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BANQUE DE FRANCE BULLETIN

AUTUMN 2013

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Non-residents holdings of French CAC 40 shares at end-2012

Julien Le Roux Balance of Payments Directorate Securities Division

At 31 December 2012, 46.3% of the equity capital of French CAC 40 companies was held by non-residents, equivalent to net holdings of EUR 410.4 billion out of a total market capitalisation of EUR 886.4 billion.

The non-resident holding rose by 2.2 percentage points in 2012 to reach the highs observed in 2004 and 2006. Purchases by non-residents contributed 1 percentage point to this, notably since the majority of capital increases were taken up by foreign investors. The rest can mainly be explained by price effects: indeed foreign shareholders favour companies whose value is increasing the most.

The rise observed between 1999 and 2006 illustrates, among other things, the growing internationalisation of French firms. In the framework of foreign direct investment (FDI), these firms issue shares and exchange them for shares in non-resident companies held by non-residents. This has resulted in an increase in the holding rate of CAC 40 shares by non-residents.

As of 2007, the linkage between the changes in the holding rate of CAC 40 shares by non-residents and outward FDI has become less strong.

This study also gives an estimate of the non-resident holding rate of all French listed shares: 41.5% at end-2012, compared to 46.3% for CAC 40 shares.

Key words: stock markets, portfolio investment, holding rate, non-residents, CAC 40

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

I In 2012, non-residents held a growing share of French CAC 40 shares

At the end of 2012, non-residents held EUR 410.4 billion in shares of the 35 French CAC 40 companies, out of a total market capitalisation of EUR 886.4 billion.¹ This study is restricted to firms classified as "French" in accordance with the head office location criterion.

The non-resident holding rate of French CAC 40 shares reached 46.3% in 2012, or a rise of almost 2.2 percentage points in 2012, equivalent to that observed in 2011. The holding rate of CAC 40 shares by non-residents returned to the highs observed in 2004 and 2006 (over 46%, see Chart 1).²

Most of these holdings consist of portfolio investment as defined in the balance of payments, i.e. individual holdings representing less than 10% of the total shares of the company considered. The share of direct investment – corresponding to individual holdings above this threshold – in total non-resident holdings increased from 7.3% to 8.1% of non-resident holdings of CAC 40 shares between 2011 and 2012. These holdings reached EUR 33.3 billion at end-2012.



I Five CAC 40 companies have their head offices located abroad: Arcelor/Mittal, EADS, Gemalto, Solvay and STMicroelectronics (see Appendix 1: composition of the CAC 40 in 2012).

² For 2010 and 2011 figures were revised in relation to last year's publication (see Appendix 1).

The non-resident holding rate of French CAC 40 shares generally mirrors that of the broader holding rate of French shares but always remains just above the former (see Chart 2).³



The non-resident holding rate of French listed shares excluding CAC 40 companies is lower and less volatile than that of CAC 40 shares. Having fallen sharply between 1999 and 2003, from 46.2% to 19.4%, it has since increased continually to stand at 34% at end-2012.

The share of the capital of resident CAC 40 companies held by non-residents varies from company to company (see Table 1): 16 of them have a holding rate of between 50% and 75% of their capital with an average holding rate

Table I Breakdown of CAC 40 by the share of capital held by non-residents								
(rate %) Share of capital held Number by non-residents Average holding rate by non-residents by non-residents								
	2010	2011	2012	2010	2011	2012		
from 0 to 25%	3	4	2	10.7	17.4	11.1		
from 25 to 50%	19	18	17	38.8	39.2	38.4		
over 50%	15	15	16	57.I	58.2	57.8		
Total	37	37	35	41.9	44.I	46.3		

Source: Banque de France, Balance of Payments Directorate.

3 The share of CAC 40 shares in total listed shares was 69.8% at end-2012.

of 57.8%, 17 are between 25% and 50% (average rate of 38.4%) and only 2 have a non-resident holding rate of less than 25% (average rate of 11.1%).

In 2012, non-residents increased their holdings in 27 French CAC 40 companies and reduced their share in 8 others (see Chart 3).



2 Factors determining changes in the holding rate in 2012

2 | I Foreign capital inflows remain the main factor behind the rise in the non-resident holding rate

In 2012 the capital increases by CAC 40 companies (net issuance up EUR 11.3 billion) were mainly taken up by non-residents (net purchases up EUR 14.7 billion, primary and secondary markets together), whereas French residents were net sellers (down EUR 3.4 billion). The purchasing behaviour of non-residents in 2012 therefore continued the trend observed in 2011, during which non-residents purchased EUR 13.9 billion in CAC 40 shares for EUR 7.5 billion in capital increases.

In 2012, net non-resident purchases resulted in a further 1.0 percentage point rise in the holding rate of CAC 40 shares, equivalent to that observed in 2011.

2 2 Stock price movements also contributed to the higher holding rate

Between end-2011 and end-2012, the CAC 40 rose, as a monthly average, from 3,092 to 3,631 points (up 17%), but did not reach the end-2010 level of 3,848 points. On average, the market value of French CAC 40 shares recorded a similar increase over the same period (up 19%).⁴ Only 7 of the 37 shares in the index at end-2011 saw a decline in their stock market value in 2012.

Shares whose non-resident holding rate was the highest saw in 2012 much greater rises (up to 50%) than that of the index as a whole. This contributed 0.9 percentage point to the rise in the average non-resident holding rate of CAC 40 shares.

In 2011, this price effect was also positive, albeit more moderate (up 0.6 point).

2 3 Conversely, the changes in the composition of the CAC 40 did not affect the non-resident holding rate

In 2012, the composition of the CAC 40 changed with Gemalto replacing Alcatel Lucent, and Solvay replacing PSA Peugeot Citroën. Yet, the software developer Gemalto is a Dutch firm, while the chemicals group Solvay has its head office in Belgium. Therefore, the number of resident companies making up the CAC 40 fell from 37 to 35.

This did not have an impact on the overall non-resident holding rate of resident CAC 40 companies.

3 Breakdown of non-resident investment by the company's sector of activity

In 2012, the sectors with the highest non-resident holding rates were health care (54.4%), and basic materials, oil and gas (51.8%).

The industrial sector saw the largest rise in its non-resident holding rate (up 3.2 points from 44.5% to 47.7%). This increase was spread across most CAC 40 companies in this sector.

⁴ Average weighted by the individual stock market capitalisation at end-2012.

Conversely, the non-resident holding rate in the consumer services sector fell for the fifth consecutive year, to below 50% in 2012 (49.1%), after a high of 57.7% in 2008.



4 Geographic origin of CAC 40 shareholders

The IMF's annual Coordinated Portfolio Investment Survey $(CPIS)^5$ provides the breakdown by country of holdings of the aggregate comprising equities and mutual fund shares/units. Combined with CAC 40 holding rates, CPIS data help to assess the share of CAC 40 equities held by country or geographical area.⁶

In 2012, out of the 46.3% of French CAC 40 shares held by non-residents, 18.9% (against 18.0% in 2011) were held by euro area investors. This was followed by the United States, which holds 15.3% (14.5% in 2011) and the United Kingdom (3.3%).

⁵ The IMF's CPIS provides, for almost 75 countries, holdings of portfolio investment assets by type of security in the form of equities and mutual fund shares/units, long-term debt, and short-term debt by counterparty country. Data and explanations concerning the CPIS can be found on the IMF's website: http://www.imf.org/external/french/index.htm

⁶ It is assumed that the geographical breakdown of CAC 40 holdings is identical to that of non-resident holdings of French equities and mutual fund shares/units. It should be noted that the CPIS aggregates assets of both types of instrument.

		Holding rate						
	At end 2008	At end 2009	At end 2010	At end 2011	At end 2012 ^{a)}			
Non-resident holdings	41.7	43.5	41.9	44.1	46.3			
o/w: euro area	16.9	18.1	18.2	18.0	18.9			
United States	15.3	14.4	14.1	14.5	15.3			
United Kingdom	2.8	2.8	1.9	3.1	3.3			
Norway	0.9	1.3	1.4	1.6	1.7			
Canada	1.1	1.2	1.1	1.6	1.7			
Switzerland	1.0	1.3	1.3	1.4	1.5			
Japan	1.3	1.5	1.4	1.3	1.4			

Table 2 Geographical origin of holders of French CAC 40 shares

a) Projection based on the relative weights of non-residents at end-2011, due to collection lags meaning that, on 1 January 2013, only data from end-2011 were available. Sources: Banque de France (Balance of Payments Directorate) and International Monetary Fund.

Out of non resident holdings of all French listed equities, the share held by the United States, the largest non-euro area holder, was stable in 2011-2012, at around 33%. After having fallen constantly since 2001, the UK holding rate started rising again in 2011, from 4.6% to 7% of overall non-resident holdings. It nevertheless remains much lower than the level observed at the start of the 2000s (above 20% in 2001).

Norway's holding rate of French shares rose from 0.9% of CAC 40 shares at end-2008 to 1.7% at end-2012. Although this information is not contained in French holding statistics, it is most likely that these shares are held by Norway's oil-based sovereign wealth fund, the world's largest at end-2012. In its latest annual report, the Norwegian oil fund reported French share outstandings of EUR 20.6 billion, invested in over 160 French companies at end-2012.⁷

5 The influence of the internationalisation process of French CAC 40 companies

Since 1999, changes in the CAC 40 holding rate are closely linked to the internationalisation of French firms and their ways of financing foreign direct investment (FDI).

⁷ http://www.nbim.no/no/Investeringer/beholdninger/beholdninger flash/

5 | I The holding rate rose from 1999 to 2006 then fell until 2011

Overall, the non-resident CAC 40 holding rates increased from 1999 to 2006, before declining thereafter (green dashed curve, see Chart 5).

Valuation effects may have an impact on this rate (see Section 2|2 above), as might composition effects (companies entering and exiting the CAC 40 index). These effects impact the exposure of foreign investors to CAC 40 shares, on a constant portfolio basis. It may be worth neutralising these two effects in order to plot the changes in the holding rate attributable solely to issuance and holding flows. Indeed, these flows stem from buy/sell decisions in the year under review. This enables us in particular to examine the relationship that may exist between the change in the holding rate of a French firm by foreigners, and corporate acquisitions abroad by this same company. To do this, changes in the CAC 40 are analysed using nominal values and an ad hoc composition equivalent to a stable and extended CAC 40, comprised of French shares that existed in the 1999-2012 period and that, at least once in this period, belonged to the CAC 40 index.⁸

Changes in the holding rate defined in this way therefore only refer to issuance and holding flows (see Section 5|2). They reveal a constant rise in the CAC 40 holding rate from 1999 and 2006 then a regular decline from 2007 to 2011, before a rebound in 2012 (red curve, full line, see Chart 5).



8 That is to say 44 shares, including 23 that have always been in the CAC40.

At first sight, this trend seems to reflect a growing appetite on the part of non-residents for shares in French companies from 1999 to 2006, which then waned before recovering in 2012. The fall in the holding rate between 2006 and 2012 can nevertheless be attributed to factors specific to French CAC 40 firms. Indeed, a general perception of France's macroeconomic risk does not in itself justify the fall in the holding rate observed as of 2006; for instance the holding rate of French government negotiable debt securities rose continually until end-2010. Similarly, the more global portfolio internationalisation process slowed as of end-2010, and is not the only factor affecting the non-resident holding rate of French shares.⁹

5 2 Between 2001 and 2006 large issues of shares were used to finance outward FDI

Outward FDI is often made through capital increases and exchanges of new issues of French shares for those of the company held by non-residents. This trend is clearly identifiable between 1996 and 2006 using aggregated balance of payments data, which are broader than those of CAC 40 companies alone (see Chart 6). It can be attributed to the practice of exchanging shares to finance outward FDI: the shareholders of the target company are offered the possibility of exchanging shares in the company taken over for shares specifically issued by the French parent company making the direct investment.



9 The share of the portfolio (debt securities and listed shares) held by non residents, calculated for all euro area countries, increased from 54.8% at end-2010 to 52.6% at end-2012 (source: financial accounts).

During this period, except in 2002, non residents purchased French shares while residents made substantial outward FDI.

However, as of 2007, this process moderated significantly: French residents continued to make outward FDI, while French share purchases by non-residents slowed down, or were even negative in 2007, 2008 and 2010.

In 2012 a new turning point seemed to be reached, with a return to parallel trends observed between 2001 and 2006: French share purchases by non-residents increased in line with outward FDI.

Appendix I

Sources and methods

Composition of the CAC 40 in 2012

In 2012, after the non-resident firms Gemalto and Solvay replaced Alcatel Lucent and PSA-Peugeot Citroën respectively in the CAC 40, the number of resident companies in the CAC 40 fell to 35, or two less than in 2011.

List of the 35 I at 31 Decemb	French companies er 2012	making up the C	AC 40
Accor	Danone	Michelin	Société générale
Air liquide	EDF	Pernod Ricard	Technip
Alstom	Essilor international	PPR	Total
AXA	France Télécom	Publicis groupe	Unibail-Rodamco
BNP Paribas	GDF Suez	Renault	Vallourec
Bouygues	L'Oréal	Safran	Veolia environnement
Cap Gemini	Lafarge	Saint Gobain	Vinci
Carrefour	Legrand	Sanofi-Aventis	Vivendi
Crédit Agricole	LVMH	Schneider Electric	
NB: ArcelorMittal,	EADS, Gemalto, Solvay a	and ST Microelectronic	cs, whose head offices are
located abroad, are	not considered in this stu	dy.	
Source Europert		0	

Revision of data

On the occasion of the publication of the Banque de France's *Annual Report on the Balance of Payments*,¹ revisions are made to French asset and liability positions of the past three years. The figures published in this article, which are consistent with this publication, take account of these revisions.

Revisions of security holdings stem from additional data collection among custody account-keepers, further foreign direct investment or changes in the valuation of certain securities. However, stock market capitalisation data, produced by Euronext, are not revised.

These revisions show a rise in non-resident holdings of CAC 40 shares in 2010 and 2011 compared with the data published last year. Non-residents holdings of French CAC 40 shares rose from EUR 383.9 billion to EUR 390.9 billion in 2010 (up 1.8%) and from EUR 334.6 billion to EUR 340.7 billion in 2011 (up 1.80%).

I France's balance of payments and international investment position is available on the Banque de France website: http://www.banque-france.fr/ en/economics-statistics/banking-and-financial-activity/frances-balance-of-payments/the-french-balance-of-payments-and-internationalinvestment-position-annual-report.html

ARTICLES Non-residents holdings of French CAC 40 shares at end-2012



Consequently, the non-resident holding rate of French CAC 40 shares, established in the previous publication at 41.1% in 2010 and at 43.3% in 2011, is now estimated at 41.9% in 2010 and at 44.1% in 2011.

Data on CAC 40 holdings published in 2012 and 2013							
(EUR billions and %)							
2012 publication 2013 publication							
2010 2011 2010 2011							
Equity capital held by non-residents	383.9	334.6	390.9	340.7			
Stock market capitalisation 933.2 772.3 933.2 772.							
Non-resident holding rate 41.1 43.3 41.9 44.1							
Source: Banaue de France Balance of Pau	ments Directo	orate					

Appendix 2

Calculations of the contributions of the effects resulting from changes in the composition of the CAC 40, in prices and in flows

The main concepts used in this appendix are:

Si ^(j)	Stock of CAC 40 shares held by non-residents at the end of year i, estimated at the market value of the end of year j.
Ci ^(j)	CAC 40 stock market capitalisation at the end of year i, estimated at the market value of the end of the year j.
CSi⊕	Impact of the change in the composition of the CAC 40 during year i on the stock of CAC 40 shares held by non-residents calculated at the market value of year j.
CCi	Impact of the change in the composition of the CAC 40 during year i on the stock market capitalisation of the CAC 40 at the market value of year j.
F _R i ^(j)	Net resident buy and sell flows of CAC 40 shares in year i, at the initial market value of year j.
F _{NR} i ^(j)	Net non-resident buy and sell flows of CAC 40 shares in year i, at the initial market value of year j.

Flows/stocks/compositions/valuation consistency

7	Stock 2011	Change in the composition of the CAC index	Non-resident net flows in 2012	Stock 2012
	SI I (11)	+CS12(11)	+F _{NR} 12 ⁽¹¹⁾	= SI2 ¹¹⁾
Changes in the stock excluding price changes in 2012	340.7	-2.3	+14.7	= 353.1
	V_SI1(11)	V_CS12(11)	V_F _{NR} I2 ⁽¹¹⁾	= Sum I ^(V)
Price changes in 2012	55.6	+0.7	+1.0	= 57.3
	SII ⁽¹²⁾	+CSI2 ⁽¹²⁾	+F _{NR} 12 ⁽¹²⁾	= SI2 ⁽¹²⁾
Changes in the stock including price changes in 2012	396.3	-1.6	+15.8	= 410.4

	Capitalisation 2011	Change in the composition of the CAC index	Resident net flows in 2012	Non- resident net flows in 2012	Capitalisation 2012
	CII ⁽¹¹⁾	+CCI2(11)	+F _R 12 ⁽¹¹⁾	+F _{NR} 12 ⁽¹¹⁾	= CI2 ⁽¹¹⁾
Changes in the capitalisation excluding price changes in 2012	772.3	-5.6	-3.4	+14.7	= 778.0
	V_CI1 ⁽¹¹⁾	V_CC12(11)	V_F _P 12 ⁽¹¹⁾	V_F _{NR} 12 ⁽¹¹⁾	= Sum 2 ^(V)
Price changes in 2012	106.2	+2.0	-0.9	+1.1	= 108.4
	CII ⁽¹²⁾	+CC12 ⁽¹²⁾	+F _R 12 ⁽¹²⁾	+F _{NR} 12 ⁽¹²⁾	= CI2 ⁽¹²⁾
Changes in the capitalisation including price			, , , , , , , , , , , , , , , , , , ,		
changes in 2012	878.5	-3.6	-4.3	+15.8	= 886.4

Measurement of the impact of changes in the composition of the index, in prices and in flows on the non-resident holding rate							
(rate %)							
Composition of the index	Price	N-R flows	Formula for computing the holding rate	Ra	te		
Unchanged composition	Current prices	With N-R flows	$[SII^{(12)} + F_{NR}^{} 2^{(12)}] / [CII^{(12)} + F_{R}^{} 2^{(12)} + F_{NR}^{} 2^{(12)}]$	46.3	RI		
Changed composition	Constant prices	With N-R flows	SI2 ⁽¹¹⁾ / CI2 ⁽¹¹⁾	45.4	R2		
Changed composition	Current prices	Without N-R flows	$[SII^{(12)} + CSI2^{(12)}] / [CII^{(12)} + CCI2^{(12)} + FR12^{(12)}]$	45.3	R3		
Changed composition	Current prices	With N-R flows	SI2 ⁽¹²⁾ / CI2 ⁽¹²⁾	46.3	R4		

The impact of non-resident flows on the change in the holding rate is measured as the differential between R4 and R3, *i.e.* 1.0 percentage point.

The impact of prices on the change in the holding rate is measured as the differential between R4 and R2, *i.e.* 0.9 percentage point.

The impact of changes in the composition of the CAC 40 index on the holding rate is measured as the differential between R4 and R1, *i.e.* 0 percentage point.

Volume effects, stemming from net issuance excluding non-resident flows, together with structure effects, resulting from the initial holding rates, are estimated by balance at 0.3 percentage point.

The economic slowdown took a toll on SMEs' profits and investments in 2012

Jean-Luc Cayssials and Lionel Rhein Companies Directorate

The difficult business environment that prevailed in 2012 adversely affected small and medium-sized enterprises (SMEs) in France. SMEs' domestic and international business activity both slowed, especially in the manufacturing industry, where sales revenue fell off significantly from 2011.

The slowdown, combined with the increase in operating costs, weighed on added value. Net operating margin ratios sank to their lowest levels since the start of the 2000s. Returns on operating capital and on equity receded, and as a result, the savings rate and self-financing ratio subsided anew.

SMEs nonetheless maintained a sound capital structure. They increased their equity and consolidated their cash positions. Given the drop in profits, however, the improvement was not as sharp as it had been in previous years.

Total debt outstandings increased by a modest 3% –a structural effect of the nature of SMEs' financing needs. SMEs made greater use of short-term debt to cover rising working capital requirements. Shrinking investment –save in industry– led on the contrary to a decline in medium and long-term bank loans. The other components of financial debt, especially intra-group debt, rose moderately.

With growth in equity and value added being faster than that of debt, SMEs' gearing ratios decreased in comparison.

SMEs' financial positions still varied significantly across the board. While the disparities did not widen, the proportion of SMEs grappling with financial difficulties such as the lack of profits, a shortfall in equity, or a negative cash position, increased in 2012. This was a sign of the economic fragility in the sector brought on by the 2008-2009 financial crisis, with a large number of SMEs falling by the wayside under the pressure.

These preliminary trends observed in the sample of balance sheets available in July 2013 will be finalised at the end of the year when all 2012 balance sheets are collected.

Key words: SME, business activity, profitability, investment, debt, equity.

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

I Slowdown in business activity and decreased returns

I | I A harsher environment

In a difficult business environment weighed down by the decline in the main components of domestic demand, the economic slump in Europe and the continued worsening of the business outlook from the second half of 2011, French SMEs' business activity slowed significantly in 2012. Their turnover increased by 3.3%, after 7.9% in 2011 (see Table 1 and Box 1 for the characteristics of the SME sample studied here).

This slowdown was observed in all SME categories, regardless of their structure (single or multi-entity companies) or business sector. SMEs that are subsidiaries of foreign companies, which experienced the strongest growth in 2011 (10.4%), posted the weakest growth in 2012 (2.8%). In the manufacturing industry, the turnover growth rate was one third of what it was in 2011, dropping from 9.2% to 3.0%.

French SMEs nonetheless maintained a respectable performance: France's National Accounts showed that in 2012, nominal output rose by a slight 0.6% for all French non-financial companies, irrespective of size.

In a lacklustre economic environment, overall, SMEs were more resilient than they were during the 2009 recession when their turnover declined by 5.2%. In addition, business activity continued to progress in all the major sectors in 2012.

I 2 Exports made a positive but limited contribution

Exports continued to be a driving force for some SMEs. They grew faster than the 3.2% rate recorded by domestic sales. Exports were nonetheless nowhere near as dynamic as in 2011. After two years of strong growth: 13.9% in 2011 and 10.7% in 2010, export revenue grew by only 4.6% in 2012.

The export rate (share of export turnover in total turnover) was therefore virtually stable. SMEs' export activity remained slightly below 10% of their turnover, i.e. half the average of French non-financial companies, whose export rate is close to 20%.

There were in addition strong sectoral differences, comparable to those observed among larger companies. The export turnover share was high

Table	I SMEs' I	ousiness ac	tivity (200	9-2012)			
(Distribu	tion of turnov	er and year on	year change	as a%)			
	All SMEs		o/w main sectors				
		Manufacturing industry	Construction	Retail and wholesale trade	Transport and warehousing	Business support services	
		E	Breakdown of tu	rnover			
2012	100	19.0	12.2	47.6	3.9	6.8	
			Year on year gro	wth in turnove	r		
			То	tal			
2009	-5.2	-9.9	-3.5	-4.8	-7.3	-3.4	
2010	3.5	4.0	-0.5	3.0	6.0	5.0	
2011	7.9	9.2	7.4	7.7	7.7	8.5	
2012	3.3	3.0	2.9	3.3	3.6	4.8	
			Dom	estic			
2009	-4.5	-8.6	-3.5	-4.3	-6.0	-3.4	
2010	2.8	2.5	-0.5	2.4	4.8	5.3	
2011	7.3	8.4	7.3	6.9	7.5	8.3	
2012	3.2	2.5	2.8	3.4	3.1	4.3	
			Exp	ort			
2009	-11.9	-15.3	-4.7	-10.3	-15.3	-3.5	
2010	10.7	10.6	2.9	10.6	15.1	3.3	
2011	13.9	12.9	20.0	16.3	9.0	9.7	
2012	4.6	4.8	16.9	2.9	6.6	8.6	
			Value	added			
2009	-3.5	-9.4	-2.8	-2.8	-2.5	-2.0	
2010	3.3	3.3	-1.8	3.4	2.8	5.1	
2011	5.8	6.2	4.3	5.1	5.1	7.3	
2012	2.5	2.3	1.6	1.9	2.7	4.2	

Scope: Non-financial SMEs as defined by the law on the modernisation of the economy (LME); see Appendix 1.

NB: a) Variations are calculated based on a sample of SMEs whose balance sheets are recorded in FIBEN for two consecutive years (sliding sample). Companies that entered or dropped out of the sample due to mergers, failures or business start-ups are not taken into account. The size and sector used are those of year n-1, irrespective of the company's situation in year n: therefore, 2011 size and sector are used when comparing 2012 to 2011, and those of 2010 used when comparing 2011 to 2010.

b) For further details on the FIBEN company database and definition of company size according to LME criteria, see Appendixes 1 and 2.

Source: Banque de France - FIBEN database (July 2013).

in the manufacturing industry, where it rose by 0.3 of a point to 19.5%, in transport, where it gained 0.4 of a point to stand at 14% and, to a lesser extent, in information-communication and business support services. It was lower in the other sectors.

Besides, the export rate related to a small proportion of companies: a little less than 30% of SMEs in the sample¹ did export business in 2012 (see Charts 1). This is slightly more than in 2011, confirming a modest

¹ The FIBEN sample is made up of fairly large SMEs. The smallest companies (very small companies or microentreprises) are not heavily represented; however, very few of these microentreprises do export business.

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increase in SMEs' presence on the international markets, a fact that had been observed the previous year (see article on SMEs in *Banque de France QSA*, No. 28, Winter 2012-2013).

I 3 Nominal value added grew by 2.5%

Value added generated by SMEs weakened also as a result of the slower rise in turnover and output. It grew by 2.5%, down from 5.8% in 2011.

Total production costs increased as activity slowed down. However, they did not increase as fast as in 2011, climbing by 3.5% after 8.8%. Consumption of inputs –purchases adjusted for changes in inventories–rose by only a slight 2.5%, which reflected the falloff in domestic demand (volume effect) and the slower rise in energy prices (price effect). External costs, however, rose at a faster clip of 4.4%.

This very moderate rise in value added was fairly even across sectors. It was weaker in construction and trade, where value added rose by less than 2%, but stronger in business support services, where it gained 4.2%.

I 4 Gross operating profit and margin ratios declined

The slight upturn in business activity did not boost operating profits. Gross operating profit dropped by 3.3% due to a 4.1% climb in staff costs, whose components all increased more than value added. A 4.7% rise in social security contributions and a 7.8% climb in external staff costs were two of the factors that absorbed two-thirds of the added wealth created by SMEs. To this may be added the 5.5% upsurge in taxes on production, partly as a result of the increase in the *forfait social* (employer social contribution) (see Table 2).

Margin ratios (gross operating profits/value added) thus slid to 21.2%, well below their pre-crisis level of over 24% in 2007. While they remained higher than the 20.6% recorded in 2009, they were historically low and below the 1996-2011 average (see Charts 2).

The lag in non-financial companies' margin ratios, which started in 2008, persisted. In 2012, the decline was general and particularly pronounced for SMEs in construction, whose profit margins fell below 15%. This overall trend was in line with the accounts released by Insee (Institute of National Statistics) for all non-financial companies. The accounts spotlighted the deteriorating terms of trade and increasing employer social security contributions, which were not offset by productivity gains.

Another performance indicator, the gross margin (gross operating profit/turnover), decreased in 2012, dropping by 0.5 of a point to 6.2%. This was a point below the pre-crisis level of 2007.



NB: As all 2012 balance sheets are not available, the rates calculated for 2011 and 2012 are based on a sample made up of companies whose balance sheets are recorded for both years. This explains the break before the last two data points in each series. Source: Banque de France – FIBEN database (July 2013).

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The economic slowdown took a toll on SMEs' profits and investments in 2012

(as a%)										
	All SMEs		o/w main sectors							
		Manufacturing industry	Construction	Retail and wholesale trade	Transport and warehousing	Business support services				
Breakdown of staff costs										
2012	100	22.9	17.4	26.2	5.4	12.2				
	Year on year growth									
			Staff	costs						
2009	0.0	-3.5	0.3	1.0	-1.2	0.7				
2010	3.1	2.0	1.4	2.6	4.5	4.6				
2011	5.8	5.9	5.2	4.4	6.3	7.5				
2012	4.1	3.7	3.6	3.9	3.6	5.4				
			Including exte	rnal staff costs						
2009	-12.5	-24.5	-9.5	-3.2	-10.0	-8.3				
2010	8.1	14.1	0.8	6.5	19.2	10.9				
2011	17.0	23.6	13.6	15.4	19.0	13.3				
2012	7.8	4.5	6.7	9.9	6.6	19.0				
			Producti	on taxes						
2009	0.4	-1.7	2.3	-1.3	1.9	0.8				
2010	-10.5	-14.5	-18.9	-8.4	-16.8	-8.9				
2011	3.2	1.3	-2.5	3.9	-0.4	5.5				
2012	5.5	5.6	5.0	4.9	3.7	8.4				
			Gross oper	ating profit						
2009	-15.1	-29.8	-15.4	-14.3	-7.8	-15.3				
2010	8.0	15.0	-11.2	9.0	2.6	11.8				
2011	6.0	8.0	0.6	7.2	3.8	4.7				
2012	-3.3	-4.0	-9.5	-4.6	-0.4	-0.2				

Table 2 Staff costs and production taxes (2009-2012)

Scope: Non-financial SMEs as defined by the LME; cf. Appendix 1. NB: See Table 1. Source: Banque de France – FIBEN database (July 2013).

Boxl

Characteristics of the sample available in July

This study identifies preliminary trends in the economic and financial behaviour of SMEs in France in 2012. It is based on the company accounts collected by the Banque de France and recorded in the FIBEN company database in the first half of 2013.

As the collection of company accounts is not completed until the autumn, at the time at which this study was conducted in July 2013, the 2012 sample was incomplete. This means that there is:

• a loss of roughly 5% of the number of legal entities and of 3% of value added. Annual accounts must be available for both 2011 and 2012 in order to be incorporated into the study (balanced sample);

.../...

• relative underestimation of the gearing ratio, due to the fact that there has not yet been adjustment for double counting.

In addition, it is likely that SMEs analysed in July have accounts that are **generally more robust** than the accounts available at the end of the collection period. An empirical analysis of the average time in which balance sheets are filed in the FIBEN database shows that the earliest released data are those of companies with the best credit ratings, so, presumably, the longest-lived companies (see table below).

Average time period for filing of SMEs balance sheets in the FIBEN database by credit rating

Breakdown of turnover by closing of accounts quarter

(days)

(uuys)													
	3++	3+	3	4+	4	5+	5	6	7	8	9	0	Р
2010	163	170	170	176	190	200	213	234	275	224	244	269	236
2011	153	157	159	163	173	180	188	198	198	197	218	216	211

SMEs whose accounting period ended in the first half of the year (before June 2012), were overrepresented at the time at which the study was conducted: overall, balance sheets finalised in H1 2012 account for 27% of turnover; the financial statements of these SMEs therefore cover a period spanning from mid-2011 to mid-2012 when the business environment was not as difficult as it was over the whole of 2012.

(as a%)									
	2011				2012				
	QI	Q2	Q3	Q4	QI	Q2	Q3	Q4	
Total	11.2	9.2	14.6	65.0	15.1	11.6	17.7	55.5	
Single-entity SMEs	11.5	10.9	16.8	60.7	14.7	13.8	20.3	51.2	
Multi-entity SMEs	11.5	8.4	14.6	65.4	15.3	10.4	17.7	56.6	
Foreign SMEs	8.4	6.2	6.2	79.2	15.6	8.9	7.7	67.8	
O/w main sectors									
Manufacturing industry	9.3	8.1	15.4	67.2	13.4	10.0	18.0	58.6	
Construction	13.6	9.0	19.4	58.0	17.1	11.1	23.2	48.7	
Retail and wholesale trade	13.5	10.2	13.8	62.4	17.8	12.5	16.7	53.0	
Transport and warehousing	9.2	9.1	15.5	66.2	12.3	11.5	18.8	57.4	
Business support services	6.0	8.4	14.4	71.2	8.7	11.9	19.1	60.3	

Scope: Non-financial SMEs as defined by the LME; see Appendix 1. Source: Banque de France – FIBEN database (July 2013).

The size of the sample studied at this period of the year is significant, with a coverage rate, in terms of value added, estimated at 75% of all SMEs whose data will be available at the end of the collection period.

2 Working capital requirements increased while investments declined

2 | I Working capital requirements rose

Fuelled by their two main components, SMEs' working capital requirements (WCR) increased by 5.6%. Inventories increased by 3.5%, at a rate that was half that of 2011, essentially in the manufacturing industry, trade and construction. Trade credit rose by 5.7%, mainly in construction and service SMEs.

With the moderate increase in business activity, after declining for two years, the share of working capital requirements rose by 0.7 day of sales in 2012 to stand at 31.5 days.

2 2 Productive investment declined

Investment² fell by over 8%, in a worsening environment constrained by a gloomy demand outlook and unused production capacity. Investment expenditure decreased notably in two sectors: retail and wholesale trade and real estate. It slowed considerably in the manufacturing industry but maintained a slight positive growth of 0.9% (see Table 3).

Capital expenditure or the investment rate, which is the ratio of investment to value added, lagged in 2012. This decline must however be put into perspective because it centres on a limited subset of SMEs whose balance sheets were available for both 2011 and 2012. The drop is not as sharp when the analysis is extended to new companies entering the sample. SMEs that entered the sample in 2012 had specific characteristics: they were generally young companies, with a higher than average investment rate. Incorporating these companies into the sample moved the investment rate up one point. The fall in the investment rate is therefore probably overestimated, notwithstanding a decline in SMEs' investments in 2012 (see Charts 3).

Each year, capital expenditure centres on a small proportion of SMEs: one quarter of SMEs posted an investment rate above 11% of value added, while half recorded a rate below 5%.

² Acquisitions of tangible and intangible assets, including assets financed through leasing.

The economic slowdown took a toll on SMEs' profits and investments in 2012

	All SMEs	o/w main sectors								
		Manufacturing industry	Construction	Retail and wholesale trade	Transport and warehousing	Business support services				
Breakdown of investment										
2012	100	20.6	9.6	19.9	8.8	9.7				
Changes in working capital requirements										
2009	-4.2	-8.1	0.8	-4.3	-27.9	4.0				
2010	-0.7	0.3	3.0	1.0	-24.1	4.4				
2011	5.3	5.6	4.4	8.8	na	-6.0				
2012	5.6	2.5	6.7	5.0	7.0	na				
	(Changes in ope	rating working	capital require	ements					
2009	-7.1	-9.2	-1.9	-6.2	-33.5	-12.5				
2010	1.3	2.3	2.9	2.2	8.3	5.5				
2011	3.3	5.8	-0.2	8.0	-5.8	-14.5				
2012	3.2	1.9	7.6	2.6	-2.0	14.1				
		C	Frowth in inves	tment						
2009	-15.1	-14.2	-13.0	-19.0	-20.7	-14.5				
2010	-6.8	-0.2	-12.7	-9.8	-8.4	-14.2				
2011	10.0	10.0	7.0	-1.3	7.9	21.1				
2012	-8.4	0.9	-6.5	-12.9	6.4	-6.0				

Declining investment flows in 2012 also played a part in slowing down SMEs' capital accumulation. While the net stock of fixed operating assets increased by a further 5.2% in 2012 (see Appendix 5), it was less than the 6.3% recorded in 2011 and the average of 6% recorded from 1997 to 2012.



Scope: non-financial SMEs as defined by the LME; see Appendix 1. NB: The sliding sample over 2011 and 2012 impacts the investment rate ratio because it excludes new companies entering the sample whose capital expenditure is significant: the drop in the investment rate should be smaller at the end of the year when all balance sheets are taken into account.

Source: Banque de France - FIBEN database (July 2013)

3 Shrinking profitability and savings rate

3 | I Net profitability deteriorated

The decrease in profit margins had an automatic knock-on effect on SMEs' profitability. After net allocations to depreciation and provisions, net operating profit dropped by 6.9%. As a ratio of operating capital (operating WCR and fixed operating assets), the economic profitability ratio slid by 1 point in 2012 to 7.8%.³

Incorporating other non-operating income and expenses (financial items and corporate tax) does not modify the analysis: it reduces SMEs' net cash flow by 8.1%, eroding their return on equity (net cash flow/equity) by 1.3 point (see Charts 4 below).

With the exception of business support services, profitability declined in the main sectors. Net return on equity was particularly low in transport and construction, standing at 4.5% and 4.0% respectively in 2012.

Another illustration of this deterioration in 2012: the number of SMEs with a negative net cash flow –roughly 20% of French SMEs– increased anew after having decreased in 2010 and 2011 following the peak reached in the 2009 crisis. The distributable profits of the least profitable SMEs declined significantly from 2011, for the 10% of SMEs that were least profitable as well as for the first quarter of the sample.⁴ The most profitable SMEs posted an even larger drop. SME performances therefore worsened across the board in 2012.



3 This rate is probably slightly overvalued, as all balance sheets had not yet been recorded in the FIBEN database (see Box 1).

4 As the sample is not yet complete, it is the change from 2011 that is most relevant.

SMEs' taxable profits shed over 5% from 2011, representing 3.5% of turnover, i.e. down 0.3 of a point from 2011 (see Appendix 4).

3 2 Savings rate at a twelve-year low

Gross savings, measured by cash flow, were down 3.2% from 2011. Self-financing –the difference between cash flow and the dividends paid out during the year– shrank further following payouts to shareholders and partners, which rose by 8.1%. Calculated as the ratio between self-financing, which dropped by 9.7%, and global revenue, which rose slightly by 2.3%, SMEs' savings rate dropped from 12.9% to 11.4%, its lowest level in twelve years (see Charts 5).⁵

The year on year change in distribution of global revenue highlights:

• an increase in the share of global revenue paid to employees and shareholders, by 1.2 point and 0.4 of a point respectively;

• a 0.2 point year on year growth in the share of employer social security contributions, in staff costs;



5 Global revenue is made up of value added and non-operating income, particularly financial income.

• the apparent stability of government taxes at 8.3%: the rise in production taxes was offset by the decrease in corporate taxes, a result of the shrinking tax base;

• a drop in the share "remaining" for companies, i.e. free self-financing, by 1.5 point and, to a lesser extent, the share attributed to lenders, by 0.1 point.

4 SMEs' capital structure remained sound, disparities notwithstanding

4 | I Growth in equity stalled

Equity grew by 4.5% in 2012, down from 5.8% in 2011, fuelled mainly by the incorporation of 2011 profits in the retained earnings and the reserves. The slower growth in equity in 2012 resulted mostly from the 5.2% drop in profits rather than the 8.1% increase in dividends. Year on year, deductions from profits attributed to shareholders and partners in fact decreased. Payouts to shareholders and partners fell from 73% of 2010 earnings in 2011, to 69% of 2011 earnings in 2012.



The share of equity in total capital employed remained unchanged at 40.5%. Of more relevance than this percentage, which was overestimated at the time the study was conducted,⁶ is the stability of the indicator over the past four years, following the steady increase at the beginning of the 2000s (see Charts 6).

In addition, while dispersion is structurally high on this indicator, there was a trend towards the closing of these gaps in 2012. Overall, the least solvent SMEs in 2011 were able to increase their equity. Equity decreased slightly in the best-capitalised businesses.

4|2 Bank debt languished in 2012

In 2012, SMEs' total financial debt increased by 3%, after 3.7% in 2011. Growth in financial debt was mostly a result of a 4.6% increase in short-term bank loans due to changes in working capital requirements. Factoring business volumes⁷ slowed, after rising sharply –by close to 20%– over the previous two years. They rose at the same rate as other short-term financing. If they were incorporated into SMEs' balance sheets and added to short-term financing, they would account for 19% of all standard short-term bank loans.



6 Double counting resulting from the aggregation of balance sheets of all legal units is not neutralised at this point —this can only be done when the data set for the period under study is complete. However, we can estimate that after adjustment for double counting, the share of equity would be roughly 35%. The level estimated before adjustment therefore appears to be overevaluated. It will be revised downwards at year's end once all balance sheets are available.

7 Given the lack of a homogenous time series, they are not reincorporated into the balance sheets, unlike unmatured discounted trade bills or finance leases.

With regard to long-term financing, 2012 saw a slight 0.8% decline in medium and long-term bank loans.

The lack of growth in bank loans overall was confirmed by changes in credit recorded each month in the Central Credit Register. Outstanding loans slowed substantially throughout 2012 and even showed a year on year decrease at the start of 2013 (see Box 2).

The other components of financial debt performed slightly better: finance leases were up 1.8%, bond debt climbed by 5.6% and other debt increased by 9%. This other debt, made up in part by shareholder contributions, accounted for a third of SMEs' financial debt (see Chart 7). Some of these reported outstandings reflect double counting as a result of intra-group transactions. With adjustment for double counting, they should account for roughly 28% based on accounting data available in the FIBEN company database.

A slightly more marked rise in equity led to a continued automatic drop in the gearing ratio. It slid by 1.1 point in 2012 to 77.4%. This percentage was nonetheless underestimated when the study was conducted, for the two reasons explained in Box 1: adjustment for double accounting⁸ and entry into the database of new and less robust balance sheets should both push up the gearing ratio in the final analysis.

Bank and bond debt/value added, another indicator of debt, which is not affected by double counting, confirms the drop in the gearing ratio in 2012 (see Charts 8).



8 The amount of adjusted double counting is higher, at around 20%, for equity than it is for financial debt (around 6%).

Box 2

Bank loans to SMEs

Bank loans granted to SMEs slowed in 2012.

According to the outstandings reported each month by credit institutions to the Central Credit Register, and based on a sub-set of SMEs whose balance sheets are recorded in the FIBEN database,¹ annual growth of drawn loans slowed throughout 2012. While outstandings increased by a further 3.1% year on year in December 2011, the rate slowed gradually in 2012 to reach a slightly negative amount at year's end. The trend was more pronounced in the first few months of 2013, with drawn loans dropping by a year on year rate of 2.4% at 31 May 2013.

The trend was a bit more favourable, with a modest 0.4% rise in drawn loans,² for all SMEs, including those whose balance sheets are not recorded in the FIBEN database (mainly very small companies and microenterprises).



SMEs contract their bank loans almost entirely from resident credit institutions, which account for close to 99% of bank debt recorded in SMEs balance sheets.

- I This sub-set accounts for roughly 50% of outstanding bank loans in the SME category in the "credit to enterprises" STAT INFO published monthly by the Banque de France.
- $2 \quad http://www.banque-france.fr/economie-et-statistiques/stats-info/detail/credit-aux-entreprises-encours.html$

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This is much less the case for the other categories of companies, which have greater recourse to non-resident credit institutions: 20% of bank debt for MTEs and 50% for large companies. In addition, MTEs and, especially, large companies, find alternative sources of financing in market instruments such as bonds and other negotiable debt securities.

4|3 Stabilised cash position

The cash position, measured after the closing of the accounts, continued to increase, but at a more modest rate of 3.2% compared to previous years such as the 4.9% recorded in 2011. The share of cash in balance sheet assets stabilised at a little less than 19%. Similarly, expressed in turnover days, the cash position was comparable to that of 2011, i.e. 55 days. This was marginally less than in 2009 when it peaked at 60 days but much better than at the end of the 1990s when it did not exceed 30 days.

Dispersion is particularly marked on this indicator: 10% of SMEs have virtually no cash assets, while at the other end of the spectrum, one quarter of the sample has cash and equivalents totalling over 35% of assets. These significant disparities indicate that notwithstanding a generally satisfactory average ratio, some SMEs are facing serious cash contraints. In 2012, in the sample analysed, the number of SMEs with a net negative cash position increased slightly, cutting short the consistent upward trend observed in the last 15 years.

This lacklustre growth was confirmed by the breakdown of SMEs' cash flow, which highlights the impact of receding profit margins and sluggish investment (see Box 3).

Box 3

SMEs' cash flow statement

Shrinking profit margins impeded SMEs' ability to generate liquidity. Net flows of investment, as well as net financing flows shrank, with the result that, in 2012, and for the second consecutive year, cash positions did not improve.

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(per EUR 100 of turnover)

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	2009	2010	2011	2012
(+) Gross operating profit	6.3	6.6	6.6	6.2
(-) Growth in operating WCR	-0.7	0.1	0.3	0.3
(+) Operating cash flow	7.0	6.5	6.3	5.9
(+) Other non-operating income	2.3	2.3	2.2	2.1
(-) Interest payments	1.3	1.1	1.1	1.0
(-) Employee profit sharing	0.1	0.1	0.1	0.1
(-) Dividends	2.3	2.3	2.4	2.5
(-) Corporate tax	1.1	1.2	1.2	1.2
(-) Growth in N-OWCR	0.3	-0.2	0.1	0.2
(+) Total cash flow	4.2	4.3	3.6	3.0
(-) Net investment flows	4.2	4.2	4.5	3.7
(+) Net financing flows	1.0	1.1	1.6	1.2
(+) Growth in equity financing	0.6	0.7	0.6	0.4
(+) Growth in stable debt	0.7	0.4	0.8	0.7
(+) incl. growth in bank debt	0.2	0.1	0.2	-0.1
(+) Growth in cash liabilities	-0.3	0.0	0.2	0.1
Growth in cash assets	1.0	1.2	0.7	0.5
Change in net cash position	1.3	1.2	0.5	0.4
Growth in ONWC	0.9	1.1	1.0	0.9
Growth in WCR	-0.4	-0.1	0.4	0.5

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

Source: Banque de France - FIBEN database (July 2013).

Specifically, in 2012, for every EUR 100 in turnover, current operations enabled SMEs to show an operating cash flow surplus of EUR 5.9. After payments to associates such as creditors, government, shareholders and partners, available cash flow amounted to only EUR 3, compared with EUR 3.6 in 2011 and EUR 4.3 in 2010.

Net investment spending was revised downwards –dropping from EUR 4.5 for every EUR 100 of turnover in 2011 to EUR 3.7 in 2012.

This drop notwithstanding, for the second consecutive year, cash flow did not match investment spending, generating an external financing requirement of EUR 0.7.

Financing flows show that external funds used amount to EUR 1.2, compared with EUR 1.6 in 2011. This was mainly stable financing –equity and debt– with a drop in bank borrowing.

The surplus increased cash and cash equivalents, which expanded by EUR 0.5 per EUR 100 of turnover, but at a slower pace than in 2009 and 2010.

Appendix I

FIBEN data

Database of company accounts

Company accounts are collected through the Banque de France's branch network. The accounts collected represent one third of companies taxed under the BIC *bénéfice industriel et commercial* (industrial and commercial profits) and BRN *bénéfice réel normal* (real and normal profits) regimes. Data is collected for all companies doing business in France with a turnover exceeding EUR 0.75 million and bank debt surpassing EUR 0.38 million. In terms of staff, the data covers over 75% in most sectors and 80% in retail and wholesale trade and industry.

Scope of companies analysed

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

Main ratios used

An explanation of the financial analysis methodology and the definition of ratios used may be found at the following link: *http://www.banque-france.fr/economie-et-statistiques/entreprises/structure-et-performances-des-entreprises/la-situation-des-entreprises-en-2010-dossier-statistique.html*

Financial links

The Banque de France records financial links and tracks capital interests held by other companies, classifying holders as non-financial companies (including holdings), financial institutions (banks, UCITS and insurance companies), natural persons (individuals and employees), government or non-resident companies. The distinction is made between independent companies and those belonging to a group, irrespective of the size of the group.

The Central Credit Register

The Central Credit Register makes monthly records of the loans granted by credit institutions to their customers above a specific threshold: EUR 25,000 since January 2006. Loans recorded are classified as "drawn loans" (loans used) and "undrawn loans" (credit that is still available). Drawn loans include short, medium and long-term loans, finance leases and securitised loans.
Appendix 2

Definition of SMEs in FIBEN

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

The decree implementing the LME published in December 2008 defines the company statistically.¹ It specifies company size categories in keeping with European Commission definitions, and the criteria that define these categories. There are four thresholds: staff headcount, annual turnover, balance sheet total of legal entities and the financial links between them. The first three thresholds are assessed for each company, where the company is defined as the smallest combination of legal entities that make up an organisational unit of production of goods and services, which has some autonomy in decision-making (defined based on the company's financial links). A financial link is considered when it accounts for a stake of at least 50% of the capital of a legal entity.

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

The business sector is determined based on the 2008 aggregate nomenclature, itself based on Insee's NAF rév. 2. In the case of a multientity company, the sector is determined by allocating each legal entity to a corresponding sector. The multi-entity company's sector is defined by the entity (or group of entities) that generates the highest annual turnover for the company, provided it exceeds 50% of total revenue. If not, the sector is determined based on the staff headcount criterion, again, provided that the entity's (or group of entities') staff represents more than 50% of the multi-entity's total staff. In cases where no single entity (or group of entities) accounts for over 50% of sales or staff, the sector of the entity (or group of entities) with the highest turnover is assigned to the group as a whole.

I http://www.legifrance.gouv.fr/affichTexte.do;jsessionid=AE22AD6AA9827C20CEBCA70F674272 37.tpdjo01v_3?cidTexte=JORFTEX T000019961059&categorieLien=id

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

² Please see the annual end-of-year analysis of all companies.

Appendix 3

Sample of SMEs in 2012

Economic weight of SMEs in 2011 based on data available at the start of July 2013

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

	Number of companies	Number of legal entities ^{a)}	Permanent staff	Turnover	Value added	Financial debt	Bank debt	Equity
Total	134,866	226,779	2,708	616	181	156	100	201
Single-entity SMEs	92,362	92,362	1,223	258	78	58	44	64
Multi-entity								
SMEs	37,724	121,152	1,305	295	86	76	48	118
Foreign SMEs	4,780	13,265	180	64	16	22	9	19
Main sectors incl.:								
Manufacturing industry	21,447	39,779	617	117	40	24	15	48
Construction	23,418	36,852	447	75	28	13	9	22
Retail and wholesale trade	50,614	78,886	765	293	49	39	25	61
Transport and warehousing	5,433	8,559	163	24	9	7	5	7
Business support services	11,985	22,175	294	42	21	13	7	19
Breakdown (as a%)								
Single-entity SMEs	68	41	45	42	43	37	44	32
Multi-entity SMEs	28	53	48	48	48	49	47	59
Foreign SMEs	4	6	7	10	9	14	9	9
Main sectors incl.:								
Manufacturing								
industry	16	18	23	19	22	15	15	24
Construction	17	16	17	12	16	8	9	11
Retail and wholesale trade	38	35	28	48	27	25	25	30
Transport and warehousing	4	4	6	4	5	4	5	3
Business support services	9	10	11	7	11	8	7	9

The economic slowdown took a toll on SMEs' profits and investments in 2012

Average value	Average value by SME category number and EUR millions)										
Average size of each category of SMEs											
Number of Number ermanent Turnover Value Financial Bank equit companies of legal entities a) staff											
Total	134,866	١,7	20	4,571	1,341	1,154	744	1,492			
Single-entity SMEs	92,362	١,0	13	2,788	846	625	477	697			
Multi-entity SMEs	37,724	3,2	35	7,811	2,286	2,004	1,261	3,134			
Foreign SMEs	4,780	2,8	38	13,440	3,448	4,660	I,836	3,886			

Scope: Non-financial SMEs as defined by the LME; see Appendix 1.

a) The number of legal entities corresponds to the number of entities that are classified as SMEs under the definition of the LME, regardless of whether or not their balance sheets have been filed in FIBEN.

Source: Banque de France – FIBEN database (July 2013).

Appendix 4

Profit and loss account

	S	ME
	2011	2012
Operating activities		
Turnover	100	100
(+) Inventoried production	0.2	0.1
(+) Capitalised production	0.3	0.3
Production and sale of goods	100.5	100.4
(-) Cost of purchase of goods sold	36.2	36.3
(-) Cost of inputs	13.2	13.1
(-) Purchases and external costs (excluding financial leases and		
external staff)	21.5	21.6
Value added	29.6	29.3
(+) Operating subsidies	0.2	0.2
(-) Salaries, wages and social security contributions	20.2	20.3
(-) External staff costs	1.2	1.2
(-) Taxes and tax-like payments	1.4	1.4
(+) Other operating income and expenses	-0.3	-0.3
Gross operating profit	6.7	6.2
Net operating profit	4.5	4.0
Acquisition of earnings	1	
Gross operating profit	6.7	6.2
(+) Other non-operating transactions ^{a)}	2.2	2.1
Total gross profit ^{a)}	8.9	8.4
(-) Interest and related expenses ^{a)}	1.1	1.0
(-) Employee profit-sharing	0.1	0.1
(-) Corporate tax	1.2	1.2
Cash flow ^{a)}	6.5	6.1
(-) Net charges to depreciation, amortisation and provisions	3.1	3.1
Net Cash flow ^{a)}	3.4	3.0
Accounting net profit margin a)	3.8	3.5

Scope: Non-financial SMEs, as defined by the LME; cf. Appen Source: Companies Directorate –FIBEN database, July 2013.

Appendix 5

Functional balance sheet

as a% of total)		
ASSETS		
	S	ME
	2011	2012
Intangible fixed assets	8.4	8.6
Tangible fixed assets	40.5	40.7
Goods financed through leasing	3.3	3.2
Other fixed assets ^{a)}	18.0	17.9
Fixed assets ^{a)}	70.2	70.4
Inventories	14.3	14.1
Trade credit	3.4	3.5
Other operating claims and liabilities	-6.3	-6.4
Operating working capital requirements	11.4	11.2
Non-operating working capital requirements	-0.7	-0.4
Cash and cash equivalents	9.5	9.4
Marketable securities	5.9	5.4
Share of intra-group claims with a maturity of up to one year ^{a)}	3.8	4.0
Cash assets ^{a)}	19.1	18.9
LIABILITIES		
Equity ^{a)}	40.3	40.2
Amortisation and provisions	28.1	28.7
Bonds and other fixed-income securities	0.6	0.6
Bank debt	16.0	15.1
Finance leases	2.6	2.5
Other debt ^{a)}	9.5	9.9
Stable debt ^{a)}	28.7	28.2
Standard bank loans	2.4	2.4
Share of intra-group debts with a maturity of up to one year $^{a)}$	0.5	0.5
Cash liabilities ^{a)}	2.9	2.9

Scope: Non-financial SMEs as defined by the LME; see Appendix 1.

Source: Banque de France - FIBEN database (July 2013).

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Insurance institutions' investments at end-2012

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Insurance industry investments amounted to EUR 1,970 billion at end-2012, on a par with France's annual gross domestic product. Total outstanding investments increased by EUR 206 billion over the year, chiefly owing to changes in the value of asset holdings. Substantial unrealised capital gains were generated, particularly in the debt securities segment, as bond yields declined to historically low levels in 2012.

French insurers continued to refocus their portfolios on securities issued by French residents, pursuing a trend that began in 2011 amid the European sovereign debt crisis. In particular, this shift mainly concerned debt securities issued by the resident financial sector. In contrast, insurers scaled back the proportion of non-French euro area sovereign securities in their portfolios, while maintaining the share of securities issued by French general government.

In terms of the breakdown by instrument, in 2012 insurers preferred debt securities and collective investment scheme (CIS) securities over equities and real estate. The share of liquid assets held steady in 2012 after increasing sharply in 2011. With interest rates at low levels, the average coupon yield on debt securities held by insurers fell again, despite a slight increase in their average residual maturity.

Flows of household financial savings into life insurance continued to decline in 2012 and were once again directed primarily into non unit-linked contracts rather than into unit-linked contracts. This played a part in increasing the share of debt securities relative to equities in insurers' investments.

Key words: insurance institutions, life insurance companies, non-life insurance companies, technical reserves, non unit-linked contracts, unit-linked contracts, financial investments, look-through approach, household savings, equities, financing channels, debt securities, bonds, collective investment schemes

JEL code: G22

NB: The authors wish to thank Coryse Dubois, Fabrice Ramanitra and Sylvaine Ravaud for their hard work in gathering and processing data and in managing databases.

This survey of investments by insurance institutions in 2012 was carried out using a sample that covers 99% of investments by insurers and that may be used to draw comparisons with the previous period.¹ Investment data are mainly analysed after applying the look-through approach to collective investment schemes (CIS). This consists in replacing investments by insurers in CIS with the assets held by these schemes.² This makes it possible to obtain a complete description of securities held directly or indirectly by insurers as well as to identify the final beneficiaries of their investments.

For example, the share of equities (listed and unlisted) held by insurers is estimated at 6.6% of their investments before the look-through approach is applied, but this increases to 12.0% after this approach is applied (see Charts 1).



companies, real estate CIS and real estate investment companies).

¹ The figures presented here differ slightly from those published in the previous survey of insurance investments at end-2011 (Banque de France, Quarterly Selection of Articles, No. 27) owing to corrections made to the sample to ensure the comparability of 2011 and 2012 data.

² See methodology below for technical details on the look-through approach for CIS.

I Structure of insurers' portfolios

I | I Debt securities account for the bulk share of investments

The overall structure of the insurance industry's investments largely reflects that of the portfolios of life and mixed insurance companies, which account for 86% of the industry's total investments, or EUR 1,687 billion out of the total of EUR 1,970 billion at end-2012. Much of the structure therefore results from the investment constraints specific to these types of insurers, particularly in terms of managing interest rate risk.

After applying the look-through approach to CIS, the investments of insurance institutions remain, as in past years, heavily concentrated in debt securities, which accounted for 74.8% of total investments in 2012, after 74.5% in 2011.³ The proportion of equities in the portfolio of insurers declined slightly, falling to 12.0% in 2012 from 12.5% in 2011.

An examination of the breakdown of investments by type of instrument does however revel some noteworthy differences in asset allocation choices by type of insurer. In particular, the prevalence of debt securities was more pronounced in the portfolios of life and mixed insurance companies⁴ (77.1%), than in those of non-life insurers (55.4%). However, non-life insurance companies held a significantly greater proportion of equities, at 27.2%, compared with just 10.4% for life and mixed insurers, which reflects the intra-group equity interests held by non-life insurers (see 2|1 below).

Mutual insurers and provident institutions displayed investment structures similar to those of life insurance. Mutual insurers differed from provident institutions in terms of the proportion of real estate assets in their investments (10.0%, compared with 4.4% for provident institutions) and the smaller share of equity investments (6.7% for mutual insurers, compared with 14.4% for provident institutions).

³ The estimated share of investments in debt securities for 2011 (74.5%) is higher than the figure published in the previous survey (Banque de France, Quarterly Selection of Articles, No. 27) (72.9%). Data processing and additional source data were used to identify a larger number of securities (accordingly, the Other category was revised downwards from 4.3% to 2.8%).

⁴ In this article, mixed insurers are grouped together with life insurers.

ARTICLES Insurance institutions' investments at end-2012





I 2 The share of liquid assets remained high

The share of the most liquid assets was virtually unchanged

After surging in 2011, the share of the most liquid assets⁵ in insurers' investments (before applying the look-through approach to CIS), changed little between end-2011 (5.7%) and end-2012 (5.8%). Uncertainty about macroeconomic conditions going forward and difficulties in predicting redemption flows for life insurance policies explain why insurers maintained a high proportion of liquid assets in their portfolio. However, the composition of these liquid assets changed markedly: holdings of money market funds increased by EUR 22 billion, while those of debt securities with an initial maturity of less than one year fell by EUR 9 billion. This development was driven entirely by investments by life insurers, which held 88% of these highly liquid investments in 2012, up from 86% in 2011.

Continued decline in the average rate of return on debt securities and longer residual maturities

In line with the decline in yields seen on bond markets in 2012 (in particular, the yield on 10-year French government bonds fell by 115 basis points in 2012), the average coupon yield⁶ on debt securities held by the insurance sector fell from 4.4% at end-2011 to 4.2% at end-2012. This was notably the case for life insurers, which held 88% of debt securities. This decline was accompanied by a slightly longer average residual maturity for portfolio securities, which increased from 8.3 years at end-2011 to 8.4 years at end-2012, after falling sharply in 2011 due to the increased proportion of short-term liquid securities.

Type of insurer	Average coupon yield	Residual maturity						
	At 31 Dece	mber 2011						
Life insurance	4.4	8.3						
Non-life insurance	4.1	6.9						
Mutual insurers	4.6	9.1						
Provident institutions	4.1	10.1						
Total	4.4	8.3						
	At 31 Dece	At 31 December 2012						
Life insurance	4.2	8.4						
Non-life insurance	3.9	7.3						
Mutual insurers	4.7	10.0						
Provident institutions	4.0	10.6						
Total	4.2	8.4						

Table IAverage coupon yield and residual maturity(before applying the look-through approach to CIS)

5 Money market funds and debt securities with an initial maturity of less than one year.

6 The average coupon yield or average rate of return is measured here as the average of the annual coupon yields of securities weighted by gross portfolio assets.

Mutual insurers saw their average coupon yield go up in 2012 (4.7% at end-2012, after 4.6% at end-2011), thanks in particular to an increase of almost one year (0.9 of a year) in the residual maturity of their portfolio. They continue to enjoy the best coupon yield, because their residual maturities are much longer than the sector average.

Provident institutions and non-life insurers also saw a fairly significant increase in residual maturities, by 0.5 and 0.4 of a year respectively. However, their average coupon yield declined because they hold a larger proportion of government bonds, whose coupon yield fell in 2012 by more than that of other debt securities in the portfolio.

I 3 The quality of securities portfolio was unchanged from 2011

The share of investment grade debt securities was almost stable

A line-by-line examination of the ratings of debt securities held by insurers gives an indication of the credit risk that they bear. At end-2012, the proportion of investment grade debt securities⁷ stood at 84% after application of the look-through approach, or virtually the same as in the previous year. The proportion of debt securities eligible for monetary policy operations was 79% in 2012, after 80% in 2011, following application of the look-through approach.

Table 2 I by geographica (after applying tl	nsurers' al area of iss he look-throu	holdir uance Igh approad	i gs of th to CIS)	covered	l bonds			
(amounts in EUR bi	llion, % share)							
Type Holdings Of which issued by of insurance of covered bonds (%)								
	Amount in EUR billion	% share	French residents	Euro area residents (excluding France)	Rest of the world (non- euro area)			
Life insurance	115.2	8.9	56.5	31.1	12.4			
Non-life insurance	8.8	8.8	59.1	27.4	13.5			
Mutual insurers	3.2	8.3	84.3	13.0	2.7			
Provident institutions	2.2	6.2	81.1	15.5	3.4			
Total	129.5	8.8	57.7	30.2	12.1			

⁷ Securities rated BBB- or above by Fitch Ratings and Standard & Poor's, and Baa3 or above by Moody's. Speculative grade securities are those rated below BBB- by Fitch Ratings and Standard & Poor's, and below Baa3 by Moody's. The lowest rating assigned by one of the three main rating agencies is taken.

Slight decline in the proportion of covered bonds in debt securities

Covered bonds⁸ are investment instruments that provide investors with an alternative to sovereign securities and uncovered bank bonds. The two latter instruments are traditionally favoured by insurers but they now display greater disparities in risk profiles according to the issuer.

Insurers' holdings of covered bonds totalled EUR 129.5 billion at end-2012, after EUR 119 billion at end-2011. However, covered bonds accounted for 8.8% of debt securities in 2012, down from 9.0% the previous year.

I 4 Increased stocks of unrealised capital gains

At end-2012, unrealised capital gains reported by insurance institutions totalled more than EUR 150 billion, up sharply on the EUR 16 billion reported at end-2011 for the market as a whole, and amounting to some 8% of total outstanding investments.



⁸ Covered bonds are securities that are backed by mortgage loans or public sector loans and that are protected in the event of the issuer's default. This protection is provided either by law, as is the case, for example, for French mortgage bonds, as well as for home-purchase bonds (obligations de financement de l'habitat – OFH) since the Act of 22 October 2010 was passed, or contractually.

This development is closely linked to changes in the value of bonds (up EUR 106 billion in 2012, after falling EUR 3.9 billion in 2011) associated with the decline in long bond yields: the yield on French ten-year government bonds fell from 3.16% at end-December 2011 to 2.01% at end-December 2012. Unrealised capital gains on equities also jumped considerably at end-2012 (up 79%) as stock markets performed well –the CAC 40 index for example rose by 15.2% in 2012– and almost cancelled out the previous year's losses. CIS also saw a sharp increase in values, essentially thanks to the non-money market segment, with unrealised capital gains of EUR 2.5 billion at end-2012, compared with losses of EUR 8.9 billion in 2011. However, real estate investments were stable.

2 Insurers' investments and financing of the economy

2 | I The share of intra-group assets shrank slightly in 2012

The share of intra-group securities⁹ in insurers' investments fell to 12.3% (corresponding to EUR 242 billion) from 12.8% in the 2011 portfolio.



9 Equities, debt securities and CIS securities are used to measure intra-group holdings. However, holdings of CIS securities need to be interpreted with some care as they cannot truly be considered to be a direct investment in the group itself. Rather, they represent an investment in a vehicle that is managed and distributed by a financial or equivalent institution belonging to the group, whose underlying typically comprises assets issued outside the group. Other types of intra-group assets, and particularly real estate assets, are excluded from this analysis.

This was primarily due to the decline in the share of debt securities held by life insurance and mixed insurers and issued by other companies of the same group. It did not stem from valuation effects, since there was an equivalent decline in the share of intra-group investments at book value. Life and mixed insurance companies held 71% of intra-group investments (EUR 171 billion), which was substantially lower than their share of total investments (86%).

Among insurance groups, non-life subsidiaries held most of the equity interests. The share of intra-group investments held by non-life insurers stood at around 30.7% at end-2012, of which 20.7% in equities (up from 16.2% in 2011).

Although it fell slightly, from 22.2% in 2011 to around 20.7%, the share of intra-group investments of mutual insurers remained substantial (three-quarters of the intra-group securities held by mutual insurers are debt securities).

The shares of intra-group securities in the portfolios of life insurance companies (10.2% at end-2012) and provident institutions (9.3%) are smaller and varied little.

Overall, intra-group securities accounted for around 44% of the equities held by insurers but barely 5% of their assets in debt securities.



2 2 Insurers continued to refocus their investments on France in 2012

Total investments by insurers came to EUR 1,970 billion in 2012, or EUR 206 billion higher than in the previous year.

The share of investments in resident securities rose in 2012: at the end of the year, 55.6% of the total was invested in the domestic economy, up from 54.0% a year previously. After applying the look-through approach to CIS held by insurers, the share of securities issued by residents rose to 45.4% in 2012 from 43.6% in 2011, showing that insurers continued to refocus their investments on France, pursuing the trend observed in 2011 and 2010.

The proportion of securities issued by non-residents and held by French insurers (43.2% at end-2012) was almost constant, while the share of securities not broken down by geographical region fell from 8.0% in 2011 to 6.8% in 2012. The respective shares of euro area securities (excluding France) and the rest of the world fell in 2012, by 0.5 point and 0.3 point, while that of the non-euro area EU increased from 6.7% in 2011 to 7.5% in 2012.

The refocusing on securities of resident issuers was not consistent across all sectors of the domestic economy: the financial sector saw the biggest increase, far ahead of the general government sector and non-financial corporations (NFCs).



The banking sector is the primary beneficiary of insurers' investments

The share of insurers' investments in the French banking sector rose from 19.5% in 2011 to 20.9% in 2012.

This financing was mainly in the form of debt securities (up from 18.6% in 2011 to 20.0% in 2012).

Insurers allocated EUR 412 billion to the French banking sector in 2012, of which EUR 394 billion in the form of debt securities. Insurers thus held 30% of the stock of debt securities issued by French banks at end-2012.

Moderate increase in the share of assets allocated to resident general government

The proportion of securities issued by French general government in the portfolio of insurers rose from 16.4% in 2011 to 16.6% in 2012. The amount allocated to French government securities was EUR 327 billion in 2012, or a 13% increase. In 2012, insurers held 18.5% of the securities issued by French general government.

Slight increase in the share of financing of NFCs

French NFCs saw their share of financing increase from 5.9% in 2011 to 6.1% in 2012. A total EUR 119 billion was allocated to this sector in 2012, of which EUR 50 billion in debt securities, or 10% of their total outstanding debt securities.



ARTICLES Insurance institutions' investments at end-2012



The geographical and sectoral breakdown of investments varies by insurer type. For instance, life insurers hold a larger proportion of investments outside France (45.3%). Non-life insurance companies favour unlisted equities (18.9%), which are mostly made up of intra-group securities. Mutual insurers invest proportionately more than other participants in securities issued by resident financial institutions, as well as, to a lesser degree, in NFCs. Provident institutions have a preference for government securities (21.3% in French securities, 32.0% in total).

3 Households' life insurance investments in 2012

3 | I Households continued to favour bank savings products in 2012

For the second year in a row, investment flows into bank products (EUR 57 billion) far exceeded investments in life insurance (EUR 17 billion). Investments in life insurance, which accounted for almost 75% of households' net annual financial investments in 2009, made up just 21% in 2012.



Household investment flows into life insurance were directed into non unit-linked contracts (EUR 20.4 billion) while the unit-linked segment saw further net withdrawals (EUR –3.6 billion).

Total investments in life insurance contracts stood at EUR 1,687 billion at end-2012, of which EUR 1,468 billion for non unit-linked contracts and EUR 219 billion for unit-linked contracts, and accounted for 40% of households' total financial investments (National Financial Accounts, 2012).

3 2 Analysis of investments in non unit-linked and unit-linked contracts

Because of the differences between non unit-linked and unit-linked contracts, it is interesting to consider the asset allocation decisions arising from their specific features. Unit-linked contracts pay a return that is most often linked to observable or calculated indices that vary with the performance of the financial markets and for which the insurer provides no guarantees. Non unit-linked contracts offer policyholders a capital guarantee as well as, in some cases, a minimum rate of return.

These features mean that insurance companies have to manage the asset portfolios covering the technical reserves for each type of contract differently in order to meet their obligations to policyholders. As a result of the guarantees included in non unit-linked contracts these contracts are mostly invested in debt securities (74.4% of the total), whereas unit-linked contracts are predominantly invested in CIS (81.8%).



After applying the look-through approach, the portfolio of unit-linked contracts appears to be more diversified than that of non unit-linked contracts, with equities accounting for a 28.6% share, compared with just 7.7% for non unit-linked contracts. Meanwhile, debt securities account for a mere 43.3% of the portfolio of unit-linked contracts, compared with 82.1% for non unit-linked contracts.





An analysis of the final composition of life insurers' portfolios also makes it possible to identify the resident economic sectors benefiting from the corresponding financing. 13.2% of the assets of unit-linked contracts were invested in securities issued by NFCs, compared with only 5.0% for non unit-linked contracts (in absolute terms, however, the financing allocated to NFCs stems mainly from the assets of non unit-linked contracts, which stood at EUR 76.4 billion, compared with EUR 28.8 billion from unit-linked contracts). In contrast, 18.7% of the outstandings of non unit-linked contracts were invested in government securities, compared with only 3.3% for unit-linked contracts.

There were few differences between the two types of contracts in terms of the geographical distribution of investments. Indeed, the share invested in the French economy was almost equivalent for unit linked contracts and non unit-linked contracts, i.e. 45.9% and 46.0% respectively. The euro area excluding France accounted for a larger proportion of the investments of unit-linked contracts (36.8%) than that of non unit-linked contracts (29.3%).

Appendix

Methodology

Main types of insurance institutions in France

Mutual insurers are not-for-profit entities governed by the Mutual Insurance Code that provide extra healthcare and retirement coverage to supplement social security. Provident institutions are also not-for-profit entities and are governed by the Social Security Code. They manage group insurance contracts for company employees. Life and mixed insurers manage the bulk of non unit-linked contracts and all unit-linked contracts, which are insurance products mainly used as household savings vehicles. Lastly, non-life insurance companies cover most types of property, casualty and personal risk: they mainly take on short-term liabilities (one year on average) and, in general, settle outstanding claims within a period of less than two years, with a few exceptions, such as civil liability and construction risk. Because of the relative weights of the different types of insurance, life insurance companies are responsible for most of the investments made by the insurance sector.

Data used in the study

This year's sample covers around 550 entities holding investments with a realisable value¹ of EUR 1,970 billion, or over 99% of total investments of the market. The analysis is primarily based on the detailed statements of investments (called TCEP tables) that insurance institutions file annually with the ACPR in accordance with Article A344-3 of the Insurance Code. These tables report the gross and net book value and the realisable value on 31 December of each security held. These statements are cross-referenced with the Banque de France database of securities and issuers, and with the European Central Bank's databases in the case of non-resident securities. This cross-referencing identifies the types of securities, their initial maturity and the institutional sector of the issuer.

	20	l 2 total	S	ample	
	Population	opulation Realisable value at end-2012		Realisable value at end-2012	
Life and mixed	98	I,688	95	I,687	
Non-life	173	183	155	180	
Mutual insurers	321	58	263	55	
Provident institutions	43	49	40	49	
Total	635	1,978	553	1,970	

Coverage rate derived from the data in the detailed statements of insurance companies' investments

I The realisable value is the market value of insurance institutions' investments, which includes unrealised gains or losses. These gains and losses are calculated as the difference between the realisable value and the book value. Unless otherwise stated, investments are reported at realisable value.

Look-through approach for collective investment scheme (CIS)

Banque de France databases are used to apply the look-through approach to the securities of CIS held by insurers. This technique makes it possible to identify the final beneficiaries of investments, as the securities in which CIS invest are substituted for the CIS securities held in insurers' portfolios.

Approximately three-quarters of insurers' investments in CIS securities were thus able to be identified as belonging to one of two categories of underlying financial instruments: debt securities (about half) and equities (about a quarter). The remaining quarter of securities invested by insurers in CIS could not be assigned, which explains why a CIS category remains after the look-through approach has been applied.

Detailed breakdown of investments

Breakdown of the investments of insurance institutions, mutual insurers and provident institutions at the end of 2012, by type of security, issuer sector and area of residence, <u>after applying the look-through approach to CIS securities held in portfolios</u>

	Deb	t secur	ities		Equities			CIS		Re	eal estat	e	Other	Grand
	Short term	Long term	Total	Listed	Unlisted	Total	Money market	Other	Total	Paper	Actual	Total	invest- ments	total
						Fr	ance							
NFCs	0.3	2.2	2.6	3.5		3.5								6. I
Financial institutions	3.4	16.6	20.0	0.9		0.9								20.9
CIS							0.3	1.3	1.7					1.7
Insurance		0.1	0.1											0.2
Central government	0.1	14.6	14.7											14.7
Other general government	0.1	1.8	1.9											1.9
Total	3.9	35.4	39.3	4.5		4.5	0.3	1.3	1.7					45.4
					Euro a	rea e	ccluding	France	е					
NFCs	0.1	2.6	2.7	1.8		1.8								4.5
Financial institutions	1.0	10.8	11.8	0.4		0.4								12.2
CIS							0.1	3.6	3.7					3.7
Insurance		0.2	0.2	0.1		0.1								0.4
Central government	0.2	7.6	7.8											7.8
Other general government		0.2	0.2											0.2
Other sectors			0.1											0.1
Total	1.3	21.5	22.9	2.4		2.4	0.1	3.6	3.7					28.9
					N	on-eu	ro area	EU						
NFCs		0.8	0.8	0.3		0.3								1.1
Financial institutions	0.5	3.9	4.4	0.1		0.1								4.5
CIS								0.1	0.1					0.1
Central government		0.2	0.2											0.2
Other sectors	0.1	1.4	1.5											1.5
Total	0.6	6.3	7.0	0.4		0.4		0.1	0.1					7.5
					R	est of	the wo	rld						
Total	0.1	5.0	5.0	1.3		1.3		0.3	0.3					6.7
						Rea	l estate							
Total						Not :	dontific	4		2.8	1.8	4.6		4.6
Total		0.7	07		34	24	uenunie	1					20	۷ ک
Iotal		0.7	0.7		Ј.т	J. 1							2.0	0.0
Grand total	5.9	68.9	74.8	8.6	3.4	12.0	0.4	5.3	5.8	2.8	1.8	4.6	2.8	100.0

The IMF and management of capital flows: the long road towards a pragmatic approach

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Since the end of the Bretton Woods system, there has been ongoing controversy over whether or not it is appropriate to liberalise the financial account in the balance of payments and at what pace, and over the extent to which capital flow management measures are justified and indeed effective. This debate gained renewed vigour in the aftermath of the global financial crisis. Traditionally, the IMF's so-called "orthodox" doctrine was in line with the preferences of advanced economies and with those of international investors. Over time, however, it has developed into a more pragmatic stance that takes greater account of the concerns of emerging economies —it is now considered justified for recipient countries to exercise efficient capital controls if, owing to the macroeconomic context, they have limited scope to adjust their exchange rate and monetary policies, or if financial stability is at stake. The Fund's recent approach draws more on empirical research and country experiences than previously, and has been influenced in particular by the discussions held at G20 meetings, where a growing international consensus has become apparent.

Key words: capital flows, capital account liberalisation, IMF, globalisation, emerging countries

JEL codes: F32, F33, F36, F6

NB:The author would like to thank Bruno Cabrillac, Christian Durand, Marc Farnoux, Bruno-Philippe Jeudi and Jean-Guillaume Poulain for their comments and suggestions.Thanks also go to Lauren Diaz, Elodie Lauren and Noam Leandri for their invaluable help. The views expressed are those of the author and do not necessarily reflect the position of the Banque de France or of the Eurosystem.

I Huge challenges in the present context

Gross¹ private² capital flows have soared in the past two decades, both in terms of aggregate volume and volatility. After accounting for less than 5% of world gross domestic product (GDP) in the period 1980-99, the average volume of global gross capital flows hit a peak of around 20% in the run-up to the global crisis (see IMF, 2012b and charts 1 and 2). This upward trend, which is masked in the charts for net capital flows, reflects the removal of legal barriers to capital mobility, combined with a steady rise in global liquidity up to the year 2007.

The 2008-09 financial crisis triggered a sharp drop in gross capital flows, but these rebounded as of 2010, mostly towards emerging countries. However, an increasing share of capital movements from advanced to emerging economies are debt-creating flows (notably debt securities, loans and bank deposits), which are deemed more volatile than equity investments, such as FDI (see charts 1). As well as increasing volatility, net inflows³ have also frequently stimulated net demand for assets denominated in local currencies, placing upward pressure on recipient countries' exchange rates.



- 1 The term "gross" refers to capital inflows to resident sectors in a so-called "recipient" country, from agents resident in a "source" country (also called "non-resident agents" or "foreign investors"). Gross inflows are net of amortisations and other payments of debt principal, and of repatriations of deposits and of capital by non-residents (see IMF, 2011 and Institute of International Finance - IIF, 2012). The volume of net capital flows corresponds to the difference between gross inflows and gross outflows (the latter are purchases of foreign assets by residents).
- If the non-resident lenders are from the private sector, the capital flows are said to be "private" (including those used to finance the public sector in the recipient country), as opposed to "official" flows which come from multilateral organisations (IMF, International Bank for Reconstruction and Development - IBRD, etc.) and bilateral lenders (essentially intergovernmental flows). Thus, a positive change in foreign currency reserves can be considered an official outflow (see IIF, 2012). The main categories of private capital flows booked in the balance of payments financial account are as follows: foreign direct investment (FDI), which corresponds to the acquisition of equity holdings resulting in the control of a resident entity by a non-resident, portfolio flows, which refer to the acquisition of marketable debt securities or equity which does not result in control of the resident entity, and other investments, which represents financing through non-marketable debt contracts such as loans from banks and from non-resident, non-financial agents, trade credit and deposits held by non-residents. In recent years, countries with more developed financial markets have also started booking flows of derivatives acquired by non-residents.
- 3 As charts I show, the increase in the nominal volume of gross capital flows to emerging countries needs to be put into perspective as it is still well below pre-crisis levels as a percentage of GDP.



A number of emerging countries have tried to limit volumes of inflows and/or their restrictive effect on domestic economic policy, arguing that they pose a threat to external competitiveness and to financial stability. Some have reacted by intervening in foreign exchange markets, increasing their tendency to accumulate reserves beyond precautionary levels. Others have introduced capital flow management measures (CFMs), particularly from 2009 onwards, effectively reversing the process of capital account liberalisation (see chart 3). CFMs, which comprise macroprudential policies (some of which discriminate against debt in foreign currencies) and capital controls (which discriminate against non-resident transactions), have been the focus of heated debate over the international monetary system (IMS) and the surveillance role of the IMF.

Given the importance of the challenges, the issue of capital movement liberalisation and management has been addressed not only by the Fund's Executive Board, but also by the IMFC⁴ and by G20 meetings. The discussions have seen advanced and emerging countries clash on two main issues: advanced economies have voiced concerns over the tendency of emerging countries to accumulate reserves beyond normal precautionary levels, arguing that this is part of a deliberate policy to keep their currencies undervalued and helps to maintain excessive current account imbalances,⁵ emerging countries, meanwhile, have argued that their measures are justified, pointing to the spillover effects of the extremely accommodative monetary policies pursued in advanced countries (including unconventional measures), which they say have caused a surge in capital inflows and triggered excessive rises in their domestic market asset prices. The use of the terms "currency wars" and "monetary tsunami",

⁴ The IMF's International Monetary and Financial Committee.

⁵ The IMF echoed these fears over the accumulation of currency reserves by emerging countries, notably in the aftermath of the global crisis. For more on this issue, see Dhar (2012).

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widely picked up by the global press,⁶ illustrates the extent of the tension over the debate.

These clashes have a common denominator: the fear that certain countries are pursuing non-cooperative policies (so-called "beggar-thy-neighbour" policies), to exit the crisis. Given the need for international cooperation in the post-crisis period, it was vital that the IMF establish a clear official doctrine on the liberalisation and regulation of capital flows. The Fund's recent institutional approach draws on the experiences of member countries and on empirical studies, and is informed by the conclusions of the G20, notably under the 2011 French presidency. Endorsed by the Executive Board in November 2012,⁷ it takes the form of a coherent body of operational recommendations designed to guide Fund staff in their advice to members and their assessment of countries' policies during bilateral and multilateral surveillance missions.

The challenge has been huge. The IMF has had to adapt, within the constraints of a limited mandate, to an environment that has undergone profound changes: current account transactions were at one time essentially settled through official currency flows; but global private capital flows have soared since the end of the 1980s, both in volume and in volatility, creating potentially destabilising effects.

To the surprise of a number of observers, the IMF's new approach is more pragmatic and flexible than in the past. What are its main principles?

⁶ The term "currency wars" was first used in 2010 by Brazil's Finance Minister, Guido Mantega, to refer to the United States' and China's efforts to weaken their currency. Brazilian President Dilma Roussef in turn used the term "monetary tsunami" in March 2012 to refer to the surge of capital flows to emerging countries, believed to have been triggered by loose monetary policies in G4 countries.

⁷ See IMF (2012b).

And how did the Fund arrive at this approach? The following paper provides a brief description of the evolution of doctrine on capital movement liberalisation and regulation, from the Bretton Woods system to the present.

2 The IMF's mandate and doctrine: an historical perspective

From Bretton Woods...

In contrast with global trade and related payments, there has never been a universal framework governing cross-border capital movements. In the period covered by the Bretton Woods agreements, international bodies and multilateral accords focused on removing barriers to goods trade, as in the case of the General Agreement on Tariffs and Trade (GATT) in 1947.

Since its foundation in 1945, the IMF's mandate has been to ensure the proper functioning of the multilateral payments system.⁸ Article VIII of its Articles of Agreement states that no member shall, without the approval of the Fund, impose restrictions on transfers for current transactions linked to international trade. However, its mandate on the regulation of financial flows has always been more restricted and ambiguous. Under Article XXX, for example, the Fund has no jurisdiction ⁹ over the majority of transactions involving capital, i.e. it has no legal authority to enforce recommendations on policies affecting the financial account¹⁰ or to prevent members from regulating it as they see fit (see IMF, 2010).

Initially, this deliberate exclusion reflected a consensus among the architects of the IMF, led by J.M. Keynes and H.D. White: the interwar experience suggested that, under the quasi-fixed exchange rate system that was to follow, it would be legitimate to discourage private financial flows as they were seen as speculative and potentially destabilising. Constraints on capital mobility were also deemed necessary to allow national authorities to retain sovereignty over their monetary policy (Aglietta and Moatti, 2000). Moreover, Article VI recognised the right of member countries to regulate international capital movements, provided this did not restrict payments for current account transactions (section 3). It also specified that members could be declared ineligible if they were obliged to ask the IMF for resources after failing to exercise appropriate

⁸ This role is part of the IMF's general mandate as defined in Article I, under which the Fund must facilitate international monetary cooperation and trade by promoting exchange rate stability.

^{9 &}quot;Mandate" refers to the Fund's mission, as defined in its Articles of Agreement and subsequent amendments. "Jurisdiction" refers to the Fund's legal ability to ensure that all obligations approved by member countries and inscribed in the articles are met.

¹⁰ Although the term generally used in English is "capital account policies", the majority of non-current transfers (i.e. private financial flows) have been booked under the financial account since the 5th edition of the IMFs "Balance of Payments Manual" (1993). Since then, the capital account has been a relatively marginal item, which includes, amongst others, transfers linked to the acquisition of fixed assets. When used here, the terms "capital account liberalisation" and "capital account polices" refer therefore to the financial account of the balance of payments.

controls to limit large outflows (section 1). As a result, in the international monetary system of the 1950s and 1960s, the bulk of cross-border capital movements were official flows, and it was common practice to impose controls on private capital movements.

From the 1960s onwards, however, changes in the economic environment meant that these restrictions began to be lifted, notably in industrialised countries. Firstly, the liberalisation of current account payments and transfers coupled with financial innovation made it difficult to apply *de facto* capital controls effectively as they had become easier to circumvent. Secondly, many countries began opening up their financial account *de jure*, after signing multilateral treaties such as the *OECD's Code of Liberalisation of Capital Movements* (as of 1961) (IEO, 2005).

The resulting increase in private capital flows caused disruption to macroeconomic policies in member countries and undermined their currency stability, even more so after the end of the quasi-fixed exchange system under Bretton Woods. The IMF was thus obliged to rethink its approach and its tools for regulating the IMS. Although the second amendment to its Articles of Agreement in 1978 left the content of Article VI unchanged, in practice the right of member countries to regulate their financial account was restricted under Article IV (section 1): any attempt by a member to manipulate its exchange rate could be considered a breach of its obligations under Article IV. Moreover, although the IMF had no direct jurisdiction, the 1977 Decision on Surveillance over Exchange Rate Policies charged it with actively supervising measures affecting the financial account (IMF, 2010). Thus any country attempting to impose capital controls to keep its currency undervalued or to avoid necessary adjustments to its balance of payments could be given a negative evaluation under bilateral surveillance, the stigma of which could be politically painful. In essence, the IMF was echoing the concerns of the United States over the practices of countries with large trade surpluses (Aglietta and Moatti, 2000).

... to the period of capital flow liberalisation and the financial crises

From the end of the 1980s and throughout the 1990s, the IMF was increasingly active in monitoring policies affecting the financial account.¹¹ By this time, the major industrialised nations had lifted the majority of their capital mobility restrictions, and the position of IMF staff was to emphasise the potential benefits of global financial integration to emerging countries. This orthodox stance, which was shared by the Executive Board, has gradually been refined over time in response to shifts in the international

¹¹ This monitoring role was reinforced in part by the redefinition in 1995 of the mandate attributed to the IMF under the 1977 Decision on Surveillance regarding issues linked to the financial account, and by the improvement in the quality of data collected. From 1997 onwards, for example, the Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER) included individual country data on 20 types of capital movement restrictions.

environment and the crises that emerged in the 1990s and 2000s. The main changes have been in three areas: the benefits, risks and pace of liberalisation; the choice of policies to manage large capital flows and the appropriateness of capital controls; the factors determining capital flows and their multilateral effects (see IEO, 2005).

Benefits, risks and pace of liberalisation

With regard to capital account liberalisation, the IMF has fine-tuned its approach over the years but has remained on the whole favourable, above all in the first half of the nineties. The line adopted by IMF staff in the course of their surveillance duties (and reflected in periodical reports, the WEO and the ICMR),¹² was to extol the virtues that academic literature attributed to global financial integration, i.e. the efficiency gains generated by foreign direct investment (FDI), macroeconomic policy discipline, better diversification and sharing of risks, consumption smoothing and the development of the financial system (see Frankel (2010) and Kose et al. (2008) for a summary). Meanwhile, the lessons of the financial crises in Latin America in the 1980s and in Nordic countries in the 1990s, and the views of certain economists warning against excessively rapid financial liberalisation (Díaz-Alejandro, 1985) or advocating gradual reform and only when certain pre-conditions had been met (McKinnon, 1982, 1991; Edwards, 1984), appear to have had little impact on the IMF's approach in the first half of the 1990s. Many academics and Fund experts maintained that rapid and credible opening of the financial account was the best way to eliminate distortions created by the resistance of interest groups, reduce monopoly rents and promote local financial market discipline by increasing competition (see Guitián, 1995, 1998).¹³ This was in line with the thinking behind the structural reform recommendations in the Washington Consensus (Williamson, 1990). After the experience of Latin America's "lost decade" following the debt crisis, liberalisation policies were meant to foster economic development and make emerging markets more competitive by encouraging the efficient allocation of savings. Thus, even though IMF staff and the Executive Board had access to analyses on the risks of rapid financial account liberalisation, these did not translate into calls for operational prudence until the end of the 1990s.

In the meantime, an attempt was made to reform the IMF in the mid-1990s. Although there was an analytical basis for this, some saw the influence of the US Treasury Department behind the move, as well as the interests of the financial sector and of supporters of the orthodox approach (see Bhagwati, 1998; Tobin, 1998; Stiglitz, 2004). In 1996-97, mandated by the

¹² The World Economic Outlook and International Capital Markets Report. As of 2002, the latter publication was renamed the Global Financial Stability Report (GFSR).

¹³ Rajan and Zingales (2003) later expanded on this idea to defend the benefits of simultaneous liberalisation of trade and international capital flows for local financial development.

IMFC, the Executive Board and Interim Committee¹⁴ proposed and debated a major change to Articles I and IV of the IMF's Articles of Agreement, aimed at giving the Fund a mandate and proper jurisdiction over policies affecting the financial account. Not only would the Fund have an objective to officially promote liberalisation (subject to a transition period),¹⁵ it would also be able to stop member countries from using certain capital controls.

However, faced with changes in the international environment and fierce opposition from some of its members, the IMF was gradually forced to refine its position and reconsider whether the reform was indeed appropriate. The Mexican crisis prompted the 1995 WEO to advocate sequencing liberalisation by opening up FDI and trade credit before short-term flows. The subsequent Asian crises of 1997-1998 had an even more profound impact: many blamed premature liberalisation for the crises in emerging countries and academics and politicians increasingly began to question the benefits of rapid capital account opening (Bhagwati, 1998; Rodrik, 1998; Stiglitz, 2000). Above all, key Fund members proved reluctant to relinquish their sovereignty over their capital account and, despite the staunch support of the Deputy Director (Fisher, 1998), the IMF was forced to abandon the proposed reform (in its original form) in 1999.

Multilateral organisations began to realise it was vital for a country to have a solid financial sector and adequate institutions in place to alleviate potential market failures (adverse selection, moral hazard) in channelling external savings. This idea began to spread through academic literature, alongside the concept of "twin crises": the pioneering work of Kaminsky and Reinhart (1996) demonstrated that, over the long term, banking crises in a given country are often closely correlated with (or indeed precede) balance of payments crises. As of 1998, the IMF began to consider a more integrated approach, where financial account openness would be part of a broader sequence of policies and would be preceded by measures to reduce macroeconomic and financial instability. Moreover, restrictions on capital mobility would be lifted gradually to allow time to reduce failures in the financial system (Eichengreen and Mussa, 1998). The Executive Board began to discuss the appropriateness of this approach at the start of the millennium. However, although the Fund had adopted a more prudent stance at institutional level, in practice its staff continued to promote financial account liberalisation as a long-term objective (see Kose *et al.*, 2008, for example).

An examination of Article IV reports produced in the framework of bilateral surveillance shows that, in the absence of a clear official line, the recommendations made by IMF missions varied over time and from country

¹⁴ The text of the proposed changes was set out in a declaration adopted by the IMF Interim Committee (comprising the finance ministers and central bank governors who monitor the activity of the Fund) at the IMF Annual Meeting in Hong-Kong in September 1997. The first South-East Asian crises broke in July of that year.

¹⁵ Countries opening up their financial account would be granted a transition period in order to implement policies designed to ensure macroeconomic and financial stability. The reform also allowed for cases where temporary capital controls would be tolerated, such as during a crisis.

to country (see IEO, 2005). Initially, the Fund did not hesitate to recommend financial account liberalisation to programme countries as part of their structural reforms, even when it was not an IMF conditionality. Towards the end of the 1990s, however, its approach became more inconsistent: while in some countries, such as Chile and the Philippines, it advocated rapid liberalisation, in others it began to recommend a more gradual and sequenced opening, either from the outset (India, South Africa), or after revising its initial position advocating rapid reform (China, Czech Republic, Hungary, Slovenia).

Management of capital flows

With regard to the management of cross-border flows, the IMF's position also changed within the framework of its multilateral surveillance. In the early 1990s, international capital markets were opened up to transition economies and, thanks to the 1989 Brady Plan, reopened to emerging economies that had been hit by debt crises. The dominant position at the time was to emphasise the long-term benefits of foreign savings to economic and financial development. In principle, the IMF was in favour of removing barriers to capital mobility, and large net inflows into a recipient country were not in themselves perceived as a risk. Based on a monetary approach to the balance of payments (Polak, 1953)¹⁶ and a somewhat orthodox school of academic thought (see Goldstein, 1995, for example), the IMF's doctrine tended to ignore the risk that market failures might affect the local financial system's ability to handle international flows. In a model that assumed rigid prices and ignored domestic capital markets, recourse to external financing reflected an excess of domestic demand over output (see Aglietta and Moatti, 2000). Large volumes of inflows were considered normal and consistent with a catch-up period for emerging economies, and recipient countries were advised to respond with contractionary policies such as fiscal consolidation in order to limit domestic absorption and reduce upward pressure on their currency. They were also urged to move to a more flexible exchange rate regime, particularly after the 1997-98 crises (see Fisher, 1999). The use of capital controls, meanwhile, remained controversial. In general, IMF staff were opposed to any restrictions that might discriminate against non-residents, and this position continued to be shared by the majority of the Fund's executive directors up until the mid-nineties. They argued that controls on inflows would lead to distortions and help to maintain imbalances (Edwards and Ostry, 1992; Guitián, 1995), and that in the long term they were inefficient as they could easily be circumvented by foreign investors (Obstfeld and Rogoff, 1995). Towards 1995, when it became clear that the inflow restrictions imposed in certain emerging countries were delivering results, as in Chile, a number of executive directors began to recognise the merits of using temporary

¹⁶ Jacques J. Polak was the IMF's Research Director from 1958 to 1980 and an Executive Director from 1981 to 1986.

market measures to limit short-term inflows. However, IMF staff remained generally sceptical about these measures (see multilateral surveillance documents such as the WEO) and firmly opposed any other type of controls. While some academics began to actively recommend the use of controls to prevent the flight of capital in the event of a currency crisis (Krugman, 1998), the Fund continued to regard outflow restrictions as generally ineffective, even after the experience of South-East Asia in the period 1997-98. Towards the end of 1999, the Managing director was still warning of the "illusory virtues" of capital controls.¹⁷ The debate then subsided in subsequent years, as the flow of capital to emerging countries declined.

Throughout the nineties and early millennium, therefore, the most frequent recommendation made by IMF staff to emerging and transition economies in their bilateral surveillance missions, was to respond to surges in capital flows by tightening fiscal policy, preferably by cutting public spending, and, for those that did not have a *de jure* pegged currency regime, by allowing their currency to appreciate. Surprisingly, aside from a few exceptions, the IMF generally supported the sterilised intervention of monetary authorities in foreign exchange markets which took place in most of these countries. Fund staff did voice some reservations at the time over the guasi-fiscal cost associated with sterilisation and the risk that a rise in domestic interest rates could exacerbate capital inflows. However, the IMF itself made little comment on the appropriateness of structural policies (IEO, 2005). Reforms aimed at increasing trade openness (to enhance competitiveness), liberalising capital outflows (designed to mitigate the effects of inflows) or reinforcing the regulatory framework (to make the local banking sector less vulnerable) were only explicitly advocated in a handful of countries in the 1990s. Similarly, recommendations on capital controls were made on a case-by-case basis. Although the position of staff, as expressed in multilateral surveillance reports, was initially fairly inflexible, in practice it varied under the bilateral framework of Article IV. Whereas in many countries, IMF missions raised objections to capital controls, in others they allowed them to be used both on inflows and outflows. Moreover, they sometimes changed their position over time for a given country. As a general rule, the Fund was more willing to tolerate inflow controls if the scope for using other measures was restricted due to political constraints, or if there was a threat to financial stability. Measures affecting prices (Pigouvian taxes or equivalent, such as the introduction of unremunerated required reserves in Chile) were broadly seen as preferable to administrative restrictions (such as those put in place in Malaysia and Thailand). Ultimately, Fund missions began to be more lenient towards capital controls if the country in question had been placed under a programme and had agreed to follow a reform plan, particularly after the South-East Asian crises. More recently, some of the stabilisation programmes approved by the IMF have actually

¹⁷ Speech by Michel Camdessus to the Board of Governors of the IMF, 28 September 1999, http://www.imf.org/external/np/speeches/1999/092899.htm
included outflow restrictions, as in the case of Argentina in 2002 or Iceland in 2008. It should be stressed, however, that the Fund only tolerated these measures if they were temporary and not used as a substitute for macroeconomic adjustment.

Overall, the Article IV reports suggest that there was no consistent line on the policy mix that the IMF recommended to member countries, notably when it came to financial sector structural reforms and capital controls.

Determinants of financial flows: role of source countries

The controversy over whether it is legitimate for emerging countries to choose how to manage capital movements also raises questions about the causes of these flows and the role of advanced economies as a source of capital. Until recently, the IMF's multilateral surveillance focused on factors specific to the recipient country, or "pull" factors: surges in capital inflows into emerging economies prior to sudden reversals were mainly attributed to large interest rate differentials and *de facto* currency pegs (investors looking for carry trade opportunities).¹⁸ It is no surprise therefore that the solutions advocated for dealing with those destabilising cycles nearly always concerned authorities in the recipient country, who were advised to make their exchange rate regimes more flexible and improve transparency and supervision in their domestic financial sector. In contrast, the IMF has traditionally conducted few analyses into the causes in source countries. or "push" factors, despite the fact that several academics highlighted their importance in the mid-1990s (Calvo, Leiderman and Reinhart, 1993; Fernández-Arias, 1996). Admittedly, the risks to emerging countries from massive capital inflows increasingly began to be recognised in the second half of the decade. From 1998 onwards, some multilateral surveillance reports began to look at the role of low interest rates in advanced economies and of the underestimation of risk by international investors in driving the boom and bust dynamics of capital flows to emerging countries. It could also be argued that by recommending measures such as exchange rate flexibility and the inclusion of collective action clauses (CAC) in sovereign debt issues, the IMF sought to limit phenomena such as moral hazard on the part of foreign lenders (IEO, 2005). However, even after the 1997-98 crises, Fund staff continued to lay the blame for destabilising capital inflows (notably short-term debt in foreign currencies) firmly at the door of public and private borrowers in emerging countries (see Eichengreen and Mussa, 1998). Until recently there was almost no discussion at all of what measures advanced economies should take to reduce the cyclicality and volatility of capital flows. Even in October 2010, the GFSR continued to focus on policy responses to be implemented by recipient countries rather than on the role of source countries or systemically important agents.

18 Carry trades consist in borrowing in a weak currency at a low interest rate and investing the borrowed funds in a currency with a higher interest rate.

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More recently, however, a heated debate has arisen over the challenges posed to emerging economies by the unconventional and highly accommodative monetary policies pursued by G4 countries.

3 The IMF's recent approach

Due to the IMF's lack of direct jurisdiction over financial account policies and the fact that its mandate was ambiguous after the failure of the reform attempt in 1996-97, its orthodox approach of the 1990s was never compiled into a coherent single text, or "institutionalised". As the international context was rocked by crises and shaped by subsequent reforms, individual IMF missions were given considerable leeway in the recommendations they proposed. The process of liberalisation and global financial integration thus continued from the 1990s onwards without really being guided by a common international framework (see charts 4). The period popularly known as the "great moderation" (2000-07) was marked by an abundance of global savings¹⁹ and by record volumes of gross capital flows, both to advanced and emerging countries. Against this backdrop, the 2007 Decision²⁰ gave the IMF a more active role in monitoring the size and sustainability of capital flows. However, the Decision still did not include explicit principles to guide IMF staff recommendations on member countries' financial account policies within the framework of Article IV.

After the 2008-09 financial crisis, capital once again started pouring into emerging countries and at an increasingly rapid pace. A large share of these funds were debt-creating flows (see charts 1) and there were a few episodes of sudden, disruptive outflows. From 2008 onwards, some of the recipient countries began to introduce capital flow management measures (CFM) to control inflows (Brazil, South Korea, Indonesia, Peru, Thailand) as well as outflows during balance of payments crises (Iceland, Ukraine). From the IMF's responses at the time, it is clear that the "no one size fits all" approach continued to be applied *de facto* in its surveillance, and recommendations were tailored to individual cases.

By 2010, it had become increasingly apparent to the Executive Board that a consistent approach to capital flows was needed in order to guide the Fund's operational work. Academic interest in the subject had increased since the latter half of the 1990s, leading to an abundance of empirical literature, and the IMF had conducted its first major review of this work at the start of the millennium (Prasad, Rogoff, Wei and Kose, 2003). Although its conclusions were far from representing a break with its previous position, even some of its most vehement critics welcomed the decision to take a step back and open up a debate (Stiglitz, 2004). Subsequently, two systematic reviews of the available literature were conducted (Obstfeld, 2008; Kose, Prasad, Rogoff and Wei, 2009), enabling the IMF to refine some of the principles of its orthodox position. Although this work did not lay the blame for the crises in emerging countries entirely with financial account liberalisation, it did conclude that it is difficult to show any direct long-term correlation between global financial integration and a country's per capita growth, or with other measures of welfare such as consumption smoothing. The fact that these studies were conducted by the World Bank and by the IMF itself meant that they had an even bigger impact. Indeed, one of the authors, K. Rogoff, when serving as the IMF's chief economist, had defended the benefits of liberalisation in a heated debate with J. Stiglitz in 2002.²¹

In addition, the IMF's Independent Evaluation Office (IEO) published two reports at the time, casting doubt over the Fund's track record in

¹⁹ See, for example, Bernanke (2005)

^{20 2007} Decision on Bilateral Surveillance over Members' Policies.

²¹ Rogoff responded in an open letter to the criticisms levelled by J. Stiglitz at the IMF's policies in his book Globalization and Its Discontents (2002). See Rogoff (2002).

managing crises in emerging countries in the 1990s and in its oversight of capital flows. The first report (IEO, 2003) highlighted its decision to advocate conventional macroeconomic policies during the South Korean and Indonesian crises, and its underestimation of the weaknesses in their domestic financial systems and the potential consequences. The second report (IEO, 2005) suggested that the Executive Board should define common principles for financial account policies that could be used to guide the IMF's operational work. Above all, it recommended that the IMF should take greater account of country specificities, as well as push factors that might contribute to the volatility of capital flows.

As of 2008-09, the debates and reflection on the issue at G20 meetings, where emerging countries could express their own views, strongly encouraged the IMF to take a more open and pragmatic approach.

In turn, Fund staff produced a number of papers on the subject from 2010 onwards. The first (Ostry *et al.*, 2010) set the tone by taking a different line from the IMF's former orthodox stance, suggesting that a consistent doctrine on global capital flow management should be pragmatic and flexible, and even that there was a place for appropriate capital controls. Two other papers (IMF, 2011a; Ostry *et al.*, 2011) added to this first body of underlying principles, which focused on inflow management.

From an analytical point of view, the main conclusions in this first 'building block' drew on the recent experiences of member countries and on a broad review of empirical research.²² They showed that (i) in addition to the macroeconomic challenges, certain types of external financing could generate asset price bubbles and credit booms in recipient countries; and (ii) capital controls could be efficient in certain cases, if not to reduce volumes, at least to alter the composition of liabilities to non-residents in order to limit external vulnerabilities. From a normative point of view, this first framework merely endorsed what had become common practice in bilateral surveillance missions: the IMF's assessment and recommendations must be tailored to the specific circumstances of each country. That said, the framework did establish an order of preference for inflow management measures, depending on the specific situation:

• The use of macroeconomic and structural policies should continue to be the first option for recipient countries.

• If structural reforms (designed to promote financial development and alleviate market failures) need time to take effect, the use of CFMs is warranted to safeguard financial stability.

²² See for example Magud, Reinhart and Rogoff (2011) on capital controls.



• If the capital inflows pose macroeconomic challenges, CFMs may be warranted if the following three conditions are met: (i) the local currency is not undervalued (otherwise, the authorities should let it appreciate), (ii) the level of foreign currency reserves is sufficiently high (otherwise, it is preferable to limit appreciation via foreign exchange market intervention), and (iii) there is an imminent risk that the economy will overheat (otherwise, a cut in interest rates is recommended to limit short-term inflows) (see chart 5).

• Lastly, CFMs in the form of capital controls can cause multilateral effects and should only be used when prudential measures (which do not discriminate against non-residents) are not an option or will prove inefficient.

The initial framework of standards was approved by the IMF's Executive Board in April 2011, thanks in large part to the influence of G20 countries, which had moved towards a growing international consensus. This can be seen in the (non-binding) agreement on capital flows signed in Cannes in November 2011 under the French presidency:²³ in the interest of pragmatism, the IMF's recommendations are in line with the G20's "Coherent Conclusions" and represent a compromise between the views of advanced and emerging countries.

23 See the final communiqué of the G20 Leaders' Summit in Cannes in November 2011, "Coherent Conclusions for the Management of Capital Flows".

Mandated by the IMFC, between 2011 and 2012 IMF staff expanded on two main areas of this analytical framework: multilateral issues and financial account liberalisation.

Regarding the multilateral effects of economic and regulatory policies that could affect capital movements (IMF, 2011c), Fund staff based their approach on the environment which followed the 2008-09 financial crisis, characterised by highly volatile capital flows. Influenced by the G20's recommended framework, some of their conclusions deviate from the IMF's previous position. Rather than focusing exclusively on the responses of recipient countries, the new approach emphasises the role played by supply-side and "push" factors in influencing cross-border flows:

• Inconsistencies in regulation and weaknesses in financial supervision in source countries can encourage international investors to take excessive risks. Regulatory arbitrage can in turn cause surges in the volume and volatility of cross-border capital flows, posing a risk to financial stability in recipient countries.

• As a result, organisations charged with steering international financial reform, as well as source countries, notably advanced countries with systemically important financial institutions (G-SIFIs), must find ways to strengthen financial regulation and supervision in a coordinated manner.

• It is hard to find clear-cut evidence of the spillover effects of advanced economies' monetary policies on emerging countries, due to the various channels of transmission.²⁴ There is also little empirical evidence to prove the existence of externalities caused by CFMs in emerging countries.²⁵

To a large extent, the IMF's recent approach on financial account liberalisation and outflow management (IMF, 2012a) is based on empirical literature.²⁶ The latter argues that a number of catalysers, such as financial development or a strong institutional framework, must be in place in order for financial integration to have a positive impact on a country's long-term growth. As a result, IMF staff now advocate an integrated approach combining other reforms, which can be summed up as follows:

• Financial account liberalisation must be planned and sequenced according to the specific circumstances of each country. It is only beneficial if minimum thresholds of financial and institutional development have been attained, if necessary via the implementation of reforms either prior to or in parallel with liberalisation (deepening of capital markers, improvement of regulatory and accounting frameworks, etc.).

²⁴ For example, according to Fratzscher, Lo Duca and Straub (2012), although the loosening of monetary policy in the United States has exacerbated the pro-cyclicality of capital flows to emerging countries, it has a bigger impact on asset prices than on the reallocation of capital flows.

²⁵ Two recent empirical studies, however, demonstrated that the capital controls introduced by Brazil as of 2008 may have diverted portfolio funds towards other countries. See Lambert (F), Ramos-Tallada (J), and Rebillard (C), (2011) and Forbes (K), Fratzscher (M), Kostka (T) and Straub (R) (2012).
26 See for example the surveys by Kose, Prasad, Rogoff and Wei (2009) and by Obstfeld (2008).

• The lifting of restrictions should be sequenced as follows: long-term flows before short-term flows; foreign direct investment and other equity investments before debt-creating flows; inflows before outflows.

• Liberalisation is not a linear process. The temporary reintroduction of CFMs (including on outflows) is permissible under certain conditions, even once the liberalisation process has started.

This set of conclusions was compiled into a document (IMF, 2012b) and endorsed as an "institutional approach" by the Executive Board in November 2012. It provides the IMF with a coherent framework of reference and reflects a degree of consensus among the majority of Fund executive directors, with the exception of some emerging countries which disagree with the preference for macro-prudential CFMs over capital controls. The framework does not, however, affect the rights and legal obligations of member countries with regard to the IMF. The new institutional approach has been translated into a guidance note which sets out operational recommendations to be followed by Fund staff in their multilateral and bilateral surveillance.

There has been some controversy since the end of the Bretton Woods system over whether or not it is appropriate to liberalise the financial account in the balance of payments and at what pace, and whether capital flow management measures (notably those which discriminate against non-residents) are legitimate or effective. While the majority of these restrictions have been lifted in advanced economies, the debate has frequently been centred on emerging countries which have seen a surge in private capital inflows since the 1990s. Influenced by mainstream doctrine, the IMF traditionally echoed the preferences of advanced economies and international investors who argued in favour of lifting controls on capital mobility. However, the crises in emerging countries in the second half of the 1990s revealed a number of failures in the way financial markets operate and raised important questions over many of the principles of the orthodox approach. Faced with influential opposing views in academia and the reluctance of emerging countries to give up their financial account sovereignty, the IMF gradually began to refine its approach.

.../...

In the aftermath of the 2008-09 global financial crisis, and inspired by the conclusions of the Independent Office of Evaluation and recent academic literature, IMF staff also began to modify the principles that had previously guided Fund doctrine. By far the biggest influence, however, was the decision to take up the debate at G20 level, where emerging countries were given the chance to air their views. Compiled into a fairly consistent set of standards and endorsed by the Executive Board in November 2012, the IMF's approach thus reflects a tentative international consensus on capital flow management. This limited agreement is also reflected in the Coherent Conclusions signed by G20 countries under the French presidency. In terms of its recommendations, the new institutional doctrine merely endorses the practices already followed by surveillance missions, which had become increasingly flexible and pragmatic in response to changes in the international environment, empirical research and the experiences of missions in member countries.

Among the changes to its official line, the IMF now acknowledges that global capital flows are to some extent driven by global supply-side factors. As a result, it now considers it legitimate for recipient countries to impose capital controls if their exchange rate and monetary policy are constrained by the macroeconomic context, or if their financial stability is at stake. Despite the consistency of this new code of conduct, however, the IMF still only has limited legal influence over policies affecting the financial account. In order to face the challenges of a post-crisis period, a possible amendment to the Fund's Articles of Agreements to give it a broader mandate may be reconsidered in the future. This reform would probably draw opposition from certain members, including emerging countries, who remain wary of IMF doctrine, despite the fact that, on the issue of capital flows at least, it is now more in line with their concerns than in the past.

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Globalisation and labour market outcomes: an overview of the conference organised by the Banque de France on 16 and 17 May 2013

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The conference Globalisation and labour market outcomes: recent advances, organised by the Banque de France on 16 and 17 May 2013, provided an opportunity to discuss recent advances in the analysis of globalisation and its impact on labour markets. The programme included eight academic presentations from highly reputed scholars. The presentations focused on a mix of empirical and theoretical studies dealing with different aspects of how trade liberalisation affects labour market outcomes, with an emphasis on the case of industrialised countries.

The impacts of international trade and competition from low-wage countries on wage levels, employment and skill levels were at the heart of the themes discussed along with the interactions with the non-competitive functioning of labour markets, the hierarchical organisation of firms and demand for skilled labour.

The conference concluded with a keynote speech by Harvard Professor Elhanan Helpman followed by a policy round table bringing together experts from the World Trade Organisation (WTO), Centre d'études prospectives et d'information (CEPII) and Banque de France. The round table focused on the lessons to be learnt for the elaboration of structural reforms from recent research looking at new sources of trade-induced wage inequality, the role of labour market institutions, and the policy options available in an interdependent world.

Key words: Globalisation, trade, labour market, inequality

JEL codes: FI6, F66

NB : the programme of this symposium is available on the Banque de France website: http://www.banque-france.fr/en/economics-statistics/ research/seminars-and-symposiums/globalization-and-labor-market-outcomes-recent-advances.html

Globalisation and labour market outcomes: an overview of the conference organised by the Banque de France

The European crisis has brought competitiveness to the forefront of the economic policy debate. In a context of severe current account imbalances within the euro area, improved competitiveness in deficit countries is viewed as an essential factor in resolving the crisis. However, boosting the performance of the external sector goes well beyond the scope of short-term adjustments. Structural reforms affecting both product and labour markets are increasingly being implemented throughout the euro area, and are the object of intense debate. In particular, the tendency of labour market reforms to spill across political boundaries and affect trade partners is a crucial issue. Rebalancing requires shifts in resources between countries, but also between sectors, firms and categories of workers.

Globalisation, understood here as a deeper integration of product markets, has been shown to be a strong driver of economic development and prosperity. Among other things, deeper integration provides European firms with new market opportunities and allows them to improve their overall production efficiency by expanding the choice of suppliers in other countries. This results in higher aggregate productivity and enhanced welfare. However, the impact of globalisation is far from even across the different economic agents; it inevitably generates winners and losers, with the risk of consequences for aggregate demand and economic activity.

From a policy-perspective, it is fundamental to understand how globalisation affects not only aggregate measures such as productivity, but also how it redistributes income within countries and how it affects labour markets. The latter is particularly relevant given the strong feelings that tend to drive public debates on this question. Political support for labour market reforms depends crucially on how such reforms are perceived by the public. This perception need to be guided by rigorous analysis based on robust academic results.

The conference *Globalisation and labour market outcomes: recent advances*, hosted at the Banque de France's conference centre on 16 and 17 May, provided an opportunity to discuss recent advances in the analysis of globalisation and its effects on labour markets. The programme included eight academic presentations from scholars in Europe and the United States (including two studies produced by the Banque de France), that were followed by discussions between experts from France and abroad, a keynote speech by Harvard Professor Elhanan Helpman and a Policy Round Table bringing together experts from the WTO, the CEPII and the Banque de France.

The conference opened with an address by the Bank's General Director of Economics and International studies, Marc-Olivier Strauss-Kahn who provided a brief account of the recent evolution in the economic literature that sheds new light on how globalisation affects labour markets. Indeed, during the last decade, economists have been very active in the development of new frameworks for the accurate assessment of these issues. These new frameworks required substantial modification of traditional theories of international trade, which had shown their limitations in describing the world we live in.

At the heart of these new developments lies the fundamental role that individual firms play in shaping both the causes and the effects of aggregate foreign trade. Theories of firm heterogeneity, grouped under the so-called *new-new-trade theory*, provide a clear explanation of how firm-level characteristics —such as productivity and size— are systematically related to trade participation. These new developments have led researchers to re-think the way trade openness affects local labour markets. Empirical studies support the view of a positive correlation between a firm's participation in international trade and the wage and employment outcomes of its workers. Within the same industry, firms that take advantage of trade liberalisation by expanding their output and revenue are able to employ more workers and pay higher wages than firms that do not engage in international trade.

A second departure from the traditional theoretical framework lies in the incorporation of different types of market frictions, based on non-competitive wage-setting models such as efficiency wages, search-and-matching frictions, and different types of wage bargaining. Explicit modelling of the labour market has led to a better understanding of the complex relationship between trade openness, wages and unemployment in a world with heterogeneous firms. It has also led researchers to discover new sources of comparative advantage based on country-differences in labour market institutions.

By pointing to new ways in which trade liberalisation affects firms and workers, these recent developments provide a clearer picture of both the aggregate impact of trade on labour market outcomes such as unemployment and wages, and the redistributive effects of trade. Marc-Olivier Strauss-Kahn concluded by highlighting the importance, from a policy perspective, of identifying potential winners and losers from trade integration. The rest of this article provides a brief summary of the different contributions presented during the conference and of the keynote speech by Professor Helpman. It concludes with a summary of the discussions held during the round-table on policy.

I Exporting firms, importing firms and wage inequality

The rest of the first day was devoted to presentations by invited speakers. The first article,¹ presented by Professor Peter Egger from ETH Zurich (joint work with Harmut Egger and Udo Kreickemeier) analyses the relationship between exports and wages at the firm level, using a panel of firms in five European countries (including France). The results show an exporter wage-premium: firms that export tend to pay higher wages than firms that do not export. The observed wage premium is substantial: exporters pay wages that are 10% higher on average. The study develops a model that can accommodate the wage distributions and allows calculation of the quantitative impact of trade integration on wages. The results suggest that although international trade generates welfare gains, it is at the cost of greater wage inequality and negative, but quantitatively moderate, aggregate employment effects. The paper was discussed by Farid Toubal, from *École normale supérieure* Cachan and Paris School of Economics, who replicated the results using a French administrative dataset and discussed the potential biases that the characteristics of different datasets might imply.

The second presentation by Erwan Gautier, Professor of Economics at University of Brest and a consultant at the Banque de France focused on a study of the impact of imports and exports on the wages of workers in different occupational categories using data for French firms.² The results show that exports have a larger effect on blue collar workers' wages whereas the impact of imports is greater for managers. Additionally, the data show that firms that import or export more intensively have a higher propensity to sign firm-level wage agreements. The article suggests that collective bargaining shapes the re-distributional effects of firms' participation in foreign markets: in firms where a wage agreement is signed, the wage export premium tends to be larger, particularly for blue collar workers, whereas the wage import premium is comparatively smaller for managers. The discussion was introduced by Dr. Chiara Criscuolo, economist with the OECD. Dr. Criscuolo suggested that other dimensions of collective agreements, such as workweek conditions, could be incorporated into the analyses in order to obtain a broader picture of the role of trade unions in the globalisation process.

A related study on Danish data,³ was conducted and presented by Professor Jakob Munch of the University of Copenhagen. It focuses on the impact of Chinese imports on the wages of Danish workers, using detailed matched employer-employee data. High exposure to Chinese imports is

I P. Egger, H. Egger et U. Kreickemeier : "Trade, wages, and profits".

² J. Carluccio et E. Gautier : "International trade, wage outcomes and firms-level bargaining: evidence from France".

³ J. Munch, D. Ashournia et D. Nguyen : "The impact of Chinese import penetration on Danish firms and workers".

equivalent to a negative firm-level demand shock. Since Chinese products tend to be low-skill intensive, a higher level of Chinese import penetration should theoretically result in lower wages for Danish low-skilled employees. Indeed, the results confirm this prediction with low-skilled Danish workers experiencing sharper wage reductions due to the penetration of Chinese products into Denmark. The discussion was led by Dr. Gregory Verdugo, economist at the Banque de France. Dr. Verdugo suggested various options to the authors regarding their empirical strategy to complement the one selected in the study.

Based on an administrative dataset for French manufacturing firms, the paper of Professor Lorenzo Caliendo of Yale University analyses the organisational structure of firms, how these structures change when firms start exporting and the consequences for wages.⁴ The study shows two different paths for firm growth: the first involves the addition of new layers of management whereas the second involves raising the number of workers within any given layer. Firms that expand by adding more workers but not changing their organisation pay higher wages than firms that create additional layers of management. The subsequent discussion was animated by Professor James Harrigan of Virginia University and Sciences-Po, who suggested the authors might incorporate other features of firms that shape their organisation, such as imported intermediates and human capital.

2 Impact of offshoring on employment and skills

Professor Alan Manning from the London School of Economics presented the results of an empirical study on the evolution of employment structures from a skills perspective. The study⁵ builds on the observation that during past decades there has been a rapid rise in the share of employment in the highest-paid occupations throughout Europe, and this rise has primarily been at the expense of occupations in the middle of the salary distribution, while the employment share of the lowest-paid occupations has remained constant or risen only slightly. These findings challenge the common view that the most affected workers in developed countries are the unskilled ones. The study finds that the rise in the polarisation of European labour markets is mainly due to technological changes that allow firms to replace workers doing routine tasks with computers. Offshoring is found to be the second reason underlying changes in Europe's occupational structure. Professor Maria Guadalupe from INSEAD led a discussion on the study's findings and suggested the authors should pursue this line of research by studying the impact of job polarisation on wage inequality.

⁴ L. Caliendo, E. Rossi-Hansberg et F. Monte : "The anatomy of French production hierarchies".

⁵ A. Manning, M. Goos et Anna Salomons : "Explaining job polarization in Europe".

A second study on offshoring presented by Professor Harald Fadinger from Vienna University proposes a theoretical model linking imports to the occupational structure of firms in France.⁶ The model highlights the role of firm heterogeneity: the largest firms are the biggest importers and they tend to import goods which are on average more skill-intensive than those produced by small firms. Hence, the largest firms tend to substitute local workers for imports to a proportionally greater extent than smaller firms. The study includes an empirical analysis of the predictions of the model using data for French manufacturing firms. In particular, the results show a correlation between the skill content of firm-level imports and the relative importance of skilled workers in the importing firms. Professor Ferdinand Rauch from Oxford University led the subsequent discussion and suggested the authors could look at whether their results might be useful in understanding the fall in trade observed during the 2008-2009 crises.

3 International trade, intra-sector inequality and factor intensity

The programme for the second day consisted of two academic presentations.

First, Julien Prat, a researcher at Centre de recherche en économie et statistique (CREST), presented the results of a study⁷ that looks at the role of export participation in the rise of inequality that is observed within groups of observationally identical workers. It develops a theoretical model featuring search-and-matching frictions and firm heterogeneity. The model is calibrated using detailed data for Germany. It models the conditions under which trade openness can lead to overall welfare gains, coupled with an increase in wage inequality and unemployment. Their empirical analysis provides an illustration that the theoretical model describes if we apply it to German firms and the German labour market in 2007. However, they find only a limited impact on inequality from the increase in trade between 1996 and 2007. The subsequent discussion was introduced by Olivier Charlot, Professor at the University of Cergy, who focused on the theoretical foundations of models with search-and-matching frictions.

The last study,⁸ presented by Professor Thibault Fally of the University of Colorado is an empirical investigation of the relationship between a good's factor intensity in production and its income elasticity of demand in consumption. Using cross-country data, the authors find a significant and positive correlation between skilled-labour intensity and income elasticity, which can explain several empirical puzzles. Their results

⁶ H. Fadinger, J. Carluccio, A. Cunat et C. Fons-Rosen : "Offshoring with heterogeneous firms".

⁷ J Prat, G. Felbermayr et G. Impullitti : "Wage inequality, firm dynamics, and international trade".

⁸ T. Fally, J. Markusen et J. Caron : "Skill premium and trade puzzles: a solution linking production and preferences".

suggest a novel explanation for the increase in wage inequality observed over the past few decades. The subsequent discussion was chaired by Professor Gregory Corcos from the University of Tours who suggested the authors might relate their results to the explanation of the strong sensitivity of trade volumes during recessions.

4 Trade liberalisation, wage inequality and labour market frictions

The conference's keynote speech, Globalisation and inequality, was delivered by Elhanan Helpman, Professor of International Trade at Harvard University and drew on his extensive personal research agenda into the impact of trade liberalisation on wage inequality when labour markets function with frictions (e.g. the time necessary for workers to identify suitable job opportunities and for firms to find and screen workers, or the existence of firing costs). The first half of his speech was devoted to a discussion of new stylised facts constructed using detailed data for workers in Brazil and Sweden. The results show that in both countries much of the overall wage inequality arises within the same sectors and occupations and between workers with similar observable characteristics. The observed wage dispersion can be attributed to the participation of firms in exports markets: identical workers are paid different wages according to whether or not they work for exporting firms. Interestingly, the dispersion in wages is lower in Sweden, and this difference might be attributable to Swedish labour market institutions. These results cannot be accommodated in traditional trade models without accounting for firm heterogeneity and labour market frictions. Professor Helpman discussed a recent model -co-authored with Marc-Andreas Muendler, Oleg Itskhoki and Stephen Redding- that incorporates these features and that succeeds in explaining the patterns observed in the data and predicts the extent to which inequality might change in response to further trade liberalisation.

The second part of his speech was devoted to the presentation of a theoretical model —developed in collaboration with Gene Grossman and Philipp Kircher— that focuses on the role of production factor heterogeneity (exemplified by the coexistence of good and bad managers or workers) in the generation of wage inequality after trade liberalisation. The key contribution of this theoretical work is to show that, once hetererogeneity is introduced, traditional theories of international trade are useful in explaining the stylised facts on wage inequality as described by Professor Helpman in the first part of his speech.

5 Lessons from recent research for labour market reform policies

The conference ended with a policy round-table devoted to the lessons from recent research for labour market reform policies in a globalised world. Lionel Fontagné, Professor at the Université de Paris 1 and a consultant at the Banque de France, introduced the discussion by pointing to the shift of interest from macro to micro in recent literature. The impact of trade on wages and employment has long been analysed in terms of intersectoral adjustments, either related to the relative intensity of sectors in terms of workers of different types or skills, or to factor specificity, i.e. workers of different types being attached to specific sectors. The recent literature introduces the notion of within-sector and within-firm adjustments. depending on how trade affects an individual's match with other factors of production. If a change in trade conditions causes a worker to rematch with a better manager than before, then his productivity will improve and his wage will receive an upward boost. If instead a worker works with a poorer quality manager, his match deteriorates and his wage may suffer. Interestingly in such a framework, institutions will affect how this match operates. And different countries with different institutions will adjust differently to the shock of globalisation.

Professor Helpman focused on three important implications of the new research on globalisation and labour markets. First, in a globalised world, countries are inter-dependent and labour market reforms may affect trade and welfare in partner countries. Labour market reforms may therefore have a "beggar-thy-neighbour" impact: a unilateral reform that decreases the cost of hiring in one country is likely to be beneficial to the reforming country, but to hurt partner countries. Institutions shape the response of labour markets, and reforming these institutions generates externalities that affect trading partners. Coordination at the international level may however obviate these externalities. Second, the mere existence of frictions on the labour market affects the consequences of multilateral trade negotiations: trade liberalisation may indeed increase expected welfare but also increase unemployment. Trade liberalisation may also increase or decrease wage inequality within a sector depending on the initial openness of the country. This provides a rationale for unemployment insurance schemes, depending on the bargaining power of workers, and for direct intervention on the product market (e.g. competition policy). Lastly, Professor Helpman pointed out that labour market frictions modify countries' comparative advantages.

Sébastien Jean, Director of the CEPII, observed that trade matters for labour market outcomes, but not in the way economists used to think in the 1990s. Several global trends have transformed the international trade system.

First, the specialisation of developing countries has changed dramatically with the emergence of countries like China, India or Brazil. Second, the emergence of global value chains has redesigned the international division of labour. Offshoring can be thought as a way to export technology to new emerging economies and, as a consequence, it increases the global supply of unskilled labour. Globalisation induces changes in prices that are magnified in factor prices, with impacts on inequalities, but also on firm values, via the valuation of intangible assets and market size. Globalisation therefore favours outperformers. These specificities are included in new trade models. An important inclusion as well is the recognition that some jobs are better than others. Additional work is however still needed for a number of policy questions. In particular, the consequences of the complementarity between manufacturing activities and business services are still poorly understood. The impact of uncertainty and the role of policies aimed at worker re-gualification and adjustments to trade liberalisations also deserve further research.

Another important policy dimension is how trade affects labour market regulation. Marion Jansen, a counsellor in the Economic Research and Statistics Division of the World Trade Organisation, pointed out that empirical evidence shows globalisation leads to a convergence in labour market regulation, i.e. in the levels of protection provided by regulation. Convergence implies that protection is reduced in high income countries and increased in low or middle income countries. The references to International Labour Organisation (ILO) core labour standards included in many preferential trade agreements do not address the issues rich countries are concerned about (minimum wages, unemployment benefit...). Another important question for designing the right labour market policies today is the temporary or structural nature of the crisis we are experiencing. The temporary subsidies to part-time employment in Germany in 2008/2009 make sense in the case of a temporary shock, but not in the case of a structural shock related to the rise of emerging economies. In the latter case, these temporary subsidies might even prevent the adjustment. Finally, Marion Jansen agreed that although the impact of globalisation on income inequality and employment depends on countries' level of development, there is at least one challenge that policy makers in low-, middle- and high-income countries face alike: how to prepare young people for jobs that are in demand. Companies nowadays act within a constantly changing environment (technological change; globalisation) and the skills they demand in their work forces are also constantly changing.

Quarterly Selection of Articles

Winter 2006/2007

- Monetary policy making in the euro area and in the United States

– Adjustment scenarios for the US current account balance: an assessment based on different NiGEM calibrations

- Risk contagion through defaults on trade bills

Spring 2007

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

Summer 2007

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

Autumn 2007

– National Financial Accounts in 2006: further increase in private sector debt, central government debt on the decline

– The geographical breakdown of direct investment: a group-based approach

- DSGE models and their importance to central banks

Winter 2007

- Issues regarding euroisation in regions neighbouring the euro area

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

- The position of manufacturing firms in 2006

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

Spring 2008

- The macroeconomic impact of structural reforms

– Recent trends in productivity: structural acceleration in the euro area and deceleration in the United States?

- Productivity decomposition and sectoral dynamics

Summer 2008

- TARGET2 and European financial integration

– Supplementing settlement functions with a decision-support system in TARGET2

– Globalisation, inflation and monetary policy Banque de France's international symposium

- The Euro-Mediterranean economic and financial partnership

– Foreign investors' participation in emerging market economies' domestic bond markets

- The composition of household wealth between 1997 and 2003

Autumn 2008

- France's balance of payments and international investment position in 2007

- Why calculate a business sentiment indicator for services?
- OPTIM: a quarterly forecasting tool for French GDP
- The contribution of cyclical turning point indicators to business cycle analysis
- Is credit growth in central and eastern European countries excessive?

– Migrant workers' remittances: what is the impact on the economic and financial development of Sub-Saharan African countries?

Summer 2009

- Developments in money and credit in France in 2008

– France's national economic assets, 1978-2007: 30 years shaped by real estate and stock market capital gains

- The position of firms in France at end-2008 Recent developments
- The impact of the financial crisis on transfer systems
- Situations of overindebtedness: a typology

Autumn 2009

– Government debt markets in African developing countries: recent developments and main challenges

- Payment periods and corporate trade credit between 1990 and 2008
- National Financial Accounts in 2008: a further rise in non-financial sector debt
- Non-residents' equity holdings in French CAC 40 companies at end-2008

Winter 2009-2010

- Measuring banking activity in France

– Analysis of the scope of the results of the bank lending survey in relation to credit data

- The position of firms in 2008
- Credit Mediation
- Recent developments in the structure of insurers' investments
- A new standard for compiling and disseminating foreign direct investment statistics

- Firms' wage policies during the crisis: survey findings
- The economic impact of business failures in 2008 and 2009
- Housing markets after the crisis: lessons for the macroeconomy
- Borrowing requirements and external debt sustainability of Sub-Saharan African countries

– Valuation of unquoted foreign direct investment stocks at market value: methods and results for France

Summer 2010

- National financial accounts in 2009: a shift in financing flows towards general government

- Non-residents' equity holdings in French CAC 40 companies at end-2009

– SMEs in the manufacturing sector in France – an intermediate position compared with eight other European countries

– Developments in France's foreign trade in services: analysis by sector and by country

– The Banque de France rating system: an asset for the Central Bank and a tool for commercial banks

- Economic linkages, spillovers and the financial crisis.

Summary of the BdF/PSE/IMF conference of 28 and 29 January 2010

Autumn 2010

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

– Developments in regulated savings since the reform of the "A" passbook savings account distribution network

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

- Post-crisis monetary policy strategies

- Cohesion policy and the new Member States of the European Union

Winter 2010-2011

– The position of firms in 2009: a decline in business and a reluctance to invest during the crisis

- Payment periods in 2009 - One year on from the Economic Modernisation Act

- French outward and inward foreign direct investment in 2009

– The future of monetary policy – Summary of the conference held in Rome on 30 September and 1 October 2010

- New challenges for public debt in advanced economies.

Summary of the conference held in Strasbourg on 16-17 September 2010

– The impact of the earthquake of March $11^{\rm th}$ on the Japanese economy and the rest of the world

- Monetary and credit developments in France: 2010, the year of the recovery

– Inventories in the crisis

– Structural reforms, crisis exit strategies and growth – OCDE-Banque de France Workshop, 9 and 10 December 2010

– Structural analysis in times of crisis – Banque de France symposium, 29 and 30 November 2010

- The Banque de France in European and international organisations

Summer 2011

- Summary of the international symposium organised by the Banque de France "What is the appropriate regulatory response to global imbalances?"

– The relationship between capital flows and financial development: a review of the literature

– Households' savings and portfolio choices: micro and macroeconomic approaches

– National financial accounts in 2010: recovery in lending and ongoing rise in debt ratio

- Household savings behaviour in 2010

Autumn 2011

- SMEs see a pick-up in business in 2010, but delay investment

- Companies after the crisis - Banque de France seminar, 28 June 2011

- Fiscal and monetary policy challenges in the short and long run Summary of the Banque de France-Bundesbank conference held on 19 and 20 May 2011 in Hamburg

- After the collapse, the reshaping of international trade.

Summary of the Banque de France/PSE/CEPII conference of 25 and 26 May 2011 – Insurance companies' investments at the end of 2010

Winter 2011-2012

- The cost of business credit by firm category

- Companies in France in 2010: a mixed picture

– Payment periods in 2010: the efforts made since the implementation of the LME have lost momentum

– France's national economic wealth showed a marked rebound in 2010 due to higher land prices

- French overseas territories and the euro

– Summary of the international workshop on microfinance organised by the Banque de France on 8 July 2011

– Forecasting the business cycle

Summary of the 8th International Institute of Forecasters workshop hosted by the Banque de France on 1-2 December 2011 in Paris

– Fiscal and monetary policy in the aftermath of the financial crisis. Summary of the BDF/EABCN/EJ/PSE conference on 8-9 December 2011

– High-growth SMEs

– The financial situation of the major French groups remained sound in the first half of 2011

– Leveraged buy-outs in France: substantial differences between small and medium-sized targets

- Monetary and credit developments in 2011

– Has the 2008-2009 recession increased the structural share of unemployment in the euro area?

– The measurement of systemic risk (Summary of a lecture given by Robert F. Engle, winner of the Nobel Prize in Economics, Banque de France, 25 January 2012)

– United States then, Europe now (Summary of a lecture given by Thomas J. Sargent, winner of the Nobel Prize in Economics, Banque de France, 1 March 2012)

Summer 2012

- Holdings of French investment funds

– SMEs in Europe: disparities between countries and sectors were greater in 2010 than before the crisis

- Analysis of banking activity by business line

– Firms' financing and default risk during and after the crisis (Summary of a conference hosted by the Banque de France and OSEO on 9 and 10 February 2012)

- 18th international panel data conference: a brief synthesis

Autumn 2012

- Current account imbalances in the euro area: competitiveness or demand shock?

- Non-residents' equity holdings in French CAC 40 companies at end-2011
- New housing loans to households: recent trends

- Insurance institutions' investments at end-2011

Winter 2012-2013

French companies in 2011: expanding activity but shrinking profitsThe financial situation of the major listed groups remained sound in the

first half of 2012 despite a difficult environment

- Securitisation in France

- Equilibrium exchange rate and competitiveness within the euro area

- Macroeconomic and financial vulnerability indicators in advanced economies

- The labour market: institutions and reforms

– Monetary and credit developments in 2012 – Credit distribution grew more quickly in France than in the euro area

- France's inward foreign direct investment from 2005 to 2011

– Assisted microcredit – Summary of the symposium organised by the Banque de France on 12 December 2012

– Oil and the macroeconomy – Summary of the Banque de France workshop on 14 November 2012

Autumn 2013

– The economic slowdown took a toll on SMEs' profits and investments in $2012\,$

– Globalisation and labour market outcomes: an overview of the conference organised by the Banque de France on 16 and 17 May 2013

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- Non-residents holdings of French CAC 40 shares at end-2012

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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)

	2013						
	April	May	June	July	Aug.	Sept.	Oct.
Changes in production from the previous month ^a	l)						
Total manufacturing	5	-1	5	2	2	7	5
Food products and beverages	5	4	5	2	6	-2	-1
Electrical, electronic and computer equipement	,		7	7	-	10	7
and other machinery	0	1			5	10	/
Automotive industry	16	14	2	-12	3	-1	0
Other transport equipment	12	-2	12	10	-11	9	9
Other manufacturing	2	-11	6	3	-1	9	6
Production forecasts ^{a)}							
Total manufacturing	0	4	6	-1	9	7	5
Food products and beverages	6	8	11	10	10	10	5
Electrical, electronic and computer equipement	-1	4	5	-1		7	0
and other machinery							
Automotive industry	-6	-1	-	3	8	14	17
Other transport equipment	2	5	5	8	10	5	
Other manufacturing	1	3	6	-5	11	6	6
Changes in orders from the previous month ^{a)}	1		1	1			
Total manufacturing	3	0	6	-2	6	4	5
Foreign	4	3	5	-2	6	3	6
Order books ^{a)}							
Total manufacturing	-10	-10	-9	-8	-6	-4	-1
Food products and beverages	0	-4	-5	3	-4	-2	-8
Electrical, electronic and computer equipement	-10	-8	-7	-3	-4	-4	1
and other machinery							
Automotive industry	-53	-52	-55	-52	-44	-31	-27
Other transport equipment	46	4/	45	32	41	55	51
Other manufacturing	-12	-11	-11	-10	-0	-3	-2
Inventories of finished goods ^{a)}	1		1	1	1		
Total manufacturing	3	2	1	2	0	I	2
Food products and beverages	3	4	2	2	I	-1	I
Electrical, electronic and computer equipement	5	5	6	7	8	8	8
Automotive industry	0		2		5	2	
Other transport equipment	0	-1	-3	-1	-5	-3	2
Other manufacturing	2		0	1	-1	0	-
	~	•	Ű				
Capacity utilisation rate	75.0	75.5	75.5	75.0	741	7()	77.4
l otal manufacturing	/5.9	/5.5	/5.5	/5.9	/4.1	/6.2	/0.4
Staff levels (total manufacturing) ^{a)}							
Changes from the previous month	-1	-2	-2	-2	I	-1	-1
Forecast for the coming month	-2	-1	-2	-3	-4	-2	-3
Business sentiment indicator ^{c)}							
	95	94	96	95	97	97	99

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 20 November 2013

Table 2

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











Production^{a)}



Capacity utilisation rate ^{a)}



a) Manufacturing.

Source: Banque de France.

Produced 20 November 2013
Consumer price index ^{a)}

		07			0010							
		2013										
	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.			
France	1.2	1.1	0.8	0.9	1.0	1.2	1.0	1.0	0.7			
Germany	1.8	1.8	1.1	1.6	1.9	1.9	١.6	1.6	1.2			
Italy	2.0	1.8	1.3	1.3	1.4	1.2	1.2	0.9	0.8			
Euro area	1.8	1.7	1.2	1.4	1.6	1.6	1.3	1.1	0.7			
United Kingdom	2.8	2.8	2.4	2.7	2.9	2.8	2.7	2.7	2.2			
European Union	2.0	1.9	1.4	1.6	1.7	1.7	1.5	1.3	0.9			
United States	2.0	1.5	1.1	1.4	1.8	2.0	1.5	1.2	na			
Japan	-0.6	-0.9	-0.7	-0.3	0.2	0.7	0.9	1.0	na			



(seasonally-adjusted monthly % change)

	2010	2011	2012			20	13		
	2010	2011	2012	May	June	July	Aug.	Sept.	Oct.
France	1.7	2.3	2.2	0.2	0.2	0.2	0.1	0.1	-0.2
Germany	1.2	2.5	2.1	0.6	0.3	0.2	0.0	0.2	-0.2
Italy	1.6	2.9	3.3	0.1	0.2	0.1	0.1	0.0	0.0
Euro area	1.6	2.7	2.5	0.2	0.2	0.2	0.1	0.0	-0.2
United Kingdom	3.3	4.5	2.8	0.3	0.2	0.2	0.2	0.3	0.0
European Union ^{b)}	2.1	3.1	2.6	-	-	-	-	-	-
United States	1.6	3.2	2.1	0.1	0.5	0.2	0.1	0.2	na
lapan	-0.7	-0.3	0.0	0.1	0.3	0.4	0.1	0.2	na

France and the euro area



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

b) The series of seasonally adjusted monthly changes in the HIPC is not available for the European Union.

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

Economic developments



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.

Calculations: Banque de France.

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

(unadjusted data, EUR billions)

	2011	2012		2012		20	13
			Q2	Q3	Q4	QI	Q2
Current account	-35.2	-44.4	-16.9	-6.6	-9.2	-12.4	-7.0
Goods	-76.6	-70.6	-19.1	-15.7	-16.4	-17.2	-13.9
Services	31.5	32.6	8.3	10.6	8.2	4.0	10.3
Income	45.I	29.7	3.7	8.2	8.3	10.3	7.6
Current transfers	-35.2	-36.2	-9.7	-9.7	-9.2	-9.4	-11.1
Capital account	0.0	-0.4	-0.1	-0.5	0.2	0.2	1.0
Financial account	53.6	74.2	4.3	26.4	19.5	-24.6	2.1
Direct investment	-15.1	-9.4	-5.2	-8.5	0.3	-2.7	1.3
French direct investment abroad	-42.8	-28.9	-19.1	-11.1	-4.0	-0.8	-1.8
Foreign direct investment in France	27.7	19.5	13.9	2.6	4.3	-1.9	3.1
Portfolio investment	228.5	39.2	33.6	-32.4	0.9	6.5	24.9
Assets	166.6	6.3	11.0	0.7	-13.0	-37.4	-13.8
Liabilities	61.9	32.9	22.6	-33.1	13.9	43.8	38.8
Financial derivatives	13.9	14.3	5.2	0.4	9.1	4.3	5.9
Other investment	-179.3	34.1	-28.5	67.3	11.9	-33.1	-30.3
Reserve assets	5.5	-4.0	-0.9	-0.5	-2.8	0.5	0.3
Net errors and omissions	-18.4	-29.4	12.7	-19.3	-10.5	36.8	4.0



Economic developments

Table 6

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

(unadjusted data, EUR billions)

	2011	2012		2012		20	13
			Q2	Q3	Q4	QI	Q2
Current account	-35.2	-44.4	-16.9	-6.6	-9.2	-12.4	-7.0
Goods	-76.6	-70.6	-19.1	-15.7	-16.4	-17.2	-13.9
Exports	424.4	437.8	109.8	105.8	110.7	108.4	111.0
Imports	501.0	508.4	128.9	121.5	127.1	125.6	124.9
General merchandise	-77.4	-71.2	-19.3	-16.0	-16.5	-17.5	-14.7
Goods procured in ports by carriers	-2.8	-3.0	-0.7	-0.7	-0.8	-0.7	-0.2
Goods for processing and repairs on goods	3.6	3.6	0.9	0.9	0.8	0.9	1.1
Services	31.5	32.6	8.3	10.6	8.2	4.0	10.3
Exports	169.4	168.3	42.6	46.8	42.1	36.4	46.0
Imports	137.9	135.7	34.3	36.2	33.9	32.4	35.7
Transportation	-2.5	-0.4	-0.2	0.0	0.0	-0.7	-0.3
Travel	7.1	11.3	3.0	5.8	1.4	0.4	3.5
Communications services	2.3	1.9	0.6	0.5	0.4	0.5	0.5
Construction services	2.1	1.8	0.4	0.5	0.9	0.3	0.2
Insurance services	1.6	1.3	0.3	0.3	0.7	-0.1	0.5
Financial services	2.1	1.6	0.5	0.4	0.2	0.5	0.5
Computer and information services	-0.7	-1.6	-0.4	-0.4	-0.4	-0.4	-0.3
Royalties and license fees	3.7	2.2	0.5	0.3	0.6	0.1	0.4
Other business services	15.4	13.8	3.4	3.1	4.3	3.2	5.2
Personal, cultural and recreational services	0.4	0.4	0.1	0.1	0.1	0.1	0.1
Government services	0.2	0.3	0.1	0.1	0.0	0.1	0.1
Income	45.I	29.7	3.7	8.2	8.3	10.3	7.6
Compensation of employees	14.7	15.5	3.9	3.9	3.9	3.9	4.0
Investment income	30.4	14.2	-0.2	4.3	4.4	6.3	3.6
Direct investment	38.7	32.1	10.0	7.8	7.2	7.6	13.7
Portfolio investment	-9.0	-18.3	-10.3	-3.6	-2.9	-1.7	-10.6
Other investment	0.7	0.4	0.1	0.1	0.1	0.4	0.4
Current transfers	-35.2	-36.2	-9.7	-9.7	-9.2	-9.4	-11.1
General government	-17.4	-17.6	-4.9	-5.1	-4.6	-4.3	-6.7
Other sectors	-17.7	-18.6	-4.9	-4.5	-4.6	-5.1	-4.4
of which workers' remittances	-7.6	-8.2	-2.1	-2.1	-2.1	-2.1	-2.1
Capital account	0.0	-0.4	-0.1	-0.5	0.2	0.2	1.0

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

(unadjusted data, EUR billions)

	2011	2012		2012		20	13
			Q2	Q3	Q4	QI	Q2
Financial account	53.6	74.2	4.3	26.4	19.5	-24.6	2.1
Direct investment	-15.1	-9.4	-5.2	-8.5	0.3	-2.7	1.3
French direct investment abroad	-42.8	-28.9	-19.1	-11.1	-4.0	-0.8	-1.8
of which equity capital and reinvested earnings	-28.4	-40.7	-13.0	-13.5	-8.9	-1.6	0.4
Foreign direct investment in France	27.7	19.5	13.9	2.6	4.3	-1.9	3.1
of which equity capital and reinvested earnings	20.2	15.5	3.9	2.0	9.1	3.8	3.1
Portfolio investment	228.5	39.2	33.6	-32.4	0.9	6.5	24.9
Assets	166.6	6.3	11.0	0.7	-13.0	-37.4	-13.8
Equity securities	39.3	-50.1	2.2	-13.2	-33.9	-13.3	4.4
Bonds and notes	87.2	78.8	10.1	17.7	7.7	-25.5	-8.5
Short-term debt securities	40.1	-22.4	-1.3	-3.7	13.1	1.4	-9.7
Liabilities	61.9	32.9	22.6	-33.1	13.9	43.8	38.8
Equity securities	5.0	27.9	6.2	1.0	19.8	2.8	8.0
Bonds and notes	80.3	41.7	16.8	-18.2	13.8	21.3	29.3
Short-term debt securities	-23.4	-36.7	-0.4	-15.9	-19.7	19.7	1.5
Financial derivatives	13.9	14.3	5.2	0.4	9.1	4.3	5.9
Other investment	-179.3	34.1	-28.5	67.3	11.9	-33.1	-30.3
Reserve assets	5.5	-4.0	-0.9	-0.5	-2.8	0.5	0.3
Net errors and omissions	-18.4	-29.4	12.7	-19.3	-10.5	36.8	4.0







Economic developments

Table 8

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

(unadjusted data, EUR billions)

	2nd quarter 2013											
	EMU ^{a)}	EU-27 excl. EMU ^{b)}	USA	Japan	Switzerland	China						
Current account	-15.1	-0.3	-1.6	0.8	2.5	na						
Receipts	90.3	26.9	15.0	3.2	9.8	6.1						
Expenditure	105.5	27.2	16.6	2.3	7.3	na						
Goods	-19.5	2.1	0.7	0.6	0.3	-2.1						
Receipts	51.6	14.2	7.1	1.7	3.1	3.6						
Expenditure	71.2	12.1	6.4	1.1	2.9	5.7						
Services	3.1	0.7	-0.3	0.0	0.9	1.0						
Receipts	17.6	6.0	3.6	0.4	2.7	2.0						
Expenditure	14.4	5.3	3.9	0.4	1.8	1.0						
Income	2.9	1.9	-2.1	0.3	2.2	na						
Receipts	19.3	5.4	3.9	1.1	3.7	0.5						
Expenditure ^{c)}	16.3	3.6	6.0	0.8	1.4	na						
Current Transfers	-1.6	-4.9	0.0	0.0	-0.9	-0.1						
Financial account												
Direct investment	2.5	-0.2	-2.7	0.3	1.0	-0.3						
French direct investment abroad	1.0	1.3	-2.9	0.2	0.1	-0.3						
Foreign direct investment in France	1.5	-1.5	0.3	0.1	0.9	0.0						
Portfolio investment – Assets ^{d)}	-6.5	3.6	0.5	-13.3	-0.9	-0.7						
Equity securities	1.1	1.3	-1.6	2.8	-0.9	-0.5						
Bonds and notes	-9.3	-1.2	1.4	-0.6	-0.3	-0.1						
Short-term debt securities	1.7	3.6	0.6	-15.5	0.3	-0.1						
Other investment	15.3	3.3	-25.1	-1.5	-1.0	2.0						

a) 17 Member States (including Estonia as of 1 January 2011).

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

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

d) The geographical breakdown is not available for liabilities.

Balance of payments (monthly data) – France

(unadjusted data, EUR billions)

				l 2-month total		
	2012		2013		2012	2013
	Sept.	July	Aug.	Sept.	Sept.	Sept.
Current account	-2.1	-1.6	-3.2	-4.6	-44.0	-38.0
Goods	-4.9	-4.8	-5.1	-6. I	-71.4	-63.6
Services	3.4	4.8	3.1	3.4	30.9	33.7
Income	2.8	2.1	2.5	1.8	33.8	32.4
Current transfers	-3.4	-3.6	-3.7	-3.6	-37.2	-40.6
Capital account	0.1	0.0	0.2	0.0	-0.1	1.5
Financial account	3.5	4.6	-11.0	1.4	89.9	-8.0
Direct investment	-5.6	2.3	-0.7	-1.0	-6.5	-0.4
French direct investment abroad	-5.4	-0.5	-0.4	-0.8	-44.2	-8.2
Equity capital	-5.4	2.0	-0.5	-1.0	-40.1	-5.1
Reinvested earnings	-0.5	-0.5	-0.5	-0.5	-5.9	-6.1
Other capital	0.5	-1.9	0.6	0.7	1.7	3.0
Foreign direct investment in France	-0.2	2.8	-0.3	-0.2	37.7	7.8
Equity capital	-0.4	2.5	-0.1	0.5	21.4	18.3
Reinvested earnings	0.1	0.1	0.1	0.1	0.4	0.8
Other capital	0.1	0.2	-0.2	-0.8	15.9	-11.3
Portfolio investment	-21.0	8.0	7.9	-33.5	127.7	14.7
Assets	-7.6	3.2	2.3	-18.3	134.4	-77.0
Equity securities	-9.6	0.0	-1.6	-16.4	13.5	-60.8
Bonds and notes	4.3	5.6	-2.8	-9.3	133.6	-32.8
Short-term debt securities	-2.3	-2.3	6.7	7.4	-12.7	16.6
Liabilities	-13.5	4.8	5.6	-15.2	-6.6	91.6
Equity securities	3.6	-4.0	3.0	5.4	3.6	34.9
Bonds and notes	-4.1	-3.9	-6.2	-13.8	35.2	40.7
Short-term debt securities	-12.9	12.7	8.8	-6.9	-45.4	16.1
Financial derivatives	0.6	-2.8	1.2	0.9	7.5	18.6
Other investment	28.9	-2.7	-18.9	36.2	-39.7	-36.8
Reserve assets	0.7	-0.2	-0.5	-1.2	0.8	-3.9
Net errors and omissions	-1.5	-3.1	14.2	3.1	-45.9	44.6

Economic developments

Table 10

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

(EUR billions)

	2008	2009	2010	2011	2012	2013
	Dec.	Dec.	Dec.	Dec.	Dec.	Q2
Assets	4,414.1	4,661.2	5,547.5	5,976.0	6,115.9	5,936.8
French direct investment abroad	975.3	1,036.0	1,109.3	1,142.8	1,167.4	1,158.2
Equity capital and reinvested earnings	658.6	726.1	835.3	852.6	889.9	880.0
Other capital	316.7	309.9	274.0	290.2	277.4	278.2
Portfolio investment		2 0 4 9 9	2 079 0	1 927 7	10470	1.075.4
(foreign securities held by residents)	1,057.4	2,047.7	2,076.0	1,020.7	1,747.7	1,775.4
Financial derivatives	234.0	273.5	868.0	1,237.1	1,301.6	1,061.8
Other investment	1,273.5	1,209.5	1,367.6	1,636.3	1,559.1	1,630.3
Reserve assets	74.0	92.4	124.5	33.	139.9	111.3
Liabilities	-4,633.3	-4,864.1	-5,742.4	-6,192.6	-6,439.1	-6,307.6
Foreign direct investment in France	-684.5	-683.9	-714.8	-737.3	-756.4	-756.7
Equity capital and reinvested earnings	-395.3	-408.4	-430.6	-443.8	-459.1	-466.0
Other capital	-289.2	-275.5	-284.2	-293.5	-297.2	-290.8
Portfolio investment	1 970 F	2 200 7	2 420 9	2 425 5	2 (29 2	27164
(French securities held by non-residents)	-1,072.5	-2,277.7	-2,430.0	-2,423.5	-2,027.2	-2,710.4
Financial derivatives	-289.3	-311.8	-906. I	-1,278.6	-1,344.3	-1,114.8
Other investment	-1,787.0	-1,568.6	-1,690.7	-1,751.2	-1,709.2	-1,719.7
Net position	-219.2	-202.8	-194.9	-216.6	-323.1	-370.7



and government negotiable debt securities



France's international investment position



Table I I

Main monetary and financial aggregates – France and the euro area

(annual percentage growth rate	3)										
	2010	2011	2012	2012				2013			
	Dec.	Dec.	Dec.	Sept.	March	April	May	June	July	Aug.	Sept.
MI											
Euro area ^{a)}	4.4	1.9	6.4	5.2	7.1	8.7	8.3	7.6	7.1	6.8	6.6
France (contribution)	8.6	5.7	3.0	6.4	-0.6	2.8	1.7	2.7	2.1	3.2	2.1
M2											
Euro area ^{a)}	2.2	1.9	4.5	3.1	4.2	4.9	4.7	4.3	4.1	4.0	3.8
France (contribution)	5.6	7.0	5.3	5.8	4.0	5.6	4.7	4.5	3.7	4.2	3.6
M3											
Euro area ^{a)}	1.1	1.7	3.5	2.8	2.6	3.2	2.9	2.4	2.2	2.3	2.1
France (contribution)	6.4	3.0	2.6	2.3	2.5	3.8	3.3	2.5	2.1	2.9	3.1
Loans to the private sector											
Euro area ^{a)}	1.7	0.9	-0.6	-0.9	-0.7	-0.9	-1.2	-1.6	-1.9	-2.0	-1.9
France ^{b)}	4.7	3.1	2.5	0.5	2.5	3.2	3.1	2.3	1.8	2.1	1.7



(annual percentage growth rate) 20 15 10 5 0 -5 09/07 09/08 09/09 09/10 09/11 09/12 09/13 Euro area France (contribution)

M2







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.

Table 12

Banque de France Monthly Statement ^{a)}

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

	2010	2011	2012	2012		20	13	
	Dec.	Dec.	Dec.	Oct.	July	Aug.	Sept.	Oct.
Assets								
National territory	103.4	295.9	326.4	330.3	233.1	229.2	221.0	211.9
Loans	56.3	218.4	234.2	240.I	151.6	150.4	141.1	135.4
MFIs ^{b)}	56.1	218.2	234.0	240.0	151.4	150.2	140.9	135.3
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Securities other than shares	46.6	77.0	92.1	90.1	81.4	78.7	79.8	76.4
MFIs	24.3	34.1	32.2	32.0	25.2	25.3	25.3	25.2
General government	22.3	42.9	59.9	58.1	56.1	53.4	54.5	51.2
Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	0.5	0.5	0.1	0.1	0.1	0.1	0.1	0.1
Other euro area countries ^{b)}	102.5	106.8	87.6	89.0	92.0	89.9	90.1	91.1
Rest of the world ^{b)}	99.1	110.5	114.9	109.1	102.8	101.0	104.3	91.3
Gold	82.6	95.3	98.8	103.6	77.7	82.7	77.4	76.1
Not broken down by geographical area ^{c)}	97.7	105.1	109.6	98.9	107.3	105.1	103.7	102.7
Total	485.3	713.6	737.3	730.9	612.8	607.9	596.5	573.2
Liabilities								
National territory – Deposits	51.5	185.6	200.3	228.4	125.9	140.8	121.4	97.7
MFIs	49.6	176.2	194.8	218.7	124.6	139.4	120.0	96.2
General government	1.5	8.9	4.9	9.2	0.7	0.7	0.7	0.7
Other sectors	0.4	0.5	0.6	0.5	0.6	0.7	0.6	0.8
Other euro area countries – Deposits	28.3	79.6	73.9	45.9	56. I	37.8	52.7	60.1
Rest of the world – Deposits	122.9	143.4	146.0	141.9	133.5	128.0	128.3	121.1
Not broken down by geographical area	282.6	305.0	317.1	314.7	297.2	301.3	294.2	294.4
Banknotes and coins in circulation ^{d)}	160.1	169.0	173.5	169.5	174.6	174.8	174.7	175.7
of which coins ^{e)}	2.7	2.8	2.9	2.9	3.0	3.0	3.0	3.0
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital reserves and revaluation account	97.6	112.4	117.0	123.6	97.5	102.5	96.6	95.2
Other liabilities	24.9	23.6	26.5	21.6	25.1	24.0	22.9	23.5
Total ¹⁾	485.3	713.6	737.3	730.9	612.8	607.9	596.5	573.2

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

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

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

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

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

f) The total of the balance sheet at end 2012 published in March 2013 (731.8 bn) can be calculated by substracting from the total of the Monthly Statement at end December 2012 (737.3 bn): coins (2.9 bn) and miscellaneous amounts linked to the accounting gap between the statement established in the early January 2013 and the Annual Accounts, which include all the year-end entries (2.6 bn).

Deposits – France

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

	2010	2011	2012	2012		20	13	
	Dec.	Dec.	Dec.	Sept.	June	July	Aug.	Sept.
Overnight deposits								
Total non-financial sectors	516.3	546.3	555.9	543.9	553.7	564.6	561.0	561.0
(excluding central government)								
Households and similar	278.4	284.4	279.2	288.2	288.9	294.7	292.5	292.1
Non-financial corporations	182.5	203.3	214.7	200.4	210.0	212.4	211.1	210.7
General government (excl. central government)	55.4	58.6	62.0	55.3	54.7	57.6	57.4	58.3
Other sectors	39.1	39.3	42.5	43.3	41.0	41.5	37.8	38.7
Total – Outstanding amounts	555.I	585.I	598.0	586.6	594.3	605.7	598.4	599.4
Total – Growth rate	8.0	5.3	2.8	6.4	2.7	2.1	3.3	2.2
Passbook savings accounts								
"A" and "Blue" passbooks	193.5	214.7	247.2	230.4	262.4	262.8	262.8	261.3
Housing savings accounts	36.1	36. I	35.2	36.5	34.5	34.6	34.6	34.2
Sustainable development passbook accounts	68.0	69.4	92.0	71.5	98.8	99.6	99.9	99.3
People's savings passbooks	54.4	52.4	51.7	51.9	49.7	49.6	49.6	49.5
Youth passbooks	7.0	7.0	7.0	6.9	6.8	6.8	6.9	6.9
Taxable passbooks	159.8	179.7	178.7	194.7	178.1	179.6	181.0	177.9
Total – Outstanding amounts	518.8	559.3	611.7	591.8	630.2	633.0	634.7	629.0
Total – Growth rate	3.5	7.3	9.4	8.1	8.2	7.6	7.0	6.3







Table 14

Time deposits – France

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

	2010	2011	2012	2012		20	13	
	Dec.	Dec.	Dec.	Sept.	June	July	Aug.	Sept.
Deposits with agreed maturity up to two years								
Total non-financial sectors (excl. central government)	89.1	108.1	111.8	109.7	111.4	110.0	109.1	108.7
Households and similar	24.5	31.7	30.9	33.3	29.2	29.3	29.4	29.0
Non-financial corporations	63.9	75.5	79.9	75.4	81.2	79.7	78.8	78.7
General government (excl. central government)	0.7	1.0	0.9	1.0	0.9	1.0	1.0	1.0
Other sectors	44.2	42.7	40.7	36.6	34.3	35.3	37.5	36.3
Total – Outstanding amounts	133.4	150.9	152.5	146.3	145.7	145.3	146.6	145.0
Total – Growth rate	1.6	10.9	-1.1	-4.6	-1.9	-4.8	-2.3	-0.9
Deposits with agreed maturity of over two years								
Total non-financial sectors (excl. central government)	282.6	306.7	328.9	324.4	332.3	333.5	335.1	335.6
Households and similar	248.0	259.0	269.4	267.4	267.4	268.1	269.3	269.9
PEL	182.3	186.6	188.2	185.7	189.3	190.2	191.2	192.0
PEP	26.6	24.4	24.0	23.7	23.2	23.1	23.0	22.9
Other	39.1	48.0	57.1	58.0	54.8	54.8	55.1	55.1
Non-financial corporations	34.0	46.6	58.1	55.6	63.3	63.6	64.1	63.9
General government (excl. central government)	0.6	1.1	1.4	1.4	1.7	1.7	1.7	1.8
Other sectors	94.4	177.0	154.7	157.1	171.0	166.4	165.6	158.1
Total – Outstanding amounts	377.0	483.7	483.5	481.5	503.3	499.8	500.7	493.7
Total – Growth rate	3.5	18.8	0.3	6.7	1.5	4.9	4.5	2.7

Deposits up to 2 year





Sources: Banque de France, European Central Bank.

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

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

				·					
	2010	2011	2012	2012			2013		
	Dec.	Dec.	Dec.	Sept.	May	June	July	Aug.	Sept.
Loans to resident clients									
Private sector	1,976.4	2,053.7	2,100.0	2,087.0	2,130.2	2,123.4	2,119.6	2,116.7	2,123.0
General government	214.8	195.1	206.8	198.1	208.7	207.6	212.2	212.1	211.0
Total – Outstanding amounts	2,191.2	2,248.7	2,306.7	2,285.0	2,338.9	2,331.0	2,331.8	2,328.8	2,334.1
Private sector	4.7	3.1	2.5	0.5	3.1	2.3	1.8	2.1	1.7
General government	9.5	-6.7	6.1	5.1	5.8	5.2	6.4	6.3	6.3
Total – Growth rate	5.2	2.2	2.8	0.9	3.4	2.6	2.2	2.4	2.1
Loans to non-financial companies									
Fixed investment	525.0	547. I	563.0	556.8	562.6	562.I	562.5	562.8	561.5
Inventories and working capital	179.7	187.5	174.1	176.8	172.8	172.8	169.8	166.5	171.0
Other lending	76.1	81.2	82.0	80.9	80.5	83. I	81.3	80.9	83.2
Total – Outstanding amounts	780.8	815.9	819.1	814.5	815.9	818.0	813.6	810.3	815.7
Total – Growth rate	1.2	4.4	1.0	0.6	0.9	0.4	-0.I	-0.1	0.4
Loans to households									
Loans for house purchase	798. I	847.0	874.2	868.0	885. I	888.5	893.5	894.6	897.2
Consumer loans	164.4	161.1	160.4	156.6	157.4	157.1	157.8	155.7	155.7
Other lending	88.0	92.8	92. I	92.8	93.0	92.7	92.4	92.9	92.9
Total – Outstanding amounts	1,050.5	1,100.9	1,126.7	1,117.3	1,135.5	1,138.3	1,143.7	1,143.2	1,145.8
Total – Growth rate	6.2	5.6	2.3	2.7	2.0	2.0	2.2	2.3	2.4



Loans to households - France



Source: Banque de France.

Table 16

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

(monthly flows - seasonally adjusted - in euro billions)

		2012		2013			
	July	Aug.	Sept.	July	Aug.	Sept.	
Loans to non-financial corporations Loans ≤ 1 million euro ^{a)} Loans > 1 million euro ^{a)}	5.9 15.8	5.8 13.9	5.4 13.9	6.4 13.3	5.7 11.5	5.6 9.5	
Loans to households							
Cash loans to sole traders and individuals (excl. revolving consumer credit)	4.3	4.4	4.1	4.3	4.0	4.1	
Housing loans	8.4	8.7	8.0	15.7	15.0	14.0	





Households - Cash loans



a) All initial rate fixation periods.

Non-financial corporations – Loans > 1 million

(monthly flows - seasonally adjusted - in euro billions)



Households - Housing loans

(monthly flows - seasonally adjusted - in euro billions)



Sources: Banque de France, European Central Bank.

Investment and financing – Insurance corporations and pension funds – Euro area and France *(EUR billions)*

Euro area

	Cumula	Cumulated transaction flows over 4 quarter								
		2012 2013								
	Q2	Q3	Q4	QI	Q2	June				
Financial assets										
Currency and deposits	9.6	-13.8	-1.9	-7.7	-8.1	796.7				
of which deposits included in M3 ^{a)}	15.0	2.5	15.6	11.6	7.6	199.5				
Short-term debt securities	13.5	11.6	-4.8	-1.8	-14.2	56.5				
Long-term debt securities	41.6	79.1	137.0	95.0	3.	3,028.7				
Loans	3.0	14.9	8.2	12.7	11.5	486.3				
Shares and other equity	97.8	69.6	89.0	96.7	91.4	2,761.1				
of which quoted shares	-13.7	-16.9	-4.7	2.4	-1.8	408.2				
Remaining net assets	-6.9	-5.2	-40.8	-21.9	-24.4	244.6				
Financing										
Debt securities	1.2	2.6	7.3	5.8	3.6	52.1				
Loans	7.4	9.4	-15.3	0.2	-7.3	301.5				
Shares and other equity	3.7	2.7	0.9	1.7	1.5	496.8				
Insurance technical reserves	112.5	124.6	148.8	167.4	171.3	6,574.8				
Life insurance	103.6	116.4	136.1	155.2	160.1	5,726.3				
Non-life insurance	8.8	8.2	12.7	12.1	11.1	848.5				
Net lending/net borrowing (B9B)	33.8	16.8	45.I	-2.0	0.2					

(EUR billions)

France										
	Cumula	Cumulated transaction flows over 4 quarters								
		2012		20	13	2013				
	Q2	Q3	Q4	QI	Q2	June				
Financial assets										
Currency and deposits	6.1	3.0	2.8	2.1	5.2	31.7				
Short-term debt securities	9.7	9.3	-9.4	-4.1	-13.0	19.4				
Long-term debt securities	-13.6	-3.1	42.7	44.1	58.7	1,268.1				
Loans	0.8	0.7	0.9	0.9	1.1	35.8				
Shares and other equity	30.3	20.8	10.2	11.7	2.5	658.3				
of which quoted shares	-7.3	-10.4	-10.4	-2.7	-3.3	67.8				
Remaining net assets	-6.8	-9.6	-12.2	-8.1	-6.2	4.4				
Financing										
Debt securities	0.0	0.0	0.6	0.9	1.7	10.3				
Loans	-5.1	-3.4	7.2	11.0	14.5	94.7				
Shares and other equity	1.0	1.7	2.1	۱.6	1.5	105.8				
Insurance technical reserves	12.9	13.2	26.8	40.9	47.0	1,771.8				
Life insurance and pension funds	7.7	7.8	19.8	31.3	37.1	1,502.0				
Non-life insurance	5.2	5.4	7.0	9.6	9.8	269.8				
Net lending/net borrowing (B9B)	21.5	[4.]	5.9	3.4	-4.3					

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

Sources: Banque de France, European Central Bank.

Table 18

Investment and financing – Households – Euro area

(EUR billions)

	Cum	Cumulated transaction flows over 4 quarters									
		2012		20	13	2013					
	Q2	Q3	Q4	QI	Q2	June					
Financial assets											
Currency and deposits	209.1	204.4	237.I	232.2	219.1	7,139.8					
of which deposits included in M3 ^{a)}	132.3	150.8	213.4	213.7	206.1	5,403.1					
Short-term debt securities	16.6	24.6	-1.8	-14.7	-18.4	35.1					
Long-term debt securities	11.9	-2.1	-91.5	-124.7	-119.3	1,210.7					
Shares and other equity	45.5	26.3	60.5	74.8	66.3	4,581.8					
Quoted shares	37.5	8.4	1.1	2.3	-4.6	775.9					
Unquoted shares and other equity	57.2	53.2	53.5	39.4	22.8	2,386.1					
Mutual fund shares	-49.2	-35.4	5.9	33.I	48.2	1,419.8					
of which money market fund shares	-19.4	-27.6	-31.1	-39.1	-30.1	108.7					
Insurance technical reserves	103.4	110.5	135.0	154.7	158.5	6,335.6					
Remaining net assets	-43.4	-50.0	-32.9	-6.8	-22.4	-74.2					
Financing											
Loans	40.5	19.0	13.7	1.2	-11.9	6,156.8					
of which from euro area MFIs	12.6	1.1	25.0	21.0	0.1	5,279.7					
Revaluation of financial assets											
Shares and other equity	-281.1	315.2	352.8	295.3	349.4						
Insurance technical reserves	94.2	184.5	182.7	161.7	123.8						
Other flows	-39.1	29.1	77.9	-11.5	45.0						
Change in net financial worth	76.5	823.5	906.I	759.7	813.8						



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.

Source: European Central Bank.

Investment and financing – Households – France

(EUR billions)

	Cum	Cumulated transaction flows over 4 quarters								
		2012		20	13	2013				
	Q2	Q3	Q4	QI	Q2	June				
Financial assets										
Currency and deposits	72.1	66.3	57.0	45.6	41.8	1,298.4				
Short-term debt securities	-0.2	-0.3	-0.7	-0.5	-0.5	0.9				
Long-term debt securities	1.3	1.3	3.3	-1.8	-1.6	62.4				
Shares and other equity	5.5	-1.5	8.8	8.7	4.8	1,031.0				
Quoted shares	0.4	-5.0	-6.1	-4.5	-6.0	150.5				
Unquoted shares and other equity	14.5	17.2	22. I	23.0	20.4	574.9				
Mutual fund shares	-9.4	-13.7	-7.2	-9.8	-9.7	305.6				
of which money market fund shares	-3.8	-6.9	-8.3	-8.0	-8.1	23.0				
Insurance technical reserves	9.0	9.3	21.5	34.2	39.6	1,601.1				
Remaining net assets	0.5	8.8	-1.3	11.1	22.7	73.1				
Financing										
Loans	37.0	30.6	26.4	21.1	22.3	1,161.9				
Revaluation of financial assets										
Shares and other equity	-73.5	78.2	87.6	58.8	75.2					
Insurance technical reserves	-12.4	20. I	24.6	16.4	23.5					
Other flows	6.0	13.2	11.7	6.2	4.8					
Change in net financial worth	-28.6	164.8	186.1	157.6	188.0					

Investment flows





Source: Banque de France.

Table 20

Investment and financing – Non-financial corporations – Euro area

(EUR billions)

	Cumu	lated trans	action flow		artors	Outstanding
	Cumu	liateu traiis	action now	s over 4 qu	arters	amounts
		2012		20	2013	
	Q2	Q3	Q4	QI	Q2	June
Financial assets						
Currency and deposits	71.1	51.6	86.7	65.2	74.7	2,035.5
of which deposits included in M3 ^{a)}	10.5	32.8	72.2	79.0	81.4	1,649.0
Debt securities	0.2	-5.4	-10.6	-30.7	-34.8	300.9
Loans	123.7	116.8	66.2	34.3	-15.8	3,059.8
Shares and other equity	169.9	161.7	102.1	147.1	88.4	8,174.8
Insurance technical reserves	5.5	4.1	4.1	4.2	3.7	182.6
Remaining net assets	-77.3	-29.0	1.7	13.6	80.7	101.6
Financing						
Debt	169.2	177.8	116.9	89.8	33.6	9,765.8
Loans	70.8	63.9	-7.0	-19.9	-62.4	8,346.6
of which from euro area MFIs	-30.2	-71.6	-107.9	-113.6	-153.3	4,454.4
Debt securities	93.4	108.8	119.4	105.3	91.8	1,068.2
Pension fund reserves	5.1	5.1	4.5	4.4	4. I	351.0
Shares and other equity	210.8	170.1	169.6	143.3	132.8	13,659.4
Quoted shares	15.3	15.7	26.5	10.8	20.9	3,853.8
Unquoted shares and other equity	195.5	154.4	143.1	132.5	111.9	9,805.6
Net lending/net borrowing (B9B)	-86.9	-48.0	-36.3	0.7	30.4	



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.

Investment and financing – Non-financial corporations – France

(EUR billions)

	Cumu	Cumulated transaction flows over 4 quarters									
		2012		20	2013						
	Q2	Q3	Q4	QI	Q2	June					
Financial assets											
Currency and deposits	39.4	40.8	56.0	51.7	51.4	451.7					
Debt securities	-1.2	-10.0	-1.3	-17.4	-13.8	55.0					
Loans	12.4	6.4	-1.0	6.4	1.6	728.9					
Shares and other equity	51.8	50.5	68.9	75.I	56.5	2,873.2					
Insurance technical reserves	0.8	0.8	0.6	0.9	0.4	54.2					
Remaining net assets	-31.6	-2.1	-26.0	-29.0	-11.1	-40.7					
Financing											
Debt	96.0	79.6	53.0	41.6	8.3	2,127.3					
Loans	40.5	25.6	-0.6	0.3	-15.8	1,622.5					
Debt securities	55.5	54.0	53.6	41.3	24.1	504.8					
Shares and other equity	87.8	84.I	87.9	72.8	72.7	4,451.9					
Quoted shares	7.0	6.7	10.4	9.4	11.6	1,170.1					
Unquoted shares and other equity	80.8	77.4	77.5	63.4	61.1	3,281.8					
Net lending/net borrowing (B9B)	-112.3	-77.4	-43.7	-26.6	3.9						







Table 22

Interest rates on bank deposits – France and the euro area

(average monthly rates - %)

	2011	2012	2012			2013		
	Dec.	Dec.	Sept.	May	June	July	Aug.	Sept.
Euro area								
Overnight deposits – households	0.54	0.39	0.42	0.33	0.32	0.31	0.30	0.30
Deposits redeemable at notice up to 3 months – households	1.79	1.59	1.65	1.31	1.30	1.28	1.15	1.15
Time deposits with agreed maturity over 2 years –								
non-financial corporations	2.90	2.16	2.53	1.98	1.77	1.78	1.85	1.87
France								
"A" passbooks (end of period)	2.25	2.25	2.25	1.75	1.75	1.75	1.25	1.25
Regulated savings deposits	2.25	2.25	2.25	1.77	1.77	1.77	1.27	1.27
Market rate savings deposits	2.07	1.82	1.90	1.51	1.52	I.48	1.31	1.30
Deposits with agreed maturity up to 2 years	2.47	2.26	2.33	2.17	2.13	2.11	2.08	2.07
Deposits with agreed maturity over 2 years	3.12	3.01	3.12	2.96	2.99	2.95	2.94	2.98





Sources: Banque de France, European Central Bank.

Interest rates on bank loans – France and the euro area

(average monthly rate - %)

		2012		2013								
	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.
Euro area												
Consumer loans												
Floating rate and IRFP of up to 1 year ^{a)}	5.62	5.62	5.36	5.77	5.89	5.86	5.74	6.00	5.85	5.63	5.62	5.79
Loans for house purchase												
Floating rate and IRFP of between												
I and 5 years	3.24	3.18	3.25	3.17	3.17	3.19	3.13	3.09	2.99	2.97	3.01	3.05
Non financial corporations												
of over EUR I million												
IRFP of up to I year ^{a)}	2.22	2.18	2.28	2.20	2.12	2.12	2.21	2.17	2.16	2.23	2.10	2.15
France												
Consumer loans	6.12	6.14	6.07	6.17	6.08	6.08	5.99	5.92	5.85	5.75	5.76	5.76
Loans for house purchase												
IRFP of up to I year ^{a)}	3.16	3.01	2.95	2.97	2.97	2.87	2.72	2.81	2.63	2.64	2.65	2.74
IRFP of over 1 year ^{a)}	3.59	3.51	3.45	3.37	3.36	3.32	3.28	3.23	3.17	3.13	3.13	3.14
Non-financial corporations												
IRFP of up to 1 year ^{a)}	1.83	1.83	1.92	1.82	1.85	1.86	1.85	1.82	1.77	1.89	1.77	1.82
IRFP of over 1 year ^{a)}	3.43	3.41	3.23	3.25	3.21	3.26	3.21	3.18	3.11	2.94	3.05	3.06



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

(%)

			20	13				
Usury ceiling with effect from the 1st day of the refere	ence period	Jan.	April	July	Oct.			
Loans to households under Articles L312-1 to L312-36 of the fre	nch Consum	er Code (hou	ising loans)					
Fixed-rate loans		5.72	5.43	5.23	5.03			
Floating-rate loans		5.37	5.01	4.68	4.45			
Bridge loans		5.79	5.55	5.44	5.29			
Loans to households not within the scope of Articles L312-1 to L312-36 of the French Consumer Code (consume								
Loans up to EUR 3,000		20.29	20.29	20.09	20.23			
Loans comprised between EUR 3,000 and EUR 6,000		16.25	16.25	15.77	15.17			
Loans over EUR 6,000		11.48	11.48	11.05	10.52			
	i							
	20	12		2013				
	July	Oct.	Jan.	April	July			
Loans to enterprises								
Discount								
up to EUR 15,245	3.29	2.70	2.57	2.75	2.69			
EUR 15,245 to EUR 45,735	3.32	3.12	2.77	2.98	3.23			
EUR 45,735 to EUR 76,225	3.10	3.07	2.90	3.26	3.04			
EUR 76,225 to EUR 304,898	2.26	2.14	2.33	2.27	2.15			
EUR 304,898 to EUR 1,524,490	1.53	1.20	1.44	1.60	1.42			
over EUR 1,524,490	0.75	0.76	1.05	0.90	0.85			
Overdrafts								
up to EUR 15,245	9.76	9.73	9.79	9.84	9.92			
EUR 15,245 to EUR 45,735	6.48	6.26	6.01	6.39	6.19			
EUR 45,735 to EUR 76,225	5.12	4.93	4.43	4.50	4.55			
EUR 76,225 to EUR 304,898	3.18	2.97	2.74	3.40	3.69			
EUR 304,898 to EUR 1,524,490	2.17	1.89	1.82	1.95	1.83			
over EUR 1,524,490	1.58	1.34	1.19	1.24	1.15			
Other short-term loans	2 70	2.74	2.40	2.57	2.42			
up to EUR 15,245	3.70	3.76	3.40	3.57	3.43			
EUR 15,245 to EUR 45,735	3.37	3.30	3.05	3.09	3.15			
EUR 45,735 to EUR 76,225	2.88	2.68	2.75	2.57	2.61			
EUR 70,223 to EUR 304,070	2.47	2.07	2.13	2.17	2.22			
over FLIR 524 490	1.70	1.00	1.07	1.01	1.74			
Medium and long term loons	1.75	1.57	1.70	1.7 1	1.00			
to FLIR 15.245	401	3 6 3	3 5 1	3 23	3 20			
FUR 15 245 to FUR 45 735	۲0.ד ۲۵ ۲	3.05 2.24	2 2	5.25 2.97	2.20			
EUR 45 735 to EUR 76 225	3.02 3 52	3.3-T 3 3 1	3.13	2.77	2.07			
FUR 76.225 to FUR 304.898	3.50	3.31	3.00	3 07	2.00			
FUR 304.898 to FUR 1.524.490	3.44	3.26	2,99	2.86	2.72			
over EUR 1.524.490	2.83	2.64	2.55	2.49	2.38			

Table 25 Interest ra

(%)

					Monthly a	verage ^{a)}					Кеу
					20	13					interest
	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	rates at
Short-term interbank	interest	rates									18/11/13
Euro											0.25
Overnight	0.02	0.01	0.03	0.06	0.08	0.07	0.07	0.06	0.07	0.09	
3-month	0.15	0.15	0.15	0.15	0.14	0.15	0.16	0.16	0.15	0.18	
l-year	0.51	0.54	0.50	0.51	0.48	0.46	0.43	0.48	0.46	0.51	
Pound sterling											0.50
Overnight	0.45	0.46	0.47	0.48	0.48	0.47	0.47	0.47	0.45	0.45	
3-month	0.59	0.60	0.59	0.59	0.58	0.58	0.57	0.57	0.56	0.54	
l-year	0.92	0.89	0.90	0.90	0.88	0.87	0.88	0.87	0.89	0.86	
Dollar											0.25
Overnight	0.14	0.15	0.17	0.18	0.18	0.17	0.16	0.15	0.14	0.15	
3-month	0.39	0.41	0.42	0.40	0.39	0.34	0.32	0.31	0.29	0.26	
l-year	0.87	0.76	0.87	0.81	0.82	0.68	0.69	0.68	0.64	0.58	
Yen											0.10
Overnight	0.09	0.09	0.09	0.10	0.10	0.09	0.08	0.08	0.08	0.07	
3-month	0.17	0.16	0.16	0.16	0.16	0.15	0.16	0.15	0.15	0.15	
l-year	0.45	0.38	0.38	0.38	0.40	0.33	0.34	0.34	0.33	0.33	
10-year benchmark g	overnmer	nt bond yi	elds ^{b)}								
France	2.17	2.24	2.07	1.80	1.87	2.21	2.25	2.36	2.49	2.39	
Germany	1.57	1.60	1.41	1.25	1.37	1.62	1.62	1.80	1.93	1.81	
Euro area	2.40	2.86	3.03	2.86	2.69	3.07	3.10	3.10	3.41	3.16	
United Kingdom	2.05	2.11	1.90	1.71	1.87	2.21	2.36	2.62	2.89	2.69	
United States	1.89	1.98	1.96	1.73	1.93	2.29	2.57	2.75	2.83	2.62	
Japan	0.78	0.75	0.61	0.58	0.78	0.85	0.83	0.76	0.72	0.63	



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.

Sources: Banque de France, European Central Bank.

Financial markets and interest rates

Table 26

Banking system liquidity and refinancing operations – Euro area

(EUR billions, daily average for the reserve maintenance period from 11 September to 8 October 2013)

	Liquidity providing	Liquidity absorbing	Net contribution					
Contribution to banking system liquidity								
(a) Eurosystem monetary policy operations	1,038.5	270.9	767.6					
Main refinancing operations	97.5		97.5					
Longer-term refinancing operations	692.3		692.3					
Standing facilities	0.5	79.2	-78.8					
Other	248.2	191.7	56.5					
(b) Other factors affecting banking system liquidity	531.8	1,035.0	-503.I					
Banknotes in circulation		920.4	-920.4					
Government deposits with the Eurosystem		72.6	-72.6					
Net foreign assets (including gold)	531.8		531.8					
Other factors (net)		41.9	-41.9					
(c) Reserves maintained by credit institutions (a) + (b)			264.5					
including reserve requirements			103.8					

Net contribution to banking system liquidit

(EUR billions, daily average for the reserve maintenance period from 11 September to 8 October 2013) Eurosystem monetary policy operations Other factors affecting banking system liquidity 1,000 liquidity providing 800 600 400 200 0 -200 -400 -600 -800 liquidity -1,000 absorbing -1,200 Main refinancing operations Banknotes in circulation Longer-term refinancing operations Government deposits with the Eurosystem Standing facilities Net foreign assets (including gold) CX Other operations Other factors (net) KXX

Sources: Banque de France, European Central Bank.

Eurosystem key rates; minimum reserves

(%)

Key rates for the Eurosystem (latest changes)

Ma	ain refinancing o	perations	Standing facilities					
Date of Eived vote		Dat	e of	Denesit	Marginal			
decision	settlement	Fixed rate	decision	settlement	Deposit	lending		
05/07/2012	11/07/2012	0.75	05/07/2012	11/07/2012	0.00	1.50		
02/05/2013	08/05/2013	0.50	02/05/2013	08/05/2013	0.00	1.00		
07/11/2013	13/11/2013	0.25	07/11/2013	13/11/2013	0.00	0.75		

(%)

Main refi	nancing operation	ns	Longer-term refinancing operations			
		Marginal rate	Weighted average rate		Marginal rate	
2013	9 October ^{a)}	0.50	0.50	2013 7 August	0.50	
	16 October	0.50	0.50	29 August	0.50	
	23 October	0.50	0.50	II September	0.50	
	30 October	0.50	0.50	9 October	0.50	
	6 November	0.50	0.50	31 October	0.50	
	13 November	0.25	0.25	13 November	0.25	

(EUR billions - rates as a %)

Minimum reserves (daily averages)

Reserve maintenance period ending on Eur		Required	reserves	Current	accounts	Excess r	Interest rate			
		Euro area	France	Euro area	France	Euro area	France	on minimum reserves		
2013	7 May	104.90	19.60	322.20	43.20	217.30	23.60	0.75		
	II June	105.30	19.80	300.30	39.50	195.00	19.70	0.50		
	9 July	105.10	19.90	286.50	39.00	181.40	19.10	0.50		
	6 August	104.50	19.70	269.60	36.50	165.10	16.80	0.50		
	10 September	104.90	19.70	274.50	44.50	169.60	24.80	0.50		
	8 October	103.80	19.90	268.40	42.80	164.70	22.90	0.50		





a) Fixed rate tender procedure.

Sources: European Central Bank, ESCB.

Negotiable debt securities – France

Certificates of deposit								
	EUR bi	llions ^{a)}	Number					
	Issues	Stocks	of issuers					
17/08/13 to 23/08/13	45.95	300.66	149					
24/08/13 to 30/08/13	57.17	286.04	148					
31/08/13 to 06/09/13	54.05	282.22	149					
07/09/13 to 13/09/13	35.28	279.18	147					
14/09/13 to 20/09/13	40.11	277.41	146					
21/09/13 to 27/09/13	34.79	273.39	147					
28/09/13 to 04/10/13	44.72	271.45	149					
05/10/13 to 11/10/13	42.31	269.19	149					
12/10/13 to 18/10/13	37.91	270.46	147					
19/10/13 to 25/10/13	36.95	271.88	148					
26/10/13 to 01/11/13	35.03	271.48	147					
02/11/13 to 08/11/13	46.20	267.02	149					
09/11/13 to 15/11/13	36.86	271.53	150					

Commercial paper

	EUR bi	llions ^{a)}	Number
	Issues	Stocks	of issuers
17/08/13 to 23/08/13	4.54	57.12	93
24/08/13 to 30/08/13	5.39	57.53	94
31/08/13 to 06/09/13	6.15	55.55	94
07/09/13 to 13/09/13	8.70	56.35	95
14/09/13 to 20/09/13	7.63	55.47	92
21/09/13 to 27/09/13	9.32	53.58	93
28/09/13 to 04/10/13	7.70	52.07	93
05/10/13 to 11/10/13	6.05	51.08	97
12/10/13 to 18/10/13	7.68	50.40	99
19/10/13 to 25/10/13	6.62	49.94	95
26/10/13 to 01/11/13	5.78	50.84	96
02/11/13 to 08/11/13	7.72	52.33	97
09/11/13 to 15/11/13	5.98	51.93	98

Negotiable medium-term notes

U U			
	EUR bi	llions ^{a)}	Number
	Issues	Stocks	of issuers
17/08/13 to 23/08/13	0.04	75.28	117
24/08/13 to 30/08/13	0.74	75.99	117
31/08/13 to 06/09/13	0.15	76.08	117
07/09/13 to 13/09/13	0.08	75.70	117
14/09/13 to 20/09/13	0.06	74.92	116
21/09/13 to 27/09/13	0.45	75.30	116
28/09/13 to 04/10/13	0.51	75.70	115
05/10/13 to 11/10/13	0.06	75.72	114
12/10/13 to 18/10/13	0.19	75.84	115
19/10/13 to 25/10/13	0.80	75.85	114
26/10/13 to 01/11/13	0.69	76.34	114
02/11/13 to 08/11/13	0.47	76.75	114
09/11/13 to 15/11/13	0.08	76.75	114



Commercial paper



Negotiable medium-term notes



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

Source: Banque de France.

Table 29 Negotiable debt securities – France **Certificates of deposit** (daily outstanding amounts in EUR billions) 460 420 380 340 300 260 30/11/08 30/05/09 30/11/09 30/05/10 30/11/10 30/05/11 30/11/11 30/05/12 30/11/12 30/05/13 30/11/13 Commercial paper (daily outstanding amounts in EUR billions) 110 90 70 **NN** 50 30 30/11/08 30/05/09 30/11/09 30/05/10 30/11/10 30/05/11 30/11/11 30/05/12 30/11/12 30/05/13 30/11/13 (daily outstanding amounts in EUR billions) 80 75 70 65 60 30/11/08 30/05/09 30/11/09 30/05/10 30/11/10 30/05/11 30/11/11 30/05/12 30/11/12 30/05/13 30/11/13 (daily outstanding amounts in EUR billions) 600 550 500 450 400 350 30/11/08 30/05/09 30/11/09 30/05/10 30/11/10 30/05/11 30/11/11 30/05/12 30/11/12 30/05/13 30/11/13

Source: Banque de France.

Financial markets and interest rates

Table 30

Mutual fund shares/units – France

(EUR billions)

	2012	20	13	2013
	Dec.	March	Sept.	
Net assets of mutual fund shares/units by category				
Money-market funds	365.76	373.17	335.85	329.53
Bond mutual funds	212.83	205.63	204.37	
Equity mutual funds	234.76	247.20	240.86	
Mixed funds	256.41	260.52	257.99	
Funds of alternative funds	14.24	13.94	13.28	
Guaranteed-performance mutual funds	0.00	0.00	0.00	
Structured funds ("fonds à formule")	47.83	49.36	46.25	





Debt securities and quoted shares issued by French residents

(EUR billions)

	Outstanding	g amounts ^{a)}	Net issues ^{b)}					
	2012	2013	l2-month		2013			
	Sept. ^{c)}	Sept. ^{c)}	total	July ^{c)}	Aug. ^{c)}	Sept. ^{c)}		
Debt securities issued by French residents								
Total	3,347.1	3,354.6	7.6	3.1	5.4	4.5		
Non-financial corporations	475.2	503.7	28.5	5.8	2.6	1.8		
Short-term (≤ I year)	40.6	41.2	0.5	3.1	0.5	-0.9		
Long-term (> 1 year)	434.6	462.5	27.9	2.8	2.1	2.8		
General government	1,556.2	1,608.5	52.3	-2.2	11.8	6.0		
Short-term (≤ 1 year)	214.4	208.4	-6.0	2.5	4.5	-2.8		
Long-term (> 1 year)	1,341.8	1,400.1	58.3	-4.7	7.4	8.9		
Monetary financial institutions ^{d)}	1,177.7	1,103.4	-74.3	0.5	-8.4	-4.2		
Short-term (≤ I year)	343.1	256.8	-86.4	-2.1	-11.4	-5.7		
Long-term (> I year) ^{d)}	834.6	846.6	12.0	2.6	3.0	1.5		
Non-monetary financial institutions ^{e)}	138.0	39.	1.2	-1.1	-0.7	0.8		

(EUR billions)

	Outstandin	g amounts ^{f)}	I	Net issues ^{b)}	Gross issues ^{g)}	Repurchases ^{g)}		
	2012	2013	I2-month	2013		12-month	I2-month	
	Sept.	Sept.	total	Aug.	Sept.	total	total	
French quoted shares								
Total	1,183.7	1,489.2	12.6	0.7	0.4	17.3	4.7	
Non-financial corporations	1,048.2	1,293.4	11.7	0.6	0.4	15.8	4.2	
Monetary financial institutions	91.7	132.1	0.1	0.1	-0.1	0.7	0.5	
Non-monetary financial institutions	43.8	63.7	0.8	0.0	0.1	0.8	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.

a) 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.

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









Source: Banque de France.

Company failures by economic sector – France

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

	2012					2013							
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.
Agriculture, forestry and fishing (AZ)	1,205	1,224	1,231	1,232	1,253	1,250	1,224	1,226	1,222	1,248	1,253	1,262	1,266
Industry (BE)	4,526	4,611	4,606	4,671	4,620	4,599	4,620	4,648	4,687	4,679	4,745	4,757	4,766
Construction (FZ)	15,224	15,469	15,453	15,716	15,630	15,680	15,674	15,866	15,886	15,853	15,917	15,869	15,959
Trade and automotive repair (G)	13,330	13,512	I 3,560	13,673	13,685	13,667	13,666	13,784	3,85	3,93	14,014	13,965	14,088
Transportation and storage (H)	1,955	2,012	1,999	2,016	1,995	1,965	1,958	1,941	1,941	1,926	1,916	1,917	1,941
Accomodation and restaurant services (I)	6,942	7,097	7,111	7,221	7,266	7,256	7,296	7,401	7,446	7,471	7,511	7,495	7,586
Information and communication sector (JZ)	1,564	1,579	1,573	1,561	1,537	1,511	1,497	1,522	1,519	1,520	1,568	1,557	1,539
Financial and insurance activities (KZ)	1,161	1,168	1,160	1,163	1,132	1,112	1,130	1,131	1,112	1,106	1,129	1,124	1,127
Real estate activities (LZ)	1,998	2,048	2,059	2,092	2,115	2,147	2,154	2,190	2,194	2,198	2,181	2,194	2,187
Business support activities (MN)	6,378	6,494	6,521	6,585	6,555	6,535	6,478	6,615	6,603	6,652	6,704	6,688	6,693
Education, human health,													
social work and household services (P to S)	5,076	5,122	5,172	5,199	5,216	5,169	5,092	5,141	5,138	5,200	5,271	5,280	5,273
Sector unknown	94	99	103	105	100	93	93	90	98	99	100	98	97
Total sectors	59,453	60,435	60,548	61,234	61,104	60,984	60,882	61,555	61,697	61,883	62,309	62,206	62,522

Company failures – 12-month total



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.

Source: Banque de France.

Retail payment systems – France

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

	2009	2010	2011	2012	2013			2013
					Aug.	Sept.	Oct.	Share
Cheques	5,700	5,590	5,478	4,947	3,047	3,691	4,131	19.5
Credit transfers	8,473	8,865	9,646	10,167	9,264	10,836	10,469	49.4
of which SEPA credit transfers	95	683	2,555	4,130	5,129	6,190	6,292	29.7
Promissory notes	1,250	1,138	1,142	1,079	982	968	795	3.8
Direct debits	1,801	1,827	1,938	2,004	1,762	2,008	2,246	10.6
Interbank payment orders	143	133	130	131	51	212	296	1.4
Electronic payment orders	1,082	1,141	1,343	1,491	1,288	2,075	1,987	9.4
Card payments	957	1,009	1,085	1,152	1,133	1,185	1,113	5.3
ATM withdrawals	143	140	145	146	156	147	138	0.7
Total	19,550	19,844	20,907	21,116	17,683	21,122	21,176	100.0

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

	2009	2010	2011	2012	2013			2013
					Aug.	Sept.	Oct.	Share
Cheques	10,206	9,507	9,112	8,588	6,242	7,534	8,327	15.9
Credit transfers	7,500	7,356	7,549	7,593	6,533	7,796	7,550	14.4
of which SEPA credit transfers	39	270	I,400	2,154	3,256	4,168	4,371	8.3
Promissory notes	332	311	303	291	278	258	244	0.5
Direct debits	8,165	8,194	8,502	8,680	8,187	8,360	8,918	17.0
Interbank payment orders	394	364	342	320	199	330	485	0.9
Electronic payment orders	56	66	76	101	65	111	220	0.4
Card payments	20,420	21,505	22,969	24,489	24,756	25,882	24,389	46.5
ATM withdrawals	2,456	2,375	2,422	2,407	2,396	2,443	2,284	4.4
Total	49,530	49,677	51,275	52,469	48,656	52,713	52,416	100.0





Market share developments



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

Sources: GSIT, STET.

Large-value payment systems – EU

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

	2009	2010	2011	2012	2013			2013
					July	Aug.	Sept.	Share
France	367	365	398	431	362	306	353	18.8
Germany	669	829	818	764	576	529	593	31.6
Austria	28	27	27	25	20	20	22	1.2
Belgium	106	95	106	104	84	78	82	4.4
Cyprus	2	2	2	3	L	L	0	0.0
Spain	356	342	367	345	251	214	222	11.8
Estonia	-	-	I	1	L	L	L	0.0
Finland	28	35	47	85	38	32	37	2.0
Greece	29	28	23	20	33	28	30	1.6
Ireland	30	30	21	17	15	13	15	0.8
Italy	126	129	129	128	141	123	138	7.4
Luxembourg	40	40	57	70	69	60	59	3.1
Malta	0	0	0	1	0	0	0	0.0
Netherlands ^{a)}	287	300	308	412	272	249	260	13.9
Portugal	17	20	22	14	10	9	12	0.6
Slovakia	3	3	3	3	2	2	2	0.1
Slovenia	2	2	2	3	2	2	2	0.1
EPM-ECB	47	37	36	35	28	25	28	1.5
Total TARGET2 euro area ^{b)}	2,137	2,283	2,368	2,462	I,906	1,693	1,858	99.I
Non-euro area	16	16	15	15	16	17	18	0.9
Total TARGET2 EU ^{b)}	2,153	2,299	2,383	2,477	1,922	1,709	1,875	100.0
Eurol ^{c)}	255	241	249	226	184	163	183	

Market share of each financial centre in the TARGET2 system



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.

Large-value payment systems – EU

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

	2009	2010	2011	2012	2013		2013	
					July	Aug.	Sept.	Share
France	29,761	31,850	34,141	33,830	37,269	28,858	34,001	9.6
Germany	174,602	173,218	172,884	175,611	178,430	165,463	175,690	49.8
Austria	6,539	5,266	6,294	6,711	4,741	4,233	4,884	1.4
Belgium	8,517	9,454	10,265	9,955	9,325	8,640	9,232	2.6
Cyprus	389	466	515	613	1,038	876	986	0.3
Spain	29,580	29,195	29,509	29,760	30,170	24,043	27,958	7.9
Estonia	-	-	329	360	452	431	437	0.1
Finland	I,652	1,589	1,571	1,611	1,532	I,487	1,661	0.5
Greece	5,692	5,904	5,861	4,335	5,082	4,179	4,749	1.3
Ireland	4,824	4,961	4,376	4,012	3,538	3,294	3,496	1.0
Italy	33,824	33,649	33,643	34,837	40,490	32,184	38,997	11.1
Luxembourg	2,847	3,033	3,229	3,509	4,422	3,723	4,204	1.2
Malta	59	65	72	157	248	211	254	0.1
Netherlands ^{a)}	36,930	33,304	32,490	33,144	30,948	27,926	30,090	8.5
Portugal	4,190	4,206	4,165	4,166	4,236	3,989	4,135	1.2
Slovakia	606	582	730	1,090	1,254	1,114	1,213	0.3
Slovenia	3,073	3,023	3,039	2,786	2,706	2,522	2,754	0.8
EPM-ECB	312	333	379	553	564	551	555	0.2
Total TARGET2 euro area ^{b)}	343,396	340,099	343,490	347,040	356,448	313,724	345,295	97.9
Non-euro area	2,376	3,281	5,015	7,145	7,482	6,812	7,336	2.1
Total TARGET2 EU ^{b)}	345,772	343,380	348,505	354,185	363,930	320,536	352,631	100.0
Euro l ^{c)}	227,674	230,124	242,499	260,135	255,690	223,293	244,120	





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.

Large-value payment systems – France

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

	2009	2010	2011	2012	2013		2013	
					Aug.	Sept.	Oct.	Share
Collateral used in domestic TARGET ^{b)}								
French negotiable securities	114.6	105.7	81.6	127.3	132.2	132.8	117.0	33.2
Private claims	129.0	149.8	146.4	188.7	176.0	174.6	169.8	48.2
Securities collateralised through CCBM	79.9	76.9	60.5	53.9	62.6	62.1	61.8	17.5
Other securities ^{c)}	7.9	5.9	3.5	2.7	4.1	3.9	3.9	1.1
Total	331.3	338.3	292.0	372.6	374.9	373.4	352.5	100.0



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.

... Securities collateralised through CCBM

_____ Other securities c)

Source: Banque de France.

Produced 20 November 2013

48%
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Published by

Banque de France 39 rue Croix des Petits-Champs 75001 Paris

Managing Editor Nathalie Aufauvre

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Statistics DIRCOM – SPE

Orders

Banque de France 07-1397 Service de la Documentation et des Relations avec le public 75049 Paris Cedex 01 Tel.: 01 42 92 39 08 Fax: 01 42 92 39 40

Imprint

Banque de France

Registration of copyright November 2013

Internet

http://www.banque-france.fr/en/publications/banquede-france-bulletins/quarterly-selection-of-articles.html

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