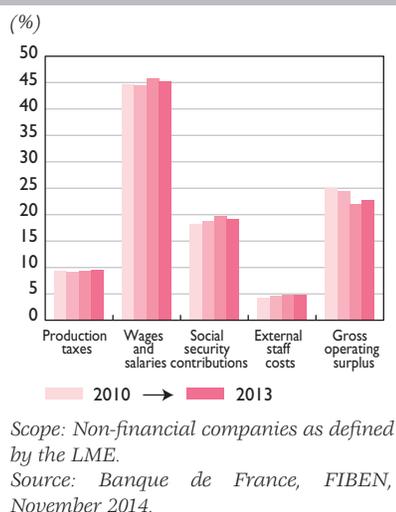
Source: Banque de France, FIBEN, November 2014.

In fact, production costs decreased for the first time in 2013, by 0.1%. This was due to weak domestic demand on the one hand, which enabled a rise in the costs of consuming goods to be contained to 1.9%, and to a marked reduction in the purchase of raw materials on the other, which dropped by 3.3%. Other purchases and external charges also decreased, but to a lesser extent, by 0.2%. The observable decrease in production costs was attributable to large enterprises, where they dropped by 1.4%. Conversely, production costs increased for SMEs and ISEs but at a slower pace.

Value added grew in the majority of sectors in the French economy. The increase was strongest in the information and communication sector (a 7.9% rise), followed by education, health and services to households (a 4.9% rise), and lastly by the manufacturing industry (a 4.3% rise) (see Table 1). While positive, growth in value added in some sectors was lower for the 2013 financial year, particularly in the transport and energy sectors. However value added accelerated in other sectors, led by the manufacturing industry.

## I | 4 Strengthening operating margins

The gross operating surplus (GOS) increased in 2013 by 5.1%, after a substantial drop in 2012 of 8.1%, so that the margin ratio (between the GOS and value added) rebounded slightly to 22.7%, from 21.9% in 2012 (see Chart 2). Nevertheless, it remained largely below its pre-crisis level of 26.7% in 2007.

**Chart 2 Margin ratio: gross operating surplus/value added****Chart 3 Breakdown of companies' value added**

Compared to the 2012 financial year, the margin ratio stabilised for SMEs and fell marginally for ISEs. However, the margin ratio for large enterprises increased from 21.8% to 23.9% between 2012 and 2013.

While in 2012 the slowdown in activity was combined with a significant increase in staff costs, leading to margin compression, margin ratios improved in 2013 thanks to higher value added, due in particular to a decrease in intermediate consumption (see Table 3 and Chart 3). Other contributing factors were a drop in staff costs, which increased by just 1.6%, reflecting only a marginal increase in social contributions of 0.5% in 2013 compared to 4.1% in 2012, and, to a lesser extent, slower growth in salaries

**Table 3 Value added/gross operating surplus (GOS)**

(% change)

	SMEs			ISEs			LEs			All companies		
	2011/2010	2012/2011	2013/2012	2011/2010	2012/2011	2013/2012	2011/2010	2012/2011	2013/2012	2011/2010	2012/2011	2013/2012
Value added	5.7	2.0	1.6	4.6	1.6	1.1	3.5	-1.8	4.4	4.5	0.3	2.6
Staff costs	5.7	3.8	1.9	5.6	3.3	1.8	5.0	1.8	1.1	5.4	2.9	1.6
Of/wages and salaries	4.6	3.5	2.6	4.0	3.1	2.4	3.1	0.9	1.1	3.5	2.4	2.0
social contributions	6.6	4.4	-0.1	6.4	4.7	0.1	10.3	3.5	1.2	7.9	4.1	0.5
external staff costs	17.6	4.8	3.4	18.1	0.6	2.3	13.0	2.8	-0.9	15.8	2.6	1.1
Gross operating surplus	5.8	-4.7	0.1	2.1	-4.3	-1.3	0.5	-13.3	13.7	2.4	-8.1	5.1

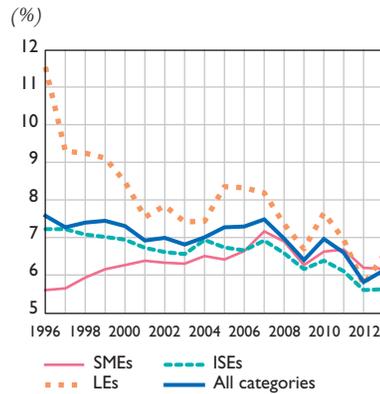
Scope: Non-financial companies as defined by the LME.

Source: Banque de France, FIBEN, November 2014.

and wages of 2.0%. Consequently, the GOS rebounded significantly, increasing by 5.1% between 2012 and 2013, following a drop of 8.1% between 2011 and 2012.

Another indicator of profitability is the gross operating profit margin (GOPM, calculated as the ratio between the GOS and sales turnover), which rose slightly from 5.8% in 2012 to 6.1% in 2013 (see Chart 4). This increase occurred in the majority of sectors and can be attributed both to the rise in GOS and to weak sales turnover (see Chart C in Appendix 5).

**Chart 4 Gross operating profit margin: gross operating surplus/turnover**



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

Source: Banque de France, FIBEN, November 2014.

## 2| Working capital requirements decreased and investments contracted

### 2| I Working capital requirements declined in 2013 as a result of decreasing inventory

Total working capital requirements decreased in value by 13%. A 10% drop in operating working capital requirements (OWCR) contributed to this decline (see Charts 5). OWCR marginally surpassed 17 days of sales in 2013, having fallen regularly since the end of the 1990s. It has almost halved since 1996.

Although inventories remained at a stable level in 2012 compared to 2011, they began to decline significantly in 2013, dropping by 4%, thereby contributing to the decrease in working capital requirements.

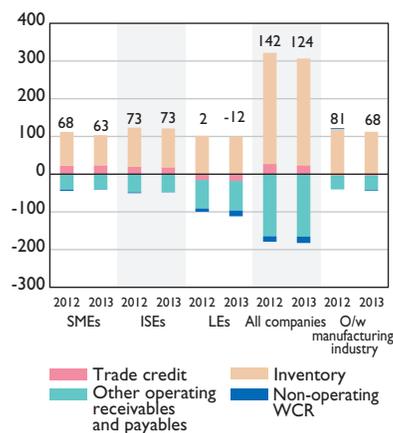
However, the other components of OWCR displayed mixed trends. The trade credit position, which reflects the financial position of firms against their trading partners, decreased in volume by 12% between 2012 and 2013,<sup>1</sup> thereby reducing its contribution to working capital requirements.

<sup>1</sup> In this study, figures were calculated using a weighted average ratio, unlike those of the payment periods study calculated using an equal-weighted average ratio. Consequently, the weighted average ratio is further influenced by large enterprises, leading to the disparity in the results.

## Charts 5 Working capital requirements

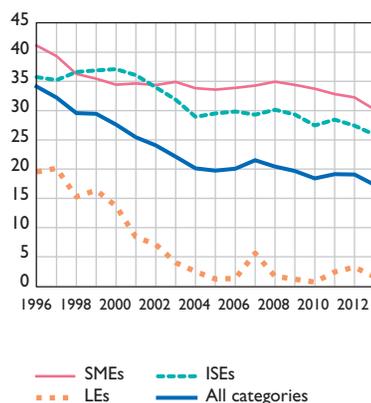
(EUR billions)

## a) Global WCR



(days of sales)

## b) Operating WCR



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

Note: In previous versions of the current study, balance sheets of certain large companies, whose contribution to WCR could be significant, could not be sourced. Consequently, these companies have been removed from the study's history, leading to revisions to turnover figures previously published.

Source: Banque de France, FIBEN, November 2014.

The position of other operating assets and liabilities – mainly comprising deferred payment of tax and social security liabilities – increased in volume by 1%. Large enterprises were the main beneficiaries, obtaining cash advances of EUR 78 billion (see Charts 5).

In total, OWCR fell by 1.5 days to 25.9 days of sales for ISEs, compared to 2012. It decreased sharply to 30.2 days in SMEs (a 2-day drop), whose payment periods contracted once again. However, their average lead time for paying suppliers exceeded this gain, resulting in a slight worsening of the trade credit position of SMEs. This position was structurally close to zero in large enterprises, as trade payables had a tendency to move closer to trade receivables.

There were major disparities between sectors, depending on their respective activities. In 2013, the construction and manufacturing industries stood out due to their management of OWCR, which fell by 5.1 days and 1.7 days respectively. The manufacturing industry accounted for 49% of this requirement and continued to benefit from an improvement in its days of sales outstanding (DSO). In the energy sector however, the opposite occurred.

## 2|2 Investments faltered further in 2013

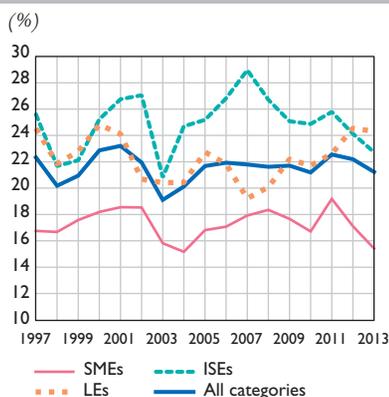
Capital expenditure contracted again in 2013, by 4.3%, an even more pronounced decrease than the 3.4% fall in 2012 (see Table 4). It declined sharply for SMEs and ISEs, by 11.3% and 10.3% respectively, in an economic environment burdened by a weak demand outlook and slack in production capacity. Investment effort by large enterprises continued however (see Table 4). At sector level, investment in the manufacturing industry declined particularly steeply, by 6.2%.

Measured by the investment-to-value added ratio, the investment effort or investment rate decreased to 21.2% compared to 22.2% in 2012 (see Chart 6).

While ISEs were previously characterised by a structurally higher investment rate than that of other categories of firms, in 2013 the rate was lower than that of large enterprises for the first time since 1999, standing at 23%. The rate for SMEs fell even more sharply, reaching 15.4%, its lowest level in nine years. SMEs are characterised by a variable investment propensity over time and in many cases low fixed capital investment. As such, the investment rate was 10.8%

in 2013 for the highest investing quarter of SMEs, compared to 18.8% for the highest investing quarter of ISEs and 19.9% for the corresponding quarter of large enterprises. In fact, investment rates for the latter had increased since 2010 but this has now deteriorated slightly to 24.3%.

**Chart 6 Investment ratio: Investment (including leasing acquisitions)/value added**



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

Source: Banque de France, FIBEN, November 2014.

**Table 4 Changes in investment**

(%)	Operating investment				Internal financing			
	2010/2009	2011/2010	2012/2011	2013/2012	2010/2009	2011/2010	2012/2011	2013/2012
SMEs	-11.0	6.3	-13.7	-11.3	10.5	-3.9	-10.2	10.4
ISEs	-2.9	4.0	-4.3	-10.3	13.3	0.7	-15.1	-2.6
LEs	-7.1	8.1	3.6	3.9	19.2	-12.4	-16.4	-2.8
<b>Total</b>	<b>-6.5</b>	<b>6.2</b>	<b>-3.4</b>	<b>-4.3</b>	<b>15.9</b>	<b>-7.3</b>	<b>-14.8</b>	<b>0.0</b>
<i>O/w manufacturing industry</i>	-0.1	3.8	2.8	-6.2	48.9	-32.6	-20.7	-33.5

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

Note: See Table 1. Operating investment is calculated based on a balanced sample, over three consecutive years (balanced twice), whereas internal financing data has only been balanced once.

Source: Banque de France, FIBEN, November 2014.

Investment rate levels varied just as much at sector level for relevant companies. In line with previous years, they were highest in companies in the water, energy and waste sector, even though it is in strong decline compared to 2011 and 2012. Investment rates decreased for the majority of other sectors, except in the trade sector where they stagnated. The information and communication sector alone saw an increase in investment rates, from 18% to 30% between 2012 and 2013 (see Chart D of Appendix 5).

### 3| Performance improved

#### 3|1 Net financial profitability rebounded in 2013

Net economic profitability is calculated as the ratio of net operating profit (NOP) to net stock of operating capital, which is made up of operating fixed assets and operating working capital requirements. It assesses the economic performance of companies in the utilisation of production factors without taking into account their financial structure. After accounting for charges to depreciation and provisions, which were stable year-on-year, NOP increased by 5.2%, whereas net economic profitability of operating capital stagnated at 4.8%. The increase in GOS directly affected the internal financing capacity, which decreased marginally by 0.5% compared to the previous year (see Table 5).

After dropping during 2012, the tax burden on companies increased by 20.2% in 2013. Simultaneously, financial costs decreased by 6.3%, in line with the extremely limited increase in debt (see below) and the decrease in interest rates.

**Table 5 Changes in company profits in France**

(%)

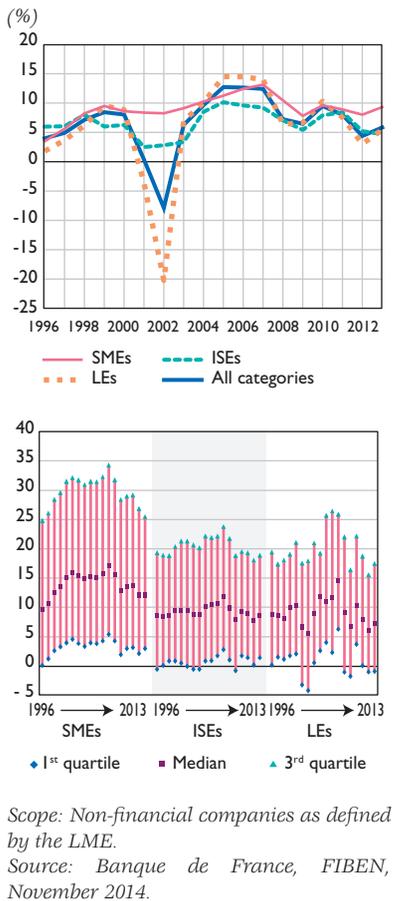
	Gross operating profit			Net operating profit			Internal financing capacity			Net internal financing capacity		
	2011/2010	2012/2011	2013/2012	2011/2010	2012/2011	2013/2012	2011/2010	2012/2011	2013/2012	2011/2010	2012/2011	2013/2012
SMEs	5.8	-4.7	0.1	5.0	-9.8	-1.5	3.5	-4.1	0.7	0.8	-12.1	1.4
ISEs	2.1	-4.3	-1.3	-0.7	-8.2	-1.2	5.4	-7.2	-2.7	3.9	-26.9	-3.3
LEs	0.5	-13.3	13.7	-4.1	-22.2	16.6	-0.2	-7.1	0.1	-7.1	-34.7	39.6
<b>Total</b>	<b>2.4</b>	<b>-8.1</b>	<b>5.1</b>	<b>-0.6</b>	<b>-14.1</b>	<b>5.2</b>	<b>1.8</b>	<b>-6.6</b>	<b>-0.5</b>	<b>-3.7</b>	<b>-29.7</b>	<b>20.4</b>
<i>Olw manufacturing industry</i>	-2.6	-26.8	16.4	-5.1	-37.1	24.9	-7.9	-7.5	-6.0	-14.0	-26.7	23.9

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

Note: See Table 1.

Source: Banque de France, FIBEN, November 2014.

**Charts 7 Net internal financing to equity**



Net internal financing capacity increased by more than 20.4% after a two-year drop. It corresponds to the difference between internal financing capacity and charges to provisions, depreciation and amortisation. The apparent stability of internal financing capacity combined with the decrease in charges to provisions, depreciation and amortisation, which fell by 15%, therefore explain the net rebound of net internal financing capacity.

Net financial profitability (net internal financing capacity-to-equity) also rebounded and stabilised at 5.9% in 2013. However, this trend is mixed: profitability increased from 8% to 9.3% for SMEs, and from 3% to 5.5% for large enterprises, but continued to decrease for ISEs, from 5.2% to 4.7% (see Charts 7).

Net financial profitability improved for all company sizes. Hence, performance improved even in less profitable companies. 16% of companies surveyed reported negative net results, which is the

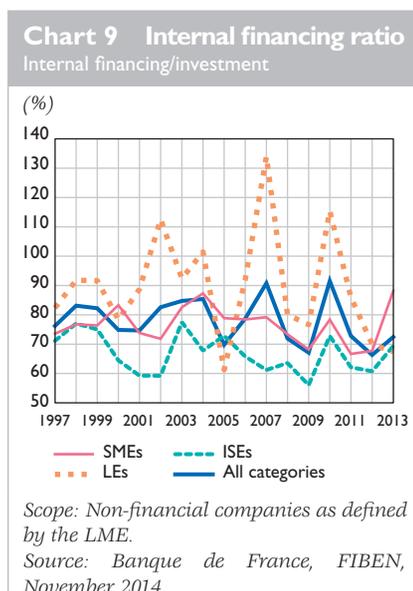
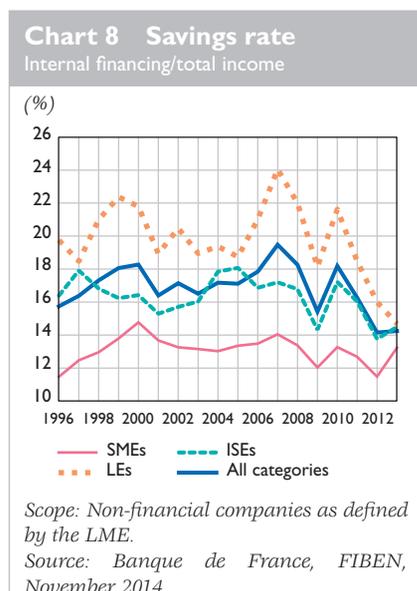
lowest level since the crisis of 2008-2009. Therefore, the performance of companies gained momentum in 2013.

Ultimately, profitability of companies in France increased by around 9% in 2013, after falling for two consecutive years. Large enterprises improved most noticeably after their spectacular 30% fall in 2012, with an increase in net profitability of 24.6%. This contrasts with a 13% decrease in profitability for ISEs, and with the relative sluggishness of SMEs with a 0.6% drop. Consequently, the net income-to-sales ratio was 4.8%, up by 0.4 points when compared to 2012 (see Appendix 4).

### 3|2 An improvement in investing companies' internal financing rates

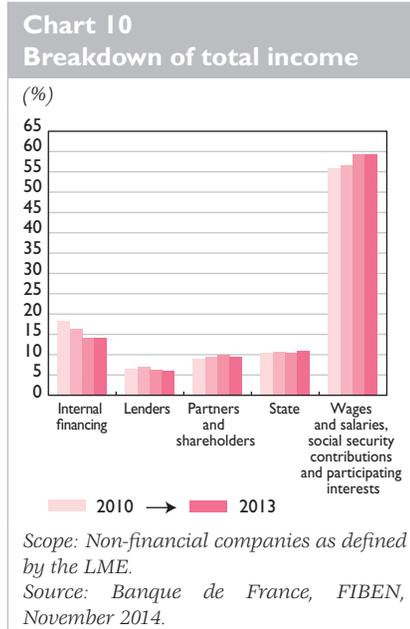
The savings rate measures the percentage of income that companies can devote to funding organic growth. Internal financing (the difference between cash flow and dividends paid out) is set against total income generated by the company's business (total income is value added and non-operating income, particularly financial income). Internal financing stagnated in 2013 after falling substantially in 2012. This can be explained by a slight drop in cash flow throughout the financial year under review (see Table 5). As a result, companies' savings rates stabilised at 14.2%, irrespective of company size. However, this masks mixed trends according to company size. In fact, although the savings rate markedly increased for SMEs and ISEs, from 11.5% to 13.2% and 13.8% to 14.5% respectively, it declined once again for large enterprises, to 14.7% (see Chart 8).

If only those companies that invest are taken into account, the internal financing rate increased in 2013 to 72.4%, compared to 66.3% in 2012, after having continuously contracted since 2010. In more detail, the internal financing rate for SMEs and ISEs increased sharply to 88.2% and 69.4% respectively. Conversely, the internal financing rate for large enterprises decreased to 67.4%, its lowest level since 2005 (see Chart 9).



### 3|3 The breakdown of total income was unfavourable to internal financing

Dividends<sup>2</sup> paid out in 2013 from 2012 profits decreased by 1% and represented 9.5% of total income (see Chart 10), in line with a slowdown in sales turnover between 2010 and 2012. Although in 2012 there was a steep rise in distributions from SMEs to shareholders, these suffered the sharpest decrease in 2013, dropping by 14.3%. Simultaneously, ISEs decreased their dividends by 2.9%, whereas large enterprises increased theirs by 2.3%.



Corporate tax receipts rose in line with the increase of net profits of the sample companies. Added to this is a rise in production tax. As a result, the share of government levies on total income reached 11.1%, a 0.6 point increase compared to 2012.

The share of financial costs continued to fall in 2013, to 5.9% from 6.2% in 2012. As with financial profitability (see Section 3|1), this can be attributed to changes in the level and cost of company debt.

The main trends identified in long-term analyses of the breakdown of total income between partners of firms were confirmed in 2013. These included: (i) the high proportion of staff costs, including employee profit sharing, amounting to 59% of income in 2013, similar to 2012; (ii) a relative decrease in the share of lenders, correlated to changes in interest rates and debt; (iii) an increase of more than 11% in the share of tax accruing to the government; (iv) an increase in payouts to partners and shareholders – for all types of companies, the share of dividends in total income has risen almost continuously to a rate of 10%, whereas 15 years ago it was 4% on average.

Overall, the share attributable to internal financing was stable at 14% in 2013. However, for a second year in a row, this rate is at its lowest level since 1996.

<sup>2</sup> Dividends include group and intra-group dividends. The latter represent 64% of the total dividend amount.

## 4| Financial structures remained sound

### 4| I The increase in equity slowed compared to 2012

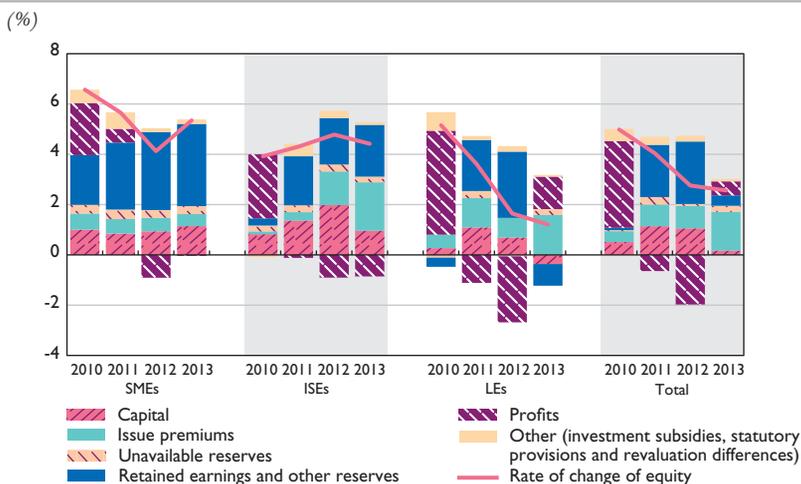
Equity continued to grow in 2013 (see Chart 11) but at a slower pace than in previous years, rising by 2.6% in 2013, compared to 2.8% in 2012 and 4% in 2011. This was mainly the case in large enterprises, where it rose by 1.2% in 2013, 1.6% in 2012 and 3.6% in 2011. In ISEs, the equity increase of 4.4% was comparable to the prior year, being 0.4 points lower than in 2012. Conversely, the equity growth rate in SMEs was higher in 2013 than in 2012, increasing by 5.3% compared to 4.1%.

In contrast to the previous two years, all operating profit contributions were positive or relatively stable.

This overall trend can be attributed to major restructuring operations undertaken in 2013. Nevertheless, significant amounts were transferred between share capital and issuance premiums (mergers, contributions, etc.), with an increase in the cumulative share of the two. This was particularly significant in large enterprises.

The net operating result for the year was the second contributing factor in large enterprises. This factor was less significant in ISEs and SMEs where the share of retained earnings and other reserves was more significant.

Chart 11 Change in equity



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

Note: No adjustments for double counting have been made at this stage.

Source: Banque de France, FIBEN, November 2014.

## 4|2 A significant increase in equity in SMEs

The equity to total resources ratio increased to 31.8% in 2013 for the majority of non-financial companies, representing a 0.3 point rise compared to 2012: to 35.8% for SMEs, representing a 1.7 point rise compared to 2012, to 30.6% for ISEs, representing a 0.3 point drop compared to 2012, and to 31.5% for large enterprises, representing a 0.4 point rise compared to 2012 (see Chart 12). This reflects the relative individual trends observed – the growth rate of equity is indeed higher than total resources, except in ISEs (see Table 6).

**Table 6 Annual change of equity and total resources**

(%)		2011/2010	2012/2011	2013/2012
SMEs	Equity	6.8	-0.6	5.6
	Total resources	6.9	3.5	4.1
ISEs	Equity	10.8	8	1.2
	Total resources	9.7	4.9	1.3
LEs	Equity	2.1	1.7	1.5
	Total resources	4.8	3.5	1.1
<b>Total</b>	<b>Equity</b>	<b>5.2</b>	<b>2.9</b>	<b>2.0</b>
	<b>Total resources</b>	<b>6.5</b>	<b>3.9</b>	<b>1.6</b>

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

Note: For consistency, the amounts of equity, total resources and debt have been adjusted for double counting. Therefore, a difference can be observed compared to the previous paragraph.

Source: Banque de France, FIBEN, November 2014.

By sector, the ratio for the manufacturing industry increased by 1 point to 37.2% in 2013. It was outperformed by the ratio of the trade sector, which was 40.5%, an increase of 0.2 points, but it well exceeded the energy sector's ratio, the weakest of all the sectors, which stood at 18.5%, representing an increase of 0.9 points (see Chart E of Appendix 5).

## 4|3 Financial debt stabilised and debt ratios decreased

In all company categories, equity increased at a stronger pace than financial debt (see Table 7).

In 2013, the financial debt rate, adjusted for double counting, contracted overall, decreasing to 106.6%, a 4.5 point drop compared to 2012. All company sizes benefited from the fall in debt rates, but to varying degrees: SMEs dropped by 9.8 points to 91.2% in 2013, ISEs dropped by 1.8 points to 110.4%, and large enterprises dropped by 4.4 points to 108.9%.

**Table 7** Changes in debt and equity amounts

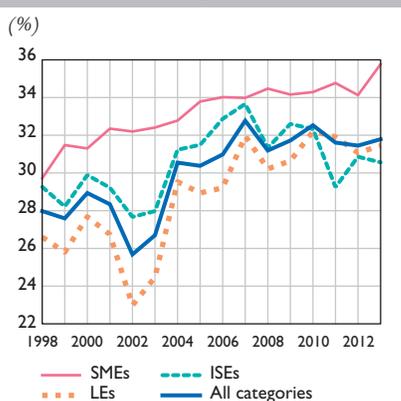
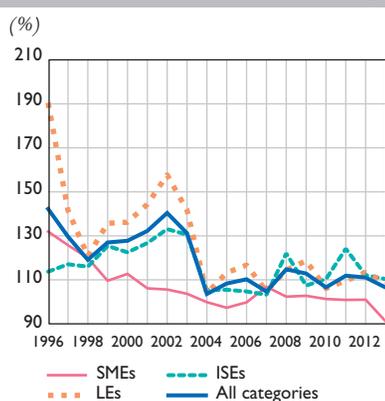
(%)		2011/2010	2012/2011	2013/2012
SMEs	Financial debt	5.5	3.0	0.1
	Equity	6.8	-0.6	5.6
ISEs	Financial debt	8.0	0.4	-0.8
	Equity	10.8	8	1.2
LEs	Financial debt	7.2	3.5	-1.0
	Equity	2.1	1.7	1.5
<b>Total</b>	<b>Financial debt</b>	<b>7.2</b>	<b>2.6</b>	<b>-0.8</b>
	<b>Equity</b>	<b>5.2</b>	<b>2.9</b>	<b>2.0</b>

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

Source: Banque de France, FIBEN, November 2014.

The difference between sectors was significant. Apart from the energy sector, which had the highest rate (208.8%), the debt rate of three of the largest sectors declined: the manufacturing industry, which had the lowest ratio, dropped by 4.9 points to 75.6%, transport dropped by 8.2 points to 151.6%, and services to businesses dropped by 3.2 points to 125.1%. Two other sectors experienced a rise: construction increased by 4.7 points to 103.1%, and the accommodation and restaurant sector increased by 14.6 points to 185.1%. Lastly, the trade sector remained relatively stable at 82.9% (see Chart F of Appendix 5).

The share of bank debt in financial debt has decreased regularly since 2008, with a particularly pronounced drop between 2011 and 2012 that continued throughout 2013. Over a period of five years, it decreased from 38.8% to 29.4%. Simultaneously, the share of bonds increased from 16.7% to 24.7%, including in SMEs (from 1.8% to 2.9%), where it is usually very

**Chart 12** Equity/total resources**Chart 13** Financial debt/equity

low (see Chart 14). Conversely, the more uneven changes in the share of bank debt in ISEs, which fell from 65.9% to 54.4%, suggest that other financial debts compensated for this drop, as reflected by the increasing share of bonds in total financial debt, which rose from 7.1% to 15.3%.

The difference between SMEs, ISEs and large enterprises is significant.

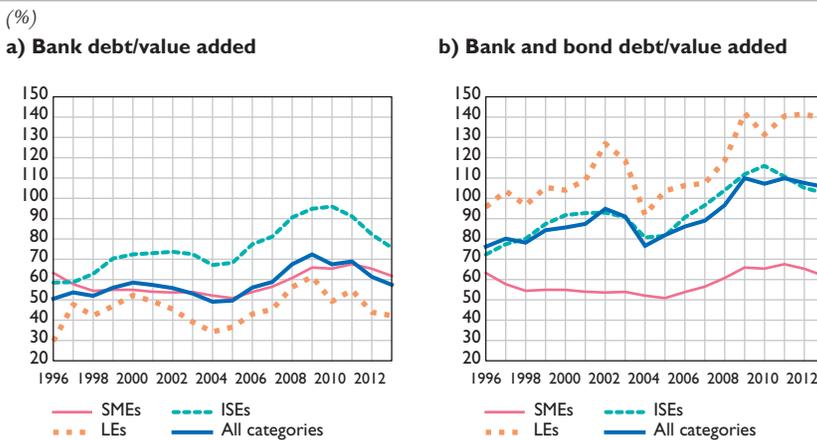
Another indicator, the bank and bond debt-to-value added ratio, which is unaffected by double counting, also decreased in 2013, in addition to substitution between bank and bond debt (see Charts 15).

**Chart 14 Share of bank debt and bonds in adjusted financial debt**



Scope: Non-financial companies as defined by the LME.  
Source: Banque de France, FIBEN, November 2014.

**Charts 15 Bank and bond debt/value added**



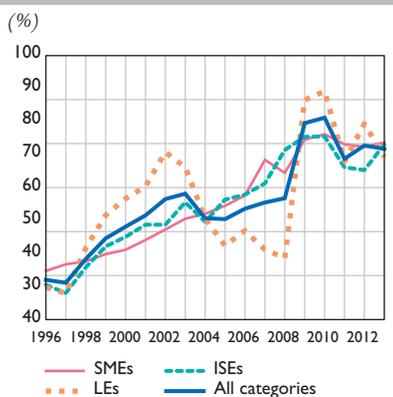
Scope: Non-financial companies as defined by the LME.  
Source: Banque de France, FIBEN, November 2014.

## 4|4 Balance sheet structures remain positive

To achieve a sound balance sheet structure, long-term assets must cover, at a minimum, long-term liabilities, as well as the permanent part of working capital requirements.

Analysis of overall net working capital (NWC), assessed using the ratio of overall NWC to pre-tax turnover, shows that trends over the long term were positive, despite specific significant fluctuations throughout the crisis of 2008, particularly among large enterprises. In 2013, the overall level stabilised at almost 80 days. Trends between 2012 and 2013 however differed between large enterprises (which reduced by approximately 7 days of sales) and ISEs (which increased by 5.9 days of sales). On the other hand, the SME ratio improved marginally (see Chart 16). Overall NWC was more than sufficient to finance working capital requirements (521% in 2013, and 462% in 2012 for all companies).

**Chart 16 Overall net working capital/turnover**



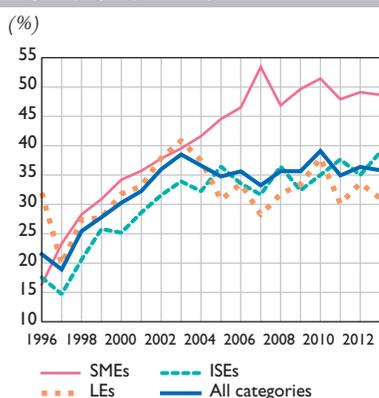
Scope: Non-financial companies as defined by the LME.

Source: Banque de France, FIBEN, November 2014.

## 4|5 The net cash position improved marginally, particularly in large enterprises

The net cash position is the difference between available cash and cash liabilities. In order to illustrate changes in the net cash position, Table 8 shows the relationship between the two items: available cash amounts were seven times higher than cash liabilities for SMEs, whereas the difference was between three and four times for other sizes and for companies as a whole.

The net cash position and equity continued to improve for all companies but at a much slower pace than in 2012, particularly with regards to the former (see Table 9). Consequently, the net cash position over equity ratio (Chart 17) tended to stagnate or degrade in 2013 for the whole population, dropping by 0.6 points to 35.8%, particularly in large enterprises, where it dropped by 2.6 points to 31%, and to a lesser extent

**Chart 17 Net cash position/ equity (adjusted)**

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

Source: Banque de France, FIBEN, November 2014.

in SMEs, where it dropped by 0.4 points to 48.7%. However, it increased significantly in ISEs, by 3.9 points to 38.9%.

Significant differences can be observed between sectors (see Chart I of Appendix 5). Among those sectors in decline, the ratio for the manufacturing industry fell by 2 points to 33.2%. Conversely, the net cash position ratio increased sharply in the information and communication sector, by 2.8 points to 22.6%

**Table 8 Changes in available cash and cash liabilities (adjusted)**

(%)	2011/2010	2012/2011	2013/2012	Available cash/cash liabilities in 2013
<b>Available cash</b>				
SMEs	5.8	3.9	5.7	7.0
ISEs	4.6	4.5	4.1	3.9
LEs	-7.1	11.7	-0.4	3.1
All categories	-1.8	8.3	1.8	3.6
<b>Cash liabilities</b>				
SMEs	8.6	3.5	8.3	
ISEs	17.4	8.4	-6.2	
LEs	35.3	13.0	7.9	
<b>All categories</b>	<b>26.1</b>	<b>10.6</b>	<b>3.9</b>	

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

Source: Banque de France, FIBEN, November 2014.

**Table 9 Changes in net cash position and equity (adjusted)**

(%)		2011/2010	2012/2011	2013/2012
SMEs	Net cash position	5.3	4.0	5.3
	Equity	6.8	-0.6	5.6
ISEs	Net cash position	0.0	2.8	8.6
	Equity	10.8	8.0	1.2
LEs	Net cash position	-17.9	11.2	-3.9
	Equity	2.1	1.7	1.5
<b>Total</b>	<b>Net cash position</b>	<b>-9.1</b>	<b>7.4</b>	<b>1.0</b>
	<b>Equity</b>	<b>5.2</b>	<b>2.9</b>	<b>2.0</b>

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

Source: Banque de France, FIBEN, November 2014.

## Box

**Corporate cash flow statements in 2013**

In 2013, the strengthening gross operating surplus, which increased by EUR 0.3 compared to 2012, resulting from a drop in operating working capital requirements, generated surplus operating cash flows of EUR 6.4 for EUR 100 of sales turnover, an increase of 0.6 points compared to 2012.

Due to positive non-operating transactions, which increased by EUR 6.4, and payments to their partners, lenders, the State, and particularly shareholders and associates, global cash flow stood at EUR 4.9 for EUR 100 of sales turnover, which increased by EUR 0.5 compared to 2012.

Cash flow generated was not sufficient to cover investment spending, resulting in external financing needs of EUR 1 (4.9 – 5.9).

Net financing flows of EUR 1.8 were sustained mainly with equity financing, which increased by EUR 1.7. This boosted cash, which increased by EUR 0.8 for EUR 100 of sales turnover.

**Table of flows**

(for EUR 100 of turnover)

	SMEs		ISEs		LEs		All sizes	
	2012	2013	2012	2013	2012	2013	2012	2013
<b>(+) Gross operating surplus</b>	<b>6.3</b>	<b>6.2</b>	<b>5.7</b>	<b>5.5</b>	<b>5.7</b>	<b>6.5</b>	<b>5.8</b>	<b>6.1</b>
(-) Change in OWCR	0.2	0.0	-0.1	-0.1	0.0	-0.6	0.0	-0.3
(=) Operating cash flow	6.1	6.2	5.8	5.6	5.7	7.1	5.8	6.4
<b>(+) Other non-operating transactions</b>	<b>2.2</b>	<b>2.1</b>	<b>5.0</b>	<b>4.4</b>	<b>12.0</b>	<b>10.8</b>	<b>7.0</b>	<b>6.4</b>
(-) Interest expenses	1.2	1.0	2.2	1.9	3.2	3.1	2.3	2.1
(-) Participating interests	0.1	0.1	0.3	0.2	0.2	0.2	0.2	0.2
(-) Dividend payments	2.4	2.1	3.6	3.3	8.0	7.6	5.0	4.7
(-) Corporation tax	1.1	1.1	0.9	0.8	0.6	1.0	0.8	0.9
(-) Non-operating WCR	0.2	0.3	0.7	0.2	-0.4	-0.5	0.1	0.0
<b>(=) Total cash flow</b>	<b>3.3</b>	<b>3.7</b>	<b>3.1</b>	<b>3.6</b>	<b>6.1</b>	<b>6.5</b>	<b>4.4</b>	<b>4.9</b>
<b>(-) Net investment flows</b>	<b>4.1</b>	<b>3.6</b>	<b>5.4</b>	<b>5.8</b>	<b>9.2</b>	<b>7.2</b>	<b>6.6</b>	<b>5.9</b>
<b>(+) Net funding flows</b>	<b>1.2</b>	<b>0.8</b>	<b>3.1</b>	<b>4.1</b>	<b>6.5</b>	<b>0.5</b>	<b>3.9</b>	<b>1.8</b>
(+) Change in equity financing	0.6	0.6	2.4	2.4	3.2	1.9	2.2	1.7
(+) Change in long-term debt	0.5	0.0	0.3	1.1	2.4	-0.9	1.2	0.0
(+) <i>O/w change in bank loans</i>	-0.1	-0.1	-1.2	-0.7	-2.3	-1.1	-1.4	-0.7
(+) Change in cash liabilities	0.1	0.2	0.4	0.6	0.9	-0.5	0.5	0.1
<b>(=) Change in cash assets</b>	<b>0.4</b>	<b>0.9</b>	<b>0.8</b>	<b>1.9</b>	<b>3.4</b>	<b>-0.2</b>	<b>1.7</b>	<b>0.8</b>
<i>Change in net cash position</i>	0.3	0.7	0.4	1.3	2.5	0.3	1.2	0.7
<i>Change in ONWC</i>	0.7	1.0	1.0	1.4	2.1	-0.8	1.4	0.4
<i>Change in NWCR</i>	0.4	0.3	0.6	0.1	-0.4	-1.1	0.1	-0.3

Source: Banque de France, FIBEN, November 2014.

## 5 | Debt capacity increased for SMEs

### 5 | I Stable or marginally declining debt capacity, except in SMEs

Debt capacity (see Chart 18) and internal financing capacity are related. If debt capacity increases, the company can rely on borrowing to finance acquisitions or investments.

In 2013, regardless of size, debt capacity stabilised at 14.4% at the end of a downturn that started in 2007 (21.5%), interspersed with more minor changes in the opposite direction in the interim, particularly in 2010. This overview conceals trends relating to size.

Although stabilisation occurred in ISEs (15%), debt capacity in large enterprises continued to decline in 2013 (12.2%), in line with the general trend that started seven years earlier. Conversely, the SME ratio improved by 2.2 points in 2013, standing at 22.6%, as a result of the decrease in debt ratios and, more marginally, due to an increase in their internal financing capacity.

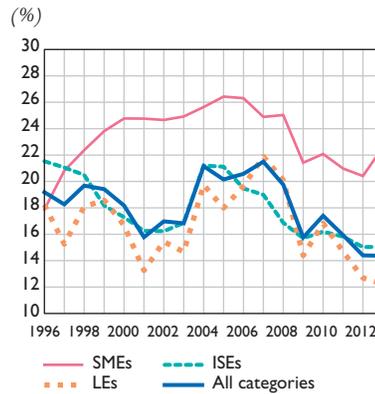
Trends at sector level were also varied: in the manufacturing industry, services to businesses, and the accommodation and restaurant sectors, the ratio declined. However, it improved in the construction, information and communication, and transport sectors (see Chart J of Appendix 5).

### 5 | 2 Financing costs fell in SMEs and ISEs

The reduction in debt costs is attributable to weak interest rates, which compensated for the marginal increase in debt volumes (see Chart 19).

The ratio of financial costs to total gross profits (see Chart 20) measures the ability of a company to pay for the cost of its borrowing out of total gross profit. It is particularly sensitive and serves as an early and relevant indicator of difficulties.

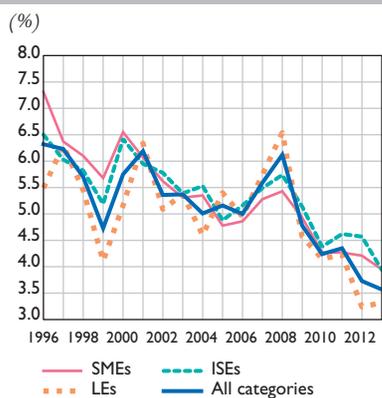
Chart 18 Debt capacity (adjusted for double counting)



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

Source: Banque de France, FIBEN, November 2014.

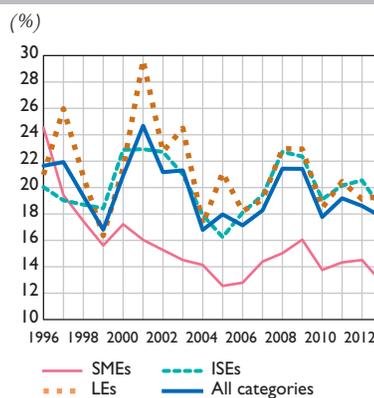
**Chart 19 Apparent cost of debt (financial charges/adjusted financial debt)**



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

Source: Banque de France, FIBEN, November 2014.

**Chart 20 Financial charges/adjusted total gross profits**



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

Source: Banque de France, FIBEN, November 2014.

Apart from large enterprises, where the ratio increased slightly by 0.3 points to 19.4%, it decreased in the population taken as a whole (by 0.8 points to 17.8%), in SMEs (by 1.7 points to 12.8%), and above all in ISEs (by 2.2 points to 18.4%).

The ratio decreased in all sectors, except in the accommodation and restaurant sector, and the information and communication sector (see Chart L of Appendix 5).

## Appendix I

### FIBEN data

#### Database of company accounts

The company accounts collected by Banque de France represent one third of all companies taxed under the “bénéfice industriel et commercial” (industrial and commercial profits), and “bénéfice réel normal” (real and normal profits) (BIC-BRN) regimes. The data covers all companies operating in France with turnover exceeding EUR 0.75 million. In terms of staff, the data covers over 75% in most sectors and reaches or exceeds 80% in the commerce and industry sectors.

#### Main ratios used

An explanation of the financial analysis methodology and the definition of ratios used is available at the following link:

[https://www.banque-france.fr/fileadmin/user\\_upload/banque\\_de\\_france/Economie\\_et\\_Statistiques/METHODOLOGIE\\_SITUATION\\_DES\\_ENTREPRISES.pdf](https://www.banque-france.fr/fileadmin/user_upload/banque_de_france/Economie_et_Statistiques/METHODOLOGIE_SITUATION_DES_ENTREPRISES.pdf)

#### Financial links

Banque de France identifies financial connections and analyses levels of capital interest held by other companies, classifying shareholders as non-financial companies (including holding companies), financial institutions (banks, mutual funds, or insurance companies), natural persons (individuals or employees), the State, or as foreign companies. A distinction is made between independent companies and companies belonging to large or small groups.

#### Database of consolidated accounts

Banque de France relies on its branch network to collect consolidated accounts drawn up by over 4,000 companies. This base includes the largest industrial and commercial companies operating in France. The study eliminates sub-groups that are consolidated by parent companies.

The consolidation, carried out by the companies themselves, consists of aggregating individual accounts of legal entities within the group,

after eliminating intra-group flows and parent company interests. The companies surveyed all have parent companies whose head offices are located in France. The scope of consolidation may include subsidiaries or second-tier subsidiaries that have headquarters outside France.

## Failures

In this paper, business failures are defined as the initiation of receivership proceedings or of liquidation proceedings when the latter has not been preceded by receivership proceedings. However, when a business continuation plan or disposal plan is put in place between a receivership and a liquidation or second receivership, it terminates the initial receivership. The liquidation or second receivership is therefore considered to be the initiation of proceedings, i.e. a new failure of the legal entity.

The information is provided by registries of commercial courts, automatically in 90% of cases and manually in the remaining cases (companies within the jurisdiction of the *Tribunaux de Grande Instance* [TGI - High Courts] that are competent to rule on commercial issues). Once data on proceedings is electronically recorded by the registries, it is transmitted to Banque de France within 24 hours. Analyses by the Legal Notices Bulletin and information transmitted manually by the TGI, are added to the data. Legal events concerning natural persons only, such as personal bankruptcy, are not recorded.

## The Central Credit Register

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

## Scope

All business activities are included except sectors KZ (finance, excluding holding companies) and O (general government). Compared to previous years, it was extended to include sectors P (education) and Q (human health and social work). Similarly, public companies (state-owned industrial and commercial companies – EPIC – or semi-public companies) were added, which meant re-integrating a few large public companies such as SNCF, RFF, RATP, etc.

## Appendix 2

### Company size and sector categories

Each data source does not necessarily provide all the information required to define company size, as defined by the *Loi de modernisation de l'économie* (LME - Economic Modernisation Act) of 4 August 2008. In some cases, sizes are approximated as best as possible based on the information available.

#### Attribution of size and activity sectors for the purposes of analysing company accounts

The decree implementing the LME published on 20 December 2008, which defines the company statistically,<sup>1</sup> specifies company size categories in line with European Commission definitions, and the criteria that define them. There are four thresholds: number of employees, turnover, total assets of legal units and the financial links between them.

The first three criteria are drawn up for each company, understood as the smallest combination of legal units that make up an organisational unit producing goods or services, which benefits from a certain degree of decision-making autonomy (defined on the basis of financial links). A financial link corresponds to a holding of at least 50% of the capital of a legal unit.

When a company consists of several legal entities (and is thus classed as a “multi-entity” company as opposed to a “single-entity” company), the company accounts of the constituent legal entities are aggregated to define the “company”. This approach does not address double counting between units of the same company.

<sup>1</sup> [http://www.legifrance.gouv.fr/affichTexte.do?sessionId=AE22AD6AA9827C20CEBCA70F67427237.tpdjo01v\\_3?cidTexte=JORFTEX000019961059&categorieLien=id](http://www.legifrance.gouv.fr/affichTexte.do?sessionId=AE22AD6AA9827C20CEBCA70F67427237.tpdjo01v_3?cidTexte=JORFTEX000019961059&categorieLien=id)

Company sizes are defined as follows:

- **SMEs:** up to 250 employees, with annual turnover not exceeding EUR 50 million or the balance sheet total not exceeding EUR 43 million;
- **Intermediate-sized enterprises (ISEs):** companies that are not SMEs, with up to 5,000 employees, with annual turnover not exceeding EUR 1.5 billion or the balance sheet total not exceeding EUR 2 billion;
- **Large enterprises:** other companies.

SMEs and ISEs may be either a single legal entity or a multi-entity reporting either to a French or foreign parent company.

**Activity sectors** are based on the 2008 aggregate nomenclature, itself based on the NAF Rev. 2, the French national classification of activities.

In the case of a multi-entity company, the sector is determined by grouping the different legal entities into corresponding sectors. The overall sector of a multi-entity company is decided by the "grouping" of legal entities that generates the highest annual turnover for the company, provided the turnover of the grouping exceeds 50% of total turnover. If it does not exceed 50%, the sector is determined based on the staff headcount criterion, again, provided that the staff of the largest grouping of different legal entities represents more than 50% of the total staff of the multi-entity. In cases where no single sector grouping of legal entities accounts for over 50% of turnover or staff, the sector of the grouping of legal entities with the highest annual turnover is assigned to the group as a whole.

#### Average size of each category of company in 2013

(in number and EUR millions)

	Number of companies	Number of legal entities	Average headcount per company	Average turnover	Average value added	Average financial debt	Average bank debt	Average equity
All categories	172,660	358,524	60.0	17.0	5.0	9.0	3.0	9.0
SMEs	167,602	287,282	21.0	5.0	1.0	1.0	1.0	1.0
ISEs	4,834	51,447	626.0	210.0	51.0	90.0	39.0	81.0
LEs	224	19,795	16,480.0	5,349.0	1,458.0	4,176.0	616.0	3,835.0

Scope: NFCs as defined by the LME; all business sectors except sectors KZ (finance, excluding holding companies) and O (general government).

Source: Banque de France, FIBEN, November 2014.

## Economic weight of non-financial companies in 2013

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

	Number of companies	Number of legal entities	Headcount	Turnover	Value added	Financial debt <sup>a)</sup>	Bank debt	Equity <sup>a)</sup>
<b>All categories</b>	<b>172,660</b>	<b>358,524</b>	<b>10,125</b>	<b>2,995</b>	<b>806</b>	<b>1,576</b>	<b>463</b>	<b>1,479</b>
<b>By size</b>								
SMEs	167,602	287,282	3,414	782	233	207	138	227
<i>O/w subsidiaries of foreign companies</i>	7,097	19,250	260	92	24	32	13	24
ISEs	4,834	51,447	3,019	1,015	247	434	187	393
<i>O/w subsidiaries of foreign companies</i>	1,370	11,000	977	380	91	134	33	109
Large enterprises	224	19,795	3,691	1,198	327	935	138	859
<b>By sector</b>								
Agriculture	2,323	3,461	55	11	4	5	3	15
Manufacturing industry	27,288	66,655	2,374	866	210	419	82	554
Energy, water, waste	1,830	6,717	387	162	47	230	22	110
Construction	28,100	49,559	908	188	67	86	32	84
Trade	66,526	121,504	2,409	1,159	182	272	91	328
Transport and warehousing	7,385	16,232	1,065	177	72	148	47	97
Accommodation and restaurants	8,275	18,786	401	43	21	32	14	17
Information and communication	4,557	12,001	433	135	70	117	25	94
Real estate activities	3,061	10,242	96	31	19	148	101	83
Services to businesses	17,108	39,536	1,574	164	87	91	34	73
Education, health	4,257	9,354	311	31	19	15	8	12
Services to households	1,950	4,477	112	27	8	13	4	10
<b>Breakdown in %</b>								
<b>By size</b>								
SMEs	97.1	80.1	33.7	26.1	28.8	13.1	29.7	15.3
<i>O/w subsidiaries of foreign companies</i>	4.1	5.4	2.6	3.1	3.0	2.0	2.9	1.6
ISEs	2.8	14.3	29.8	33.9	30.7	27.5	40.4	26.6
<i>O/w subsidiaries of foreign companies</i>	0.8	3.1	9.7	12.7	11.3	8.5	7.1	7.4
Large enterprises	0.1	5.5	36.5	40.0	40.5	59.4	29.8	58.1
<b>By sector</b>								
Agriculture	1.3	1.0	0.5	0.4	0.5	0.3	0.7	1.0
Manufacturing industry	15.8	18.6	23.4	28.9	26.1	26.6	17.6	37.5
Energy, water, waste	1.1	1.9	3.8	5.4	5.9	14.6	4.8	7.5
Construction	16.3	13.8	9.0	6.3	8.3	5.5	6.8	5.7
Trade	38.5	33.9	23.8	38.7	22.5	17.3	19.8	22.2
Transport and warehousing	4.3	4.5	10.5	5.9	9.0	9.4	10.2	6.6
Accommodation and restaurants	4.8	5.2	4.0	1.4	2.6	2.0	3.1	1.2
Information and communication	2.6	3.3	4.3	4.5	8.7	7.4	5.4	6.4
Real estate activities	1.8	2.9	0.9	1.0	2.4	9.4	21.8	5.6
Services to businesses	9.9	11	15.5	5.5	10.8	5.8	7.3	4.9
Education, health	2.5	2.6	3.1	1.0	2.3	1.0	1.8	0.8
Services to households	1.1	1.2	1.1	0.9	1.0	0.8	0.9	0.7

Scope: NFCs as defined by the LME; all business sectors except sectors KZ (finance, excluding holding companies) and O (general government).

Note: Amounts adjusted for estimated double counting.

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

Source: Banque de France, FIBEN, November 2014.

## Appendix 3

### Recap of the main data and findings for all French companies

#### Rate of change

(%)

	SMEs		ISEs		LEs		All companies	
	2012	2013	2012	2013	2012	2013	2012	2013
Turnover	2.8	1.8	3.3	0.6	1.5	0.2	2.4	0.7
Value added	2.0	1.6	1.6	1.1	-1.8	4.4	0.3	2.6
Gross operating surplus	-4.7	0.1	-4.3	-1.3	-13.3	13.7	-8.1	5.1
Net operating surplus	-9.8	-1.5	-8.2	-1.2	-22.2	16.6	-14.1	5.2
Internal financing capacity	-4.1	0.7	-7.2	-2.7	-7.1	0.1	-6.6	-0.5
Net internal financing capacity	-12.1	1.4	-26.9	-3.3	-34.7	39.6	-29.7	20.4
Internal financing	-10.2	10.4	-15.1	-2.6	-16.4	-2.8	-14.8	0.0
Investment	-13.7	-11.3	-4.3	-10.3	3.6	3.9	-3.4	-4.3
Equity	-0.6	5.6	8.0	1.2	1.7	1.5	2.9	2.0
Financial debt	3.0	0.1	0.4	-0.8	3.5	-1.0	2.6	-0.8
Cash	4.0	5.3	2.8	8.6	11.2	-3.9	7.4	1.0

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

Source: Banque de France, FIBEN, November 2013.

#### Ratios

(%)

	Average rate		1 <sup>st</sup> quartile		Median		Last quartile	
	2012	2013	2012	2013	2012	2013	2012	2013
Gross operating surplus/turnover	5.8	6.1	1.8	1.9	5.2	5.1	10.6	10.1
Margin ratio: gross operating surplus/ value added	21.9	22.7	6.6	6.8	17.2	16.7	31.4	29.6
Net return on operating capital: net operating surplus/operating capital	4.7	4.8	1.6	2.0	8.0	8.4	20.5	20.6
Net financial profitability: net internal financing capacity <sup>a)</sup> /equity <sup>a)</sup>	4.4	5.9	2.4	3.1	11.9	12.0	26.4	25.3
Savings ratio: internal financing/total income <sup>a)</sup>	14.2	14.3	2.7	4.2	10.6	11.6	20.2	20.5
Investment ratio: operating investment/ value added	22.2	21.2	1.0	1.0	4.0	3.8	11.9	11.0
Debt ratio: financial debt <sup>a)</sup> /equity <sup>a)</sup>	111.1	106.6	14.6	13.2	52.9	48.1	153.0	135.0
Weight of equity: equity <sup>a)</sup> /total resources <sup>a)</sup>	31.5	31.8	21.2	24.2	40.0	42.1	60.5	62.0
Apparent repayment period: financial debt <sup>a)</sup> / internal financing capacity <sup>a)</sup>	7.0	6.9	66.9	63.3	204.2	188.0	495.9	442.8
Apparent cost of debt: financial costs <sup>a)</sup> / financial debt <sup>a)</sup>	3.7	3.6	2.2	2.1	3.9	3.7	6.1	5.9

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

a) Amounts adjusted for estimated double counting.

Source: Banque de France, FIBEN, November 2013.

## Appendix 4

### Profit and loss account

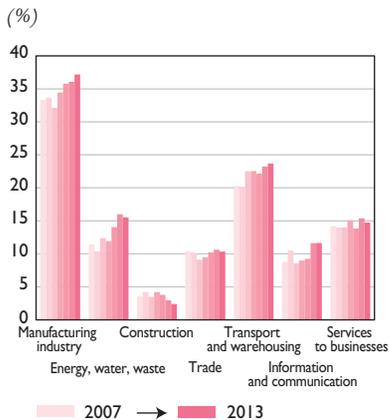
Profit and loss account								
<i>(% of turnover)</i>								
	SMEs		ISEs		LEs		All sizes	
	2012	2013	2012	2013	2012	2013	2012	2013
<b>Turnover</b>	<b>100.0</b>							
(+) Production taken into inventory	0.0	0.0	0.1	0.0	0.0	-0.1	0.1	0.0
(+) Production capitalised	0.4	0.4	0.3	0.4	1.0	0.9	0.6	0.6
<b>Production and sale of goods</b>	<b>100.5</b>	<b>100.3</b>	<b>100.4</b>	<b>100.5</b>	<b>101.0</b>	<b>100.9</b>	<b>100.7</b>	<b>100.6</b>
(-) Purchase cost of sold goods	35.4	35.8	36.8	37.0	24.6	25.4	31.6	32.1
(-) Cost of materials consumed	12.6	12.5	16.6	16.0	20.8	19.8	17.2	16.6
(-) Purchases and external costs (excl. external staff and leasing)	22.6	22.3	23.0	23.1	29.2	28.4	25.4	25.0
<b>Value added</b>	<b>29.8</b>	<b>29.8</b>	<b>24</b>	<b>24.4</b>	<b>26.4</b>	<b>27.3</b>	<b>26.5</b>	<b>26.9</b>
(+) Operating subsidies	0.2	0.2	0.2	0.2	0.8	0.8	0.4	0.4
(-) Wages and salaries, social security contributions	20.8	20.8	15.2	15.4	16.8	16.8	17.3	17.4
(-) External staff costs	1.1	1.2	1.2	1.3	1.4	1.4	1.3	1.3
(-) Taxes and related payments	1.5	1.5	1.8	1.8	3.8	3.9	2.5	2.6
(+) Other operating income and expenses	-0.4	-0.4	-0.4	-0.4	0.6	0.5	0.0	0.0
<b>Gross operating surplus</b>	<b>6.2</b>	<b>6.2</b>	<b>5.6</b>	<b>5.6</b>	<b>5.7</b>	<b>6.5</b>	<b>5.8</b>	<b>6.1</b>
<b>Net operating surplus</b>	<b>3.8</b>	<b>3.9</b>	<b>3.4</b>	<b>3.3</b>	<b>3.1</b>	<b>3.7</b>	<b>3.4</b>	<b>3.6</b>
(+) Other non-operating transactions	1.9	2.0	3.8	3.5	7.6	6.8	4.8	4.5
<b>Total gross surplus</b>	<b>8.1</b>	<b>8.2</b>	<b>9.4</b>	<b>9.2</b>	<b>13.4</b>	<b>13.4</b>	<b>10.6</b>	<b>10.6</b>
(-) Interest and related expenses	1.2	1.0	1.9	1.7	2.6	2.6	2.0	1.9
(-) Employee compensation	0.1	0.1	0.3	0.2	0.2	0.2	0.2	0.2
(-) Corporate income tax	1.1	1.0	0.9	0.8	0.6	1.0	0.8	1.0
<b>Internal financing capacity</b>	<b>5.7</b>	<b>6.0</b>	<b>6.4</b>	<b>6.4</b>	<b>10.0</b>	<b>9.5</b>	<b>7.6</b>	<b>7.6</b>
(-) Charges to provisions, depreciation and amortisation	3.5	3.3	4.4	4.6	7.9	5.6	5.5	4.7
<b>Net internal financing capacity</b>	<b>2.2</b>	<b>2.7</b>	<b>2.0</b>	<b>1.8</b>	<b>2.1</b>	<b>3.9</b>	<b>2.1</b>	<b>2.9</b>
<b>Net profit</b>	<b>2.6</b>	<b>3.0</b>	<b>2.7</b>	<b>2.1</b>	<b>2.9</b>	<b>4.0</b>	<b>2.8</b>	<b>3.1</b>

*Scope: NFCs as defined by the LME; all business sectors except sectors KZ (finance, excluding holding companies) and O (general government).  
No adjustments for double counting have been made.  
Source: Banque de France, FIBEN, November 2014.*

## Appendix 5

### Sector Charts

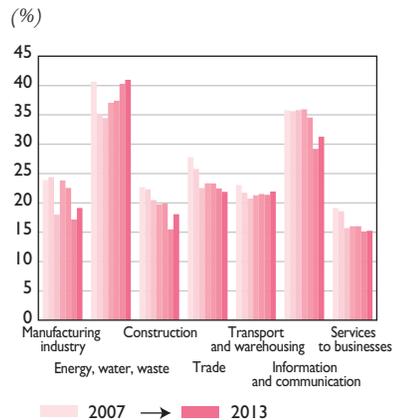
**Chart A Share of exports in turnover**



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

Source: Banque de France, FIBEN, November 2014.

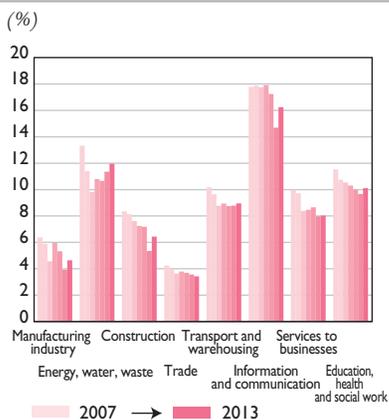
**Chart B Margin ratio: gross operating surplus/value added**



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

Source: Banque de France, FIBEN, November 2014.

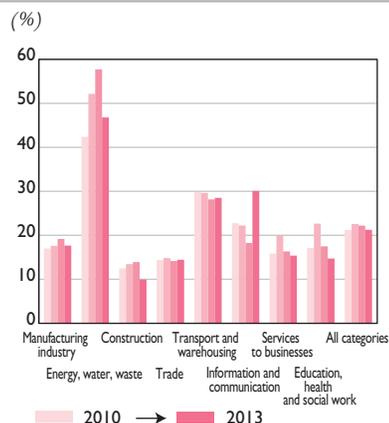
**Chart C Gross operating profit margin: gross operating surplus/turnover**



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

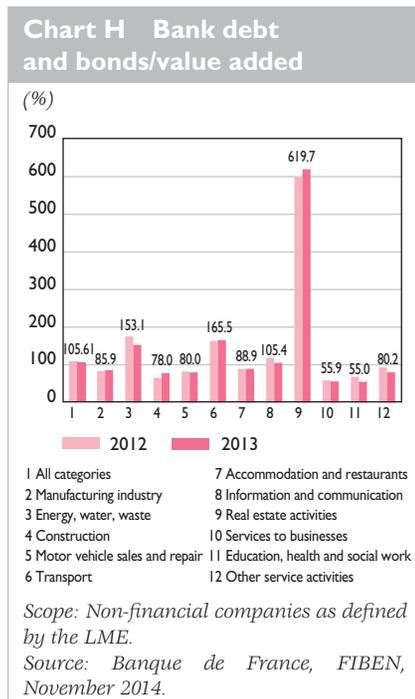
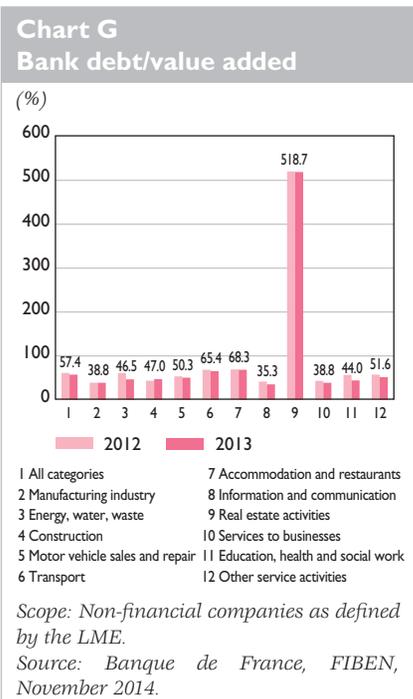
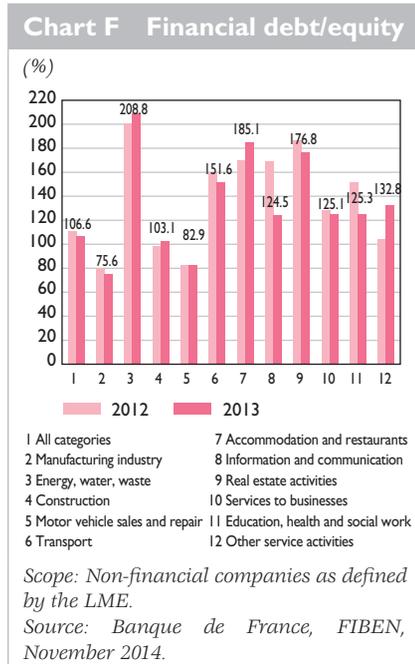
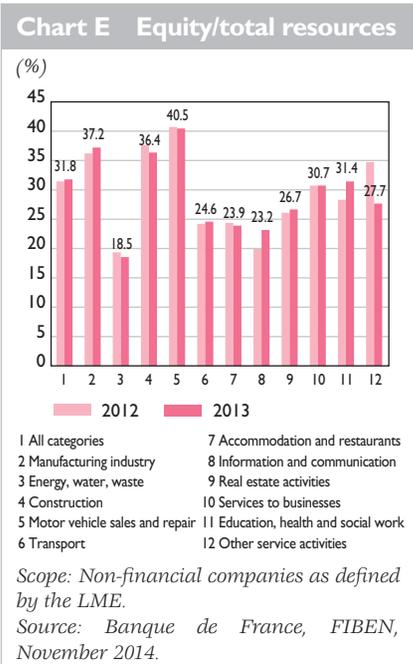
Source: Banque de France, FIBEN, November 2014.

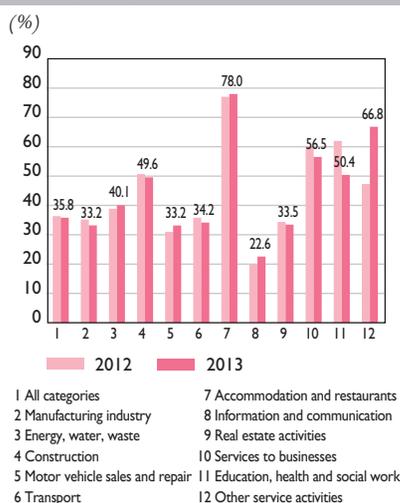
**Chart D Investment ratio: Investment (including leasing acquisitions)/value added**



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

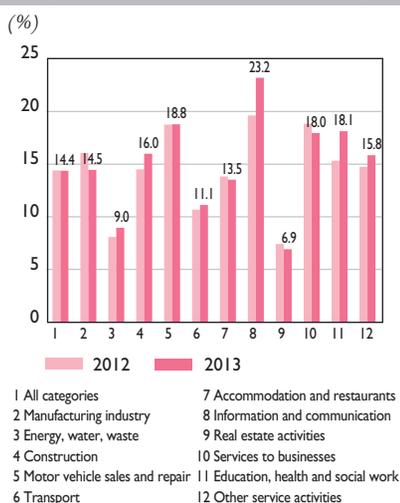
Source: Banque de France, FIBEN, November 2014.



**Chart I Net cash position/ equity (adjusted)**

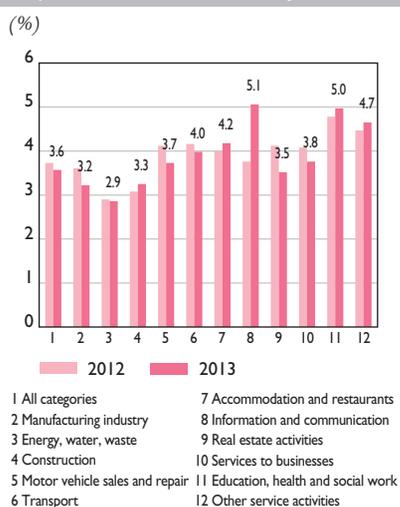
Scope: Non-financial companies as defined by the LME.

Source: Banque de France, FIBEN, November 2014.

**Chart J Debt capacity (adjusted for double counting)**

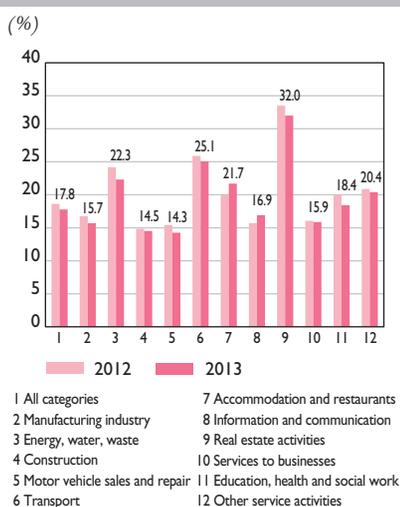
Scope: Non-financial companies as defined by the LME.

Source: Banque de France, FIBEN, November 2014.

**Chart K Apparent cost of debt (financial charges/ adjusted financial debt)**

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

Source: Banque de France, FIBEN, November 2014.

**Chart L Financial charges/ adjusted total gross profits**

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

Source: Banque de France, FIBEN, November 2014.



# The euro area Beveridge curve in the post-crisis period: increase in structural unemployment since 2010

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*The Beveridge curve traces the relationship between the unemployment rate and job vacancy rate over the course of the business cycle. The relationship is usually negative: expansionary periods, characterised by low unemployment and high job vacancies, are typically followed by periods of recession where unemployment is high and vacancies are low. Shifts in the Beveridge curve are of particular interest as they help shed light on the nature of fluctuations in unemployment: an outwards shift, for example, signifies a persistent and abnormally high level of vacancies, and is associated with a rise in structural unemployment. By helping to identify whether unemployment growth is structural or cyclical, the Beveridge curve can thus provide an indication of the likely effectiveness of stimulus policies, as these essentially reduce the cyclical component of unemployment.*

*Since 2010, the Beveridge curve in the euro area, and in France in particular, has pointed to simultaneous increases in both unemployment and job vacancies, indicating that structural unemployment is on the rise. Between the third quarter of 2009 and the second quarter of 2011, job vacancies increased while unemployment remained constant, but as of 2012 unemployment increased while vacancies remained unchanged, suggesting the skill-sets of a large share of newly unemployed workers do not match employers' needs. This analysis is confirmed by the match indices between skills and new job vacancies. Labour market match efficiency has deteriorated dramatically since 2008, and especially since 2012, driven by rising unemployment among low-skilled workers.*

*In order to reduce unemployment, the attributes of jobseekers (and notably their skills) need to be better matched to the needs of employers. This adjustment can be achieved using two complementary levers: i) the implementation of better targeted training policies, a process which is long-winded and costly to achieve on a broad scale; and ii) greater wage flexibility, which is currently made difficult by nominal wage rigidities.*

Keywords: Beveridge curve, job vacancies, structural unemployment

JEL codes: E24, J60

The Beveridge curve depicts the relationship between the unemployment rate and the job vacancy rate<sup>1</sup> over the course of the business cycle (Blanchard and Diamond, 1989). This relationship is generally negative: expansionary periods, characterised by low unemployment and high job vacancies, are typically followed by periods of recession where unemployment is high and vacancies low. However, the relationship does not remain stable over the long-term, and shifts occurred in the curve during the 1980s both in Europe and in the United States (Elsby, Michaels and Ratner, forthcoming).

Shifts in the Beveridge curve are of particular interest as they indicate the nature of fluctuations in unemployment: an outwards shift in the curve signifies a persistent and abnormally high level of vacancies, in turn suggesting a rise in structural unemployment. Unlike cyclical or frictional unemployment, structural unemployment reflects the impact of persistent shocks which create a mismatch between labour supply and demand.

By helping to identify the nature of unemployment, the Beveridge curve is a useful tool for determining which economic policies are likely to prove effective. Economic stimulus policies, for example, mainly act on cyclical unemployment and will do nothing to remedy structural imbalances (Lazear and Spletzer, 2012). In the latter case, the only way to restore equilibrium to the labour market is to adapt labour supply to job vacancies or create jobs that match unemployed worker characteristics.

For these reasons, the Beveridge curve is currently a key focus of economic policy debate. Since the start of the Great Recession, there has been ample commentary on shifts in the curve in the euro area (Bonthuis, Jarvis and Vanhala, 2013), the United States (Hobijn and Sahin, 2013), or in the United Kingdom (Elsby and Smith, 2010). In the case of France and the euro area, Haincourt and Mogliani (2012) notably describe the evolution of the Beveridge curve over the course of the Great Recession, up to the fourth quarter of 2011. However, from 2012 to 2014, unemployment continued to climb and recent shifts in the curve appear qualitatively different in nature.

This paper examines recent developments in the Beveridge curve in both the euro area and the United Kingdom, and highlights the main differences in relation to the crises of the 1990s. We then look at alternative indicators of labour allocation to show how these confirm the increasing mismatch in the euro area between unemployed workers and new job creations. Finally, we discuss economic policy responses that could help reduce the component of unemployment which has become structural.

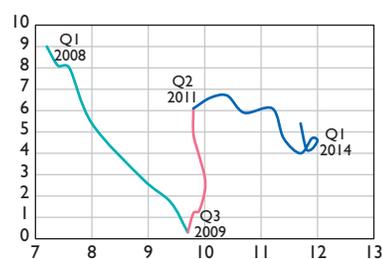
<sup>1</sup> According to Eurostat, a job vacancy is a post, either newly created, unoccupied or about to become vacant which the employer is actively seeking to fill, immediately or in the near future, with a suitable candidate from outside the company, including by taking any further necessary steps. See [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Glossary:job\\_vacancy\\_rate\\_\(JVR\)/fr](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:job_vacancy_rate_(JVR)/fr)

## I | Since the 1st quarter of 2010, structural unemployment has increased in the euro area

Using European data, it is possible to construct Beveridge curves linking the hiring difficulties encountered by firms in three main sectors<sup>2</sup> (manufacturing, services and construction) to the national jobless rate.<sup>3</sup> The number of job vacancies is approximated using the results of the European Commission's quarterly business survey on "factors likely to limit output", in particular labour.<sup>4</sup> The evolution of the curves in the euro area during the crisis (see Chart 1 for the manufacturing sector) can be broken down into three main stages.

**Chart 1 Beveridge curve for the euro area manufacturing sector**

(x-axis: unemployment rate, as a %; y-axis: factors likely to limit output: labour, % of respondents)



Sources: Eurostat, European Commission.

- At the onset of the crisis, behaviour was essentially cyclical: between the first quarter of 2008 and the third quarter of 2009 (shown in green), the relationship between the unemployment rate and the vacancy rate traced a downward, linear slope, with each rise in unemployment accompanied by a lower rate of job vacancies. This downward trend implies that firms' bargaining power increased during the period while the cost of hiring fell.
- Between the third quarter of 2009 and the second quarter of 2011 (shown in red), job vacancies rose sharply while unemployment remained stuck at a high level. This indicates that firms found it harder to hire over the period, suggesting that a significant portion of the jobs created and skills demanded during this period of recovery did not match the attributes of unemployed workers.
- After the second quarter of 2011, unemployment continued to rise while the vacancy rate remained stable, leading to a marked flattening of the curve up to the first quarter of 2014. Thereafter, with each successive rise in unemployment, it did not become more profitable to create job openings, as vacancies remained difficult to fill.<sup>5</sup> This can be interpreted as a major

<sup>2</sup> Data are only available for these three sectors. Given their weight in the economies under assessment and the impact the crisis had on their output levels, we have chosen to include all three in our analysis.

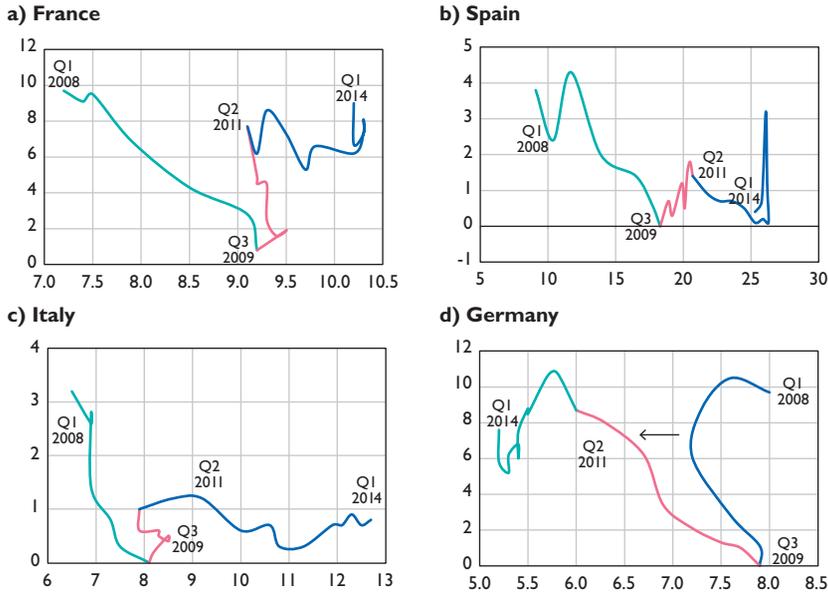
<sup>3</sup> The unemployment rate is taken from the Eurostat database.

<sup>4</sup> Answers relate to the first month of each quarter. The reference numbers for the question are 8F3S for manufacturing, 7F3S for services and F4S for construction. The Beveridge curves for the latter two sectors are included in Appendix 2.

<sup>5</sup> Higher unemployment increases firms' ability to negotiate with jobseekers and in theory should make hiring easier. A flattening of the curve suggests that rising unemployment has less of an impact on firms' hiring difficulties.

## Charts 2 Manufacturing sector Beveridge curves, 2008 to 2014

(x-axis: unemployment rate, as a %; y-axis: factors likely to limit output: labour, % of respondents)



Sources: Eurostat, European Commission.

decline in the match efficiency between unemployed workers and job vacancies. The charts for the service and construction sectors, included in the appendix, show qualitatively similar trends, which tends to prove there are no strong sectoral specificities.<sup>6</sup>

Nonetheless, the aggregate euro area Beveridge curve is based on weighted average data for all countries in the single currency area; at country level, there were in fact considerable disparities over the period.

The German labour market in particular experienced an opposite trend to the euro area as a whole (see Charts 2). Unemployment declined from 2008 onwards, registering little impact from the recession.<sup>7</sup> There was subsequently a movement along the curve as of the third quarter of 2009: with unemployment falling and labour in short supply, the number of firms citing labour as a factor likely to limit output increased.

In France, the curve has followed an almost identical trend to that of the broader euro area. Since the second quarter of 2011, unemployment has advanced by two percentage points, while the vacancy rate has held steady at a historical high. In contrast, in Italy and Spain, joblessness has continued to rise, while the vacancy rate has remained low and close to zero.

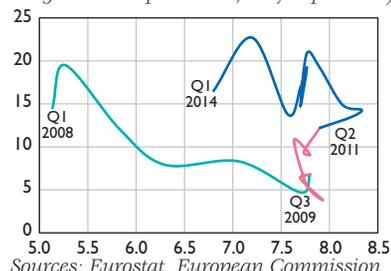
<sup>6</sup> Note, however, that the unemployment rate is calculated for all sectors together.

<sup>7</sup> Rinne and Zimmerman (2012) stress the role played by government funded short-time working schemes in supporting the German labour market.

To put these results into perspective, Chart 3 traces the Beveridge curve for the United Kingdom, while the box below looks in detail at how the curve has evolved in the United States. The UK trend was almost identical to that in France and the euro area as a whole up to 2013. However, from 2013 onwards there was a divergence in the curve, with the United Kingdom experiencing a drop in unemployment against a backdrop of high job vacancies.

**Chart 3 Beveridge curve for the UK manufacturing sector, 2008 to 2014**

(x-axis: unemployment rate, as a %; y-axis: factors likely to limit output: labour, % of respondents)



Sources: Eurostat, European Commission.

### Box

#### **Did the Great Recession lead to a decline in match efficiency in the United States labour market?**

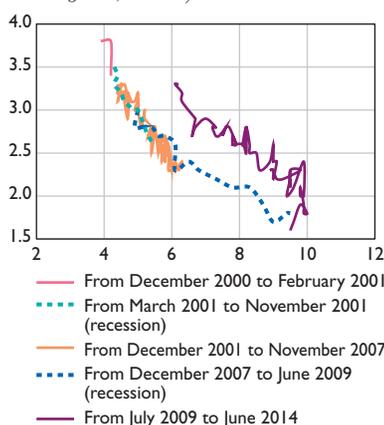
As with the euro area, the United States has experienced an outwards shift in the Beveridge curve since the onset of the Great Recession. In contrast with European countries, however, this does not appear to point to a decline in the match efficiency of the US labour market. In actual fact, the curve shift in the United States can be attributed to: i) a persistent fall in the participation rate; ii) an increase in the duration of benefits for the long-term unemployed; and iii) a cyclical component in the relationship between vacancies and unemployment.

#### **The Beveridge curve in the wake of the financial crisis**

Over the course of the Great Recession (Q1 2008 - Q2 2009), there was a downward movement along the curve which can be attributed to cyclical factors. In contrast, during the subsequent recovery the curve shifted outwards (Chart A). This type of movement is generally interpreted as a decline in the efficiency of the labour market in terms of matching unemployed workers to vacancies. However, there is some disagreement over this explanation, as the curve movement can also be attributed to structural and cyclical

**Chart A US Beveridge curve from 2000 to 2014**

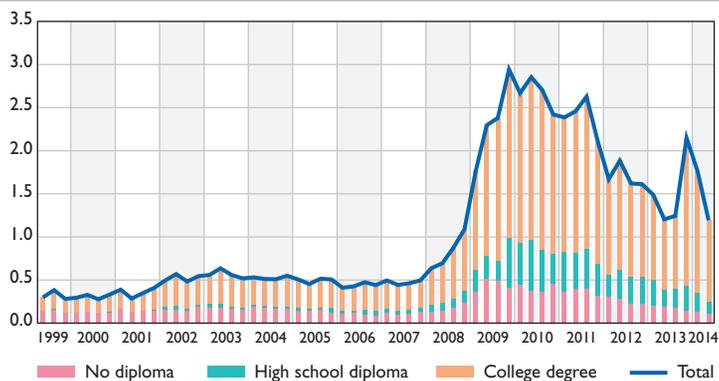
(x-axis: unemployment rate, as a %; y-axis: job vacancy rate, as a %)



Source: US Bureau of Labor Statistics.

.../...

Chart B US SMI



Source: US Bureau of Labor Statistics.

factors and not just to match efficiency. To shed more light on this phenomenon, we look in particular at the evolution of the skills-mismatch index (SMI) and participation rate over the recent period.

### The SMI

In the United States, the SMI initially rose sharply during the crisis (Chart B), but has dropped back significantly, albeit erratically, since the fourth quarter of 2011. Given the magnitude of these movements, it is likely they are caused by cyclical factors rather than structural changes in the US labour market. Moreover, estimates from the CBO<sup>1</sup> suggest that the rate of structural unemployment has increased by just 0.5 percentage point since the crisis, from 5% to 5.5%.

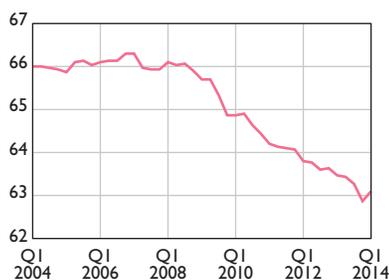
#### Share of the decline in the activity rate attributable to structural factors

(%)

Study	Period	Share
Erceg & Levin (2013)	2007-2012	25
Van Zandweghe (2012)	2007-2011	42
CBO (2014)	2007Q4-2013Q4	50
CEA (2014)	2007Q4-2014Q2	52
Fallick & Pingle (2013)	2007Q4-2013Q2	75
Aaronson et al. (2006)	2007-2013	80
Kudryak (2013)	2007-2012	80

Source: Banque de France.

Chart C US participation rate, 16+



Source: US Bureau of Labor Statistics.

<sup>1</sup> Congressional Office Budget (CBO, 2014). See also Council of Economic Advisers (CEA, 2014) and Van Zandweghe (2012) who express a similar point of view.

.../...

### The participation rate

The US labour market participation rate fell by more than three percentage points in the period from 2007 to 2013 (Chart C). Although there is still no consensus on the issue, several studies have claimed that at least half of this drop is due to structural factors (such as ageing of the population) while the rest is due to transitory factors (such as weak demand for labour, demotivated workers).

By nature, a fall in the participation rate will cause an outwards shift in the Beveridge curve, but only the structural part of this shift is liable to have a long-term impact.<sup>2</sup>

### Length of unemployment

By disaggregating unemployment data by different criteria (length of unemployment, industry, age, education level, white- or blue-collar workers), Ghayad and Dickens (2012) show that the unemployment-vacancy relationship varies according to the length of unemployment. Thus, the Beveridge curve for the short-term unemployed was unaffected by the crisis, whereas nearly all of the outwards shift in the curve is attributable to the long-term unemployed. The most likely explanation is that the long-term unemployed are less active in seeking work (due, on the one hand, to the increase in the duration of benefit payments in the United States between mid-2008 and end-2009<sup>3</sup> and, on the other hand, a hysteresis phenomenon). However, this explanation is not entirely satisfactory, as job-search intensity could also be lower for the short-term unemployed during a crisis.<sup>4</sup> Moreover, Ghayad (2013) demonstrates that the majority of the Beveridge curve shift can be attributed to individuals who are not eligible for regular or extended unemployment benefits. In addition, the lack of disparity in the Beveridge curve across different sectors in the United States tends to refute the theory that there is an increased skills mismatch in the labour market.

### Cyclical movements in the Beveridge curve

By examining the Beveridge curve in the 1950s, Diamond and Sahin (2014) show that i) there tends to be a cyclical outwards shift in the curve at the end of periods of expansion, and ii) the current shift in the curve is not historically unusual. Their analysis thus tends to reject the standard interpretation of an outwards shift as signalling a deterioration in the labour market.

- 2 For a given level of labour market match efficiency, characterised by a given number of “couples” matching vacancies to jobseekers, the smaller the active population, the higher the rate of unemployment that generates a given number of unemployed.
- 3 Following the introduction of the Emergency Unemployment Compensation Program, the maximum length of unemployment benefits was extended five times between 2005 and end-2009.
- 4 On the same subject, Bell and Blanchflower (2014) use microeconomic data to refute the theory that the long-term unemployed put downwards pressure on wages.

## 2| Different curve responses in relation to the 1992-1993 crises

To shed some light on the specific features of the current labour market, it is interesting to look at how the Beveridge curve evolved in response to the 1992-1993 crisis.<sup>8</sup> For the dates of the crisis episodes, we use those of Cotis and Coppel (2005) which were also used by Haincourt and Mogliani (2012).<sup>9</sup> Note that the 1992-1993 crisis was characterised by a smaller drop in GDP than in the recent downturn.

### Change in real GDP

(%)

Period	France	Germany	Italy	Spain
Q1 1992 to Q3 1993 <sup>a)</sup>	-0.6	-2.0 <sup>a)</sup>	-1.5	-1.6 <sup>a)</sup>
Q1 2008 to Q3 2009	-2.8	-4.7	-6.0	-4.8

a) Except Germany and Spain where the period covered is from Q1 1992 to Q3 1993.

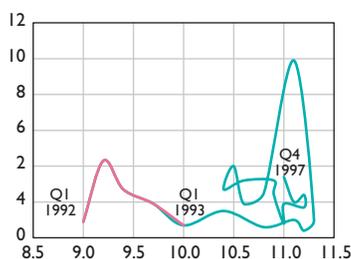
Source: OECD.

### Charts 4 Beveridge curve in the 1990s

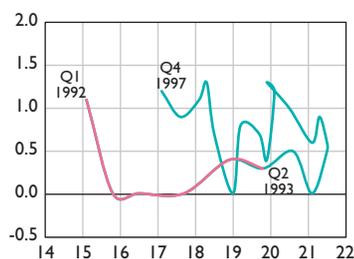
#### Manufacturing sector

(x-axis: unemployment rate, as a %; y-axis: factors likely to limit output: labour, % of respondents)

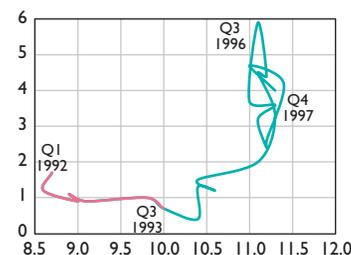
#### a) France



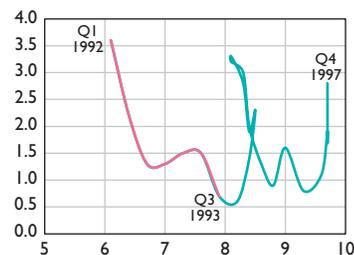
#### b) Spain



#### c) Italy



#### d) Germany



The periods of recession cited previously are shown in pink.

Sources: Eurostat, European Commission.

<sup>8</sup> Data for the euro area as a whole are not available prior to 1995.

<sup>9</sup> The CEPR (Center for Economic and Policy Research) suggests identical dates.

Charts 4 clearly show that the current behaviour of the Beveridge curve differs from that observed at the start of the 1990s. In France, the curve initially sloped downwards. However, after 1995, the curve appears to have flattened out, even if we cannot rule out a rightwards shift. Above all, higher unemployment was not followed by a persistently high level of vacancies, as is the case today.

In the Italian Beveridge curve and, to a lesser extent, Germany's, higher unemployment was accompanied by a rising vacancy rate, as in France today. That said, the vacancy rate was still relatively low compared with today: in France and Germany, a respective 9% and 8% of firms said they had trouble hiring in 2014, against 6% in Italy and 4% in Germany in the 1990s. The current period is thus marked by a historically high vacancy rate for France.

### **3| Change in the labour market participation rate**

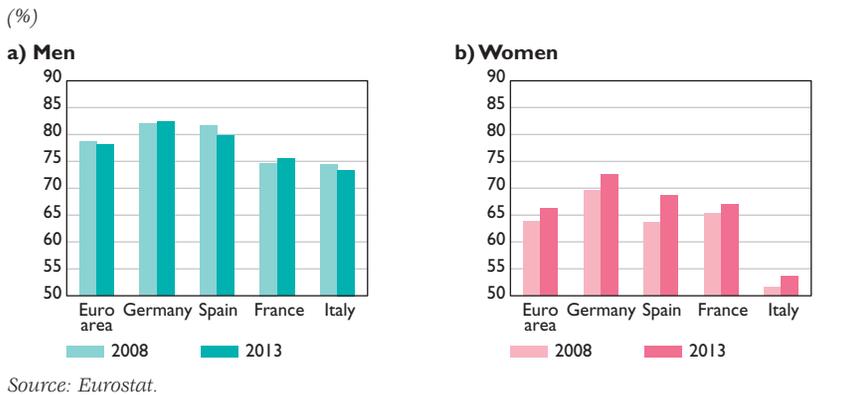
The rise in structural unemployment needs to be viewed in light of recent changes in the labour market participation rate (or activity rate).

Fluctuations in the unemployment rate give only a partial view of the state of the labour market, as they can mask important developments such as the withdrawal of rising numbers of individuals from the working population. In this case, the Beveridge curve is harder to interpret as it does not fully reflect the deterioration in the labour market.

In theory, the crisis may have boosted the number of “discouraged workers”: the fall in offered wages, especially for low-skilled workers, reduced the incentive to remain part of the active population, and some workers simply opted to withdraw from the labour force completely rather than continuing to incur the cost of unsuccessful job searches. In parallel, however, the crisis may also have increased the number of “added workers”, with an opposite impact on the activity rate: a loss of employment by one member of a household leads to a drop in resources, prompting other members of the household to look for work (Lundberg, 1985).

Contrary to the United States, where the activity rate fell by three percentage points between 2008 and the first quarter of 2014 while unemployment declined, activity rates in Europe on the whole increased. One notable exception is Spain, where the activity rate fell by two percentage points. As for the female labour participation rate, this has risen by a remarkable six percentage points in Spain since 2008, and by two percentage points respectively in France and Italy, helping to keep the rate for the overall euro area stable since the onset of the crisis.

Charts 5 Activity rates for men and women aged 15 to 64



The rise in the female participation rate is also consistent with the fact that job destructions have tended to be concentrated in the industrial sector, which is generally male-dominated, while job creations in the more female-oriented service sector have proved resilient. The stability of, and occasional increase in the participation rate has thus exacerbated the downwards pressure on wages caused by higher unemployment.

Europe's stable activity rate during the crisis contrasts sharply with the situation in the United States. Moreover, it does not affect the interpretation of the Beveridge curve as unemployment is still the most relevant indicator of the state of the European labour market over the period.

## 4| A decline in match efficiency

**The deterioration in labour market match efficiency is confirmed by the rapid rise in labour supply-demand mismatch indicators since 2011.**

There are various factors which could explain this decline in match efficiency, notably a lack of geographical mobility and a mismatch between skills and job vacancies. In this article we focus on the latter source of disequilibrium, which can be estimated using a skills-mismatch index (SMI), similar to that proposed by Estevão and Tsounta (2011) for the United States. The SMI captures the mismatch between the supply of and demand for skills in the labour market, and is constructed using the three education groups identified in the European Union Labour Force Survey for Germany, Spain, Italy, France and the euro area as a whole. We use the following formula:

$$SMI_{it} = \sum_{j=1}^3 (S_{ijt} - M_{ijt})^2$$

where  $S_{ijt}$  and  $M_{ijt}$  are respectively the percentage of the working population (considered as the supply of labour) and the percentage of

employed individuals (corresponding to the demand for labour) with skill level  $j$  in country  $i$  during period  $t$ . A rise in the index signals an increasing disparity between the characteristics of employed individuals and those of the working population. It thus captures labour demand shocks to specific groups. The index is normalised: it remains constant if all groups are affected equally by higher unemployment, and only rises when there are increasing disparities in unemployment rate between different groups of the working population.

Prior to 2008, the index remained stable in all countries in our sample (see Chart 6), with the notable exception of Germany where it decreased. It then rose sharply over the course of 2008, before stabilising again up to the end of 2010. Then from 2011 it began to climb once more, this time at an increasingly sharp pace.

Spain and France appear to have been most affected by the growing mismatch between labour supply and demand, although France's index nonetheless remains well below that of Spain. In both countries, the increase primarily reflects a sharp drop in the employment rate for lower-skilled individuals, who have been hardest-hit by the surge in unemployment. The figures thus indicate that there has been a strong negative shock since the crisis to demand for workers in the low-skilled category (see Chart 7).

While Italy has also seen an upwards trend in the index over the period, the pace of increase has been particularly intense over the past two years. Germany again stands out as the exception, with a steady decline in its index since 2005.

Chart 6 Skills-mismatch indices

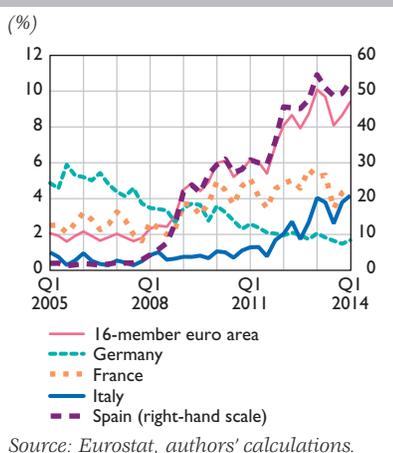
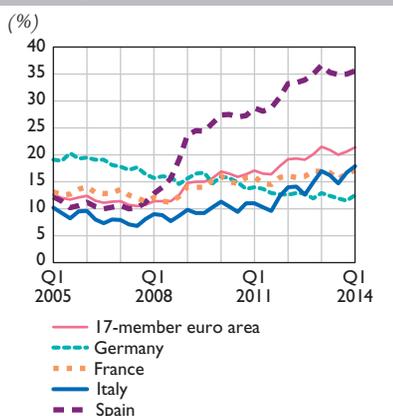


Chart 7 Unemployment rate among low-skilled workers<sup>a)</sup>



a) Low-skilled workers here refers to education levels 0-2 of the International Standard Classification of Education (ISCED), i.e. from pre-primary education up to lower secondary education or the 2nd stage of basic education.

## 5| How can we restore labour market efficiency?

The simultaneous increase in unemployment and in the mismatch index is mainly attributable to falling demand for low-skilled labour. The outwards shifts in the Beveridge curve in the euro area, France and Spain suggest that in all three cases, the continuing rise in unemployment is having less and less of an impact on employers' demand for labour. And the only way to restore equilibrium is by creating jobs that once again match the characteristics of the labour force. This can be achieved using a number of different levers.

First, vocational training can be used to adapt the labour supply, by matching the skills-set of unemployed workers to demand. This method is long-winded and costly, but it does help to improve growth prospects over the long term by increasing labour productivity. The rise in long-term joblessness also supports the case for active policies to stimulate employment, in order to prevent inactivity traps from undermining human capital and making it harder for individuals to get back into the job market.

A second lever is to encourage the creation of jobs specifically targeted at low-skilled workers. The only way to achieve this is by removing existing barriers to labour market adjustment. However, collective wage-setting mechanisms such as the minimum wage in France, coupled with low inflation, make it hard to increase real wage flexibility (Cette *et al.* 2011).

A final lever for boosting match efficiency is to increase geographical mobility, especially between euro area countries. A more flexible housing market would make it easier to relocate to zones where labour demand is greater, helping to reduce regional disparities in unemployment and wages (Trannoy and Wasmer, 2013).

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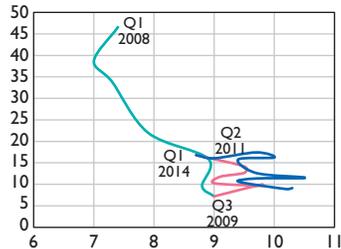
## Appendix

### Beveridge curves

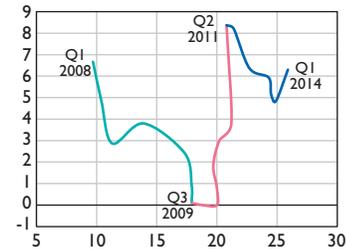
(x-axis: unemployment rate, as a %; y-axis: factors likely to limit output: labour, % of respondents)

#### Construction sector 2008 to 2013

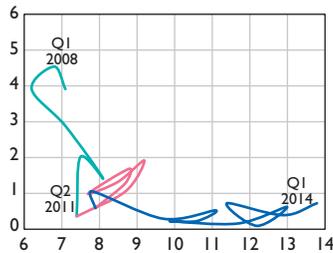
##### a) France



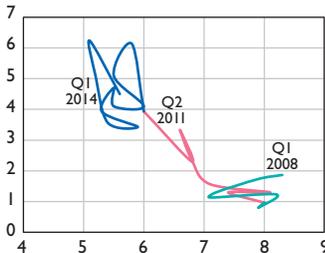
##### b) Spain



##### c) Italy

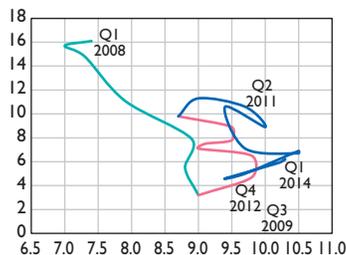


##### d) Germany

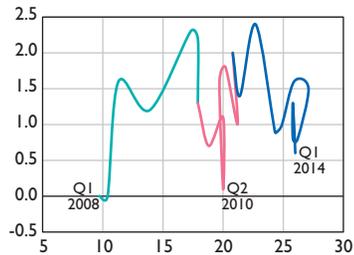


#### Service sector 2008 to 2014

##### a) France



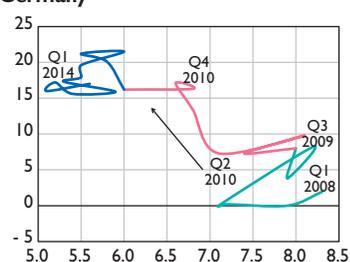
##### b) Spain



##### c) Italy



##### d) Germany



Sources: Eurostat, European Commission.



# US labour market and monetary policy: current debates and challenges

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*In this article, the authors highlight the Fed's trade-off between inflation and unemployment in its conduct of monetary policy for exiting the Great Recession of 2008-2009, given the sometimes contradictory information provided by the various indicators available on the US labour market.*

*Depending on the measure used to gauge labour market conditions, it appears that the inflationary pressures are assessed differently and, consequently, the monetary policy responses based on standard reaction functions (Taylor-type rule) are also different.*

*In its last section the article focuses on the recent phenomenon whereby the historically high long-term unemployment is disrupting the standard macroeconomic relationships, making it more difficult to achieve the dual mandate of maximum employment and price stability.*

Keywords: United States, monetary policy, labour market

JEL codes: E58, E24, E37

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## I | US monetary policy

### I | I | The mandate of the US Federal Reserve System

The Federal Open Market Committee (FOMC) is the decision-making body of the US Federal Reserve System (Fed), which has been entrusted by the Congress with the statutory objective of promoting maximum employment, stable prices and moderate long-term interest rates. Since January 2012, the FOMC has published an annual one-page document outlining its long-term objectives and its monetary policy strategy (FOMC, 2014). This document specifies, for example, that a 2% inflation rate, measured by the year-on-year change in the deflator of personal consumption expenditures, is the most “consistent” in the long term with the Fed’s mandate. The other major criterion, i.e. maximum employment, is more difficult to measure. In this context, the FOMC does not provide any quantitative data on labour market target variables. However, it publishes four times a year the projections of its members in a reference document (Summary of Economic Projections) which summarises the long-term projections for key macroeconomic variables, including unemployment.<sup>1</sup> For example, at the close of the September 2014 meeting of the FOMC, the central tendency (defined as the projection interval excluding the three lowest and the three highest projections) for the long-term unemployment rate was between 5.2% and 5.5%. This range is to be compared with that released in the first publication of this document in January 2012, which was between 5.2% and 6.0%. The upper limit was lowered by 0.5 point, reflecting a more positive perception of labour market conditions by Committee members.

### I | 2 | Principal monetary policy measures adopted since 2008

Given that the federal funds rates have been close to zero since end-2008 and cannot be lowered further – the so-called zero lower bound – the US central bank has introduced other unconventional monetary policy tools, such as quantitative easing (QE) and credit easing and forward guidance.<sup>2</sup>

As a result of its balance sheet increasing by almost USD 4,000 billion since the start of the crisis,<sup>3</sup> the Fed has implemented several asset purchase

<sup>1</sup> Typically, the FOMC meets eight times a year, in January, March, May, June, August, September, November and December. The four quarter-end meetings are followed by a press conference held by the Chairman of the FOMC and by the publication of the forecasts of all FOMC members regarding GDP growth, the unemployment rate, inflation and the federal funds rate.

<sup>2</sup> Between end-2007 and 2010, the Fed also launched several exceptional programmes to inject liquidity into the financial institutions (such as the Term Auction Facility, central bank liquidity swaps, etc.) and into certain key credit markets (money market, etc.).

<sup>3</sup> The first programme (referred to as QE1) was launched between March 2009 and March 2010 to purchase USD 1,250 billion in MBS, USD 200 billion in GSE and USD 300 billion in Treasury securities. The second programme (QE2), implemented between November 2010 and June 2011, involved the purchase of USD 600 billion in Treasury securities. Lastly, the QE3 programme, launched in December 2012, involved the monthly open-ended purchase of USD 45 billion in Treasury bills and USD 40 billion in MBS. This programme has been gradually scaled back since January 2014 and was ended at the October 2014 meeting of the FOMC.

programmes (mainly of mortgage-backed securities – MBS – and Treasury securities) since 2009. The main objective of these programmes, whereby the central bank purchases assets held in the portfolio of banks and other financial institutions, is to lower interest rates, in particular at the long end of the curve for Treasury securities, to support the price of these assets and thus to spur aggregate demand and lending. Before starting to taper its last asset purchase programme, referred to as QE3, the Fed clearly stated that this tapering would depend on US economic conditions and in particular on labour market developments. Janet Yellen, the current Chair of the Fed, has frequently highlighted in her speeches the fact that ending the programme would be conditional on economic data, in particular US labour market conditions.<sup>4</sup>

Forward guidance was implemented for the first time following the global recession of 2008-2009 by Mark Carney, then Governor of the Bank of Canada. The underlying idea is to communicate to the markets that policy rates will remain low for longer than a standard prescription, such as a Taylor-type rule.<sup>5</sup> The objective is to lower expected real long-term rates by temporarily allowing higher inflation expectations than the standard medium-term target.

In recent years, the FOMC has placed the labour market more clearly at the centre of its policy considerations, especially as regards its forward guidance policy. The FOMC's communication on federal funds rates has been through several stages, starting with qualitative guidance with no fixed time horizon in 2008-2009. Thus, in December 2008 the target for the federal funds rates was set between 0 and 0.25% “for some time”. Then, in March 2009, it was announced that rates would remain at this level “for an extended period”. In August 2011, the FOMC moved to date-based guidance by announcing that rates would remain at this level at least until mid-2013, then at least until end-2014 (announced in January 2012). In December 2012, the FOMC then introduced quantitative thresholds in its forward guidance. Thus, at the end of its December 2012 meeting the FOMC specified that rates would remain at this level as long as the unemployment rate remained above 6.5%, inflation between one and two years ahead was no more than 0.5 percentage point above the long-term target of 2% and long-term inflation expectations continued to be well anchored. This announcement regarding quantitative thresholds is a “first” and aims at clarifying the monetary policy reaction function. However, this represented a heavy bet on the future. To give themselves a certain amount of leeway, Committee members specified on a number of occasions that these values were not automatic triggers of monetary policy reactions but the thresholds beyond which the Committee would consider the appropriateness of tightening its policy.

<sup>4</sup> See, amongst others, the testimony of Janet Yellen before the Congress on 15 July 2014.

<sup>5</sup> The Taylor rule is a monetary policy rule that links the interest rate set by the central bank to the inflation rate in the economy and to a measure of the economic cycle (such as the output gap or the unemployment gap).

This strategy ran into problems when the unemployment rate began dropping at a faster pace than anticipated, notably as a result of a decline in the participation rate (see following section). When the unemployment rate got close to the 6.5% threshold in December 2013, the FOMC then started to taper its asset purchase programme and announced that the federal funds rate would remain low long after the unemployment rate had fallen below the 6.5% threshold.

Lastly, at its March 2014 meeting, the FOMC adjusted its forward guidance by removing any explicit references to unemployment and inflation thresholds and by specifying that it would keep federal funds rates below the levels deemed normal by the Committee in the long run, even after employment and inflation had moved closer to the levels consistent with its mandate. This form of qualitative guidance was subsequently repeated.

## 2| The major debates on the US labour market

### 2| I US labour market developments since the Great Recession

During the Great Recession, the US unemployment rate rose from close to 5% in 2007 to 10% at its peak in October 2009. Since then, the decline has been relatively slow, albeit steady, to finally fall back to below 6% of the workforce (the unemployment rate stood at 5.9% in September 2014). This asymmetry between the rapid rise in unemployment and its much slower decline is a classic phenomenon that has already been discussed in the literature (see, for example, Montgomery *et al.*, 1998) and is linked to a form of persistent unemployment.

As regards employment, the US economy returned to its pre-crisis level in the third quarter of 2014, after having lost about 8 million jobs in just two years between early 2008 and early 2010. Unlike in past recessions, there was no marked rebound in economic activity at the end of the recession, which partly explains that private employment remained on average 1.2 million below its potential level between 2010 and 2012 (on this point, see Chinn, Ferrara and Mignon, 2014). However, other specific factors may have played a role. For example, one of the unusual aspects of the 2008-2009 recession is that it stems from a property market bubble; the sharp drop in property prices following the bursting of the bubble froze the property market, hindering geographical mobility and preventing job seekers from going to look for work in another US state. This argument is, for example, developed by Farber (2013).

The sectors that have suffered a marked decline in employment and have so far not experienced any real recovery are the construction sector and the manufacturing sector. Employment in these two sectors collapsed much more sharply than in the financial sector, which is nevertheless where the crisis started. At end-2014, the only sector where employment had risen above its pre-crisis level was the private services sector (which nevertheless accounts for almost two thirds of total employment).

## 2|2 Is the unemployment rate still a good indicator of labour market tightness?

Although the recovery in the US labour market is underway, focusing on a single indicator, the unemployment rate – which, as we saw in the previous section, was the measure of the economic cycle traditionally used by the Fed in the framework of its dual mandate of price stability and full employment, and, in particular, for its quantitative guidance – may only provide a partial view of the health of the US labour market. This is obvious, for example, if we compare the changes in the unemployment rate and the employment rate – defined as the share of persons currently employed among those of working age – since 2010 (see Chart 1). Despite a sharp drop in the unemployment rate in the last four years, the rise in the employment rate is still very limited and its level is still close to the low point of 2009.

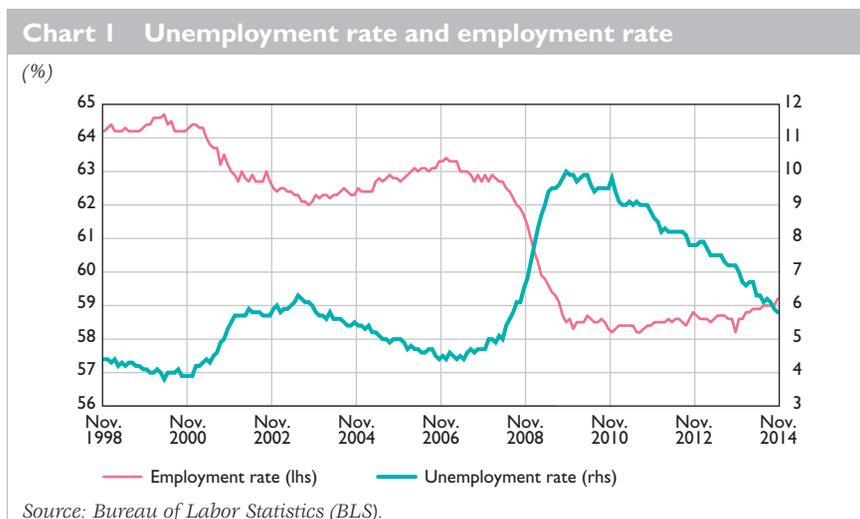
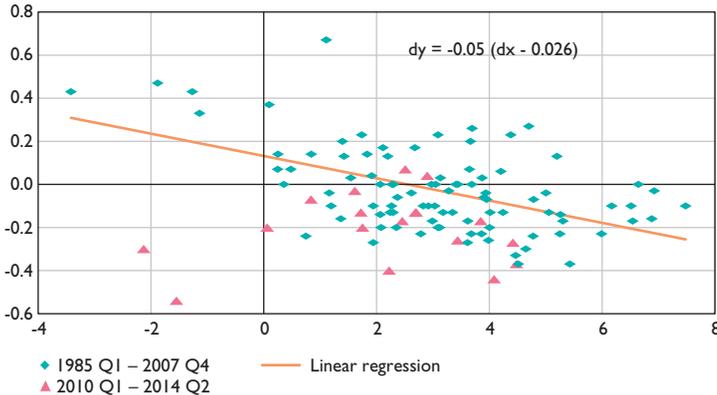


Chart 2 Okun's law

(GDP growth rate on the X-axis, in %, quarter-on-quarter, annualised ; change in unemployment on the Y-axis, in percentage points, quarter-on-quarter)



Sources: Bureau of Economic analysis (BEA), BLS and authors' calculations.

Since 2010, the US unemployment rate has declined much faster than what was expected from the economic recovery, as shown by a simple Okun's law estimated over the period from 1985 to 2007 in the United States (see Chart 2). Okun's Law measures the relationship between the GDP growth rate and the change in the unemployment rate. The original law (Okun, 1962) is expressed in differences such as:

$$\Delta U = \alpha + \beta \times \Delta LPIB + \varepsilon,$$

where  $\Delta LPIB$  is the difference of the logarithm of real GDP,  $\Delta U$  is the change in the unemployment rate and  $\varepsilon$  is an error term. The  $\beta$  parameter, sometimes termed the Okun coefficient, is assumed to be negative, thus reflecting a negative correlation between GDP growth and the change in the unemployment rate. The  $-\alpha/\beta$  ratio is a measure of the GDP growth rate needed to stabilise unemployment. By estimating this relationship using quarterly data over the pre-recession period, from Q1 1985 to Q4 2007, we show that a GDP growth rate of 2.6% (quarter-on-quarter, annualised) was necessary to maintain the unemployment rate unchanged and that a GDP growth rate above this level needed to be achieved to reduce the unemployment rate.

Using this relationship, an analysis of the recent period of declining unemployment (Q1 2010 to Q2 2014) – indicated by the red triangles in Chart 2 – shows that this decrease should have been less pronounced given the historical relationship between growth and unemployment as these red triangles are generally below the regression line. Indeed, the observed GDP growth rate over this same period averages only 2.1% on a quarter-on-quarter annualised basis. It therefore seems that another factor than economic activity may explain the fall in the unemployment rate.

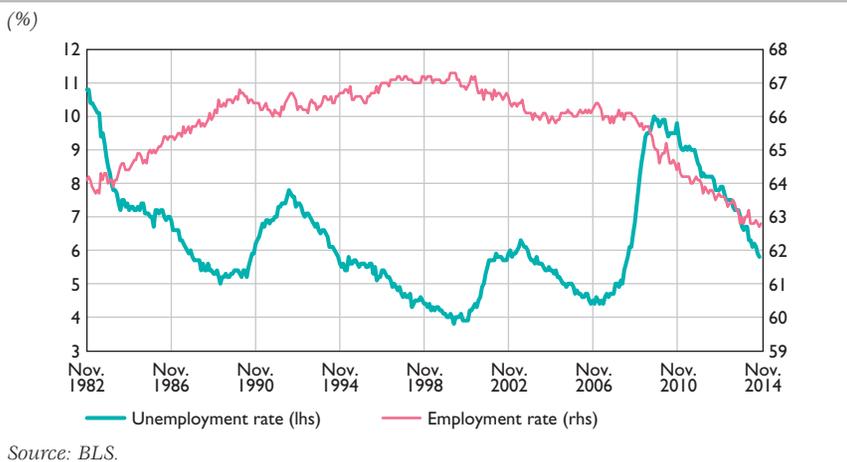
## 2|3 The debate on the fall in the participation rate in the United States

How then to reconcile the sharp drop in the unemployment rate with the moderate recovery in economic activity and employment in the United States since 2010? What is striking during the Great Recession is that the decline in unemployment was accompanied by a sharp decline in the participation rate (defined as the ratio of the workforce to the working-age population, see Chart 3).

The unemployment rate is indeed highly sensitive to the participation rate. The Federal Reserve Bank of Atlanta has developed a tool (available on its website) for forecasting the unemployment rate at a given horizon based on several assumptions, in particular the number of jobs created and the rate of participation.<sup>6</sup>

By way of illustration, Table 1 shows the different values that the unemployment rate could reach at mid-2015 based on possible changes in the participation rate. In this example, we choose a horizon of nine months (September 2014-June 2015) with as the central value for the participation rate the last known figure (62.7% in September 2014). We assume the number of job creations to be 200,000 per month (a value close to the average number of jobs created in the United States since the start of the labour market recovery in 2010). As Table 1 shows, the value of the unemployment rate at mid-2015, when a first increase in US interest rates by the Fed is expected by the markets, would be 5.4% if the participation rate remains stable and job creation continues to rise at

**Chart 3 Unemployment rate and participation rate**



<sup>6</sup> <https://www.frbatlanta.org/chcs/calculator/>

**Table 1** Impact of the participation rate on the unemployment rate in June 2015

In June 2015, the unemployment rate in the United States would be	
63.3	6.3
63.0	5.8
<b>62.7</b>	<b>5.4</b>
62.4	4.9
62.1	4.4

Source: Federal Reserve Bank of Atlanta and authors' calculations.

the same pace. However, this value could change significantly as a result of any increase or decrease in the participation rate. Thus, an increase in the participation rate to 63.3% of the working-age population would mechanically cause unemployment to climb back to 6.3% in June 2015, all other things being equal, and would then call into question the likelihood of exiting the Fed's period of low interest rates (as a reminder, the upper limit of the FOMC central tendency is 5.5%).

The question is then to determine whether the sharp decline in the participation rate since 2007 is cyclical, partly the result of a number of workers discouraged by the Great Recession exiting the labour market, or structural, linked to long-term factors such as the demographic transition.

There is currently an intense academic debate on this issue in the United States. On the one hand, the supporters of the cyclical explanation emphasise the exceptional nature of the Great Recession of 2008-2009 and consider this phenomenon as an unusually long cycle compared to other US recessions (see for example Bengali, Daly, Valletta, 2013, or Erceg and Levin, 2013). On the other, some authors underline the structural factors at the root of this decline, such as the aging population, the stagnation in the female participation rate or the fact that young adults remain longer and longer in the education system instead of entering the labour market (see for example Aaronson and Brave, 2013).

In its report published in February 2014, the Congressional Budget Office (CBO), an independent institute which provides structural measures of the US economy, adopts a median stance in this debate. It breaks down the 3 percentage points decline in the participation rate observed between 2010 and 2013 into 1.5 percentage points due to long-term effects, 1.0 percentage point due to temporary effects and 0.5 percentage point due to the unusual aspects of the Great Recession. More recently, an article by Federal Reserve economists comes to a sharper conclusion: only a quarter of this decline is cyclical, the remainder is mainly structural, linked in particular to the aging of the population (Aaronson *et al.*, 2014).

Distinguishing between the structural and cyclical factors at the root of the decline in the participation rate helps determine the economic policy response, in particular that of monetary policy. Within the FOMC, the most “dovish” members (N. Kocherlakota, C. Evans and J. Williams in particular, but also J. Yellen) emphasise the cyclical aspect of recent labour market developments, thereby justifying a still accommodative monetary policy. Instead, the most “hawkish” members (such as C. Plosser) point to the structural changes that reduce the deviation of the level of output from its potential and trigger inflationary pressures.

## 2 | 4 The debate on short-term and long-term unemployment

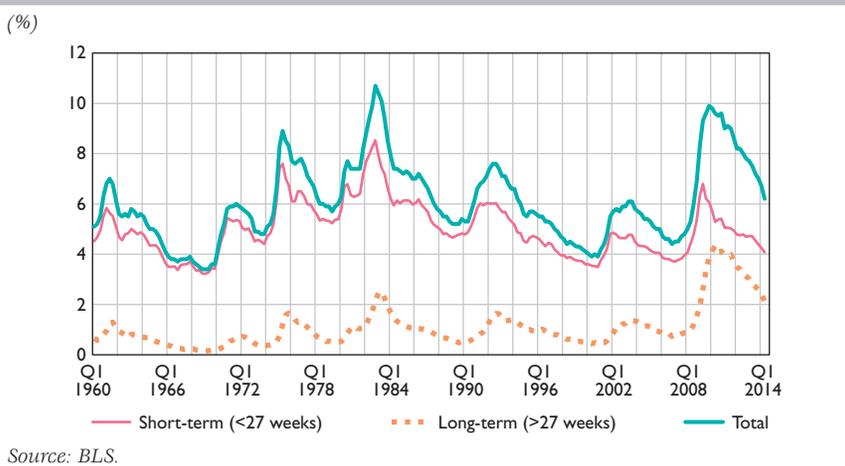
In her many speeches, Janet Yellen has specified on a number of occasions, especially during the period of quantitative forward guidance (December 2012-December 2013), that the unemployment rate was not the only variable to be taken into consideration by the FOMC in its monetary policy decisions. For example, job creations, new unemployment benefit recipients or different surveys published in the JOLTS (Job Openings and Labor Turnover Survey) are closely monitored. More recently, in her speech at Jackson Hole in August 2014, Janet Yellen referred to a recent study of the Fed (Chung *et al.*, 2014) which provides an aggregate measure of labour market conditions (Labor Market Conditions Index).<sup>7</sup> This study is based on a dynamic factor model that summarises the information contained in a large number of variables, using the correlation between these variables.<sup>8</sup> The proposed measure is a composite indicator which is supposed to reproduce the information contained in nineteen variables representative of the US labour market. Since the mid-1970s, this indicator is strongly correlated with the unemployment rate (correlation of -0.96). However, in recent months, it has considerably moved away, reflecting greater pessimism.

In addition to this composite indicator, two other series are also monitored very closely by economists as they partly reflect structural and cyclical aspects, namely the short-term and long-term unemployment rates. The long-term unemployment rate is defined as the share of unemployed persons who have been seeking work for over 27 weeks, and the short-term unemployment rate is defined as the share of unemployed persons who have been seeking work for less than 27 weeks. It is striking to note in Chart 4 that the short-term unemployment rate has now almost returned to its pre-crisis level (4.0% in September 2014) after having been close to 7% at the height

7 « One convenient way to summarize the information contained in a large number of indicators is through the use of so-called factor models. Following this methodology, Federal Reserve Board staff developed a labor market conditions index from 19 labor market indicators, including four I just discussed. This broadly based metric supports the conclusion that the labor market has improved significantly over the past year, but it also suggests that the decline in the unemployment rate over this period somewhat overstates the improvement in overall labor market conditions.»

8 For a recent review of this type of model, see for example Barhoumi, Darné and Ferrara (2013).

Chart 4 Unemployment rate by duration



of the recession. In contrast, the long-term unemployment rate is still above the values observed before the recession (1.9% in September) and recorded record highs of 4.5% in April 2010. This is explained by the emergence of structural unemployment among the long-term unemployed for whom the probability of finding a job decreases with time. This interpretation is backed by certain measures of structural unemployment which have increased since the start of the Great Recession (Chen *et al.*, 2011).

There is currently a debate in the literature on whether or not to take into account the length of unemployment in the assessment of the recent inflationary pressures in the US economy. This debate stems from the fact that, in recent years, a decorrelation has been observed between developments in the unemployment rate and the inflation rate in the United States, as shown for example by the recent absence of inflationary pressures despite an unemployment rate below 6% since September 2014.

So now the question is how to measure the tightness of the US labour market. Previously, the unemployment rate was considered by the FOMC as the optimal variable for assessing the maximum employment criterion in the framework of its dual mandate. It was deemed as such among the three quantitative guidance criteria. Since the Great Recession, the sharp decline in the participation rate has potentially blurred the signal sent by the unemployment rate and the developments in the different components of unemployment have also added a certain degree of uncertainty.

### 3| The interaction between labour market and monetary policy

The current challenge for US monetary policy is to accurately measure the tightness of the labour market. In other words, the problem is to identify the variables that best describe labour market tightness and therefore represent a good indicator for measuring the possible inflationary pressures in the economy.

In this section, we go over the main elements of the debates presented in the previous section, notably to assess their impact on monetary policy decision-making. In particular, we estimate Phillips curves and standard Taylor rules in order to assess the differentiated effect on inflation of the various components of the unemployment rate by duration and thus highlight the trade-off for the FOMC.

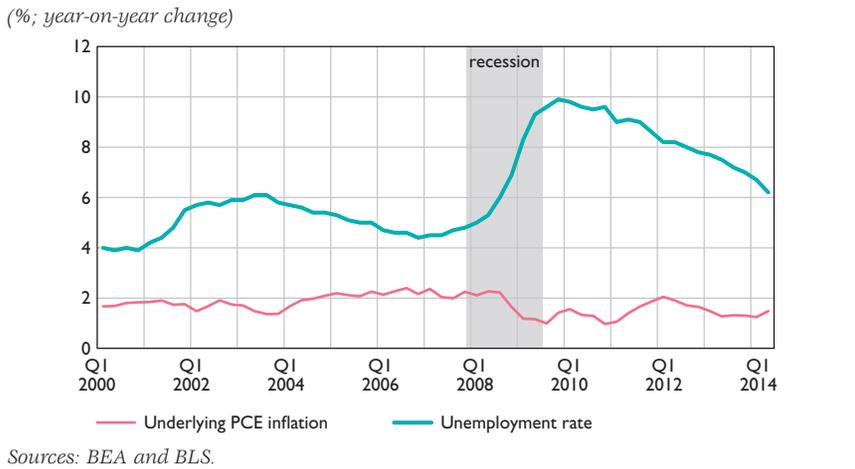
#### 3| I Has the trade-off between unemployment and inflation changed?

As noted above, the debate on the importance of taking into account changes in the different components of the unemployment rate by duration to measure the inflationary pressures in the United States is linked to the fact that since the start of the crisis in 2008, a decorrelation has been observed between developments in the unemployment rate and price developments. Chart 5 shows the underlying inflation measured by the year-on-year change in the personal consumption expenditures (PCE) deflator, excluding food and energy; it can be observed that the sharp rise in the total unemployment rate during the recession was only accompanied by a very moderate decline in inflation.<sup>9</sup> Similarly, the fall in unemployment since the recovery has not led to a significant increase in inflation, which is currently well below the target of 2% (1.4% in September 2014 for headline PCE inflation and 1.5% for underlying PCE inflation).

A strand of the recent literature (see in particular Rudebusch and Williams, 2014 or Kiley, 2014) has put forward the hypothesis that the different developments in short-term and long-term unemployment rates since 2008 could partly explain the apparent absence of any trade-off between inflation and unemployment, or in other words, the flattening of the Phillips curve in the United States.

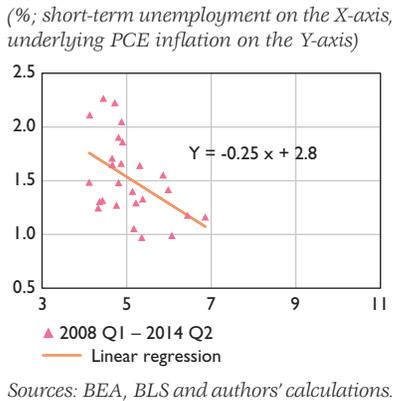
<sup>9</sup> The personal consumption expenditures deflator, published by the Bureau of Economic Analysis, is the Fed's official inflation target as part of its long-term objective of price stability. We use this measure of inflation in the rest of this section, in particular PCE inflation excluding energy and food prices, to better take into account the domestic inflationary pressures (excluding oil and exchange rate effects). Another measure of inflation closely monitored in the United States is the year-on-year change in the consumer price index (CPI), published by the Bureau of Labor Statistics.

**Chart 5 Unemployment and underlying inflation**

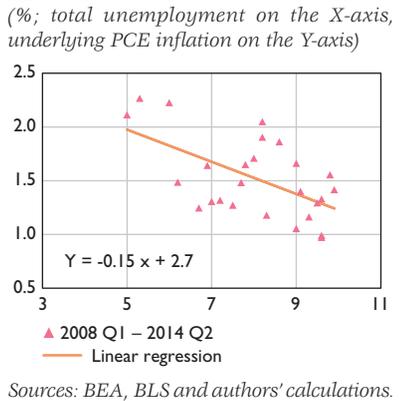


A simple graphic illustration shows that since 2008, the impact of short-term unemployment (less than 27 weeks) on inflation is much greater than that of total unemployment (see Charts 6 and 7). Indeed, the elasticity between Q1 2008 and Q2 2014 estimated using a simple linear regression is stronger in the former case (-0.25, against -0.15).

**Chart 6 Inflation and short-term unemployment**



**Chart 7 Inflation and total unemployment**



### 3 | 2 What does the Phillips curve tell us about the recent relationship between unemployment and inflation?

In this section, we examine from a quantitative perspective the relationship between the unemployment rate and prices in the United States, in particular to verify empirically whether the relationship between these two variables has actually weakened since the crisis of 2008. To do so, we estimate a standard Phillips curve which links inflation to the unemployment gap, measured as the deviation from the natural rate of unemployment, also termed the non-accelerating inflation rate of unemployment (NAIRU) and supposed to measure the unemployment rate compatible with a constant rate of inflation. This simple specification is not, however, augmented by inflation expectations (nor import prices as the focus is on underlying inflation).

The chosen Phillips curve specification is therefore the following:<sup>10</sup>

$$\pi_t = \alpha + \beta \times \pi_{t-1} + \gamma \times (U_t - \hat{U}_t) + \varepsilon_t$$

where  $\pi_t$  is the inflation rate,  $(U_t - \hat{U}_t)$ , the difference between the unemployment rate and the natural rate of unemployment and  $\varepsilon_t$  an error term. In particular, we use as a measure of inflation the underlying PCE inflation and as a measure of the non-accelerating inflation rate of unemployment that estimated by the CBO (CBO, 2014). To test the hypothesis, supported by Charts 6 and 7, that the short-term unemployment rate has a stronger impact on inflation than the total unemployment rate, we also consider two alternative specifications of this Phillips curve by using a “short-term unemployment gap” and a “long-term unemployment gap”, constructed in a similar manner to those put forward by Rudebusch and Williams (2014).

The  $\gamma$  coefficient measures the relationship between the inflation rate and labour market conditions and theoretically has a negative sign. The results of the estimations for this coefficient are presented in Table 2 for the entire period under review, from Q1 1985 to Q1 2014, and for the two sub-periods, from Q1 1985 to Q4 2007 for the pre-crisis period, and from Q1 2008 to Q1 2014 for the post-crisis period.

First, the empirical results show that over the entire period the relationship between inflation and the total unemployment gap is weak, in some cases non-existent, in the United States (the estimated coefficient is very small and not statistically significant). However, the relationship is significant for the pre-crisis period, from 1985 to 2007, although it remains weak overall. Lastly, the results seem to support the hypothesis of a flattening of the Phillips curve since 2008 (the  $\gamma$  coefficient is close to zero in the

<sup>10</sup> There are a number of other specifications of the Phillips curve in the literature, for example for explaining wage developments, which use other explanatory variables such as the output gap.

post-crisis sub-period). This flattening seems less pronounced if one takes into account only short-term unemployment since the  $\gamma$  coefficient remains roughly stable over the two sub-periods in this specification of the curve (although not statistically significant after 2008, as in the case of total unemployment, probably because of the limited number of available observations). As regards long-term unemployment, it does not seem to be an adequate indicator of inflationary pressures in the United States, as the coefficient of the Phillips curve is non-significant across all periods.

Lastly, we use these three alternative specifications of the Phillips curve to draw up a conditional forecast of the underlying PCE inflation over the period from Q1 2008 to Q1 2014.

**Table 2 Estimation of the relationship between inflation and unemployment gap for different periods using the Phillips curve**

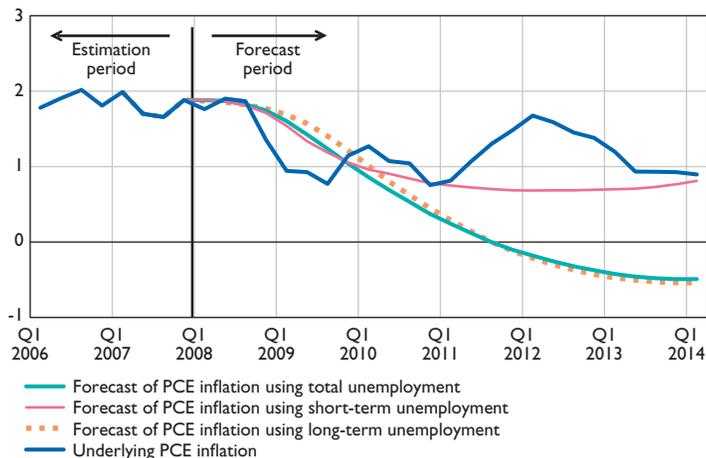
	1985-2014	1985-2007	2008-2014
<b>Phillips curve with total unemployment gap</b>			
$\hat{\gamma}$	-0.02	-0.05*	-0.01
<b>Phillips curve with short-term unemployment gap</b>			
$\hat{\gamma}$	-0.07*	-0.09*	-0.07
<b>Phillips curve with long-term unemployment gap</b>			
$\hat{\gamma}$	-0.01	-0.08	-0.04
<b>Number of observations</b>	<b>117</b>	<b>92</b>	<b>25</b>

Source: Authors' calculations.

\* coefficient significant at the 5% threshold

**Chart 8 Conditional forecast of underlying PCE inflation over the period 2008-2014 by type of unemployment (total, short-term and long-term)**

(year-on-year change in %)



Source: Authors' calculations.

The results in Chart 8 show that since 2008, short-term unemployment provides a better forecast of PCE inflation than total unemployment or long-term unemployment.

The results of our estimations therefore suggest that total unemployment, and in particular long-term unemployment, has recently had very little impact, if any, on inflation in the United States, which has altered the standard relationship between these two variables and may have sent potentially distorted messages about the true current inflationary pressures in the US economy.

### 3 | 3 Estimating a standard Taylor rule with alternative specifications for the unemployment gap

In this last section, we integrate the considerations presented in the previous section on the types of unemployment by duration in a monetary policy framework. Given the Fed's dual mandate of price stability and maximum employment, a standard Taylor rule linking the federal funds rate set by the central bank to the inflation rate in the economy and to an economic cycle indicator represents the benchmark reaction function of US monetary policy in the pre-crisis period.

The chosen specification of the Taylor rule for the federal funds rate  $FF_t$  is the following:

$$FF_t = \alpha + \beta \times \pi_t + \gamma \times (U_t - \hat{U}_t) + \varepsilon_t$$

We use a regression of the federal funds rate on underlying PCE inflation and the total unemployment gap (defined as in the previous section).<sup>11</sup> In order to assess the differentiated effect on inflation of the various components of the unemployment rate by duration, we also estimate two alternative specifications of this rule by using the short-term and long-term unemployment gaps defined above.

In particular, we estimate this rule over the so-called "conventional" monetary policy period which runs from Q1 1985 to Q3 2008, because from December 2008 the Fed was constrained by the zero lower bound and started using forward guidance. We then calculate, on the basis of the estimated coefficients over this period, the conditional forecast of the implied federal funds rate for the period from Q4 2008 to Q1 2014, given the realised values of inflation and unemployment.

*11 There are other specifications of the Taylor rule, which use, for example, the output gap as a measure of the economic cycle.*

**Chart 9 Fed funds and implied Fed funds rates based on a Taylor rule**

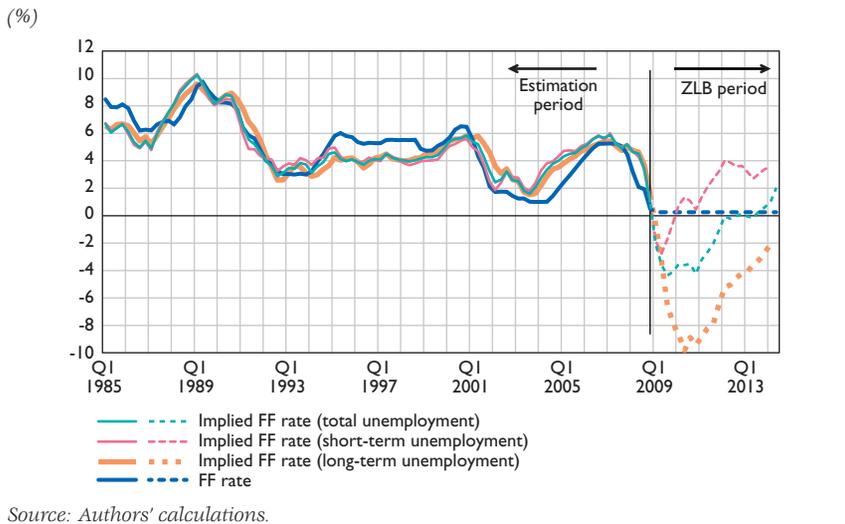


Chart 9 shows that over the estimation period under review, the Taylor rule adjustment, whether one uses the total unemployment gap or one of the two alternative specifications, is generally high ( $R^2$  is around 0.70 in all three cases), despite periods of disruption, as from 1995 to 1998 and from 2002 to 2005, when the estimated Taylor rates differ persistently from the realised rates. The long-term (or natural) interest rate derived from the standard rule (with the total unemployment gap) comes out at around 4.5% (assuming that in the long run  $\pi_t = 2$  and the unemployment gap = 0). The noteworthy result is that the rate derived from the Taylor rule is practically the same for the three specifications until early 2009, then differs significantly, reflecting the decorrelation between long-term and short-term unemployment highlighted above.

This Chart confirms what Janet Yellen has repeated a number of times in her speeches, especially during the period of quantitative forward guidance from December 2012 to December 2013, namely that the unemployment rate is not the only variable to be taken into account by the FOMC in its monetary policy decisions. Indeed, the prescriptions of a standard Taylor rule, based on the total unemployment gap, would have implied a rate increase from the second half of 2013, while a measure of the short-term gap would have implied a rate increase already in 2010. At this point, the specification using the long-term unemployment rate would still prescribe a negative policy rate.

*In this article, we highlight the major role played by the labour market in the Fed's management of US monetary policy in recent years and the complexity of measuring labour market tightness. We show empirically that the relationship between unemployment and inflation appears to have weakened recently, as a result of a decorrelation between the short-term and long-term unemployment rates. Thanks to standard monetary policy prescription tools, such as the Phillips curve and the Taylor rule, we show that this decorrelation leads to clearly differentiated monetary policy decisions. In particular, integrating the long-term unemployment rate in the equations implies a more accommodative approach to monetary policy. This differentiation has given rise to certain tensions within the FOMC, which are a source of uncertainty on when and how fast the Fed shall exit the zero lower bound regime.*

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### Nota bene

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

**Table I**  
**Industrial activity indicators – Monthly Business Survey – France**

(NAF revision 2; seasonally-adjusted data)

	2014						2015
	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
<b>Changes in production from the previous month <sup>a)</sup></b>							
<b>Total manufacturing</b>	<b>3</b>	<b>5</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>1</b>	<b>7</b>
Food products and beverages	10	5	6	9	8	6	8
Electrical, electronic and computer equipment and other machinery	-2	11	-2	6	1	2	3
Automotive industry	5	5	-7	-5	19	0	24
Other transport equipment	-3	2	-2	10	10	8	7
Other manufacturing	2	6	2	0	2	-1	7
<b>Production forecasts <sup>a)</sup></b>							
<b>Total manufacturing</b>	<b>-1</b>	<b>6</b>	<b>5</b>	<b>3</b>	<b>-3</b>	<b>6</b>	<b>3</b>
Food products and beverages	7	6	11	7	7	6	8
Electrical, electronic and computer equipment and other machinery	2	3	6	3	1	3	2
Automotive industry	5	2	3	10	-6	14	13
Other transport equipment	-1	5	5	9	-7	9	2
Other manufacturing	-2	10	3	3	1	5	4
<b>Changes in orders from the previous month <sup>a)</sup></b>							
<b>Total manufacturing</b>	<b>4</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>7</b>	<b>5</b>	<b>9</b>
Foreign	4	7	4	3	5	1	6
<b>Order books <sup>a)</sup></b>							
<b>Total manufacturing</b>	<b>1</b>	<b>-1</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>0</b>
Food products and beverages	-2	-9	-2	0	0	0	-1
Electrical, electronic and computer equipment and other machinery	-8	-7	-7	-12	-14	-10	-12
Automotive industry	-7	-12	-3	-5	-3	4	0
Other transport equipment	48	49	49	46	48	57	51
Other manufacturing	2	0	0	1	-1	0	-2
<b>Inventories of finished goods <sup>a)</sup></b>							
<b>Total manufacturing</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>5</b>	<b>4</b>
Food products and beverages	1	4	2	6	3	7	2
Electrical, electronic and computer equipment and other machinery	5	6	6	6	6	5	7
Automotive industry	5	8	0	-1	-1	1	-2
Other transport equipment	9	2	7	6	7	5	6
Other manufacturing	3	3	1	4	3	4	3
<b>Capacity utilisation rate <sup>b)</sup></b>							
<b>Total manufacturing</b>	<b>75.9</b>	<b>75.5</b>	<b>76.1</b>	<b>76.3</b>	<b>76.5</b>	<b>76.4</b>	<b>76.9</b>
<b>Staff levels (total manufacturing) <sup>a)</sup></b>							
Changes from the previous month	0	-1	0	0	-1	-2	1
Forecast for the coming months	-3	0	-1	-1	-1	-1	-3
<b>Business sentiment indicator <sup>c)</sup></b>							
	<b>96</b>	<b>97</b>	<b>97</b>	<b>97</b>	<b>97</b>	<b>97</b>	<b>98</b>

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

b) Data given as a percentage.

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

Source: Banque de France.

Produced 17 February 2015

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

**Business sentiment indicator**

(100 = 1981 – last value)



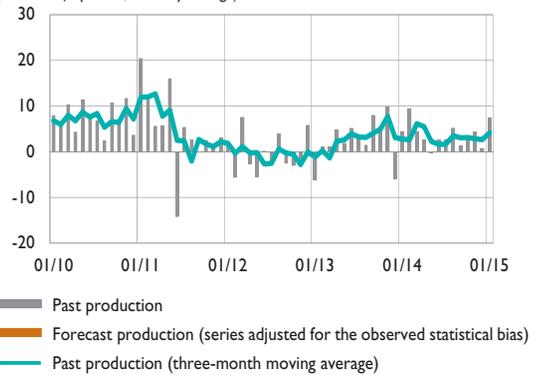
**Orders <sup>a)</sup>**

(balance of opinions; monthly change)



**Production <sup>a)</sup>**

(balance of opinions; monthly change)



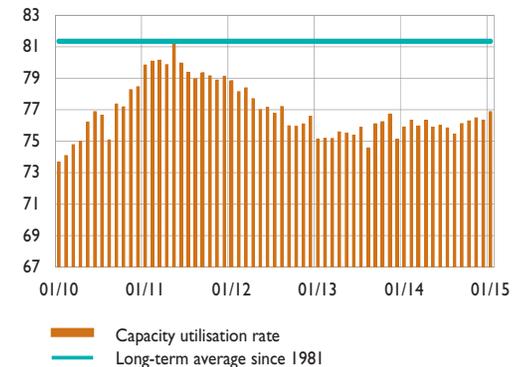
**Inventories and order books <sup>a)</sup>**

(balance of opinions; compared to levels deemed normal)



**Capacity utilisation rate <sup>a)</sup>**

(%)



a) Manufacturing.

Source: Banque de France.

Produced 17 February 2015

**Table 3**  
Consumer price index <sup>a)</sup>

(annual % change)

	2014									2015
	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	
France	0.8	0.6	0.6	0.5	0.4	0.5	0.4	0.1	na	
Germany	0.6	1.0	0.8	0.8	0.8	0.7	0.5	0.1	-0.5	
Italy	0.4	0.2	0.0	-0.2	-0.1	0.2	0.3	-0.1	-0.4	
Euro area	1.0	1.0	0.3	0.0	-0.1	0.1	0.1	-0.1	-0.7	
United Kingdom	1.5	1.9	1.6	1.5	1.2	1.3	1.0	0.5	0.3	
European Union	0.6	0.7	0.5	0.5	0.4	0.5	0.3	-0.1	na	
United States	2.1	2.1	2.0	1.7	1.7	1.7	1.3	0.8	na	
Japan	3.7	3.6	3.4	3.3	3.3	2.9	2.4	2.4	na	

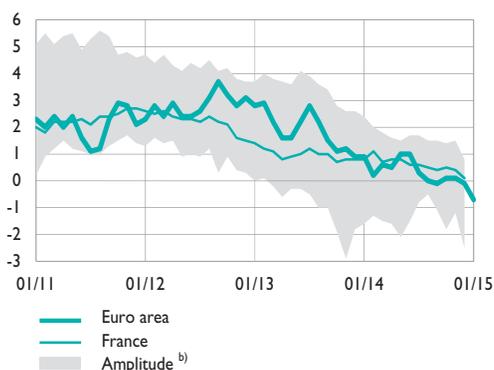
(annual average)

(monthly % change)

	2012	2013	2014	2014					2015
				Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
France	2.2	1.0	0.6	0.5	-0.4	0.0	-0.2	0.1	na
Germany	2.1	1.6	0.8	0.0	0.0	-0.3	0.0	0.1	-1.3
Italy	3.3	1.3	0.2	-0.2	1.9	0.3	-0.2	0.0	-2.4
Euro area	2.8	1.9	0.4	-0.1	0.3	0.1	-0.1	-0.7	-1.2
United Kingdom	2.8	2.6	1.5	0.4	0.0	0.1	-0.3	0.0	-0.9
European Union	2.6	1.5	0.6	0.1	0.3	0.0	-0.2	-0.1	na
United States	2.1	1.5	1.6	-0.2	0.1	-0.3	-0.5	-0.6	na
Japan	0.0	0.4	2.7	0.2	0.3	-0.3	-0.4	0.1	na

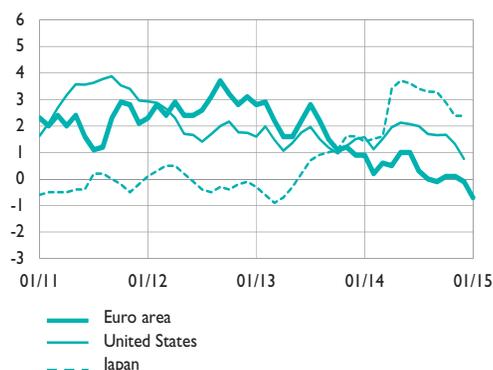
### France and the euro area

(annual % change)



### International comparisons

(annual % change)

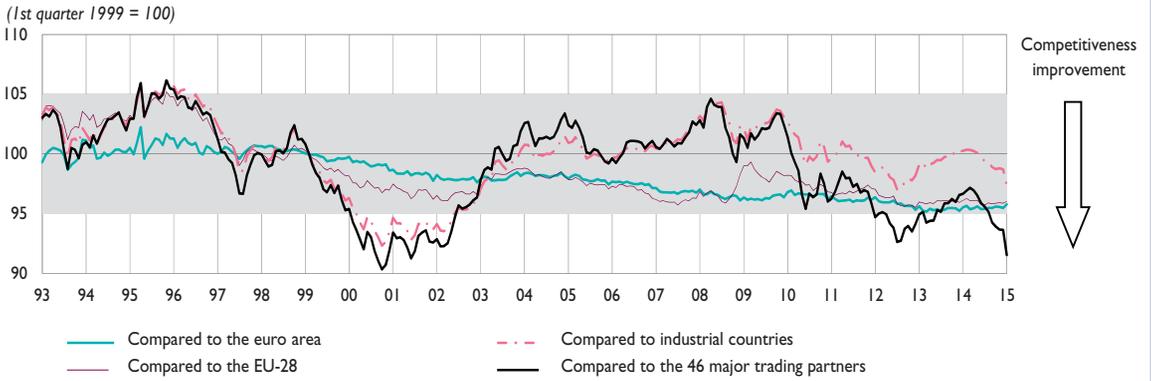


a) Harmonised indices except for the United States and Japan (national indices).

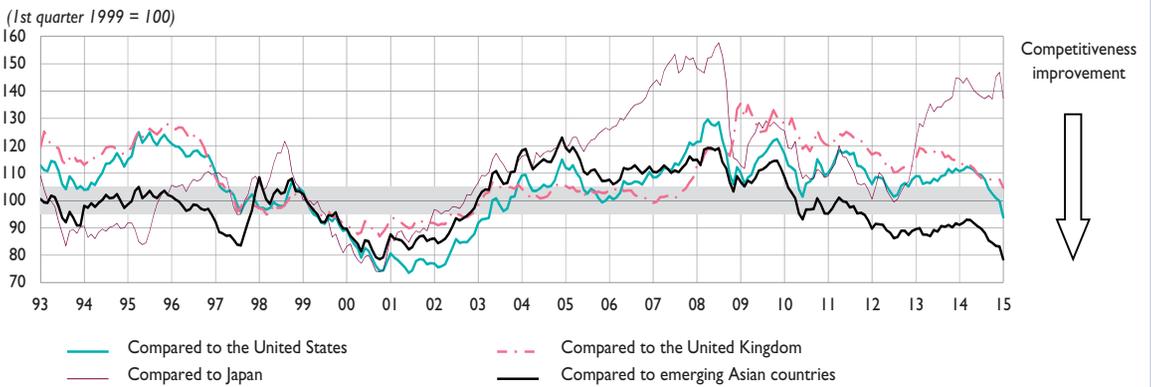
b) Gap between the extreme values of harmonised price indices observed in the euro area (changing composition).

**Table 4**  
The competitiveness of France's economy

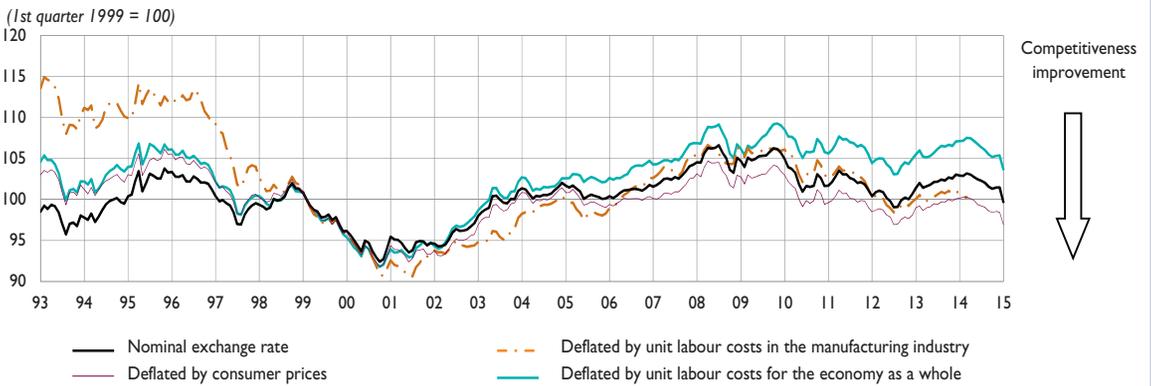
Indicators deflated by consumer prices



Indicators deflated by consumer prices



Indicators of competitiveness compared to 24 OECD countries



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

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

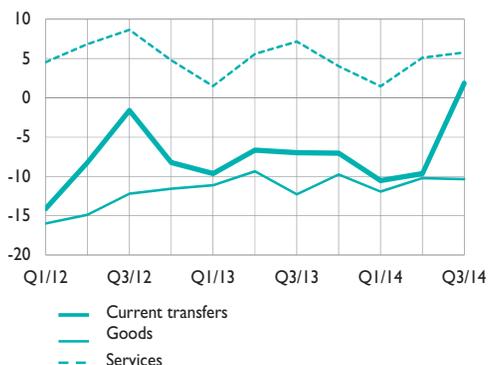
**Table 5**  
**Balance of payments – Main components (quarterly data) – France**

(unadjusted data, EUR billions)

	2012	2013	2013		2014		
			Q3	Q4	Q1	Q2	Q3
<b>Current account</b>	<b>-31.8</b>	<b>-30.3</b>	<b>-7.0</b>	<b>-7.0</b>	<b>-10.5</b>	<b>-9.6</b>	<b>1.9</b>
Goods	-54.6	-42.5	-12.3	-9.8	-11.9	-10.2	-10.3
Services	24.7	18.3	7.2	4.0	1.5	5.1	5.8
Primary income	40.7	39.3	8.7	7.3	15.7	9.5	13.9
Secondary income	-42.6	-45.3	-10.6	-8.6	-15.7	-14.0	-7.5
<b>Capital account</b>	<b>0.5</b>	<b>1.8</b>	<b>0.1</b>	<b>0.6</b>	<b>0.8</b>	<b>0.0</b>	<b>0.9</b>
<b>Financial account</b>	<b>-21.0</b>	<b>-14.2</b>	<b>-4.3</b>	<b>-12.9</b>	<b>-8.2</b>	<b>-13.1</b>	<b>-4.3</b>
Direct investment	14.1	-5.1	-4.2	-2.1	6.1	5.7	13.6
French direct investment abroad	37.7	-0.2	2.9	-3.2	9.6	6.0	2.5
Foreign direct investment in France	23.6	4.9	7.1	-1.1	3.5	0.3	-11.1
Portfolio investment	-26.5	-69.8	-4.3	-52.0	-20.6	7.6	-15.5
Assets	-1.7	66.3	16.6	-13.7	30.4	43.3	-13.7
Liabilities	24.9	136.1	20.9	38.3	51.0	35.7	1.8
Financial derivatives	-14.3	-16.8	0.7	-7.0	-4.7	-9.7	-16.6
Other investment <sup>a)</sup>	1.7	79.0	1.6	50.7	9.4	-18.1	16.4
Reserve assets	4.0	-1.5	1.9	-2.6	1.6	1.3	-2.2
<b>Net errors and omissions</b>	<b>10.3</b>	<b>14.3</b>	<b>2.5</b>	<b>-6.5</b>	<b>1.4</b>	<b>-3.5</b>	<b>-7.1</b>

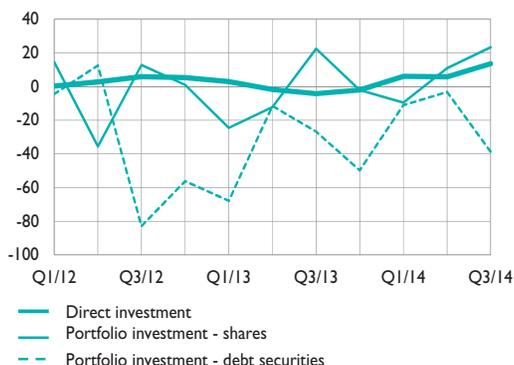
#### Current account balance

(unadjusted data, EUR billions)



#### Financial account balance

(unadjusted data, EUR billions)



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

a) Loans and deposits transactions.

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

(unadjusted data, EUR billions)

	2012	2013	2013		2014		
			Q3	Q4	Q1	Q2	Q3
<b>Current account</b>	<b>-31.8</b>	<b>-30.3</b>	<b>-7.0</b>	<b>-7.0</b>	<b>-10.5</b>	<b>-9.6</b>	<b>1.9</b>
<b>Goods</b>	<b>-54.6</b>	<b>-42.5</b>	<b>-12.3</b>	<b>-9.8</b>	<b>-11.9</b>	<b>-10.2</b>	<b>-10.3</b>
Exports	435.9	437.3	104.2	111.6	108.2	108.5	105.4
Imports	490.6	479.9	116.5	121.4	120.1	118.7	115.8
General merchandise	-72.4	-64.1	-16.7	-15.3	-16.4	-15.1	-15.4
Merchanting	17.8	21.6	4.5	5.6	4.4	4.9	5.0
<b>Services</b>	<b>24.7</b>	<b>18.3</b>	<b>7.2</b>	<b>4.0</b>	<b>1.5</b>	<b>5.1</b>	<b>5.8</b>
Exports	184.0	192.0	52.9	48.6	44.2	51.3	54.2
Imports	159.2	173.7	45.8	44.6	42.7	46.2	48.5
Manufacturing services on physical inputs owned by others	1.4	1.6	0.3	0.4	0.5	0.5	0.3
Maintenance and repair services	2.8	2.0	0.5	0.5	0.4	0.5	0.5
Transport	-0.3	-1.7	-0.5	-0.4	-0.5	-0.4	-0.2
Travel	10.7	10.4	5.3	0.5	0.5	2.5	3.4
Construction	1.1	0.7	0.0	0.8	-0.1	-0.1	-0.1
Insurance and pension services	1.0	0.1	0.1	0.0	-0.4	0.2	-0.1
Financial services	4.3	4.6	1.1	1.2	1.4	1.5	1.5
Charges for the use of intellectual property	3.1	1.1	0.2	0.5	-0.1	0.4	0.2
Telecommunications, computer and information services	0.5	-1.1	-0.4	-0.2	-0.2	-0.6	-0.2
Other business services	0.5	1.2	0.6	0.6	0.1	0.7	0.3
Personal, cultural and recreational services	-0.7	-0.9	-0.2	-0.2	-0.2	-0.2	-0.2
Government services	0.4	0.4	0.1	0.1	0.1	0.1	0.3
Other services							
<b>Primary income</b>	<b>40.7</b>	<b>39.3</b>	<b>8.7</b>	<b>7.3</b>	<b>15.7</b>	<b>9.5</b>	<b>13.9</b>
Compensation of employees	15.7	15.9	4.0	4.0	4.2	4.3	4.3
Investment income	16.7	14.1	5.1	1.5	4.1	5.1	9.8
Direct investment	39.1	34.2	7.3	5.7	5.8	16.1	10.4
Portfolio investment	-18.7	-17.2	-1.4	-3.5	-0.9	-10.3	0.4
Other investment <sup>a)</sup>	-4.1	-3.3	-0.8	-0.7	-0.9	-0.9	-1.0
Reserve assets	0.4	0.5	0.1	0.1	0.1	0.1	0.1
Other primary income	8.4	9.3	-0.3	1.8	7.5	0.1	-0.3
<b>Secondary income</b>	<b>-42.6</b>	<b>-45.3</b>	<b>-10.6</b>	<b>-8.6</b>	<b>-15.7</b>	<b>-14.0</b>	<b>-7.5</b>
General government	-28.6	-30.5	-6.8	-4.8	-11.2	-6.5	-4.4
Other sectors	-14.0	-14.8	-3.8	-3.8	-4.6	-7.6	-3.0
of which workers' remittances	-8.2	-8.4	-2.1	-2.1	-2.1	-2.1	-2.1
<b>Capital account</b>	<b>0.5</b>	<b>1.8</b>	<b>0.1</b>	<b>0.6</b>	<b>0.8</b>	<b>0.0</b>	<b>0.9</b>

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

a) Loans and deposits transactions.

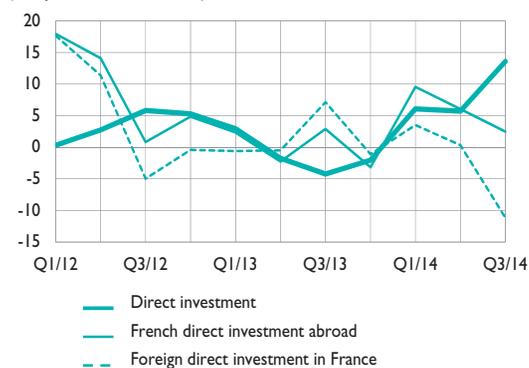
**Table 7**  
**Balance of payments - Financial flows (quarterly data) – France**

(unadjusted data, EUR billions)

	2012	2013	2013		2014		
			Q3	Q4	Q1	Q2	Q3
<b>Financial account</b>	<b>-21.0</b>	<b>-14.2</b>	<b>-4.3</b>	<b>-12.9</b>	<b>-8.2</b>	<b>-13.1</b>	<b>-4.3</b>
Direct investment	14.1	-5.1	-4.2	-2.1	6.1	5.7	13.6
French direct investment abroad	37.7	-0.2	2.9	-3.2	9.6	6.0	2.5
of which Equity capital	45.9	9.1	2.6	3.3	7.0	-1.4	8.3
Foreign direct investment in France	23.6	4.9	7.1	-1.1	3.5	0.3	-11.1
of which Equity capital	12.3	17.5	4.5	4.0	3.7	4.6	-3.7
Portfolio investment	-26.5	-69.8	-4.3	-52.0	-20.6	7.6	-15.5
Assets	-1.7	66.3	16.6	-13.7	30.4	43.3	-13.7
Equity and investment fund shares	54.3	48.8	20.4	15.6	-13.3	19.5	11.2
Long-term debt securities (> 1yr)	-79.6	36.3	3.2	5.1	29.5	19.7	-12.8
Short-term debt securities (< 1yr)	23.7	-18.8	-7.0	-34.3	14.2	4.1	-12.1
Liabilities	24.9	136.1	20.9	38.3	51.0	35.7	1.8
Equity and investment fund shares	25.4	26.1	-2.0	17.7	-3.8	8.7	-12.1
Long-term debt securities (> 1yr)	36.5	82.0	3.6	33.4	45.0	29.4	3.3
Short-term debt securities (< 1yr)	-36.9	28.0	19.4	-12.8	9.8	-2.4	10.6
Financial derivatives	-14.3	-16.8	0.7	-7.0	-4.7	-9.7	-16.6
Other investment <sup>a)</sup>	1.7	79.0	1.6	50.7	9.4	-18.1	16.4
Reserve assets	4.0	-1.5	1.9	-2.6	1.6	1.3	-2.2
<b>Net errors and omissions</b>	<b>10.3</b>	<b>14.3</b>	<b>2.5</b>	<b>-6.5</b>	<b>1.4</b>	<b>-3.5</b>	<b>-7.1</b>

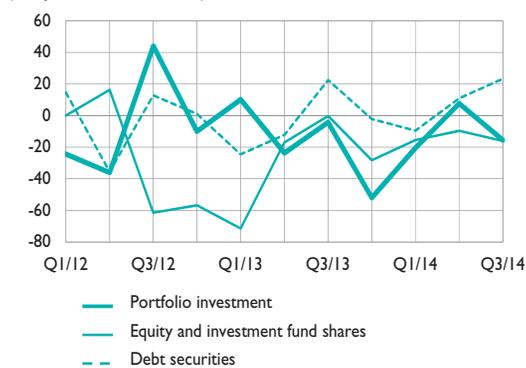
#### Direct investment account

(unadjusted data, EUR billions)



#### Portfolio investment account

(unadjusted data, EUR billions)



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

a) Loans and deposits transactions.

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

(unadjusted data, EUR billions)

	3 <sup>rd</sup> quarter 2014					
	EMU <sup>a)</sup>	UE-28 excl. EMU <sup>b)</sup>	USA	Japan	Switzerland	China
<b>Current account</b>	<b>10.2</b>	<b>-1.1</b>	<b>1.5</b>	<b>0.1</b>	<b>2.9</b>	<b>na</b>
Receipts	115.9	5.9	15.2	2.4	10.1	6.0
Expenditure	107.1	7.0	13.9	2.4	7.2	na
Goods	-3.7	-0.9	-1.2	-0.1	-0.3	-6.2
Receipts	61.4	4.4	6.3	1.6	2.5	4.5
Expenditure	65.1	5.3	7.4	1.7	2.9	10.6
Services	2.3	-0.7	0.1	0.2	1.5	0.2
Receipts	31.4	0.8	5.3	0.7	3.8	1.1
Expenditure	29.1	1.5	5.2	0.5	2.3	0.9
Primary income	15.5	0.6	2.5	0.0	2.4	na
Receipts	22.8	0.6	3.6	0.2	3.1	0.4
Expenditure <sup>c)</sup>	7.3	0.0	1.1	0.1	0.7	na
Secondary income	-3.9	-0.1	0.1	0.0	-0.7	-0.1
Receipts	1.7	0.0	0.3	0.0	0.6	0.0
Expenditure	5.6	0.1	0.2	0.0	1.3	0.1
<b>Financial account</b>						
Direct investment	7.7	1.2	3.6	0.0	3.3	0.2
French direct investment abroad	3.0	1.2	0.8	0.0	-2.4	0.2
Foreign direct investment in France	-4.8	-0.1	-2.8	0.0	-5.7	0.0
Portfolio investment – Assets <sup>d)</sup>	-2.2	0.0	-0.2	-8.4	0.6	-0.3
Equity and investment fund shares	13.9	0.0	0.4	-2.7	0.7	-0.4
Long-term debt securities (>1yr)	-8.2	0.0	-2.3	-1.3	0.0	0.2
Short-term debt securities (<1yr)	-7.9	0.0	1.7	-4.4	-0.1	0.0
Other investment <sup>e)</sup>	27.8	-1.9	-17.3	21.1	-7.3	-1.0

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

a) 18 Member States.

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

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

d) The geographical breakdown is not available for liabilities.

e) Loans and deposits transactions.

**Table 9**  
**Balance of payments (monthly data) - France**

(unadjusted data, EUR billions)

	2014			
	Sept.	Oct.	Nov.	Dec.
<b>Current account</b>	<b>3.5</b>	<b>-2.4</b>	<b>-1.1</b>	<b>-0.7</b>
Goods	-2.9	-2.1	-1.2	-1.5
Services	1.8	0.9	1.0	0.7
Primary income	6.6	1.8	2.2	3.1
Secondary income	-2.0	-2.9	-3.2	-3.1
Capital account	0.1	0.1	0.1	0.5
<b>Financial account</b>	<b>-8.4</b>	<b>2.3</b>	<b>5.1</b>	<b>-16.3</b>
Direct investment	5.5	2.3	-2.6	-0.5
French direct investment abroad	4.6	2.7	0.1	-2.8
Equity capital	5.3	1.4	-0.3	-3.5
Reinvested earnings	1.2	1.2	0.6	0.6
Other capital (inter-company loans)	-1.9	0.1	-0.2	0.1
Foreign direct investment in France	-0.8	0.4	2.8	-2.3
Equity capital	1.3	0.5	3.9	1.0
Reinvested earnings	0.4	0.4	0.3	0.3
Other capital (inter-company loans)	-2.5	-0.5	-1.4	-3.5
Portfolio investment	11.3	15.4	8.0	-6.0
Assets	28.6	9.2	17.5	-17.8
Equity and investment fund shares	10.2	-13.2	-1.3	9.4
Long-term debt securities (>1yr)	16.0	22.6	13.5	14.8
Short-term debt securities (<1yr)	2.4	-0.3	5.3	-42.0
Liabilities	17.2	-6.3	9.6	-11.7
Equity and investment fund shares	-2.9	8.1	-6.5	0.8
Long-term debt securities (>1yr)	15.4	-4.1	14.3	-9.2
Short-term debt securities (<1yr)	4.8	-10.3	1.7	-3.3
Financial derivatives	-5.5	-10.1	-1.5	-5.3
Other investment <sup>a)</sup>	-18.2	-6.7	3.2	-5.1
of which IMF excl. Banque de France (net flows)	-34.7	-2.1	8.9	-25.0
Reserve assets	-1.5	1.4	-2.0	0.6
<b>Net errors and omissions</b>	<b>-11.9</b>	<b>4.6</b>	<b>6.1</b>	<b>-16.1</b>

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

a) Loans and deposits transactions.

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

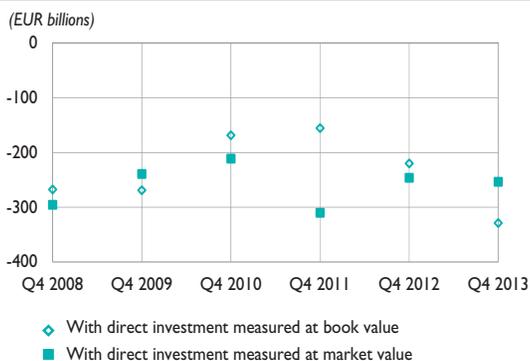
(EUR billions)

	2009	2010	2011	2012	2013	2014
	Dec.	Dec.	Dec.	Dec.	Dec.	Q3
<b>Assets</b>	<b>5,427.2</b>	<b>5,731.9</b>	<b>5,962.1</b>	<b>6,016.3</b>	<b>5,741.4</b>	<b>6,250.0</b>
French direct investment abroad	1,024.0	1,140.1	1,238.6	1,268.5	1,235.9	1,316.0
Equity capital and reinvested earnings	736.3	839.1	874.5	914.6	897.3	965.5
Other capital (inter-company loans)	287.6	301.0	364.1	353.9	338.6	350.5
Portfolio investment	2,070.8	2,100.1	1,865.6	1,991.0	2,094.7	2,255.1
Financial derivatives	926.6	825.8	1,092.2	1,080.2	804.7	930.5
Other investment <sup>a)</sup>	1,313.5	1,541.4	1,632.7	1,536.8	1,501.1	1,632.9
Reserve assets	92.4	124.5	133.1	139.9	105.1	115.5
<b>Liabilities</b>	<b>5,696.1</b>	<b>5,900.3</b>	<b>6,117.4</b>	<b>6,236.2</b>	<b>6,070.2</b>	<b>6,600.3</b>
Foreign direct investment in France	690.8	733.1	811.2	824.8	825.2	856.9
Equity capital and reinvested earnings	408.4	434.5	443.1	442.3	460.0	497.7
Other capital (inter-company loans)	282.5	298.6	368.1	382.5	365.2	359.3
Portfolio investment	2,290.0	2,420.9	2,412.2	2,612.1	2,819.3	3,024.4
Financial derivatives	998.3	873.6	1,136.6	1,125.4	869.8	1,001.0
Other investment <sup>a)</sup>	1,717.0	1,872.8	1,757.4	1,673.9	1,555.9	1,718.0
<b>Net position</b>	<b>-268.8</b>	<b>-168.4</b>	<b>-155.3</b>	<b>-219.9</b>	<b>-328.7</b>	<b>-350.3</b>

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



**France's international investment position**



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

a) Loans and deposits transactions.

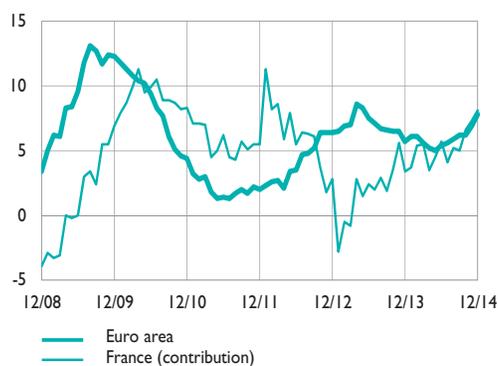
**Table II**  
**Main monetary and financial aggregates – France and the euro area**

(annual percentage growth rate)

	2012	2013	2014	2013	2014							
	Dec.	Dec.	Dec.	Dec.	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
<b>M1</b>												
Euro area <sup>a)</sup>	6.4	5.7	7.8	5.7	5.4	5.6	5.9	6.2	6.2	6.9	7.8	
France (contribution)	2.8	3.4	8.1	3.4	5.7	4.1	5.2	5.0	6.6	7.3	8.1	
<b>M2</b>												
Euro area <sup>a)</sup>	4.5	2.5	3.5	2.5	2.4	2.5	2.7	3.0	2.7	3.3	3.5	
France (contribution)	5.2	2.3	3.2	2.3	1.9	1.1	1.9	2.0	2.8	3.4	3.2	
<b>M3</b>												
Euro area <sup>a)</sup>	3.5	1.0	3.6	1.0	1.6	1.8	2.0	2.5	2.5	3.1	3.6	
France (contribution)	2.6	1.3	3.4	1.3	0.8	0.9	1.2	1.5	3.1	3.7	3.4	
<b>Loans to the private sector</b>												
Euro area <sup>a)</sup>	-0.6	-2.3	-0.5	-2.3	-1.8	-1.6	-1.5	-1.2	-1.1	-0.9	-0.5	
France <sup>b)</sup>	2.5	0.7	2.4	0.7	1.6	1.6	1.5	2.0	1.7	1.9	2.4	

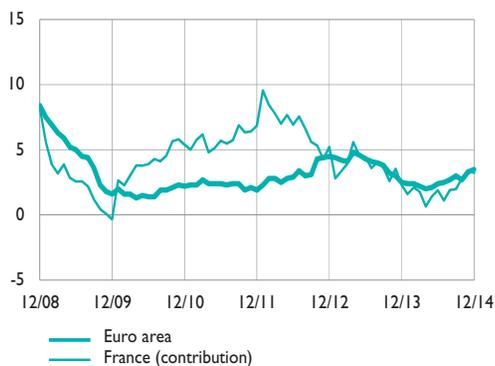
**M1**

(annual percentage growth rate)



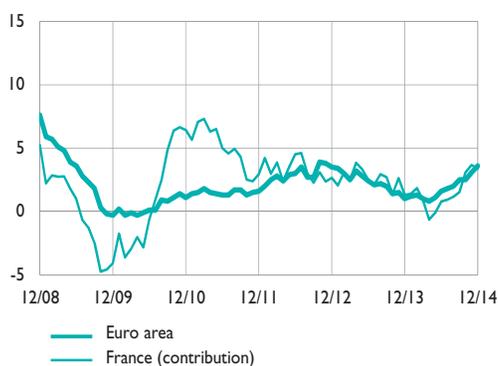
**M2**

(annual percentage growth rate)



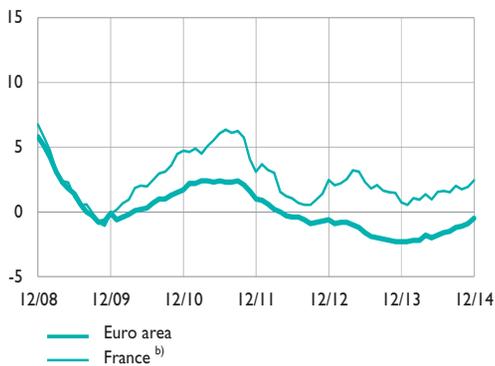
**M3**

(annual percentage growth rate)



**Loans to the private sector**

(annual percentage growth rate)



a) Seasonal and calendar effect adjusted data.

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

Sources: Banque de France, European Central Bank.

Produced 17 February 2015

**Table I2**  
**Banque de France Monthly Statement <sup>a)</sup>**

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

	2012	2013	2014	2013	2014			
	Dec.	Dec.	Dec.	Dec.	Sept.	Oct.	Nov.	Dec.
<b>Assets</b>								
National territory	326.4	199.7	213.6	199.7	174.9	162.7	171.2	213.6
Loans	234.2	127.1	137.8	127.1	105.8	93.8	98.4	137.8
MFIs <sup>b)</sup>	234.0	127.0	137.6	127.0	105.6	93.7	98.2	137.6
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Debt securities held	92.1	72.5	75.7	72.5	69.1	68.7	72.6	75.7
MFIs	32.2	25.2	33.5	25.2	28.0	28.6	31.4	33.5
General government	59.9	47.3	42.2	47.3	41.1	40.1	41.2	42.2
Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other euro area countries <sup>b)</sup>	87.6	91.4	86.7	91.4	88.2	86.9	86.9	86.7
Rest of the world <sup>b)</sup>	114.9	88.3	89.6	88.3	91.3	91.7	88.2	89.6
Gold	98.8	68.2	77.3	68.2	75.3	72.9	74.3	77.3
Not broken down by geographical area <sup>c)</sup>	109.6	107.6	115.3	107.6	108.4	106.6	110.5	115.3
<b>Total</b>	<b>737.3</b>	<b>555.2</b>	<b>582.6</b>	<b>555.2</b>	<b>538.1</b>	<b>520.9</b>	<b>530.9</b>	<b>582.6</b>
<b>Liabilities</b>								
National territory – Deposits	200.3	116.0	116.1	116.0	91.3	73.3	72.6	116.1
MFIs	194.8	112.2	112.7	112.2	78.5	68.3	70.7	112.7
General government	4.9	3.3	2.4	3.3	11.9	4.1	0.6	2.4
Other sectors	0.6	0.6	1.0	0.6	0.9	0.9	1.3	1.0
Other euro area countries – Deposits	73.9	34.1	30.9	34.1	14.5	27.0	35.2	30.9
Rest of the world – Deposits	146.0	112.6	117.4	112.6	125.4	114.8	116.7	117.4
Not broken down by geographical area	317.1	292.5	306.1	292.5	306.8	305.8	306.5	306.1
Banknotes and coins in circulation <sup>d)</sup>	173.5	181.7	192.6	181.7	184.1	184.8	185.9	192.6
of which coins <sup>e)</sup>	2.9	3.0	3.1	3.0	3.1	3.1	3.1	3.1
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital reserves and revaluation account	117.0	86.6	101.7	86.6	100.0	97.8	97.7	101.7
Other liabilities	26.5	24.1	11.9	24.1	22.6	23.2	22.9	11.9
<b>Total <sup>f)</sup></b>	<b>737.3</b>	<b>555.2</b>	<b>582.6</b>	<b>555.2</b>	<b>538.1</b>	<b>520.9</b>	<b>530.9</b>	<b>582.6</b>

a) These statistics are transmitted to the European Central Bank, on the 15th working day following the end of the month to which they relate, within the production of the consolidated balance sheet of the monetary financial institutions (Regulation ECB/2013/33).

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

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

d) Since January 2002, banknotes in circulation are treated according to specific euro area accounting conventions to bring them in line with the capital key share. 8% of the total value of euro banknotes in circulation is allocated to the European Central Bank. The remaining 92% is broken down between the NCBs in proportion to their share in the paid-up capital of the ECB.

e) Coins in circulation are not a liability of MFIs in the participating Member States, but a liability of the central government. However, coins are part of the monetary aggregates and, by convention, this liability is to be entered under the category 'currency in circulation'. The counterpart to this liability is to be included within 'remaining assets'. (Regulation ECB/2013/33.)

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

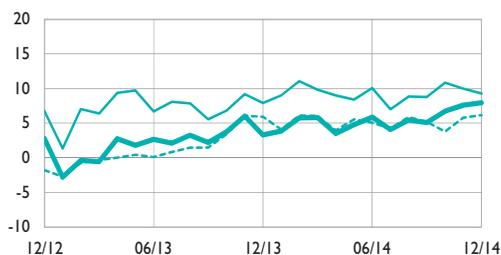
**Table I3**  
**Deposits – France**

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

	2012	2013	2014	2013	2014			
	Dec.	Dec.	Dec.	Dec.	Sept.	Oct.	Nov.	Dec.
<b>Overnight deposits</b>								
Total non-financial sectors (excluding central government)	555.9	582.3	623.0	582.3	590.5	591.2	597.9	623.0
Households and similar	279.2	295.5	314.1	295.5	307.5	303.5	306.5	314.1
Non-financial corporations	214.7	231.2	253.2	231.2	230.2	232.0	235.9	253.2
General government (excl. central government)	62.0	55.7	55.7	55.7	52.8	55.6	55.6	55.7
Other sectors	42.5	35.7	44.1	35.7	39.9	47.8	43.8	44.1
<b>Total – Outstanding amounts</b>	<b>598.0</b>	<b>617.7</b>	<b>666.6</b>	<b>617.7</b>	<b>629.9</b>	<b>638.6</b>	<b>641.3</b>	<b>666.6</b>
<b>Total – Growth rate</b>	<b>2.8</b>	<b>3.3</b>	<b>7.9</b>	<b>3.3</b>	<b>5.1</b>	<b>6.7</b>	<b>7.6</b>	<b>7.9</b>
<b>Passbook savings accounts</b>								
"A" and "Blue" passbooks	247.2	263.2	260.0	263.2	261.7	258.7	257.4	260.0
Housing savings accounts	35.2	33.4	31.2	33.4	31.6	31.2	31.0	31.2
Sustainable development passbook accounts	92.0	100.7	101.9	100.7	101.7	100.8	100.4	101.9
People's savings passbooks	51.7	48.3	46.5	48.3	46.1	45.9	45.8	46.5
Youth passbooks	7.0	6.9	6.8	6.9	6.8	6.8	6.8	6.8
Taxable passbooks	178.7	172.5	169.5	172.5	174.1	172.5	171.3	169.5
<b>Total – Outstanding amounts</b>	<b>611.7</b>	<b>625.1</b>	<b>615.8</b>	<b>625.1</b>	<b>621.9</b>	<b>615.9</b>	<b>612.8</b>	<b>615.8</b>
<b>Total – Growth rate</b>	<b>9.4</b>	<b>2.2</b>	<b>-1.5</b>	<b>2.2</b>	<b>-1.1</b>	<b>-1.2</b>	<b>-1.1</b>	<b>-1.5</b>

### Overnight deposits

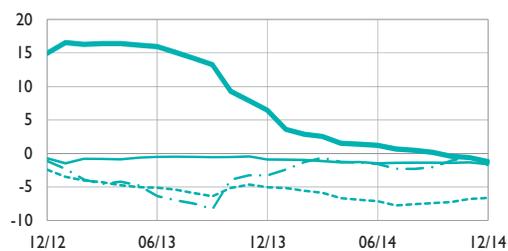
(annual growth rate)



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

### Passbook savings accounts

(annual growth rate)



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

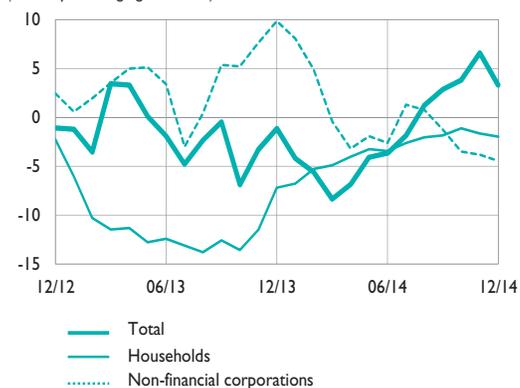
**Table I4**  
**Time deposits – France**

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

	2012	2013	2014	2013	2014			
	Dec.	Dec.	Dec.	Dec.	Sept.	Oct.	Nov.	Dec.
<b>Deposits with agreed maturity up to two years</b>								
Total non-financial sectors (excl. central government)	111.8	117.3	113.8	117.3	108.3	107.3	108.5	113.8
Households and similar	30.9	28.6	28.1	28.6	28.6	28.3	28.2	28.1
Non-financial corporations	79.9	87.7	84.0	87.7	78.5	77.7	79.0	84.0
General government (excl. central government)	0.9	1.0	1.7	1.0	1.3	1.3	1.3	1.7
Other sectors	40.7	33.5	41.9	33.5	41.4	40.3	44.1	41.9
<b>Total – Outstanding amounts</b>	<b>152.5</b>	<b>150.7</b>	<b>155.7</b>	<b>150.7</b>	<b>149.7</b>	<b>147.7</b>	<b>152.7</b>	<b>155.7</b>
<b>Total – Growth rate</b>	<b>-1.1</b>	<b>-1.1</b>	<b>3.3</b>	<b>-1.1</b>	<b>2.8</b>	<b>3.8</b>	<b>6.6</b>	<b>3.3</b>
<b>Deposits with agreed maturity of over two years</b>								
Total non-financial sectors (excl. central government)	328.9	342.2	363.9	342.2	352.6	355.3	357.0	363.9
Households and similar	269.4	274.8	289.6	274.8	280.9	282.9	284.3	289.6
PEL	188.2	197.7	215.8	197.7	207.4	208.8	210.2	215.8
PEP	24.0	23.0	22.1	23.0	22.0	21.9	21.8	22.1
Other	57.1	54.1	51.6	54.1	51.5	52.2	52.2	51.6
Non-financial corporations	58.1	65.5	72.1	65.5	69.8	70.6	70.8	72.1
General government (excl. central government)	1.4	1.9	2.1	1.9	1.9	1.9	1.9	2.1
Other sectors	154.7	157.0	92.5	157.0	92.7	92.8	91.1	92.5
<b>Total – Outstanding amounts</b>	<b>483.5</b>	<b>499.3</b>	<b>456.4</b>	<b>499.3</b>	<b>445.3</b>	<b>448.1</b>	<b>448.1</b>	<b>456.4</b>
<b>Total – Growth rate</b>	<b>0.3</b>	<b>3.4</b>	<b>-8.8</b>	<b>3.4</b>	<b>-10.0</b>	<b>-10.9</b>	<b>-10.9</b>	<b>-8.8</b>

**Deposits up to 2 years**

(annual percentage growth rate)



**Deposits over 2 years**

(annual percentage growth rate)



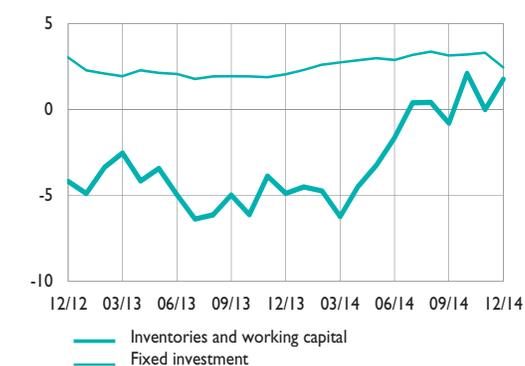
**Table 15**  
**Loans extended by credit institutions established in France to French residents – France**

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

	2012	2013	2014	2013	2014				
	Dec.	Dec.	Dec.	Dec.	Aug.	Sept.	Oct.	Nov.	Dec.
<b>Loans to resident clients</b>									
Private sector	2,100.0	2,114.9	2,165.1	2,114.9	2,144.5	2,158.8	2,156.2	2,157.3	2,165.1
General government	206.8	213.1	214.2	213.1	214.6	213.6	215.8	215.7	214.2
<b>Total – Outstanding amounts</b>	<b>2,306.7</b>	<b>2,328.1</b>	<b>2,379.3</b>	<b>2,328.1</b>	<b>2,359.1</b>	<b>2,372.4</b>	<b>2,372.0</b>	<b>2,373.0</b>	<b>2,379.3</b>
Private sector	2.5	0.7	2.4	0.7	1.5	2.0	1.7	1.9	2.4
General government	6.1	2.8	3.1	2.8	1.2	1.2	1.4	1.2	3.1
<b>Total – Growth rate</b>	<b>2.8</b>	<b>0.9</b>	<b>2.5</b>	<b>0.9</b>	<b>1.5</b>	<b>1.9</b>	<b>1.7</b>	<b>1.9</b>	<b>2.5</b>
<b>Loans to non-financial companies</b>									
Fixed investment	563.0	568.0	581.1	568.0	574.1	572.8	575.2	576.4	581.1
Inventories and working capital	174.1	167.5	174.7	167.5	172.3	171.6	175.3	173.7	174.7
Other lending	82.0	81.3	82.0	81.3	78.9	80.6	79.8	78.8	82.0
<b>Total – Outstanding amounts</b>	<b>819.1</b>	<b>816.7</b>	<b>837.7</b>	<b>816.7</b>	<b>825.3</b>	<b>825.0</b>	<b>830.3</b>	<b>828.9</b>	<b>837.7</b>
<b>Total – Growth rate</b>	<b>1.0</b>	<b>0.2</b>	<b>2.2</b>	<b>0.2</b>	<b>2.1</b>	<b>1.9</b>	<b>2.7</b>	<b>2.1</b>	<b>2.2</b>
<b>Loans to households</b>									
Loans for house purchase	874.2	907.0	927.3	907.0	921.9	922.1	924.5	925.6	927.3
Consumer loans	160.4	157.3	159.3	157.3	155.9	157.1	158.6	158.0	159.3
Other lending	92.1	92.3	93.6	92.3	93.9	92.5	92.7	92.9	93.6
<b>Total – Outstanding amounts</b>	<b>1,126.7</b>	<b>1,156.6</b>	<b>1,180.2</b>	<b>1,156.6</b>	<b>1,171.6</b>	<b>1,171.7</b>	<b>1,175.8</b>	<b>1,176.5</b>	<b>1,180.2</b>
<b>Total – Growth rate</b>	<b>2.3</b>	<b>2.5</b>	<b>2.4</b>	<b>2.5</b>	<b>2.7</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>

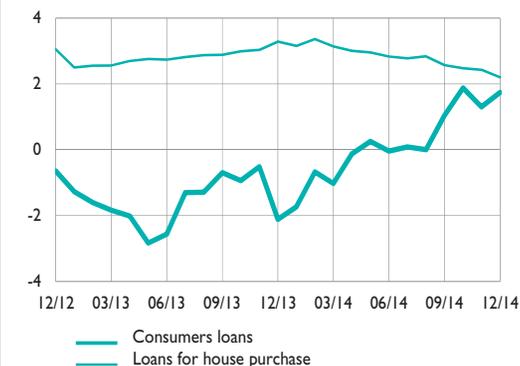
**Loans to non-financial companies – France**

(annual percentage growth rate)



**Loans to households – France**

(annual percentage growth rate)



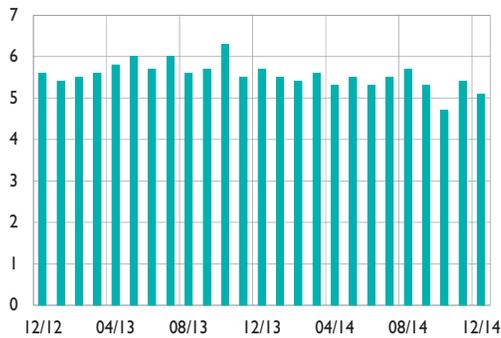
**Table 16**  
**New loans to residents, (excl. overdrafts) – France**

(monthly flows - seasonally adjusted - in euro billions)

	2013			2014		
	Oct.	Nov.	Dec.	Oct.	Nov.	Dec.
<b>Loans to non-financial corporations</b>						
Loans ≤ 1 million euro <sup>a)</sup>	6.3	5.5	5.7	4.7	5.4	5.1
Loans > 1 million euro <sup>a)</sup>	9.9	9.9	10.7	10.3	11.1	10.1
<b>Loans to households</b>						
Cash loans to sole traders and individuals (excl. revolving consumer credit)	4.0	3.9	3.9	4.0	3.9	3.9
Housing loans	14.0	12.9	12.4	10.0	11.2	11.6

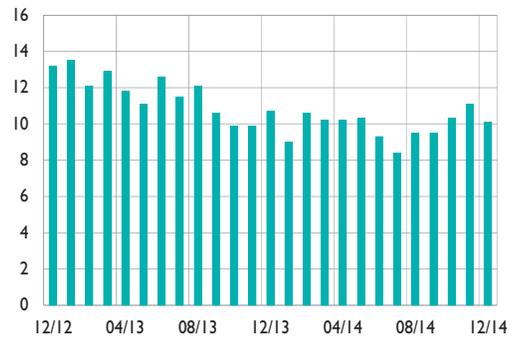
**Non-financial corporations – Loans ≤ 1 million euro**

(monthly flows - seasonally adjusted - in euro billions)



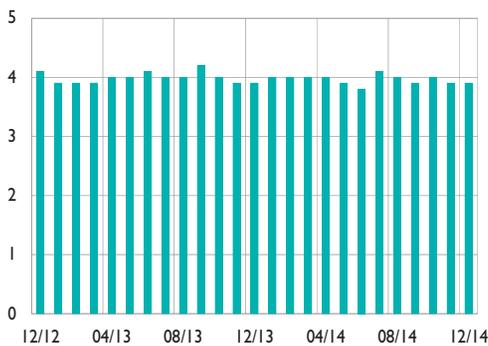
**Non-financial corporations – Loans > 1 million euro**

(monthly flows - seasonally adjusted - in euro billions)



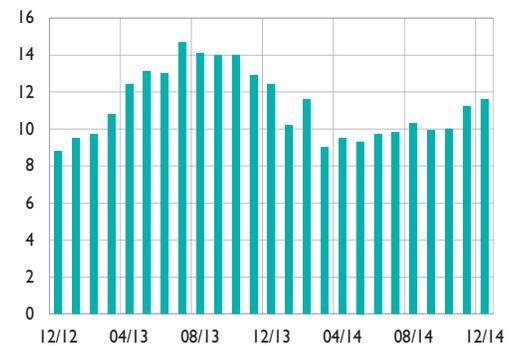
**Households - Cash loans**

(monthly flows - seasonally adjusted - in euro billions)



**Households - Housing loans**

(monthly flows - seasonally adjusted - in euro billions)



a) All initial rate fixation periods.

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

(EUR billions)

Euro area	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2013		2014			2014
	Q3	Q4	Q1	Q2	Q3	Sept.
<b>Financial assets</b>						
Currency and deposits	-16.0	-23.6	-22.8	-18.0	-17.0	782.9
<i>of which deposits included in M3 <sup>a)</sup></i>	2.7	-14.0	-6.9	5.6	4.6	204.8
Short-term debt securities	-15.8	-10.9	-10.4	1.0	-1.8	56.9
Long-term debt securities	111.4	138.3	114.1	113.8	113.2	3,382.8
Loans	2.5	1.4	11.4	18.0	11.3	729.8
Shares and other equity	145.5	132.3	134.5	132.5	145.1	3,323.7
<i>of which quoted shares</i>	9.2	4.3	5.0	9.8	6.6	386.0
Remaining net assets	-39.1	9.3	19.1	19.0	47.5	331.9
<b>Financing</b>						
Debt securities	2.7	-1.3	-1.1	5.7	7.9	63.0
Loans	-15.9	5.5	4.1	7.6	20.3	372.4
Shares and other equity	5.0	6.5	3.4	3.9	3.2	551.7
Insurance technical reserves	195.9	196.8	207.0	235.8	249.9	7,169.7
<i>Life insurance</i>	158.6	165.8	176.5	200.6	213.1	6,053.8
<i>Non-life insurance</i>	37.3	31.0	30.5	35.2	36.8	1,115.9
<b>Net lending/net borrowing (B9B)</b>	<b>0.6</b>	<b>39.3</b>	<b>32.5</b>	<b>13.4</b>	<b>17.1</b>	

(EUR billions)

France	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2013		2014			2014
	Q3	Q4	Q1	Q2	Q3	Sept.
<b>Financial assets</b>						
Currency and deposits	8.0	4.1	1.2	7.0	3.2	38.5
Short-term debt securities	-11.4	-4.5	-9.3	-4.6	-6.5	17.7
Long-term debt securities	74.4	67.4	47.0	36.4	20.5	1,396.7
Loans	0.9	0.3	0.2	0.5	0.9	36.7
Shares and other equity	-2.6	-3.4	10.3	16.0	37.0	751.9
<i>of which quoted shares</i>	-2.4	-1.2	-1.6	-1.9	-0.2	82.2
Remaining net assets	-15.9	-13.7	-10.6	-7.1	-5.0	-32.3
<b>Financing</b>						
Debt securities	2.5	1.4	1.2	1.5	0.9	13.2
Loans	16.1	11.8	8.9	5.0	7.0	102.7
Shares and other equity	1.2	1.6	1.1	1.0	0.9	112.1
Insurance technical reserves	55.2	50.5	51.9	55.6	59.3	1,875.7
<i>Life insurance and pension funds</i>	39.7	38.3	38.7	42.2	45.1	1,582.4
<i>Non-life insurance</i>	15.5	12.2	13.2	13.4	14.3	293.2
<b>Net lending/net borrowing (B9B)</b>	<b>1.5</b>	<b>6.6</b>	<b>-1.8</b>	<b>8.9</b>	<b>7.8</b>	

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

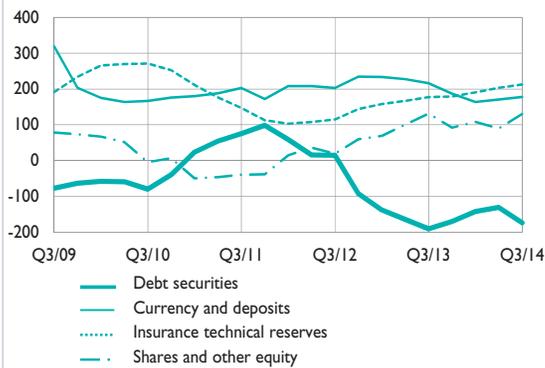
**Table 18**  
**Investment and financing – Households – Euro area**

(EUR billions)

	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2013		2014			2014
	Q3	Q4	Q1	Q2	Q3	Sept.
<b>Financial assets</b>						
Currency and deposits	216.3	187.3	164.0	171.1	177.9	7,306.4
<i>of which deposits included in M3 <sup>a)</sup></i>	171.0	102.9	74.1	96.8	113.8	5,503.4
Short-term debt securities	-29.5	-23.0	-14.3	-8.8	-7.4	54.8
Long-term debt securities	-160.9	-146.6	-127.8	-121.7	-166.5	1,033.2
Shares and other equity	131.1	92.1	108.6	89.9	130.5	5,236.9
Quoted shares	-4.2	-10.7	-4.2	-12.9	14.3	834.9
Unquoted shares and other equity	78.6	70.8	66.4	36.3	10.2	2,824.2
Mutual fund shares	56.7	32.0	46.4	66.5	106.0	1,577.9
<i>of which money market fund shares</i>	-14.9	-0.4	-0.8	0.7	6.2	177.7
Insurance technical reserves	177.3	179.3	190.5	203.3	212.8	6,774.6
Remaining net assets	-42.9	-8.9	-33.7	-38.6	-35.9	-99.5
<b>Financing</b>						
Loans	-8.2	-25.3	-15.2	-1.2	-5.2	6,148.0
<i>of which from euro area MFIs</i>	7.5	-4.2	-4.5	-33.6	-26.3	5,196.8
<b>Revaluation of financial assets</b>						
Shares and other equity	361.7	456.7	580.6	686.6	364.4	
Insurance technical reserves	1.6	-11.2	70.5	137.1	238.3	
Other flows	41.5	21.4	75.2	104.2	114.3	
<b>Change in net financial worth</b>	<b>704.5</b>	<b>772.3</b>	<b>1,028.9</b>	<b>1,224.2</b>	<b>1,033.7</b>	

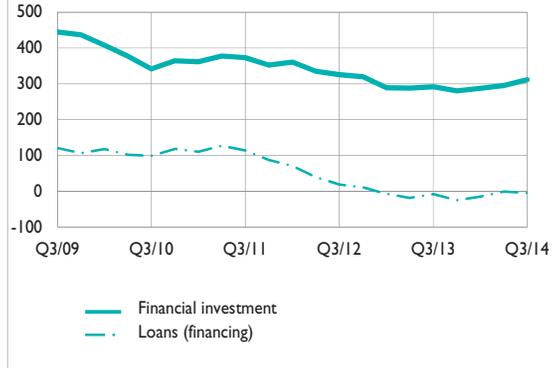
**Investment flows**

(EUR billions, cumulated flows over 4 quarters)



**Investment and financing flows**

(EUR billions, cumulated flows over 4 quarters)



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

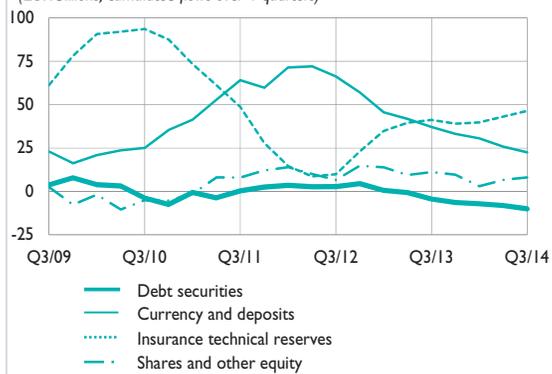
**Table 19**  
**Investment and financing – Households – France**

(EUR billions)

	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2013		2014			2014
	Q3	Q4	Q1	Q2	Q3	Sept.
<b>Financial assets</b>						
Currency and deposits	37.1	33.2	30.6	25.8	22.5	1,328.8
Short-term debt securities	0.0	-0.5	-0.3	0.0	-0.1	18.6
Long-term debt securities	-4.5	-5.9	-6.9	-8.1	-10.0	62.0
Shares and other equity	11.2	9.6	3.0	6.6	8.1	1,320.7
Quoted shares	-5.0	-4.8	-4.8	-3.5	-0.2	185.1
Unquoted shares and other equity	23.2	24.0	19.4	21.9	14.1	828.0
Mutual fund shares	-7.1	-9.5	-11.7	-11.9	-5.8	307.6
of which money market fund shares	-5.9	-5.5	-6.4	-6.1	-6.0	15.1
Insurance technical reserves	41.2	39.0	39.8	43.2	46.4	1,684.7
Remaining net assets	20.9	23.3	-2.9	-14.6	-10.3	75.9
<b>Financing</b>						
Loans	26.7	22.9	23.1	23.8	20.6	1,190.0
<b>Revaluation of financial assets</b>						
Shares and other equity	114.5	96.2	94.8	122.4	46.1	
Insurance technical reserves	22.5	17.3	22.0	27.9	18.2	
Other flows	2.2	1.1	6.0	5.8	1.3	
<b>Change in net financial worth</b>	<b>218.5</b>	<b>190.4</b>	<b>163.0</b>	<b>185.2</b>	<b>101.6</b>	

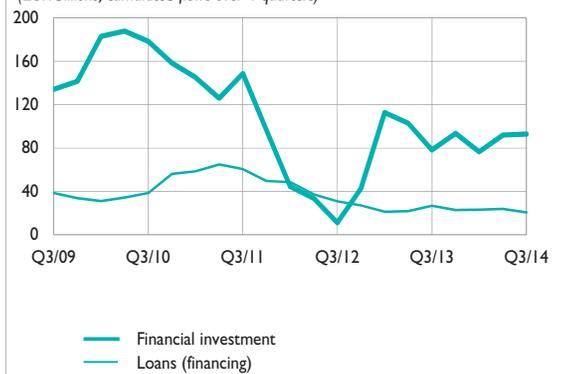
**Investment flows**

(EUR billions, cumulated flows over 4 quarters)



**Investment and financing flows**

(EUR billions, cumulated flows over 4 quarters)



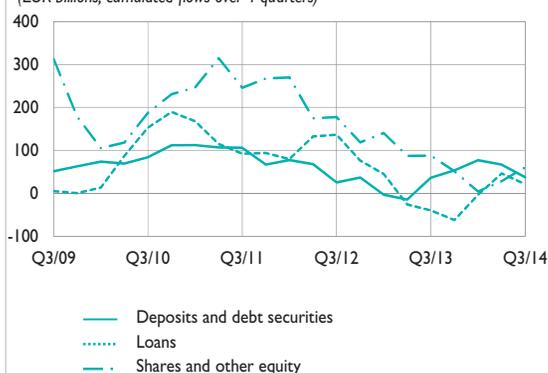
**Table 20**  
Investment and financing – Non-financial corporations – Euro area

(EUR billions)

	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2013		2014			2014
	Q3	Q4	Q1	Q2	Q3	Sept.
<b>Financial assets</b>						
Currency and deposits	85.7	95.2	96.5	101.2	78.4	2,152.5
<i>of which deposits included in M3 <sup>a)</sup></i>	86.7	102.1	91.6	99.6	101.6	1,792.6
Debt securities	-49.5	-41.7	-19.5	-34.6	-41.0	291.6
Loans	-39.9	-62.4	-3.5	46.0	21.4	3,486.9
Shares and other equity	87.7	51.3	4.1	28.3	60.3	8,770.2
Insurance technical reserves	1.8	0.3	1.0	1.7	2.1	204.4
Remaining net assets	98.4	103.4	100.6	102.3	65.0	454.3
<b>Financing</b>						
Debt	-91.0	-119.8	-84.0	-2.2	-37.0	10,502.3
Loans	-181.9	-201.6	-154.2	-69.4	-86.7	8,953.0
<i>of which from euro area MFIs</i>	-165.7	-133.2	-137.0	-103.1	-89.1	4,288.8
Debt securities	86.8	77.9	66.0	62.9	44.8	1,186.4
Pension fund reserves	4.0	3.9	4.2	4.3	4.9	362.9
Shares and other equity	237.4	201.0	192.7	175.2	154.5	14,304.0
Quoted shares	44.7	30.6	36.2	38.8	68.1	4,513.3
Unquoted shares and other equity	192.7	170.4	156.6	136.4	86.4	9,790.7
<b>Net lending/net borrowing (B9B)</b>	<b>37.9</b>	<b>64.9</b>	<b>70.5</b>	<b>71.8</b>	<b>68.8</b>	

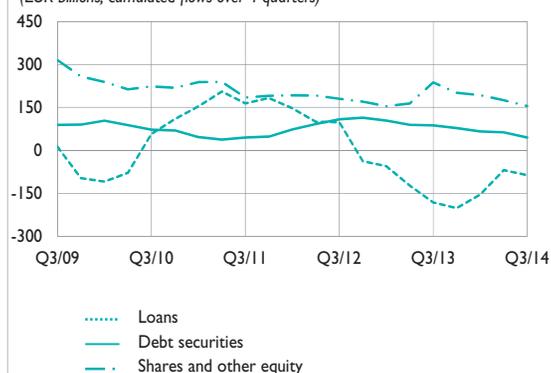
**Investment flows**

(EUR billions, cumulated flows over 4 quarters)



**Financing flows**

(EUR billions, cumulated flows over 4 quarters)



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

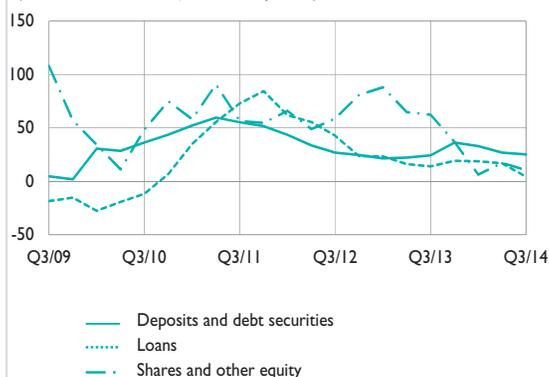
**Table 21**  
**Investment and financing – Non-financial corporations – France**

(EUR billions)

	Cumulated transaction flows over 4 quarters					Outstanding amounts
	2013		2014			2014
	Q3	Q4	Q1	Q2	Q3	Sept.
<b>Financial assets</b>						
Currency and deposits	34.9	46.0	34.7	32.3	27.0	454.3
Debt securities	-10.7	-9.8	-1.7	-5.5	-1.7	58.3
Loans	14.0	19.3	18.8	16.8	4.3	1,111.4
Shares and other equity	62.3	36.9	6.2	17.2	10.5	3,452.7
Insurance technical reserves	0.5	0.2	0.1	-0.1	0.0	49.3
Remaining net assets	-32.2	-17.7	15.4	24.9	48.4	155.6
<b>Financing</b>						
Debt	41.1	41.3	43.5	70.4	54.5	2,610.0
Loans	15.6	24.4	15.4	18.8	5.2	2,040.1
Debt securities	25.5	16.9	28.1	51.5	49.3	570.0
Shares and other equity	74.8	68.4	68.2	74.9	69.8	4,898.0
Quoted shares	11.7	9.7	12.6	15.9	9.9	1,384.8
Unquoted shares and other equity	63.1	58.7	55.6	59.0	59.9	3,513.1
<b>Net lending/net borrowing (B9B)</b>	<b>-47.0</b>	<b>-34.9</b>	<b>-38.2</b>	<b>-59.5</b>	<b>-35.8</b>	

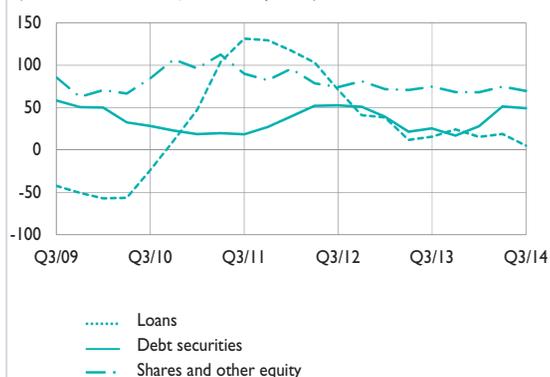
#### Investment flows

(EUR billions, cumulated flows over 4 quarters)



#### Financing flows

(EUR billions, cumulated flows over 4 quarters)



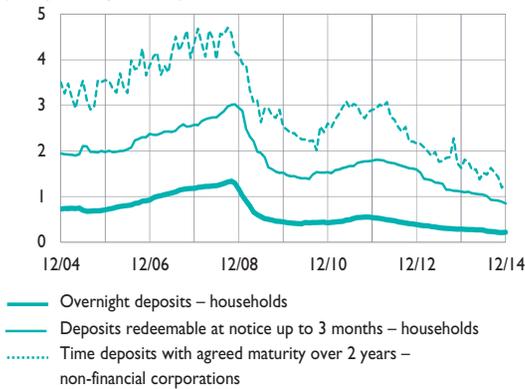
**Table 22**  
Interest rates on bank deposits – France and the euro area

(average monthly rates – %)

	2013	2014	2013	2014				
	Dec.	Dec.	Dec.	Aug.	Sept.	Oct.	Nov.	Dec.
<b>Euro area</b>								
Overnight deposits – households	0.29	0.22	0.29	0.24	0.23	0.22	0.21	0.22
Deposits redeemable at notice up to 3 months – households	1.11	0.85	1.11	0.93	0.92	0.91	0.89	0.85
Time deposits with agreed maturity over 2 years – non-financial corporations	1.63	1.29	1.63	1.63	1.53	1.43	1.20	1.29
<b>France</b>								
"A" passbooks (end of period)	1.25	1.00	1.25	1.00	1.00	1.00	1.00	1.00
Regulated savings deposits	1.29	1.05	1.29	1.05	1.06	1.05	1.05	1.05
Deposits with agreed maturity up to 2 years	1.97	1.92	1.97	1.88	1.94	1.95	1.92	1.92
Deposits with agreed maturity over 2 years	2.91	2.79	2.91	2.84	2.87	2.81	2.84	2.79

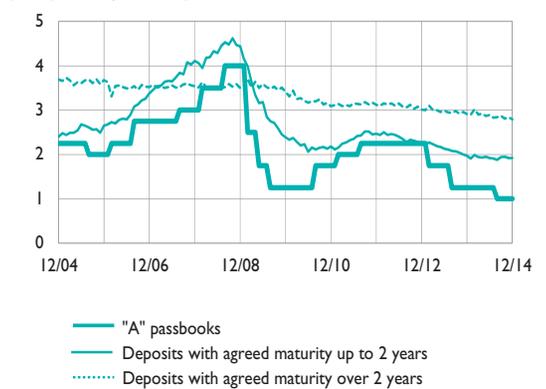
**Euro area**

(average monthly rates – %)



**France**

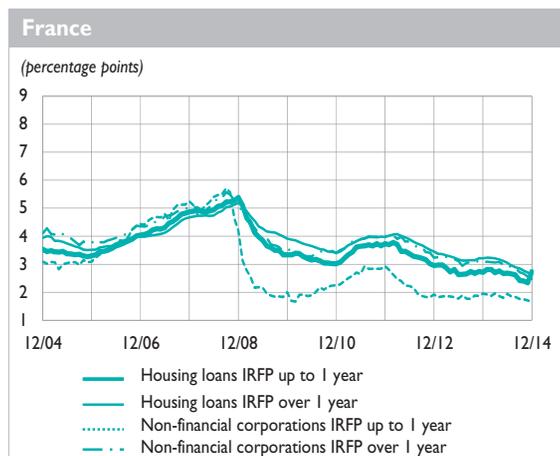
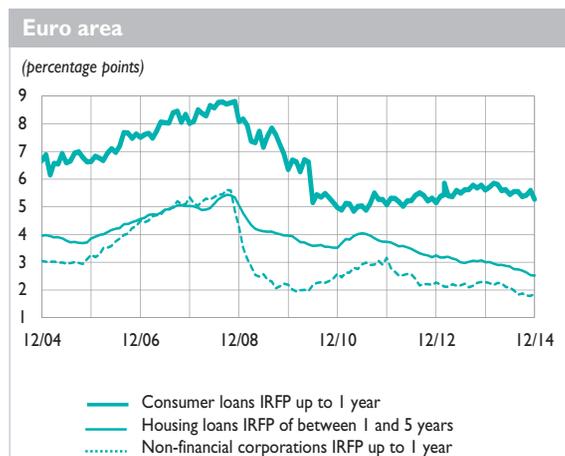
(average monthly rates – %)



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

(average monthly rate – %)

	2014											
	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<b>Euro area</b>												
<b>Consumer loans</b>												
Floating rate and IRFP of up to 1 year <sup>a)</sup>	5.71	5.85	5.81	5.58	5.62	5.45	5.55	5.55	5.37	5.42	5.59	5.27
<b>Loans for house purchase</b>												
Floating rate and IRFP of between 1 and 5 years <sup>a)</sup>	3.01	2.95	2.90	2.91	2.87	2.85	2.75	2.74	2.69	2.63	2.53	2.52
<b>Non financial corporations of over EUR 1 million</b>												
IRFP of up to 1 year <sup>a)</sup>	2.25	2.17	2.25	2.24	2.11	2.09	1.99	1.83	1.87	1.80	1.79	1.85
<b>France</b>												
<b>Consumer loans</b>												
Floating rate and IRFP of up to 1 year <sup>a)</sup>	5.90	5.85	5.78	5.62	5.58	5.43	5.25	5.35	5.21	5.02	5.16	4.98
<b>Loans for house purchase</b>												
IRFP of up to 1 year <sup>a)</sup>	2.81	2.81	2.70	2.76	2.67	2.68	2.65	2.62	2.42	2.40	2.34	2.73
IRFP of over 1 year <sup>a)</sup>	3.23	3.22	3.21	3.17	3.12	3.05	2.96	2.89	2.85	2.77	2.70	2.61
<b>Non-financial corporations</b>												
IRFP of up to 1 year <sup>a)</sup>	1.92	1.87	1.96	1.87	1.80	1.94	1.85	1.83	1.76	1.75	1.71	1.64
IRFP of over 1 year <sup>a)</sup>	3.09	3.07	3.06	3.08	3.00	3.03	2.86	2.86	2.71	2.66	2.56	2.48



a) IRFP: initial rate fixation period i.e. the period for which the rate of a loan is fixed.

IRFP ≤ 1 year: loans for which the rate is adjusted at least once a year + fixed-rate loans with an initial maturity of up to 1 year.

IRFP > 1 year: loans for which the rate is adjusted less than once a year + fixed-rate loans with an initial maturity of over 1 year.

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

(%)

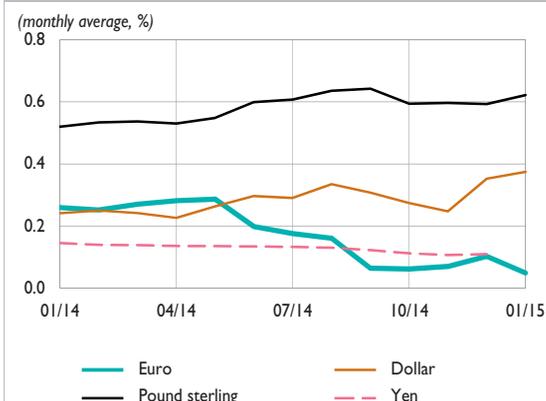
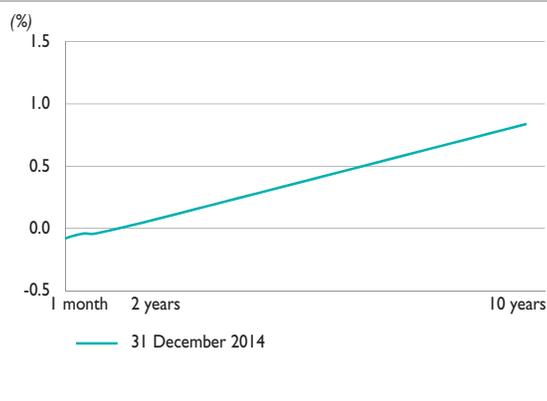
Usury ceiling with effect from the 1st day of the reference period	2014			2015
	April	July	Oct.	Jan.
<b>Loans to households under Articles L312-1 to L312-36 of the french Consumer Code (housing loans)</b>				
Fixed-rate loans	5.19	5.11	4.85	4.57
Floating-rate loans	4.64	4.71	4.53	4.15
Bridge loans	5.39	5.27	5.19	4.92
<b>Loans to households not within the scope of Articles L312-1 to L312-36 of the French Consumer Code (consumer loans)</b>				
Loans up to EUR 3,000	20.27	20.35	20.28	20.25
Loans comprised between EUR 3,000 and EUR 6,000	15.09	14.81	14.59	14.37
Loans over EUR 6,000	10.21	9.79	9.47	9.21

	2013	2014			
	Oct.	Jan.	April	July	Oct.
<b>Loans to enterprises</b>					
<b>Discount</b>					
up to EUR 15,245	3.09	3.10	3.17	2.93	3.13
EUR 15,245 to EUR 45,735	3.91	3.63	4.30	4.14	3.53
EUR 45,735 to EUR 76,225	3.32	3.25	3.40	3.70	3.17
EUR 76,225 to EUR 304,898	2.52	2.40	2.81	2.41	2.27
EUR 304,898 to EUR 1,524,490	1.55	1.76	1.87	1.55	1.25
over EUR 1,524,490	1.10	1.00	1.23	1.06	0.92
<b>Overdrafts</b>					
up to EUR 15,245	9.94	9.98	9.80	9.86	9.92
EUR 15,245 to EUR 45,735	6.66	6.82	6.47	6.52	6.42
EUR 45,735 to EUR 76,225	5.11	5.52	5.48	4.92	4.63
EUR 76,225 to EUR 304,898	3.87	4.16	3.74	3.36	3.54
EUR 304,898 to EUR 1,524,490	2.13	2.41	2.13	2.32	1.90
over EUR 1,524,490	1.36	1.34	1.25	1.21	1.26
<b>Other short-term loans</b>					
up to EUR 15,245	3.63	3.47	3.35	3.36	3.14
EUR 15,245 to EUR 45,735	3.39	3.10	2.99	3.08	2.88
EUR 45,735 to EUR 76,225	2.73	2.64	2.49	2.77	2.70
EUR 76,225 to EUR 304,898	2.21	2.40	2.58	2.38	2.20
EUR 304,898 to EUR 1,524,490	1.72	1.70	1.80	1.77	1.43
over EUR 1,524,490	1.92	1.92	1.93	1.95	1.72
<b>Medium and long-term loans</b>					
up to EUR 15,245	3.22	3.20	3.06	2.98	2.67
EUR 15,245 to EUR 45,735	2.95	2.89	2.78	2.68	2.43
EUR 45,735 to EUR 76,225	2.89	2.92	2.84	2.68	2.44
EUR 76,225 to EUR 304,898	2.96	2.96	2.88	2.75	2.52
EUR 304,898 to EUR 1,524,490	2.83	2.90	2.89	2.65	2.38
over EUR 1,524,490	2.50	2.44	2.59	2.30	2.14

**Table 25**  
**Interest rates**

(%)

	Monthly average <sup>a)</sup>										Key interest rates at 13/02/15	
	2014											2015
	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.		
<b>Short-term interbank interest rates</b>											<b>0.05</b>	
<b>Euro</b>												
Overnight	0.22	0.24	0.06	0.02	0.04	0.00	0.00	0.00	-0.05	-0.06		
3-month	0.28	0.29	0.20	0.18	0.16	0.06	0.06	0.07	0.10	0.05		
1-year	0.57	0.54	0.48	0.49	0.47	0.36	0.34	0.40	0.39	0.37		
<b>Pound sterling</b>												
Overnight	0.44	0.44	0.44	0.45	0.46	0.48	0.49	0.47	0.47	0.48		
3-month	0.53	0.55	0.60	0.61	0.64	0.64	0.59	0.60	0.59	0.62		
1-year	0.92	1.02	1.13	1.16	1.15	1.13	1.06	1.02	0.97	0.97		
<b>Dollar</b>												
Overnight	0.14	0.14	0.14	0.16	0.17	0.15	0.17	0.14	0.15	0.18		
3-month	0.23	0.26	0.30	0.29	0.33	0.31	0.27	0.25	0.35	0.37		
1-year	0.55	0.60	0.63	0.64	0.67	0.70	0.63	0.63	0.70	0.78		
<b>Yen</b>												
Overnight	0.06	0.06	0.05	0.05	0.05	0.05	0.04	0.04	0.04	NA		
3-month	0.14	0.14	0.13	0.13	0.13	0.12	0.11	0.11	0.11	NA		
1-year	0.25	0.27	0.28	0.25	0.22	0.23	0.18	0.18	0.18	0.19		
<b>10-year benchmark government bond yields <sup>b)</sup></b>												
France	2.03	1.84	1.71	1.56	1.41	1.35	1.26	1.14	0.92	0.67		
Germany	1.53	1.40	1.35	1.20	1.02	1.00	0.88	0.79	0.65	0.44		
Euro area	2.61	2.55	2.28	2.16	1.99	1.85	1.69	1.62	1.45	1.27		
United Kingdom	2.68	2.63	2.70	2.64	2.46	2.49	2.23	2.13	1.87	1.54		
United States	2.70	2.55	2.59	2.54	2.42	2.52	2.29	2.32	2.20	1.87		
Japan	0.62	0.60	0.59	0.54	0.51	0.54	0.49	0.47	0.39	0.27		

**3-month interbank market rates**

**Yield curve for French government bonds**


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

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

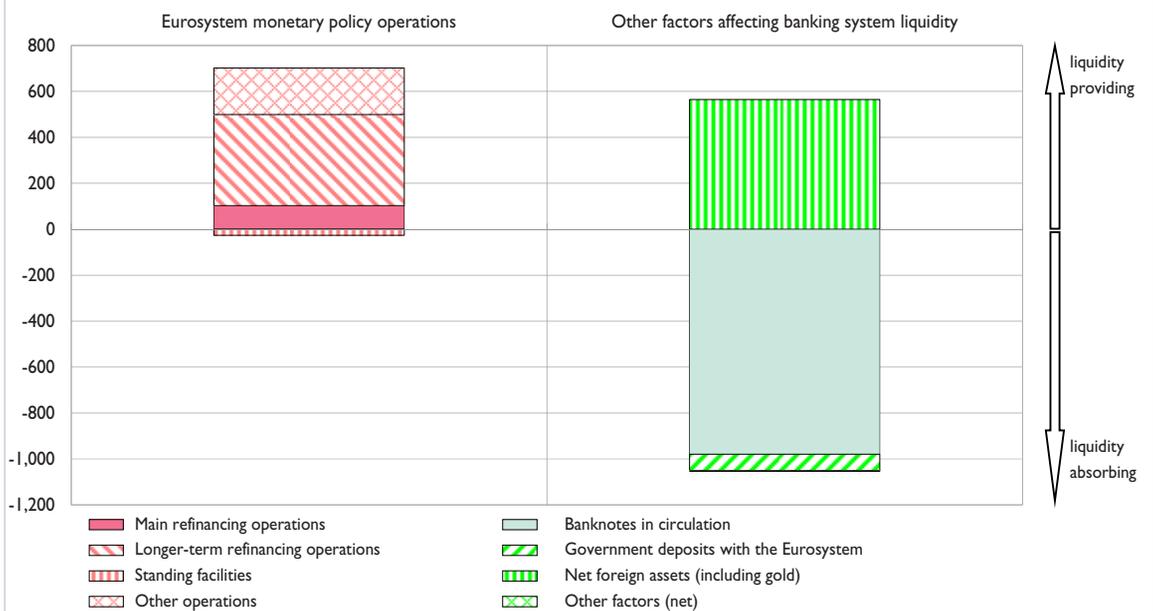
**Table 26**  
**Banking system liquidity and refinancing operations – Euro area**

(EUR billions, daily average for the reserve maintenance period from 12 November to 9 December 2014)

	Liquidity providing	Liquidity absorbing	Net contribution
<b>Contribution to banking system liquidity</b>			
<b>(a) Eurosystem monetary policy operations</b>	<b>701.7</b>	<b>27.3</b>	<b>674.5</b>
Main refinancing operations	103.3		103.3
Longer-term refinancing operations	396.2		396.2
Standing facilities	0.2	27.3	-27.0
Other	202.0	0.0	202.0
<b>(b) Other factors affecting banking system liquidity</b>	<b>562.5</b>	<b>1,051.5</b>	<b>-489.0</b>
Banknotes in circulation		979.8	-979.8
Government deposits with the Eurosystem		71.7	-71.7
Net foreign assets (including gold)	564.3		564.3
Other factors (net)	-1.8		-1.8
<b>(c) Reserves maintained by credit institutions (a) + (b)</b>			<b>185.5</b>
<i>including reserve requirements</i>			<i>106.5</i>

**Net contribution to banking system liquidity**

(EUR billions, daily average for the reserve maintenance period from 12 November to 9 December 2014)



**Table 27**  
Eurosystem key rates; minimum reserves

(%)

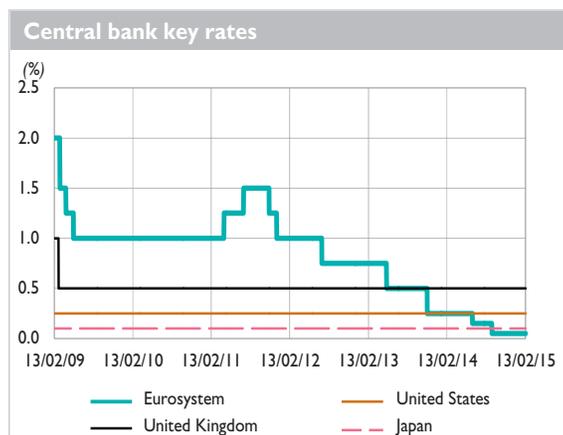
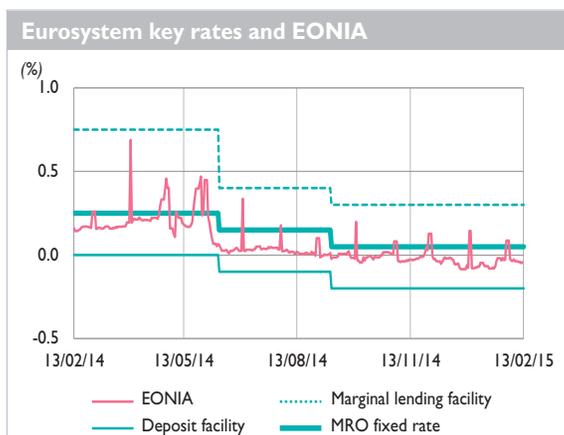
Key rates for the Eurosystem (latest changes)						
Main refinancing operations			Standing facilities			
Date of		Fixed rate	Date of		Deposit	Marginal lending
decision	settlement		decision	settlement		
07/11/13	13/11/13	0.25	07/11/13	13/11/13	0.00	0.75
05/06/14	11/06/14	0.15	05/06/14	11/06/14	-0.10	0.40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

(%)

Main refinancing operations				Longer-term refinancing operations		
		Marginal rate	Weighted average rate			Marginal rate
2015	6 January <sup>a)</sup>	0.05	0.05	2015	6 February	0.05
	14 January	0.05	0.05		9 February	0.05
	21 January	0.05	0.05		10 February	0.05
	28 January	0.05	0.05		11 February	0.05
	4 February	0.05	0.05		12 February	0.05
	11 February	0.05	0.05		13 February	0.05

(EUR billions – rates as a %)

Minimum reserves (daily averages)									
Reserve maintenance period ending on		Required reserves		Current accounts		Excess reserves		Interest rate on minimum reserves	
		Euro area	France	Euro area	France	Euro area	France		
2014	12 August	105.00	20.10	210.20	43.30	105.20	23.10	0.15	
	9 September	105.20	20.30	210.10	40.70	104.90	20.50	0.15	
	7 October	105.30	20.10	192.60	35.00	87.30	14.90	0.05	
	11 November	105.70	20.00	188.30	34.20	82.80	14.20	0.05	
	9 December	106.50	20.00	185.40	33.70	79.00	13.70	0.05	
2015	27 January	106.30	19.90	236.30	36.40	130.10	16.60	0.05	



a) Fixed rate tender procedure.

Sources: European Central Bank, ESCB.

Produced 17 February 2015

**Table 28**  
Negotiable debt securities – France

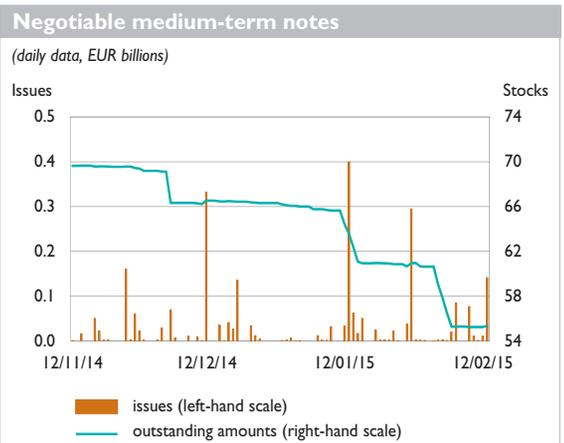
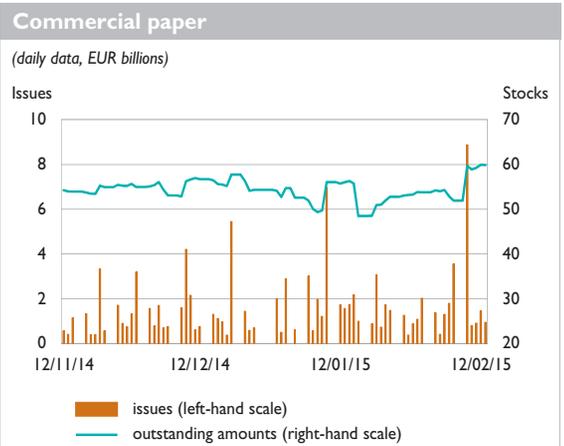
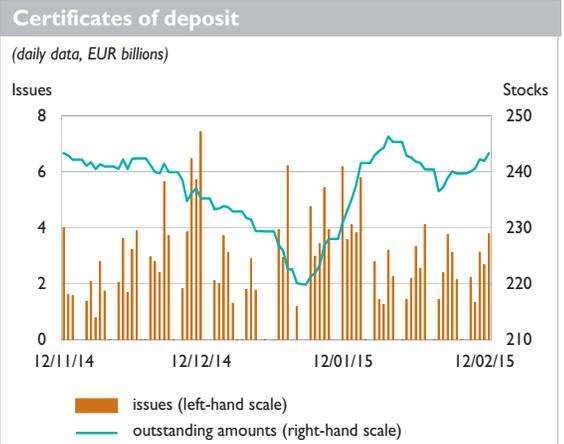
Certificates of deposit			
	EUR billions <sup>a)</sup>		Number of issuers
	Issues	Stocks	
15/11/14 to 21/11/14	8.79	240.94	138
22/11/14 to 28/11/14	14.48	242.40	138
29/11/14 to 05/12/14	17.52	239.96	139
06/12/14 to 12/12/14	25.31	235.25	138
13/12/14 to 19/12/14	12.29	232.92	138
20/12/14 to 26/12/14	6.51	229.37	137
27/12/14 to 02/01/15	14.26	220.13	135
03/01/15 to 09/01/15	20.56	228.03	133
10/01/15 to 16/01/15	23.50	241.58	134
17/01/15 to 23/01/15	10.98	245.35	135
24/01/15 to 30/01/15	13.67	240.46	133
31/01/15 to 06/02/15	12.88	239.71	133
07/02/15 to 13/02/15	13.15	243.34	134

Commercial paper			
	EUR billions <sup>a)</sup>		Number of issuers
	Issues	Stocks	
15/11/14 to 21/11/14	6.04	54.93	101
22/11/14 to 28/11/14	7.89	54.94	99
29/11/14 to 05/12/14	5.52	53.07	101
06/12/14 to 12/12/14	9.35	56.70	102
13/12/14 to 19/12/14	9.23	57.71	102
20/12/14 to 26/12/14	2.74	54.31	95
27/12/14 to 02/01/15	6.04	52.56	91
03/01/15 to 09/01/15	13.78	56.05	98
10/01/15 to 16/01/15	8.23	48.49	100
17/01/15 to 23/01/15	7.92	52.75	102
24/01/15 to 30/01/15	5.63	53.79	100
31/01/15 to 06/02/15	8.44	51.89	105
07/02/15 to 13/02/15	13.02	59.85	107

Negotiable medium-term notes			
	EUR billions <sup>a)</sup>		Number of issuers
	Issues	Stocks	
15/11/14 to 21/11/14	0.08	69.55	116
22/11/14 to 28/11/14	0.25	69.18	115
29/11/14 to 05/12/14	0.11	66.33	115
06/12/14 to 12/12/14	0.35	66.52	115
13/12/14 to 19/12/14	0.24	66.44	115
20/12/14 to 26/12/14	0.05	66.32	115
27/12/14 to 02/01/15	0.01	65.99	115
03/01/15 to 09/01/15	0.05	65.65	115
10/01/15 to 16/01/15	0.56	60.93	114
17/01/15 to 23/01/15	0.05	60.85	114
24/01/15 to 30/01/15	0.34	60.63	114
31/01/15 to 06/02/15	0.11	55.27	114
07/02/15 to 13/02/15	0.24	55.34	114



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

**Table 29**  
**Negotiable debt securities – France**

**Certificates of deposit**

(daily outstanding amounts in EUR billions)



**Commercial paper**

(daily outstanding amounts in EUR billions)



**Negotiable medium-term notes**

(daily outstanding amounts in EUR billions)



**Negotiable debt securities, cumulated outstandings**

(daily outstanding amounts in EUR billions)



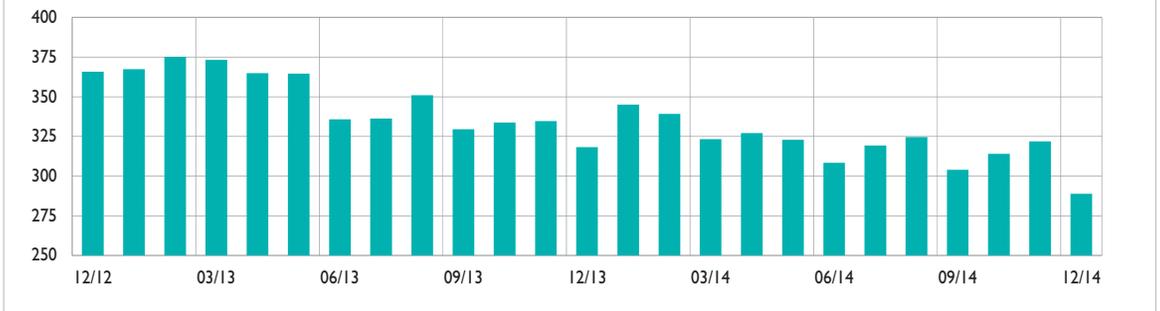
**Table 30**  
**Investment funds' investments – France**

(EUR billions)

	2014			2014
	March	June	Sept.	Dec.
<b>Net assets of investment funds' investments by category</b>				
Money-market funds	323.32	308.41	303.90	288.90
Bond mutual funds	220.76	229.69	236.13	
Equity mutual funds	277.90	286.02	283.85	
Mixed funds	276.66	283.91	288.64	
Funds of alternative funds	12.91	12.77	12.72	
Guaranteed-performance mutual funds	0.00	0.00	0.00	
Structured funds ("fonds à formule")	41.57	38.10	36.74	

**Net assets of money-market funds**

(EUR billions)



**Table 31**  
**Debt securities and quoted shares issued by French residents**

(EUR billions)

	Outstanding amounts <sup>a)</sup>		12-month total	Net issues <sup>b)</sup>		
	2013	2014		2014		
	Dec. <sup>c)</sup>	Dec. <sup>c)</sup>		Oct. <sup>c)</sup>	Nov. <sup>c)</sup>	Dec. <sup>c)</sup>
<b>Debt securities issued by French residents</b>						
<b>Total</b>	<b>3,338.9</b>	<b>3,417.3</b>	<b>78.3</b>	<b>-15.4</b>	<b>9.3</b>	<b>-21.2</b>
Non-financial corporations	493.8	543.9	50.1	3.6	1.3	-0.6
Short-term (≤ 1 year)	33.6	38.7	5.1	2.8	-0.8	-4.9
Long-term (> 1 year)	460.1	505.2	45.0	0.8	2.0	4.3
General government	1,613.6	1,686.2	72.6	-11.5	9.5	2.5
Short-term (≤ 1 year)	209.2	206.6	-2.6	-12.7	3.7	-3.6
Long-term (> 1 year)	1,404.5	1,479.6	75.2	1.1	5.8	6.1
Monetary financial institutions <sup>d)</sup>	1,089.6	1,068.4	-21.2	-7.1	-1.8	-23.5
Short-term (≤ 1 year)	229.2	209.3	-19.9	-2.3	-0.9	-10.7
Long-term (> 1 year) <sup>d)</sup>	860.4	859.1	-1.3	-4.8	-0.9	-12.8
Non-monetary financial institutions <sup>e)</sup>	142.0	118.8	-23.2	-0.5	0.4	0.4

(EUR billions)

	Outstanding amounts <sup>f)</sup>		Net issues <sup>b)</sup>			Gross issues <sup>g)</sup>	Repurchases <sup>g)</sup>
	2013	2014	12-month total	2014		12-month total	12-month total
	Dec.	Dec.		Nov.	Dec.		
<b>French quoted shares</b>							
<b>Total</b>	<b>1,549.4</b>	<b>1,608.8</b>	<b>18.8</b>	<b>4.9</b>	<b>4.7</b>	<b>29.1</b>	<b>10.3</b>
Non-financial corporations	1,325.3	1,392.1	17.1	4.9	4.3	27.4	10.3
Monetary financial institutions	150.5	143.9	1.1	0.0	0.3	1.2	0.0
Non-monetary financial institutions	73.6	72.8	0.5	0.0	0.1	0.5	0.0

a) Nominal values for outstanding amounts of debt securities.

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

c) Data possibly revised.

d) Excluding the impact of intra-group transactions between banks.

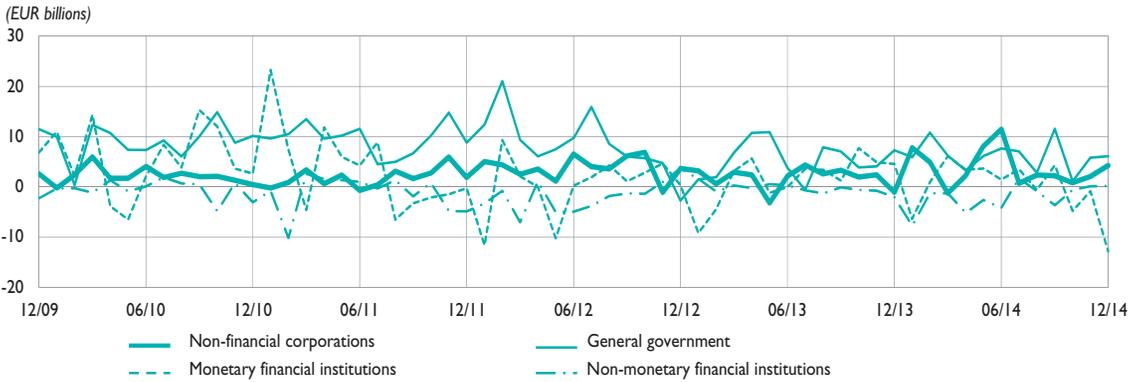
e) Including units issued by SPVs.

f) Market values for outstanding amounts of quoted shares.

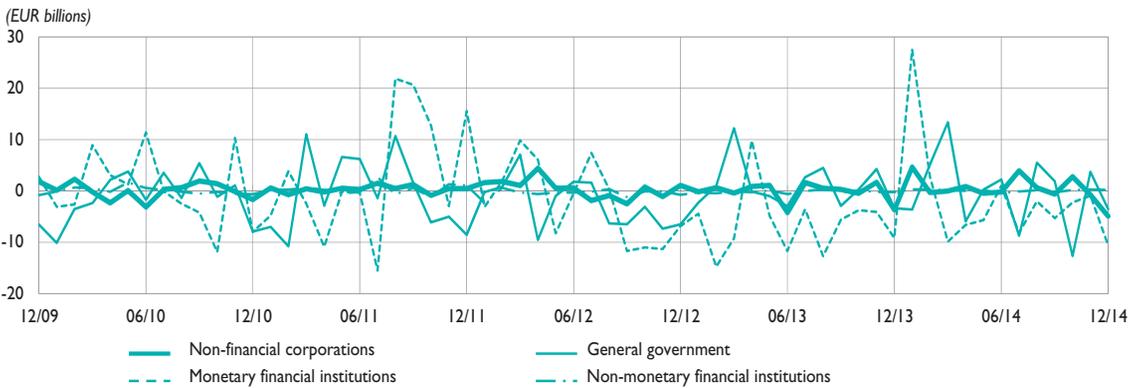
g) Non-seasonally adjusted data.

**Table 32**  
Debt securities and quoted shares issued by French residents, by sector

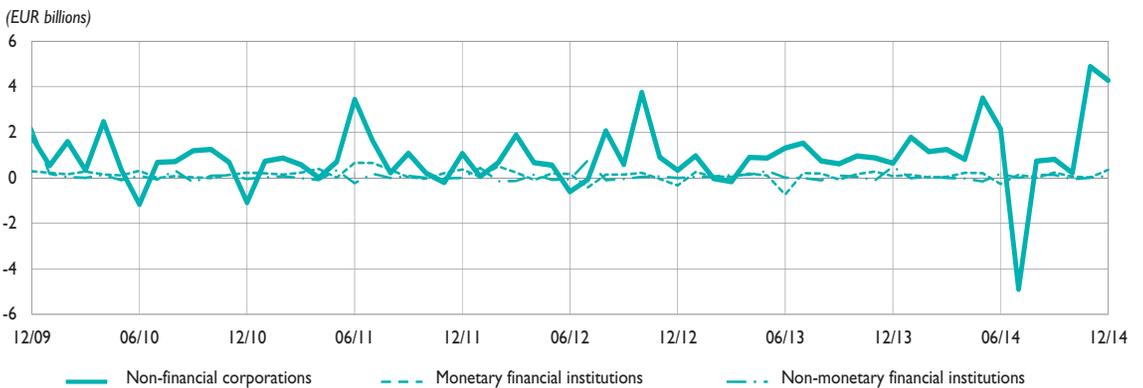
**Net issues of long-term debt securities by French residents (seasonally adjusted)**



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



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



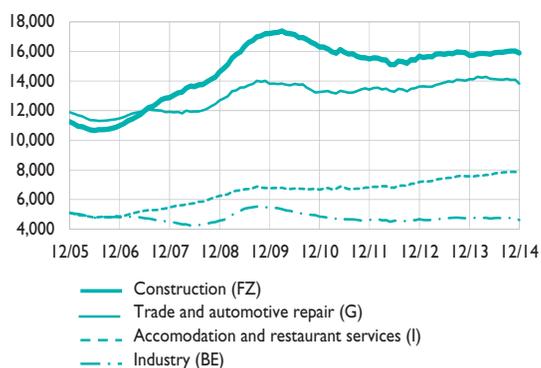
**Table 33**  
**Company failures by economic sector – France**

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

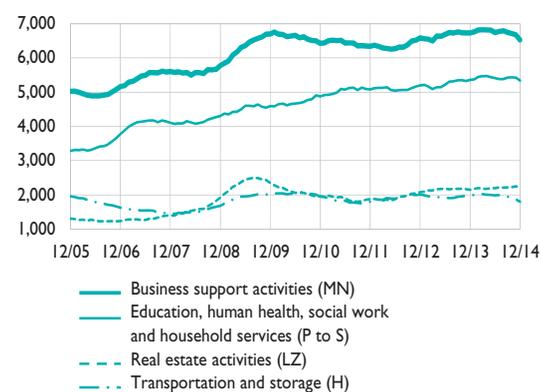
	2013	2014											
	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Agriculture, forestry and fishing (AZ)	1,315	1,336	1,360	1,385	1,391	1,386	1,392	1,362	1,362	1,362	1,372	1,406	1,375
Industry (BE)	4,749	4,756	4,769	4,749	4,767	4,718	4,749	4,755	4,732	4,769	4,738	4,740	4,615
Construction (FZ)	15,740	15,748	15,848	15,866	15,858	15,808	15,911	15,947	15,943	15,999	16,030	16,036	15,900
Trade and automotive repair (G)	14,123	14,127	14,291	14,239	14,283	14,152	14,132	14,106	14,094	14,147	14,084	14,092	13,831
Transportation and storage (H)	1,997	1,993	2,026	2,023	2,005	2,000	1,984	1,993	1,983	1,951	1,882	1,865	1,799
Accommodation and restaurant services (I)	7,569	7,558	7,614	7,599	7,667	7,659	7,750	7,803	7,832	7,851	7,862	7,859	7,826
Information and communication sector (JZ)	1,605	1,600	1,612	1,638	1,631	1,613	1,598	1,550	1,550	1,567	1,554	1,536	1,484
Financial and insurance activities (KZ)	1,166	1,195	1,217	1,212	1,228	1,256	1,277	1,254	1,263	1,281	1,288	1,292	1,266
Real estate activities (LZ)	2,152	2,173	2,205	2,181	2,180	2,195	2,200	2,218	2,213	2,216	2,225	2,251	2,225
Business support activities (MN)	6,732	6,760	6,818	6,820	6,816	6,811	6,742	6,775	6,790	6,747	6,712	6,674	6,527
Education, human health, social work and household services (P to S)	5,359	5,375	5,447	5,469	5,471	5,441	5,409	5,384	5,383	5,427	5,435	5,423	5,339
Sector unknown	88	90	99	106	110	107	105	110	114	114	120	123	126
<b>Total sectors</b>	<b>62,595</b>	<b>62,711</b>	<b>63,306</b>	<b>63,287</b>	<b>63,407</b>	<b>63,146</b>	<b>63,249</b>	<b>63,257</b>	<b>63,259</b>	<b>63,431</b>	<b>63,302</b>	<b>63,297</b>	<b>62,313</b>

**Company failures – 12-month total**

(number of companies – unadjusted data)



(number of companies – unadjusted data)



NB: The two-letter codes correspond to the aggregation level A10, and the one-letter codes to revised NAF sections 2 A21. Data for last month are preliminary.

**Table 34**  
**Retail payment systems – France**

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

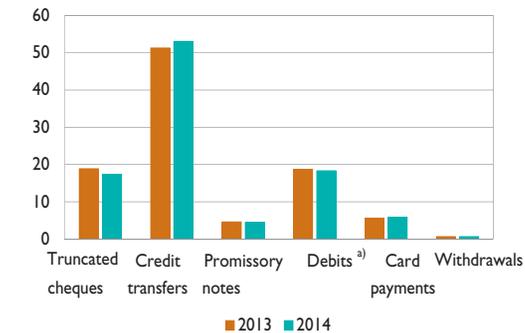
	2011	2012	2013	2014	2014		2015	2015
					Nov.	Dec.	Jan.	Share
Cheques	5,478	4,947	3,986	3,662	3,484	3,951	3,551	16.8
Credit transfers	9,646	10,167	10,827	11,185	10,958	13,520	11,331	53.7
of which SEPA credit transfers	2,555	4,130	5,967	10,701	10,958	13,520	11,331	53.7
Promissory notes	1,142	1,079	981	964	983	977	883	4.2
Direct debits	1,938	2,004	2,048	1,868	1,749	2,096	1,750	8.3
Interbank payment orders	130	131	129	125	163	99	86	0.4
Electronic payment orders	1,343	1,491	1,766	1,872	1,527	2,155	2,131	10.1
Card payments	1,085	1,152	1,200	1,248	1,233	1,602	1,230	5.8
ATM withdrawals	145	146	147	149	143	170	130	0.6
<b>Total</b>	<b>20,907</b>	<b>21,116</b>	<b>21,085</b>	<b>21,073</b>	<b>20,240</b>	<b>24,572</b>	<b>21,092</b>	<b>100.0</b>

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

	2011	2012	2013	2014	2014		2015	2015
					Nov.	Dec.	Jan.	Share
Cheques	9,112	8,588	8,040	7,555	7,437	8,806	7,341	13.7
Credit transfers	7,549	7,593	7,722	7,927	7,940	8,982	7,808	14.6
of which SEPA credit transfers	1,400	2,154	3,641	7,608	7,940	8,982	7,808	14.6
Promissory notes	303	291	281	277	291	288	266	0.5
Direct debits	8,502	8,680	8,737	8,603	8,168	9,561	8,130	15.2
Interbank payment orders	342	320	301	280	320	296	243	0.5
Electronic payment orders	76	101	127	150	169	225	157	0.3
Card payments	22,969	24,489	25,868	27,405	27,355	34,035	27,428	51.3
ATM withdrawals	2,422	2,407	2,397	2,409	2,328	2,597	2,105	3.9
<b>Total</b>	<b>51,275</b>	<b>52,469</b>	<b>53,472</b>	<b>54,607</b>	<b>54,009</b>	<b>64,791</b>	<b>53,479</b>	<b>100.0</b>

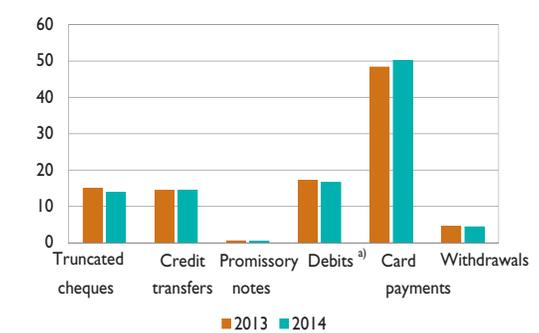
**Market share developments**  
**for main non-cash means of payment**

(% of amounts exchanged)



**Market share developments**  
**for main non-cash means of payment**

(% of volumes exchanged)



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

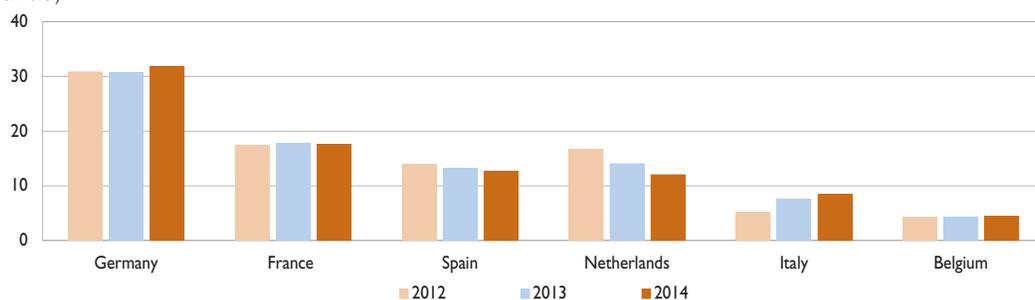
**Table 35**  
**Large-value payment systems – EU**

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

	2011	2012	2013	2014	2014		2015	2015
					Nov.	Dec.	Jan.	Share
France	398	431	343	340	310	335	347	17.4
Germany	818	764	594	615	598	655	654	32.9
Austria	27	25	21	29	28	31	28	1.4
Belgium	106	104	84	86	79	81	88	4.4
Cyprus	2	3	1	1	0	1	0	0.0
Spain	367	345	255	244	227	228	242	12.2
Estonia	1	1	1	1	1	1	1	0.1
Finland	47	85	39	39	37	39	48	2.4
Greece	23	20	34	26	20	27	32	1.6
Ireland	21	17	15	15	14	16	13	0.7
Italy	129	128	147	162	139	168	160	8.0
Latvia	–	–	–	1	1	1	1	0.1
Lithuania	–	–	–	0	0	0	2	0.1
Luxembourg	57	70	67	68	72	67	72	3.6
Malta	0	1	0	0	0	0	0	0.0
Netherlands <sup>a)</sup>	308	412	272	232	209	223	230	11.6
Portugal	22	14	11	11	9	12	11	0.5
Slovakia	3	3	2	3	3	3	3	0.1
Slovenia	2	3	2	3	2	3	2	0.1
EPM-ECB	36	35	29	39	38	44	40	2.0
<b>Total TARGET2 euro area <sup>b)</sup></b>	<b>2,368</b>	<b>2,462</b>	<b>1,918</b>	<b>1,916</b>	<b>1,789</b>	<b>1,935</b>	<b>1,975</b>	<b>99.2</b>
Non-euro area	17	15	17	15	13	14	15	0.8
<b>Total TARGET2 EU <sup>b)</sup></b>	<b>2,385</b>	<b>2,477</b>	<b>1,935</b>	<b>1,931</b>	<b>1,803</b>	<b>1,949</b>	<b>1,991</b>	<b>100.0</b>
<b>Euro1 <sup>c)</sup></b>	<b>249</b>	<b>226</b>	<b>191</b>	<b>186</b>	<b>215</b>	<b>205</b>	<b>204</b>	

**Market share of each financial centre in the TARGET2 system**

(% of turnover)



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

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

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

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

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

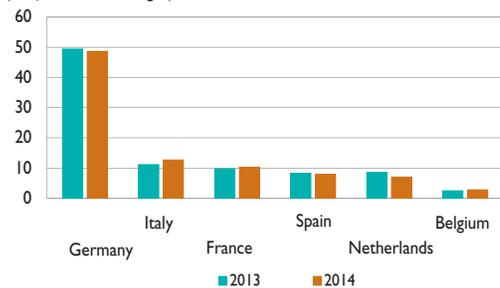
**Table 36**  
**Large-value payment systems – EU**

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

	2011	2012	2013	2014	2014		2015	2015
					Nov.	Dec.	Jan.	Share
France	34,139	33,830	35,753	36,791	34,602	39,571	35,881	10.5
Germany	172,884	175,611	179,655	172,560	168,696	178,996	167,771	49.0
Austria	6,294	6,711	4,719	4,525	4,429	4,766	4,257	1.2
Belgium	10,265	9,955	9,322	10,169	9,325	10,092	9,425	2.8
Cyprus	515	613	872	544	481	548	432	0.1
Spain	29,509	29,760	30,105	28,420	28,870	30,598	28,341	8.3
Estonia	329	360	417	616	971	1,537	1,249	0.4
Finland	1,571	1,611	1,596	1,620	1,623	1,860	1,598	0.5
Greece	5,861	4,335	4,292	3,322	3,361	3,906	3,302	1.0
Ireland	4,376	4,012	3,589	3,590	3,667	4,088	3,469	1.0
Italy	33,643	34,837	40,711	45,147	43,356	47,415	43,146	12.6
Latvia	–	–	–	1,397	1,800	1,610	1,028	0.3
Lithuania	–	–	–	424	391	429	380	0.1
Luxembourg	3,229	3,509	4,398	4,880	5,124	5,695	5,296	1.5
Malta	72	157	236	299	209	220	207	0.1
Netherlands <sup>a)</sup>	32,490	33,144	31,300	25,040	22,778	25,249	22,809	6.7
Portugal	4,165	4,166	4,276	4,751	4,425	4,941	4,450	1.3
Slovakia	730	1,090	1,255	1,004	969	1,021	918	0.3
Slovenia	3,039	2,786	2,697	2,780	2,851	3,151	2,567	0.7
EPM-ECB	379	553	590	679	667	678	683	0.2
<b>Total TARGET2 euro area <sup>b)</sup></b>	<b>343,488</b>	<b>347,040</b>	<b>355,785</b>	<b>348,560</b>	<b>338,596</b>	<b>366,369</b>	<b>337,208</b>	<b>98.4</b>
Non-euro area	5,017	7,145	7,313	5,703	5,767	5,923	5,388	1.6
<b>Total TARGET2 EU <sup>b)</sup></b>	<b>348,505</b>	<b>354,185</b>	<b>363,099</b>	<b>354,263</b>	<b>344,363</b>	<b>372,293</b>	<b>342,596</b>	<b>100.0</b>
<b>Euro1 <sup>c)</sup></b>	<b>242,499</b>	<b>260,135</b>	<b>251,518</b>	<b>228,655</b>	<b>248,222</b>	<b>236,402</b>	<b>211,619</b>	

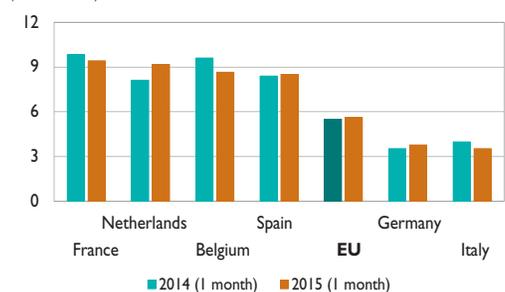
**Market share of each financial centre in the TARGET2 system**

(% of volumes exchanged)



**Average transaction amount in the TARGET2 system**

(EUR millions)



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

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

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

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

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

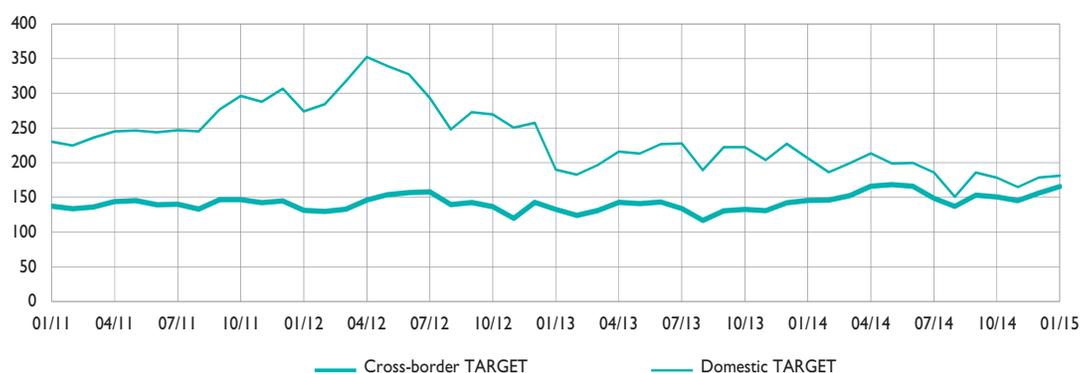
**Table 37**  
**Large-value payment systems – France**

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

	2011	2012	2013	2014	2014		2015	2015
					Nov.	Dec.	Jan.	Share
<b>Collateral used in domestic TARGET<sup>b)</sup></b>								
French negotiable securities	81.6	127.4	109.8	65.0	43.9	60.5	63.2	30.2
Private claims	146.4	189.9	180.7	148.8	139.6	147.0	44.7	21.4
Securities collateralised through CCBM	60.5	53.7	63.7	68.5	75.9	77.5	96.6	46.2
Other securities <sup>c)</sup>	3.5	2.7	3.4	4.6	3.5	4.7	4.5	2.2
<b>Total</b>	<b>292.0</b>	<b>373.8</b>	<b>357.6</b>	<b>286.9</b>	<b>262.9</b>	<b>289.7</b>	<b>209.0</b>	<b>100.0</b>

**Monthly change in amounts exchanged in French payment systems<sup>a)</sup>**

(EUR billions, daily average)

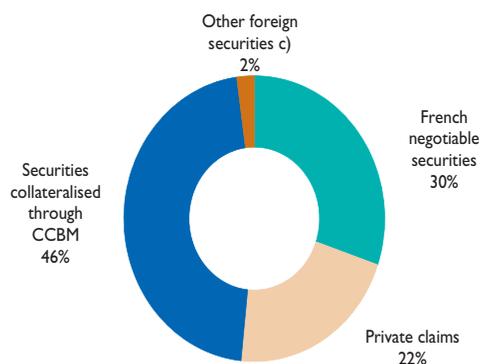


**Monthly change in collateral<sup>b)</sup>**

(EUR billions, daily average)



**Collateral used in January 2015<sup>b)</sup>**



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

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

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



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