To
The President of the Republic
And Parliament

By Governor Christian Noyer
This Annual Report is illustrated with men and women working at the Banque de France.

These photos were taken by Pascal Assailly and Jean Derennes.

The photos of the Governors, the General Council and the members of the Executive Committee were taken by Marthe Lemelle.
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First part

Report on monetary policy and financial stability
Monetary policy, measures to promote financial stability

Soazic R.
Supervision of credit institutions
The euro area embarked on an economic recovery in 2013, although growth rates remained weak, with wide variations between member countries, underlining the need for bold structural reform. The risk of sovereign debt fragmentation lessened over the year as governments pursued fiscal consolidation efforts. Inflation slowed compared with the previous year, notably owing to external factors, including a smaller increase in commodity prices and euro appreciation, which lowered the cost of imported goods. The international environment featured an upturn among the euro area’s main economic partners, but also major financial turbulence, which hit emerging markets hardest. Work done within the G20 and other international policy fora helped to bolster international coordination of economic policies and cooperation on regulation and financial stability.

The following analyses and commentaries are based on economic data updated at 7 April 2014.

1 | International environment

1.1 Economic activity outside the euro area

Industrialised countries

In the United States, the economic recovery continued in 2013, although the pace eased off compared with the previous year, with real gross domestic product (GDP) expanding by 1.9%, after 2.8% in 2012. Growth was flat in the first half of the year owing to tax and fiscal measures taken on 1 January 2013 to avert the fiscal cliff by postponing automatic cuts to 1 March (sequester). Budget cuts and tax increases affected government consumption as well as private consumer spending, both directly and indirectly. Even so, private consumption held up, supported by positive wealth effects generated by higher equity and property prices. Economic activity accelerated in the second half of the year, especially in the third quarter, but some of the vigour was taken out in the fourth quarter by the partial federal government shutdown, following a new budget impasse, and the debates on the debt ceiling.

The labour market continued to recover, with more than two million jobs created in 2013. The unemployment rate fell by 1.2 point between January and December 2013, reaching 6.7% at end-2013, but this was connected with an ongoing decline in the participation rate. The property market continued its upturn in 2013, as sales rose in the existing and new homes segments. In the second half, the recovery was hindered by the increase in mortgage rates from the mid-point of the year. However, property prices, measured by the S&P Case Shiller Composite 20 index, continued to climb, rising by 12% over the year, after growing by around 1% in 2012.

The consumer price index rose by 1.5% on an annual average in 2013, after 2.1% in 2012, notably reflecting the impact of more moderate energy prices, with many advanced countries displaying a common disinflationary trend. Core inflation fell to 1.8% in 2013, after 2.1% in 2012.

The deficit on trade in goods and services narrowed to USD 475 billion in 2013 (2.8% of GDP) compared with approximately USD 535 billion in 2012 (3.3% of GDP).

In late 2013, the US Federal Reserve began to phase out the exceptional monetary policy measures in place since 2008 to support the economic recovery. The publication in late May of the minutes of the Federal Open Market Committee (FOMC) meeting on 30 April and 1 May revealed for the first time the possibility that the Fed might start tapering its quantitative easing (QE) programme of asset purchases. In September, when most analysts were expecting a big announcement, the FOMC opted to stand pat on its QE programme, preferring to wait for more signs of economic progress, while emphasising that increased mortgage rates and budget cuts were putting a drag on economic activity. Finally, in December, the Fed trimmed the level of its overall monthly purchases, indicating that it would buy USD 40 billion of Treasuries (compared with USD 45 billion previously) and USD 35 billion of mortgage-backed securities (down from USD 40 billion). In parallel, it strengthened its forward guidance, saying that official rates would be held low “well past” the time when unemployment declined below 6.5% and putting more emphasis on inflation. As at end-2013, this qualitative
shift had not altered the quantitative thresholds for forward guidance established in December 2012. These decisions were taken by the Board under the chairmanship of Ben Bernanke, who led the US central bank for eight years. In February 2014, he was replaced by Janet Yellen, who had served as vice chair since 2010.

The US federal deficit narrowed sharply during the 2013 fiscal year (FY), which ran from 1 October 2012 to 30 September 2013, falling from 6.7% of GDP in 2012 to 4.1%, its lowest level since FY 2008. According to estimates by the Congressional Budget Office, federal debt held by the public was equivalent to 72.1% of GDP by the end of FY 2013.

The United Kingdom saw a substantial economic recovery in 2013, with GDP growing by 1.7% on average over the year. The pick-up in economic activity, which began in the second quarter, continued in the second half. On the demand side, domestic consumption was the main driver of the upturn, while exports and non-residential investment remained weak. All sectors of the economy made a positive contribution to GDP growth overall. But whereas manufacturing recovered steadily throughout the year, construction was more volatile, featuring a large surge in the second and third quarters, potentially reflecting a housing shortage in the face of sustained demand.

Highlights on the labour market included a brisk increase in employment and hours worked, which climbed back above pre-crisis levels. The surge in employment enabled the unemployment rate to fall swiftly over 2013 (by 0.6 percentage point), especially in the second half. The labour market adjustment continued in 2013 essentially via a decline in real wages.

There was a large increase in the number of transactions on the property market. The pick-up in demand was supported by a pronounced decline in the cost of home loans and an increase in the supply of mortgage credit provided by the banking sector to households. The strong growth was partly fuelled by the introduction of the government’s Help to Buy Scheme for households and the Funding for Lending Scheme to promote bank lending to the private sector (companies and households) through lower refinancing costs for UK financial institutions. Meanwhile, the increase in housing supply failed to keep up with demand, causing a jump in UK property prices.

The consumer price index fell steadily in the second half of 2013 reaching 2% in December on a year-on-year basis, marking the lowest level of inflation since November 2009. This trend was mainly driven by the slowdown in prices for services, energy and food, owing to sterling appreciation and the decline in the Brent price over the year, coupled with weak growth in real wages.

The goods and services deficit narrowed to around GBP 25.8 billion in 2013 (1.6% of GDP) compared with around GBP 33.6 billion in 2012 (2.2% of GDP).

In 2013 the Bank of England (BoE) maintained a highly accommodative monetary policy, keeping the bank rate at 0.5% and holding GBP 375 billion in assets on its balance sheet (essentially gilts). In April 2013, the BoE announced an extension to its Funding For Lending Scheme, expanding the number of eligible financial institutions, extending its duration by a year, to January 2015, and modifying the incentives to lend in favour of SMEs. In August, it adopted a forward guidance policy, saying that it would keep monetary policy unchanged (both in terms of rates and assets on its balance sheet) until the unemployment rate reached 7%, unless price stability and/or the stability of the financial system were compromised. In November, the BoE and the Treasury decided, as regards incentives to lend to households, not to extend the Funding for Lending Scheme in 2014.

The government deficit, according to the Maastricht definition, shrank in 2013 to around 5.8% of GDP, after 6.1% in 2012. Government debt, as defined by Maastricht, stood at 90.6% of GDP in 2013, after 89.1% in 2012.

In Japan in 2013, the government of Shinzo Abe, elected at the end of 2012, implemented the “Abenomics” economic policy, whose chief goal is to combat deflation, with the additional objective of boosting potential growth. The policy has three components, or “arrows”, namely:

- A monetary component, with an inflation target of 2%, to be achieved over two years. For this,
the Bank of Japan (BoJ), whose new Governor, Haruhiko Kuroda, was appointed at the beginning of the year, introduced a quantitative and qualitative monetary easing policy aimed at doubling the money supply in two years. It also stepped up its asset purchase programme, notably making government securities with maturities of up to 40 years eligible for purchase. The goal is to lower the cost of corporate financing, encourage risk-taking via portfolio reallocations and, above all, guide inflationary expectations upwards.

- A budget component intended to provide short-term support for the economy (stimulus plan worth 2.6% of GDP announced in January 2013) and at the same time make medium/long-term debt (which reached 227% of GDP in 2013 according to OECD estimates) more sustainable. The three-point VAT hike scheduled for 1 April 2014 is designed to support the second of these objectives. Meanwhile, to limit the negative impact of the increase on short-term growth, at the end of the year the government announced a stimulus plan for 2014 worth 1% of GDP.

- A structural component, with the introduction of reforms (notably in the labour market, agriculture and health) to boost potential growth. Numerous laws were passed to this end in 2013, in areas ranging from industrial competitiveness to electricity, farmland consolidation and social security reforms. At the same time, Japan made progress in trade negotiations, working on free-trade agreements such as the Trans-Pacific Partnership and agreements between Japan and the European Union (EU), and between Japan and China/South Korea.

The new economic policy had a positive overall impact on the Japanese economy in 2013. GDP rose by 1.5% on average in 2013, after 1.4% in 2012, i.e. well above potential Japanese growth, estimated by the BoJ at around 0.5%. The unemployment rate fell by 0.6 percentage point between December 2012 and December 2013, reaching 3.7% at the end of the year.

In 2013, the Japanese trade deficit widened substantially, owing to the effects of yen depreciation (as imports became more expensive in value terms) and increased domestic demand in Japan (which stimulated imports – particularly of energy – in volume terms), while external demand was weak and continued to depress Japanese exports. The deficit stood at 2.4% of GDP in 2013, compared with 1.5% in 2012.

**Emerging countries**

In 2013, emerging economies showed further signs of the slowdown that began taking shape place in 2012. On average, GDP growth in emerging economies slowed to 4.7% (see Chart 1), sharply down from an average of more than 6% over the previous decade.

Several explanations lie behind the weaker pace of growth. For one thing, the global economic slowdown continued to depress international trade, hindering the pick-up of emerging economies. The stabilisation of commodity and energy prices in 2013, in particular, deprived producer countries of one of the mainstays of growth. This was especially true for Russia and many Latin American and South-East Asian countries. Other economies were more affected by persistent current account imbalances or inflationary risks, which prompted some central banks to tighten monetary policy. In the large emerging economies (see table),

![Chart 1](chart1.png)

**Chart 1**

**GDP growth in emerging economies**

(annual average, %)

Sources: Datastream, International Monetary Fund (IMF).
these less supportive external conditions accentuated persistent structural imbalances that are likely to curb growth over the medium to long run.

**In Brazil**, despite a sharp rebound in the second quarter, growth stood at just 2.3% in 2013. The end of the upswing in commodity prices and the weak global economy played a determining role and exposed structural weaknesses in the Brazilian economy that are curtailing potential growth, namely weak investment (unchanged at 19% of GDP for over five years) and reduced industrial competitiveness linked in particular to substantial wage inflation and an unsupportive business climate. While household consumption remained the main engine of Brazilian growth, its strength primarily benefited imports, contributing to a deterioration in the trade balance.

Similarly, **Russian** growth slowed considerably in 2013, falling to 1.3%, compared with 3.4% the previous year. With industrial production weak and investment contracting, Russia relied heavily on domestic consumption, partly driven by oil and gas resources, which slowed markedly last year.

**In India**, the recovery was smaller than expected in 2013, at 4.4% in 2013. Household consumption and business investment remained fragile. India’s macroeconomic fundamentals rank among the weakest in Asia and the international investment position is one of the country’s main vulnerabilities: Indian consumer prices rose by more than 10% in 2013, India registered sizeable current account and fiscal deficits, equivalent to 4.4% and 8.5% of GDP respectively.

**China** kept an annual growth rate of 7.7% in 2013 despite a slowdown up to the spring of 2013 and heavy strains on the interbank market, notably in June. The rebound in the second half of the year was attributable to a slightly more favourable external environment, with prospects of an improvement in the United States and Europe and an upturn in domestic investment (infrastructure and property), following a mini “stimulus plan”. The difficulties involved in achieving the necessary long-run rebalancing of Chinese domestic demand in favour of private consumption were clearly illustrated in 2013. Moreover, the authorities had to contend with risks linked to the development of the shadow banking system and the continued increase in the country’s total debt. The Chinese authorities announced a vast programme of reforms in November 2013 aimed at promoting more balanced growth through productivity gains and a more efficient allocation of factors of production.

Another highlight in 2013 for emerging markets was the Fed’s announcement in late May 2013 that it was going to start tapering its asset purchase programme, a process that ultimately began in December.
**Box 1**

**Global trade**

Growth in international trade remained weak in 2013, continuing the trend seen since 2011 (see Chart). For the volume of global trade, the annual growth rate amounted to around 2.7% (source: CPB Netherlands Bureau for Economic Policy Analysis). This seems weak, notably when compared against global GDP growth, which was close to 3% in 2013 according to the IMF. In the pre-crisis years, the growth rate of international trade exceeded that of global GDP, coming in at 6.5% compared with 4.0% in 2007 (source: CPB and World Development Indicators). Accordingly, it would appear that the elasticity of trade to demand, as measured by GDP, was lower in 2013. Euro area imports displayed persistent weakness, falling by 0.7% after declining by 3.5% in 2012, while US imports rose by 0.8%, following a 2.8% increase in the previous year. Imports to emerging countries climbed by 6.1%, after 4.5% in 2012 (source: CPB).

Several explanations have been put forward for the slowdown in trade flows and their reduced elasticity relative to global growth.\(^1\) Compositional effects play an important role. During recessions, households and firms scale back and postpone purchases of durable and investment goods. Since the share of these goods is higher in the tradable goods sector than in the non-tradable sector, compositional effects particularly impact the growth rate of international trade.\(^2\) Moreover, many studies have emphasised the high import content of investment. In 2013, investment was weak in most industrialised countries, linked in part to a wait-and-see attitude and uncertainty among consumers and investors, with investment growth in OECD countries estimated at 0.7% (source: OECD). Thus, weak investment may explain some of the slow recovery of international trade. Regional compositional effects also play an important role. Notably, the sluggish recovery in Europe affected the growth rate of international trade both directly (reduced imports from the rest of the world) and indirectly (impact on third countries).

In terms of the relationship between global imbalances and international trade, the asymmetric current account adjustment that is underway is being driven by reduced domestic demand in countries with current account deficits, which is depressing trade flows. A less asymmetric adjustment, which would be partly accompanied by a pick-up in domestic demand in countries with current account surpluses, and hence in their imports, could stimulate international trade once again.

Furthermore, the international framework for trade negotiations has failed to deliver an agreement that would stimulate global trade significantly. Although several agreements to liberalise international trade were signed in 2013 at the ninth World Trade Organization (WTO) ministerial conference in Bali, these represented a minimum consensus that primarily made it possible to resume talks within the WTO, with no short-term impact on the growth of global trade.

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From the spring onwards the expected increase in US interest rates and the volatility of asset prices, combined with weaker activity in emerging countries, were associated with financial turmoil on emerging markets (see Box 2) and with tougher financing conditions for emerging countries on financial markets.
1|2 Capital and commodity markets

Capital markets

In 2013, financial market trends were heavily influenced by announcements from the main central banks (see Part 1|1). In the United States especially, major market movements were set off by the Fed’s announcement in May 2013 that it was planning to taper its asset purchasing programme amid firming macroeconomic conditions. Similarly, measures adopted by the BoJ to boost inflation had a decisive impact on the movement of the yen and Japanese asset prices. In the euro area, yield spreads continued to narrow in 2013, pursuing a process that began in mid-2012 with the announcement of possible sovereign bond purchases on secondary markets via outright monetary transactions (OMT), as a highly accommodative monetary policy was maintained.

Expectations that the pace of the Fed’s asset purchases would gradually slow caused the US yield curve to increase for medium- and long-term maturities. Ten-year yields stood at 3.028% at end-2013 (up from a low of 1.626% in early May). Following US rates, German long yields also climbed higher, with ten-year yields peaking at 2.045% in September, before easing slightly to 1.929% at the end of the year. French ten-year yields displayed a similar pattern and were at 2.558% at end-December, well above the low of 1.662% seen in May and close to September’s high of 2.631%.

UK sovereign yields followed the same upward trend as those in the United States amid a marked improvement in economic fundamentals. Meanwhile, the BoE introduced forward guidance on monetary policy in August 2013 and expanded its Funding for Lending Scheme. Ten-year bond yields stood at 3.022% on 31 December, well above the low of 1.623% reached in May (see Chart 2).

Japanese ten-year yields stood at a historical low of 0.446% in April before heading up to peak at 0.933% on 29 May in the wake of announcements by the BoJ and then easing gradually to 0.741% by the year’s end.

In the euro area, over 2013, yield spreads between peripheral and core countries continued to narrow, pursuing the movement that began after OMTs were announced in September 2012 (see Chart 3). Fiscal consolidation, better-than-forecast economic performances and progress in the Banking Union led to a fall in risk premia. Ireland’s completion of the EU/International Monetary Fund (IMF) assistance programme and the improved outlook for the sovereign ratings of Portugal and Spain illustrated these tangible signs of improvement. Furthermore, bank financing conditions continued to improve in the euro area, characterised by an increase in the proportion of non-covered bond issues and by easier market access for the banks of peripheral countries.
On the currency market, the tapering announcements caused depreciations of varying extents for emerging currencies (see Box 2). Central banks, including those of Turkey, India and Brazil, responded swiftly with rate hikes and currency interventions.

The euro continued the appreciation trend that began in July 2012. The nominal effective exchange rate increased by 4.9% over the year, while the dollar rate appreciated by 2.9% (see Chart 4). By the end of the year, the euro/dollar was at 1.3791. Responding to the combined effect of announcements by the Japanese government and the BoJ, the yen’s nominal effective exchange rate depreciated by approximately 15% between the beginning and end of 2013.

Against a backdrop of modified expectations regarding Fed asset purchases, very low or declining inflation in the main developed countries and slacker demand in certain emerging countries (restrictions on Indian gold imports, for example), gold lost around 28% against the dollar in 2013 – its first fall in ten years. The price of an ounce of gold fluctuated in a range of USD 1,196 to USD 1,695.

Global stock markets gained ground over 2013, as the MSCI World index put on 26.2%. Although Japanese equities were the strongest performers, with the Nikkei climbing 56.7% (see Chart 5), US stock markets were also up sharply (26.4% for the S&P; 23.8% for the Dow Jones) reaching record levels. In Europe, the Eurostoxx gained 17.6%. The main German and French indices rose by 23.9% and 15.1% respectively. Bank stocks outperformed the broad indices increasing approximately 19% over the year in Europe and 32% in the United States.

**Commodity markets**

Recent developments in extraction methods and sustained demand in emerging economies have profoundly changed the global oil market. Over the year, total oil consumption by non-OECD countries almost exceeded that of member countries for the first time. In 2013, Chinese demand accounted for around 35% of growth in global demand while that of OECD member countries accounted for just 10%.

On the supply side, major disruptions affected production in several key OPEC countries. But shale oil exploitation enabled North America to make the largest contribution to growth in hydrocarbon production and thus to the stabilisation of global crude prices in 2013. Because US crude oil imports fell considerably, the quantity of oil available on the global market went up. As a result, the spot price for Brent averaged USD 109 a barrel in 2013, down 3% compared with 2012 (see Chart 6).
In other commodity markets, prices for agricultural products continued trending downwards in 2013. In particular, cereal prices fell in line with expectations of bumper harvests around the world. Non-precious metal prices also weakened owing to uncertainty around Chinese growth, since China is the world’s largest consumer of non-precious metals.

Box 2

Exchange rates in emerging economies following US monetary policy announcements

In an international financial environment characterised by a slowdown in their economies, emerging markets reacted strongly to the announcement that the US Federal Reserve System (Fed) was going to gradually phase out unconventional monetary policy measures, resulting in substantial depreciation for the main emerging currencies.

As soon as the Fed Chairman announced on 22 May that the Federal Open Market Committee might consider reducing the pace of asset purchases, US long rates increased considerably, climbing from 1.6% in early May to around 3% at the beginning of September. The increase was subsequently tempered by the announcement on 18 September 2013 that it would wait before adjusting the pace of its purchases. But these interest rate movements nevertheless had huge repercussions on the financial markets of emerging countries, notably translating into significant capital outflows (see Chart A).

These capital movements were accompanied by depreciation in nominal exchange rates against the dollar. While this pattern affected virtually all currencies, the size of the depreciation varied considerably from one economy to the next (see Chart B). Venezuela and Argentina experienced the steepest declines (32% and 23% respectively against the dollar in 2013), but many other countries were also impacted. The countries hit hardest were clearly those with particularly pronounced fragilities, including external vulnerabilities and a heavy reliance on foreign financing due, among other things, to insufficient reserves (Turkey, South Africa), structural economic weaknesses (Brazil, India, Russia, Indonesia), mounting political and social instability (Turkey), associated...
Monetary policy, measures to promote financial stability

in some cases with hesitant conduct of economic policy. Although the trend spanned all emerging countries, the scale varied from country to country, suggesting that international investors differentiated between emerging countries based on their level of economic vulnerability.

While exchange rate depreciation initially supports domestic exports, another of its effects is to increase imported inflation further out. In 2013, inflation either remained strong or rose in several emerging economies. It increased from 4.3% in 2012 to 7.3% in 2013 in Indonesia, for example, went from 5.4% to 6.2% in Brazil, and held steady at 10.5% in India, after 10.4% in 2012.

Against this background, some of the emerging economies that were showing signs of marked economic and financial vulnerability found themselves facing the challenge of having to restore the confidence of international investors in a volatile environment. In response to bouts of turbulence in the summer of 2013, the authorities of many emerging economies took steps to stabilise their markets and make them more resilient. Accordingly, tighter international financing conditions, capital outflows, currency depreciation and the expected surge in inflation prompted the central banks of various emerging economies, notably Brazil, India and Turkey, to halt the cycle of monetary easing and raise key rates. Some central banks also intervened on the currency market to support their currencies. Finally, to help stabilise financial markets, some countries, such as Brazil and Indonesia, relaxed some restrictions on capital inflows, while others, such as India, sought to cut their current account deficits by imposing import restrictions.

While the conduct of economic policy in emerging economies was made more delicate in 2013 by currency fluctuations, it is important to recall that, overall, emerging countries have successfully strengthened their economic policy frameworks over the last decade and broadly reduced their vulnerability to external financing shocks. To do this, they have introduced more exchange rate flexibility, cut external debt, curbed inflation and built up comfortable currency reserves to strengthen resilience.

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

2|1 Growth stabilised before the recovery

A fragile recovery in 2013 with an encouraging year-end

Euro area growth was negative on average over 2013 as a whole, with GDP contracting by 0.4%. Euro area activity also shrank in 2012, by 0.6%, after increasing by 1.6% in 2011. But 2013 brought the first signs of a recovery, with a return to positive quarterly growth from end-March. Year-on-year, euro area GDP expanded by 0.5% at the end of the year according to statistics published by Eurostat, compared with a decline of 1.2% at the end of the first quarter of 2013. Performances were mixed, however: over 2013 as a whole, Germany, France and the Netherlands contributed positively to euro area growth, Greece and Italy made a negative contribution and the remaining countries made a zero contribution to GDP growth.

Industrial production picked up less strongly than GDP. On average, over 2013 as a whole, industrial production fell by 0.8% in the euro area. However, as with GDP, the year-end brought a return to growth, and industrial production ultimately expanded by 0.5% in the euro area in December 2013 compared with December 2012.
In 2013, total investment and household consumer spending in the euro area fell by 2.8% and 0.5% respectively, after declining by 3.9% and 1.3% respectively over 2012. Consumption (0.3%) and exports (1.3%) grew slightly. At the same time, confidence indicators started heading upwards, with the economic sentiment indicator published by the European Commission based on business and consumer surveys rising again in 2013, after falling steeply since 2011, averaging 93.8, after 90.8 in 2012 and 102.2 in 2011. In December 2013, the indicator actually rose to 100.4, almost returning to its 2011 level.

France outperformed the euro area in 2013, averaging growth of 0.3% after a flat year in 2012. At end-2013, GDP was back to the pre-crisis level of Q1 2008. In terms of the quarterly change, growth was strongest in the second (0.6%) and fourth quarters (0.3%), with the year ending on a strong note (with GDP being stable during the other quarters). In 2013, household consumption increased on an annual average by 0.4%, after contracting by 0.4% in 2012. Investment also rebounded in the final quarter of 2013, rising by 0.6% after falling for seven quarters in a row. That being said, investment fell considerably on average in 2013, contracting by 2.1%, following an average decline of 1.2% in 2012. Exports rose by 1.2% in the fourth quarter of 2013 while imports were up 0.5%. Over the year as a whole, exports grew by 0.6% on average, compared with average growth of 0.8% for imports.

### French GDP and its components

<table>
<thead>
<tr>
<th>Component</th>
<th>2013 Q1</th>
<th>2013 Q2</th>
<th>2013 Q3</th>
<th>2013 Q4</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>0.0</td>
<td>0.6</td>
<td>-0.1</td>
<td>0.3</td>
<td>0.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Imports</td>
<td>-0.1</td>
<td>1.4</td>
<td>0.9</td>
<td>0.7</td>
<td>-0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Household consumption</td>
<td>0.1</td>
<td>0.3</td>
<td>0.0</td>
<td>0.4</td>
<td>-0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>GG consumption a)</td>
<td>0.4</td>
<td>0.7</td>
<td>0.3</td>
<td>0.5</td>
<td>1.4</td>
<td>1.8</td>
</tr>
<tr>
<td>Total GFCF</td>
<td>-0.7</td>
<td>-0.3</td>
<td>-0.3</td>
<td>0.5</td>
<td>-1.2</td>
<td>-2.1</td>
</tr>
<tr>
<td>o/w NFCs b)</td>
<td>-0.9</td>
<td>-0.1</td>
<td>-0.3</td>
<td>0.9</td>
<td>-1.9</td>
<td>-2.3</td>
</tr>
<tr>
<td>o/w households</td>
<td>-1.3</td>
<td>-1.5</td>
<td>-0.7</td>
<td>-0.4</td>
<td>-0.4</td>
<td>-3.8</td>
</tr>
<tr>
<td>o/w GG a)</td>
<td>0.5</td>
<td>1.0</td>
<td>0.4</td>
<td>1.0</td>
<td>-0.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Exports</td>
<td>-0.5</td>
<td>2.3</td>
<td>-1.1</td>
<td>1.3</td>
<td>2.5</td>
<td>0.8</td>
</tr>
</tbody>
</table>

#### Contributions from components

<table>
<thead>
<tr>
<th>Component</th>
<th>2013 Q1</th>
<th>2013 Q2</th>
<th>2013 Q3</th>
<th>2013 Q4</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>External trade</td>
<td>-0.1</td>
<td>0.2</td>
<td>-0.6</td>
<td>0.2</td>
<td>1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Household consumption</td>
<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
<td>0.2</td>
<td>-0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>GG consumption a)</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Total investment</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
<td>0.1</td>
<td>-0.2</td>
<td>-0.4</td>
</tr>
<tr>
<td>NFC b) investment</td>
<td>-0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>-0.2</td>
<td>-0.2</td>
</tr>
<tr>
<td>Household investment</td>
<td>-0.1</td>
<td>-0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>-0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>GG a) investment</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Domestic demand excluding inventory</td>
<td>0.0</td>
<td>0.3</td>
<td>0.0</td>
<td>0.4</td>
<td>-0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Change in inventory</td>
<td>0.1</td>
<td>0.1</td>
<td>0.5</td>
<td>-0.3</td>
<td>-0.8</td>
<td>0.1</td>
</tr>
</tbody>
</table>

a) GG: general government.
b) NFC: non-financial companies.

Source: Insee.
External trade in goods and France’s market shares

After slowing sharply in 2012, France’s external trade in goods contracted in 2013 in value terms.1 Exports fell by 1.3% (after growing by 3.1% in 2012), notably in intermediate goods, machinery and equipment and the automotive sector. In contrast, the sectors in which France specialises held up better, such as pharmaceuticals, the food industry, cereals, aerospace and luxury products. Imports shrank by more than exports, contracting by 2.3% (after 1.2%), which reduced the trade deficit for the second year running, mainly because of the smaller energy bill (7.1% lower). Excluding energy, the decline in imports was on a par with that of exports (1.1%) and concerned intermediate goods (chemicals, basic metals), but also aerospace and pharmaceutical products (which were down for the first time in a decade). France’s trade deficit stood at EUR 61.2 billion in 2013, after EUR 67.3 billion in 2012.2

Overall, France’s export performance, like that of industrialised countries generally, deteriorated, while emerging countries gained. The following table shows that OECD countries lost 1.8% of market share on an annual average between the first quarter of 2006 and the first quarter of 2013, while non-OECD countries gained 3.2%. Among the advanced countries, the period was particularly hard on the market shares of the United Kingdom, which lost 5.8%, France (-4.9%), Spain (-3.6%) and Italy (-3.5%).

In 2013,3 market shares recovered in most euro area countries (0.6% increase for the area as a whole), with the notable exception of France, which lost 0.8%. Since the 2000s, France has been losing market share more swiftly than other large euro area countries4 but this trend became less pronounced after 2007.

Annual average growth in market shares of the main global exporters and growth decomposition (Q1 2006-Q1 2013, %)

<table>
<thead>
<tr>
<th>Market shares 2012-2013</th>
<th>Growth in market share</th>
<th>Structural effects</th>
<th>Export performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Markets</td>
<td>Products</td>
</tr>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>OECD</td>
<td>59.3</td>
<td>-1.8</td>
<td>-0.4</td>
</tr>
<tr>
<td>Euro area</td>
<td>25.8</td>
<td>-3.1</td>
<td>-1.2</td>
</tr>
<tr>
<td>France</td>
<td>3.3</td>
<td>-4.9</td>
<td>-1.3</td>
</tr>
<tr>
<td>Germany</td>
<td>6.4</td>
<td>-3.0</td>
<td>-0.7</td>
</tr>
<tr>
<td>Italy</td>
<td>2.8</td>
<td>-3.5</td>
<td>-0.7</td>
</tr>
<tr>
<td>Spain</td>
<td>1.5</td>
<td>-3.6</td>
<td>-1.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.6</td>
<td>-5.8</td>
<td>-1.5</td>
</tr>
<tr>
<td>United States</td>
<td>8.1</td>
<td>-0.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Japan</td>
<td>4.7</td>
<td>-3.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Non-OECD</td>
<td>40.7</td>
<td>3.2</td>
<td>0.6</td>
</tr>
<tr>
<td>China</td>
<td>10.8</td>
<td>4.1</td>
<td>-1.0</td>
</tr>
<tr>
<td>Russia</td>
<td>2.7</td>
<td>1.0</td>
<td>0.6</td>
</tr>
<tr>
<td>India</td>
<td>1.2</td>
<td>5.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.4</td>
<td>1.2</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Notes: Banque de France calculations using monthly data of the International Trade Center (United Nations & WTO). The first column shows market share over the period from Q2 2012-Q1 2013. Column 2 shows average annual growth in market shares over the 2006-2013 period. The sum of columns 3, 4 and 5 is equal to column 2, while column 5 (value performance) sums columns 6 (price) and 7 (volume).

1 In contrast with the previous table, this Box does not use national accounts statistics but gross data (not deflated by price indices) from the customs authorities of different countries, reported in value terms and covering trade in goods (excluding services). In particular, the first paragraph uses data from General Directorate of Customs and Excise (see Chiffres du commerce extérieur 2013, Ministry of the Economy, Finance and Industry, 7 February 2014).
2 Chiffres du commerce extérieur 2013, General Directorate of Customs and Excise, 7 February 2014.
3 Monthly WTO data covering 2013. In contrast, the statistics in the table use the monthly data of the International Trade Center (ITC, United Nations and WTO), which are bilateral, disaggregated by product and cover all the countries in the world.
4 France’s relative underperformance (30% decline in export market share between 1999 and 2007, according to WTO data on trade in goods) is comparable to that of the other large industrialised countries – the United Kingdom has lost 34%, the United States 33% and Japan 30% – and reflects the natural trend towards loss of export market share to emerging countries, notably China.
Inflation slowed in 2013

Inflation in the euro area declined markedly in 2013: the harmonised index of consumer prices (HICP) increased by only 1.4% on an annual average, after rising 2.5% in 2012. The decline was chiefly attributable to a pronounced cooling in energy prices, which increased by just 0.6% in 2013, after 7.6% in 2012, and to the slowdown in food prices, which climbed by 2.7% after 3.1% in 2012. Core inflation, which excludes energy and food, also slowed but less dramatically, coming out at an annual average of 1.1% in 2013, after 1.5% in 2012. The slowdown affected prices for manufactured goods, which increased by just 0.6%, after 1.2% in 2012.

However, the slower pace also concerned prices for services, which rose by 1.4% after 1.8% in 2012. In particular, prices fell for communications (by 4.2% after a decline of 3.2%) and for medical and paramedical services (by 5.0% after rising 3.8% in the previous year).

France’s HICP increased by 1.0% in 2013 on an annual average, after 2.2% in 2012. Core inflation also eased, rising by 0.7% after 1.5% in 2012. In April 2013, the...
Monetary policy, measures to promote financial stability

In the year to year-on-year change in the HICP excluding energy and food reached its lowest level since October 2000, coming out at 0.5%, before climbing a little in the second part of the year. The slowdown was apparent in most sub-components, including transport (0.5% increase, after 2.8% in 2012), footwear and apparel (1.0% increase, after 2.3%) and household capital goods (1.1%, after 1.8%). In the communication sector, prices continued to fall significantly on average over the year (declining by 9.6%, after 9.0% in 2012), but sub-annual changes show that prices rose slightly from mid-2013 onwards.

This disinflationary environment was partly attributable to the change in the exchange rate of the euro, which appreciated by 3.9% in 2013 against a basket of 20 currencies, after depreciating by 5.3% in 2012. Euro appreciation in 2013 magnified the decline in the prices of imported products, especially commodities. As a result, prices for imported goods in the euro area fell by 2.7% in 2013, after 3.4% in 2012. Meanwhile, the euro price of a barrel of North Sea crude oil (Brent) fell by 5.7% in 2013, after increasing by 9.0% in 2012.

The inflationary slowdown also reflected the small increase in unit labour costs and corporate margins in a setting of weak growth, especially in peripheral euro area countries.

**Box 4**

**Wage developments in France since the crisis**

Despite the downturn on the labour market, average wages have held up well since the beginning of the crisis, notably in real terms. In 2009, as GDP contracted by 3.1%, real wages rose considerably (2%), mainly because inflation slowed by more than nominal wages. Nominal wage growth subsequently resumed at a moderate pace, before declining. Since the second quarter of 2012, as in 2009, muted growth in nominal wages has been more than offset by falling inflation. Thus, in the third quarter of 2013, annual growth in the basic monthly wage (BMW) and the blue collar basic hourly wage (BBH-W)1 exceeded inflation by 0.9 percentage point and 1.0 point respectively.

The real wage increase in France contrasts with patterns seen elsewhere in the euro area. Overall since the first quarter of 2007, real wages paid to French workers have increased by 2.4%, whereas they have fallen substantially in Spain (1.4%) and Italy (6%). The wage increase in France also exceeded that of Germany (0.8%), where unemployment has been falling since the second quarter of 2009. Outside the euro area, the United Kingdom...
saw a significant adjustment to real wages, recording a 4.5% decline, partly due to stronger inflation. The difference in the hourly cost of labour in France compared with its trade partners, which was already elevated,2 widened further.

The faster increase in wages in France is also linked to the French minimum wage scheme, which guarantees that low wages will be adjusted regularly and at least in line with inflation. Adjustments to the minimum wage may impact sector-specific minimum wages and influence company bargaining. On 1 January 2014, the minimum wage was automatically adjusted upwards by 1.1%, without an additional boost, to reflect the 0.6% year-on-year increase in consumer prices excluding tobacco in November 2013.

The tax credit for competitiveness and employment, which was introduced for corporate income tax paid in respect of 2013, began to adjust the trend in the cost of labour.3 The credit is designed to lower the cost of labour by EUR 20 billion over three years and amounts to 4% (6% from 2014) of the gross wage bill, excluding wages that are more than 2.5 times greater than the minimum wage. Approximately 57% of employees, making up 66% of the wage bill, are affected by the reduction.4

3 For its first year of application, the tax credit was calculated based on the 2013 wage bill, but from 2014 onwards, companies will receive it when they pay the outstanding corporate income tax owing for the previous year. Prefinancing options for the tax credit were also introduced in 2013.
4 Report by the Monitoring Committee for the Competitiveness and Employment Tax Credit, October 2013.

2|2 Monetary and financial developments in 2013

Slower growth in euro area monetary assets

After going from 1.6% in 2011 to 3.5% in 2012, the annual growth rate of the euro area M3 broad monetary aggregate gradually fell back to 1.0% in 2013 (see Table). Growth in the French component of euro area M3 slowed from 2.7% in 2011 to 2.4% in 2012 and 0.9% in 2013.

All components of euro area M3 contributed to the slowdown: growth in overnight deposits eased to 5.8% in 2013, down from 7.3% in 2012, the money market deposits included in M2-M1 shrank by 1.7% in 2013 after growing 2.1% in 2012, and marketable instruments included in M3-M2 contracted by 16.2% in 2013, after falling by 6.5% in 2012.

The slowdown in the French component of M3 mainly reflects more muted growth for passbook accounts1 (2.2% in 2013, after 9.4% in 2012) and a steeper decline in the marketable instruments included in M3-M2 (14.7% in 2013, after a fall of 5.6% in 2012), amid weak economic activity and falling short-term interest rates.

Lending to non-financial companies slowed in France and fell in the euro area

In France, the annual growth rate of loans to non-financial companies (NFCs) amounted to 0.2% in 2013, compared with 1.0% in 2012 (see Chart 9). Investment loans slowed (2.0% increase in 2013, after 3.0% in 2012) while cash loans continued to contract (by 4.9% in 2013, after 4.2% in 2012). Lending to NFCs was brisker in France than in the euro area overall, where outstandings declined by 2.9% in 2013, after a 1.3% contraction in 2012.

Large companies, and some mid-sized firms with access to financial markets, stepped up their securities issuance

1 In European statistics, French passbook accounts are included under deposits redeemable at notice of up to three months.
Monetary aggregates, euro area and France
(outstandings in EUR billions; % growth rate; seasonally adjusted data)

<table>
<thead>
<tr>
<th>Monetary aggregates or main monetary assets</th>
<th>Outstandings at end</th>
<th>Annual growth rate</th>
<th>Outstandings at end</th>
<th>Annual growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency in circulation</td>
<td>910</td>
<td>6.1</td>
<td>2.4</td>
<td>5.3</td>
</tr>
<tr>
<td>+ Overnight deposits</td>
<td>4,481</td>
<td>1.1</td>
<td>7.3</td>
<td>5.8</td>
</tr>
<tr>
<td>= M1</td>
<td>5,390</td>
<td>1.9</td>
<td>6.4</td>
<td>5.7</td>
</tr>
<tr>
<td>Other money market deposits</td>
<td>3,812</td>
<td>1.9</td>
<td>2.1</td>
<td>-1.7</td>
</tr>
<tr>
<td>o/w: deposits redeemable at notice of up to 3 months</td>
<td>2,122</td>
<td>1.8</td>
<td>5.8</td>
<td>2.1</td>
</tr>
<tr>
<td>deposits with an agreed maturity of up to 2 years</td>
<td>1,690</td>
<td>2.0</td>
<td>-2.0</td>
<td>-6.1</td>
</tr>
<tr>
<td>= M2</td>
<td>9,202</td>
<td>1.9</td>
<td>4.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Marketable instruments</td>
<td>625</td>
<td>-0.9</td>
<td>-6.5</td>
<td>-16.2</td>
</tr>
<tr>
<td>o/w: money market fund shares/units debt securities issued with a maturity of up to 2 years</td>
<td>418</td>
<td>-5.1</td>
<td>-3.9</td>
<td>-10.4</td>
</tr>
<tr>
<td>= M3</td>
<td>9,827</td>
<td>1.6</td>
<td>3.5</td>
<td>2.5</td>
</tr>
<tr>
<td>+ Gross monetary liabilities vis-à-vis the rest of the euro area</td>
<td>169</td>
<td>-15.5</td>
<td>17.6</td>
<td>18.7</td>
</tr>
<tr>
<td>- Gross monetary assets vis-à-vis the rest of the euro area</td>
<td>49</td>
<td>-31.1</td>
<td>36.5</td>
<td>-23.5</td>
</tr>
</tbody>
</table>

French component of M3

<table>
<thead>
<tr>
<th></th>
<th>December 2011</th>
<th>December 2012</th>
<th>December 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,847</td>
<td>2.7</td>
<td>2.4</td>
</tr>
</tbody>
</table>

a) Transactions of euro area monetary financial institutions (MFIs) with other euro area residents.

b) Transactions of resident MFIs with other French residents.

c) Changes adjusted for reclassifications and other valuations.

d) Securities issued by resident MFIs.

e) French resident MFI liabilities maturing in less than two years (excl. currency in circulation) towards the euro area money-holding sector (euro area residents excl. MFIs, central government and CCP) and, by extension, the deposits held by this sector with central government.

Sources: European Central Bank, Banque de France.

(see Chart 10), while loans by credit institutions to NFCs were more or less stable in 2013 (0.2%). Total NFC debt (loans and market financing) increased by 1.8% in 2013, after 4.9% in 2012.

Chart 9
Loans to NFCs adjusted for securitisation, France
(annual % growth rate)

Chart 10
NFC debt by instrument, France
(annual % growth rate)
The financial position of companies was the topic of a conference held at the Banque de France on 23 September 2013, featuring contributions from institutions including the Banque de France itself, Bpifrance, the General Directorate for the Treasury and Insee. Several speakers highlighted the need to pay close attention to the reliability and scope of the standard sources and indicators, notably when drawing cross-country comparisons. Accordingly, while there is a recognition that the financial health of companies in France has worsened over the recent period, as measured by the profit margin, the size of the downturn is harder to assess: for one thing, different benchmarks – national accounts or company data – yield different assessments; for another, comparing the levels of French companies with those of their foreign peers is a delicate task.

In terms of access to credit, the available data (accounting or survey) and the work presented at the conference painted a broadly reassuring picture. Only a small fraction of French companies appear to be truly facing financing difficulties. This situation was corroborated by the Banque de France’s bank lending survey, which in 2013 revealed a downtrend in business demand for credit and no change in lending criteria. The absence of material credit rationing in 2013 supports the notion that French companies suffered more from a demand shock than a credit shock during the crisis. Even so, companies were not left unscathed by the crisis. In addition to affecting investment and employment, it had an adverse impact on the number of new companies created, their initial size and their growth, especially among the most promising firms.

During the conference, the Banque de France’s Companies Directorate reported on recent developments in the French statistical apparatus, which have made it possible to gain a more accurate picture of the actual economic situation of companies. Accordingly, since June 2013, loan statistics have been released by company size, following the definitions given in Decree 2008-1354 of 18 December 2008 implementing the 2008 Economic Modernisation Act and concerning the criteria used to determine which categories companies belong to. These definitions introduced the concept of intermediate-sized enterprises and clarified the characteristics of SMEs and large companies.

Reflecting more or less stable levels of activity over 2013 as a whole, outstanding credit drawn by companies and reported to the Central Credit Register increased slightly (0.3%, compared with 1.0% in 2012). Outstanding credit drawn rose by 0.6% year-on-year for SMEs, while contracting for other categories (see Chart A). In the case of large companies and, to a lesser extent, mid-tier firms, the contraction in outstandings is also linked to the shift from bank loans to market financing.

In all companies, undrawn credit, corresponding to the undrawn but available portion of confirmed credit lines, increased by 4.9% year-on-year. Total outstanding drawn and undrawn credit thus rose by 1.4% in 2013 (see Chart B).
In 2013, household financial investment flows fell again, totalling EUR 71.3 billion, after EUR 87.0 billion in 2012 and EUR 95.9 billion in 2011 (see table). The breakdown changed substantially, with bank investments losing ground and life insurance increasing its share.

Investment flows into different types of passbooks fell from EUR 46.6 billion in 2012 to EUR 9.1 billion. The effect of the two successive increases in the ceiling for Livret A passbooks (from EUR 15,300 to EUR 19,125 in October 2012, then to EUR 22,950 euros in January 2013) wore off. Meanwhile, returns fell because of the decline in the interest rate on the Livret A, which went from 2.25% to 1.75% in February 2013 and then to 1.25% in August, while remaining well above the return on comparable assets, such as money market fund shares/units.

Conversely, flows into overnight deposits and cash assets jumped from EUR 0.7 billion in 2012 to EUR 21.4 billion in 2013, as the opportunity cost of holding these assets was reduced by the general decline in market interest rates. In this setting, home savings plans, whose return was held at 2.5%, went up by EUR 9.5 billion in 2013, after EUR 1.6 billion in 2012.

Households turned back to life insurance: the annual inflow of underwriting reserves, including net subscriptions and reinvested policy income, stood at EUR 39.4 billion in 2013, after EUR 19.7 billion in 2012 and EUR 28.9 billion in 2011. The upturn concerned only non-unit linked contracts, which benefit from capital protection. In unit-linked contracts, which are riskier, subscription inflows were virtually zero in 2013 after falling for two years. Regarding securities investments, the decline in interest rates went hand in hand with a decrease in household bond portfolios and further disposals of money market and non-money market funds (totalling EUR 14.4 billion after EUR 8.8 billion in 2012). The equity market rally (the CAC 40 put on 18% in 2013) was accompanied by a reduction in net disposals of listed equities, which fell to EUR 2.8 billion in 2013, after EUR 5.8 billion in 2012.

Households’ use of bank financing rose slightly in 2013

Net flows of new household debt, mainly in the shape of property loans, rose slightly in 2013 (EUR 27.1 billion in 2013 after EUR 26.7 billion in 2012), but remained well below the level seen in 2011 (EUR 49.7 billion). Credit thus echoed the trend in sales of existing homes, which climbed to 723,000 in 2013, after falling from 801,000 in 2011 to 704,000 in 2012.

Lending to households was more sustained in France than in the euro area as a whole

In France, the 12-month growth rate of household lending eased gradually from July 2011 (7.3%) to January 2013 (1.7%), notably owing to the slowdown in home loans. It then picked up slightly, reaching 2.5% at end-December 2013. As with lending to NFCs, household lending was stronger in France than in the euro area overall, where the annual growth rate fell to 0.3% in 2013 from 0.6% in 2012.

In France, after slowing between May 2011 and January 2013, the growth rate of loans for house purchases rose, climbing from 3.0% in 2012 to 3.3% in 2013.

Conversely, the contraction from one year-end to the next in outstanding consumer loans to households
The Eurosystem’s monetary policy response

3|1 Eurosysterm monetary policy decisions

Standard monetary policy decisions

The ECB Governing Council cut policy rates twice in 2013. On 8 May 2013, against a backdrop of muted underlying medium-term inflationary pressures, it lowered the interest rate on its main refinancing operations (MROs) by 25 basis points to 0.50%, the lowest ever. Additionally, the corridor was narrowed to 100 basis points, against 150 previously, with the rate on the deposit facility held at 0% and the rate on the marginal lending facility cut to 1.00%. The tighter corridor helped to lessen the volatility of overnight interbank interest rates (Eonia). On 13 November 2013, the Governing Council decided to cut the MRO rate again, this time to 0.25%. It also further tightened the corridor by lowering the rate on the marginal lending facility to 0.75% while the rate on the deposit facility was held at 0%, which created an asymmetric corridor around the MRO rate. The second cut was prompted by low inflation – below 1.0% – and milder underlying pressure on prices signalling a prolonged period of weak inflation. The asymmetric corridor was consistent with the decision by the Governing Council on 7 November 2013 to continue conducting MROs as fixed-rate tender procedures with full allotment at least until 7 July 2015. Since the fixed-rate procedures were introduced in October 2008, overnight interbank rates have been essentially concentrated in the low end of the corridor, between the deposit facility threshold and the MRO rate (see Chart 11).

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

In 2013, the monetary policy instruments used by the Eurosystem consisted of main refinancing operations (MROs), long-term refinancing operations (LTROs), standing facilities and reserve...
requirements. The Eurosystem also created the option of early repayment of the very long-term refinancing operations (3-year VLTROs) in 2013, allowing banks to gradually repay their very long-term outstanding loans. Rates were cut twice, taking them to record low levels. Further strengthening the trend in rates, the ECB provided forward guidance on key rates for the first time, saying that the Governing Council considered that rates would remain weak at low levels for an extended period of time (see Box 7).

Box 7

**Forward guidance on monetary policy**

**Principle of forward guidance**

The stance of monetary policy is not confined to the current level of short-term interest rates. Insofar as private agents’ expectations play an important role in determining the macroeconomic equilibrium, monetary policy shapes demand primarily through its ability to anchor agents’ expectations on future interest rates to a trajectory compatible with the goal of price stability.

Consequently, the fact that the policy rate has hit or come close to the zero lower bound does not prevent the central bank from influencing expectations on future rates, to align them on a level close to zero as well. The most direct approach for the central bank is to make a more or less specific commitment, as it sees fit, to maintain key rates at a low level for a certain length of time. The term “forward guidance” is used to describe the central bank’s communication policy on the direction of future key rates.

By committing to holding key rates at a low level for a certain period, the central bank can cause medium- and long-term ex ante real interest rates to come down through two channels:

- First, the announcement of the probable future path of key rates brings down medium- and long-term nominal interest rates. These rates are by definition based on expected future short-term rates (theory of term structure of the yield curve).
- Second, the announcement that rates will be held at a low level for a certain period of time increases expected medium- and long-term inflation, which brings down ex ante real rates.

Overall, real interest rates decline and stimulate aggregate demand.
**Different kinds of forward guidance**

Central banks can express their commitment to hold key rates at a low level in different ways:

- **Open-date forward guidance** announcing that rates will remain low for a certain period of time, but without specifying a date. The ECB has used this approach since July 2013, with press releases indicating that rates will remain low “for an extended period of time”.

- **Fixed-date forward guidance** with a specific date setting a time horizon. The Fed typically used this approach between August 2011 and September 2012.

- **Conditional forward guidance** indicates a commitment to keep rates low until certain economic conditions are satisfied. The Fed, for example, announced in December 2012 that it would keep rates low as long as the unemployment rate remained above 6.5%, inflation between one and two years ahead was projected to be no more than a half percentage point above the Committee’s 2 percent longer term goal, and long-term inflation expectations continued to be well anchored.

**Eurosystem forward guidance since 4 July 2013**

Following its meeting of 4 July 2013, the Governing Council of the ECB said that key rates would remain “at present or lower levels for an extended period of time”. This announcement was based on a muted overall outlook for inflation extending into the medium term given the broad-based weakness of the economy and subdued monetary dynamics. Since that time, the Governing Council has systematically reaffirmed this formulation of its forward guidance. Moreover, ECB communications clearly point to the existence of a “downside bias”, allowing the central bank to communicate to economic agents that rates may be cut further, as in November 2013.

The announcement of forward guidance on 4 July 2013 led to an immediate reduction in overnight indexed swap rates (see Chart opposite). However, these rates rose again in September 2013 amid widespread market pressures. But the pick-up gradually faded and expected rates returned to the levels of May 2013, partly thanks to the Governing Council’s firm tone in reiterating its forward guidance.

Excess liquidity reduced by repayment of 3-year VLTROs

In 2013, the Eurosystem maintained an accommodative policy of access to liquidity by deciding to continue conducting all of its refinancing operations as fixed-rate tender procedures with full allotment at least until July 2015. Building on previously implemented monetary policy decisions, in 2013 the Eurosystem consolidated the progress made in 2012.

In this setting, and in a sign of upside developments, banks scaled back their use of Eurosystem VLTROs in 2013, gradually repaying a significant portion of the two VLTROs conducted by the Eurosystem in December 2011 and January 2012. These VLTROs, which had an exceptional maturity of three years, were designed in particular to provide a massive injection of liquidity to alleviate pressure on the markets. Taking all maturities into account, euro area credit institutions had obtained EUR 1,132 billion in Eurosystem refinancing as at end-2012 (see Chart 12).

Early repayment of the VLTROs, which began on 30 January 2013 for the first operation and 27 February 2013 for the second, enabled outstanding...
loans to be reduced by EUR 380 billion, with total Eurosystem refinancing of credit institutions declining by 34% over the year to reach EUR 752 billion at 31 December 2013.

Banks that refinanced with the Banque de France followed the same trend but decreased outstandings by even more than the euro area average, slashing the total amount by EUR 110 billion (61%)\(^2\) from EUR 179 billion at end-2012 to EUR 69 billion at end-2013.

For the Eurosystem as a whole, the share of VLTROs fell from 88% of total outstandings at the beginning of the year to 73% at 31 December 2013. Excess liquidity within the euro area followed the same trend, falling below EUR 200 billion in the last two months of 2013.

Reduced reliance by credit institutions on long-term Eurosystem refinancing operations may be viewed as a sign of a favourable change in the liquidity position of banks and in their access to market financing.

Similarly, as regards liquidity in foreign currencies, participation in 2013 in USD-providing operations against collateral conducted by the Eurosystem in 2013 decreased markedly compared with 2012, in a trend that gathered momentum over 2013: outstandings for these operations averaged EUR 2.6 billion in 2013 compared with EUR 26.2 billion in 2012, and outstandings stood at close to EUR 200 million at 31 December 2013, indicating that the strain on refinancing in USD had eased.

While use of Eurosystem refinancing fell significantly over 2013, the amounts of credit still allocated to monetary policy counterparties and their distribution led the Eurosystem to maintain the eligibility of a broad spectrum of assets as collateral for refinancing operations. Accordingly, the extensions decided at end-2011 remained in effect in 2013, making it possible to continue to accept certain asset-backed securities (ABS) and additional credit claims to supplement the assets already accepted as part of the standing Eurosystem framework. Note that the possibility of expanding the collateral framework to include additional credit claims was offered to all Eurosystem central banks but only nine, including the Banque de France, actually broadened their spectrum of eligible credit claims. Keeping this extension policy in place was aimed first at maintaining a substantial volume of eligible assets within the euro area and second at encouraging financing of the real economy via asset classes corresponding to corporate and retail financing (conventional and additional credit claims) or to securitisation products backed by loans to companies and individuals (ABS). In this regard, the Eurosystem decided on 18 July 2013 to reduce its minimum rating requirements for ABS accepted as eligible collateral, thus helping to support credit distribution to economic players. At end-2013, total collateral posted with Eurosystem central banks came to EUR 2,210 billion.

Confirmation that the Eurosystem would continue to pursue its assertive policy over the long-run made it possible to maintain a liquidity cushion to limit the risks of a credit crunch. These measures also maintained the operational target – the overnight interbank interest rate (Eonia) – below the key rate. Eonia averaged just 7-10 basis points above the deposit facility rate until November 2013. From the end of the year, the decline in surplus liquidity in 2013 ultimately led to a slight pick-up in Eonia. Provided these pressures do not last, they may be considered as a sign that interbank markets are self-regulating and adjusting to the reduced liquidity surplus.

\(^2\) Statistical data for France on average per reserve maintenance period.
Box 8

Euro area interbank markets: less fragmented?

An orderly euro area interbank market is a key factor in the proper transmission of monetary policy impulses to the economy. A seizing-up of this market was a noteworthy symptom of the global financial crisis that began in 2007.

Before the crisis, the market was characterised by efficient access to and circulation of liquidity between banks in need of liquidity and those with excess liquidity. Credit institutions could obtain financing without major constraints. While there were bank-specific risk premiums, reflecting their financial health and country of origin, financial institutions could nevertheless find a response to their needs in the market. Euro area credit institutions went to the Eurosystem for funds through its two refinancing operations, with total refinancing averaging approximately EUR 450 billion.

With the crisis, as credit institutions became unwilling to lend to each other, interbank exchanges dried up and the Eonia rate became more volatile. Banks with surplus liquidity became reluctant to lend it, preferring to hold their liquidity with the Eurosystem, including at a lower – even zero – rate of return. This trend became more pronounced with the Lehman Brothers failure and, within the euro area, the emergence of the sovereign debt crisis in a number of countries. Faced with a fragmented interbank market, the Eurosystem played the intermediary role relinquished by the market and took the measures needed to continue to ensure bank refinancing in the challenging environment. These efforts culminated with the Eurosystem’s implementation of two three-year very long-term refinancing operations (VLTROs), which provided massive, long-term refinancing to monetary policy counterparties.

These measures bore fruit. In 2013, while the interbank market was still not back to operating as it did before the crisis, there were encouraging signs. In particular, the decline in Eurosystem intermediation in 2013, evidenced notably in the EUR 380 billion decrease in Eurosystem refinancing and the EUR 356 billion reduction in surplus liquidity, signalled reduced reliance by banks on the Eurosystem for refinancing (see Chart A). In addition, several indicators testified to a gradual resumption of exchanges between banks within the same countries and between euro area countries. Eurosystem Target balances, which track daily cross-border transactions (in euros) within the euro area (see Chart B), are one such example.

These signs remain fragile for now and need to be considered in the light of banks’ outstanding refinancing vis-à-vis the Eurosystem, which is still substantial, the uneven distribution of their repayments and the fact that some banks prefer to continue to deposit their excess liquidity with the central bank, rather than making it available on the market.

**Chart A**

Eurosystem refinancing and surplus liquidity since 2007

(EUR billions)

Source: ECB.
Monetary policy, measures to promote financial stability

4 Measures to consolidate the recovery

Through their monetary policy actions and measures to promote financial stability, central banks have created the conditions for a global recovery and, in particular, a gradual upturn in the euro area. However, the measures taken by central banks alone are not enough to guarantee strong growth. Sound public finances and bold structural reforms must also be in place to support these measures.

4.1 Measures to promote financial stability

Financial stability

Strain on euro area financial markets eased markedly in 2013, in direct connection with the ECB’s communication strategy and ECB President Mario Draghi’s pledge on 26 July 2012 that the ECB was ready to do whatever it took to preserve the euro. The announcements that followed, notably in the context of the forward guidance strategy aimed at reassuring market participants that rates would be kept low for as long as necessary, also contributed to the improvement. Markets are now waiting for clearer signs of recovery in the euro area.

In this setting, fears linked to European and US fiscal consolidation faded considerably, while the risks associated with legislative elections in Italy (February) and Germany (September) and the rescue plan for the Cypriot financial sector (March) did not materialise. Although pressures persisted on the sovereign bond market, and were apparent notably in the downgrades by at least one agency for Cyprus, Italy, the United Kingdom, the Netherlands and France, they declined greatly for peripheral countries. France's downgrade did not impact the OAT-Bund spread. Uncertainties over the potential activation of OMTs on Spain abated in the end, as spreads narrowed without the programme. Overall, thanks to efforts by European countries to promote macroeconomic convergence, 2013 saw investors come back to the euro area.

The post-crisis fragmentation of the European banking sector became less pronounced. Also, by reducing risk-weighted assets and retaining earnings, banks improved their solvency positions. Under market pressure and ahead of regulatory reforms, banks began the process of strengthening their balance sheets. Refocusing on less risky activities rather than,
Monetary policy, measures to promote financial stability

Chart 13
Core Equity Tier 1 ratios of a sample of euro area banks (%)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Q4 2012</th>
<th>Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNP Paribas SA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crédit Agricole SA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natixis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Société Générale SA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commerzbank AG</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deutsche Bank AG</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banco Bilbao Vizcaya Argentaria, SA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banco Santander SA</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SNL Financial.

say, proprietary trading, should be helpful to the financing of growth. Banks’ financing conditions continued to normalise over the year. Accordingly, the need for central bank liquidity diminished. Even so, 2013 featured an increase in provisions for bad loans, since restructuring of the European banking sector remained incomplete amid unsupportive macroeconomic conditions.

Prudential supervision

Pressure eased on the financial sector in 2013, as evidenced in particular by the normalisation of stressed euro area sovereign debt markets. Still, the situation remains fragile, requiring ongoing vigilance.

Efforts by banks to comply with the provisions of the future liquidity coverage ratio (LCR) enabled them to build up sizeable liquidity reserves, which increased further in 2013. The Autorité de contrôle prudentiel et de résolution (ACPR – Prudential Supervision and Resolution Authority) continued to monitor the readiness of French banks for the future European prudential framework, which reproduces the Basel III agreements, but these institutions are already well-positioned to meet the new solvency standards as applicable in 2019.

In addition, the end of 2013 saw the launch of the assessment of euro area banks, whose supervision will be transferred to the ECB in November 2014 as part of the introduction of the single supervisory mechanism. France is particularly concerned because of the concentration of its banking system and the international reach of its main banks.

In the insurance sector, the agreement on the Omnibus II Directive established the date for Solvency II’s entry into force on 1 January 2016. Accordingly, efforts were stepped up to prepare the French market for the new regime: the ACPR supplemented the market readiness assessment that it has conducted for the last three years with a first exercise in which a representative sample of organisations submitted a series of prudential statements in Solvency II format. This exercise revealed significant progress in the market’s state of readiness and was used to identify areas in which material progress still needs to be made, which includes improving the quality of data transmitted.

In addition, the ACPR continued to exercise close supervision over the whole set of institutions. As part of this, it conducted a detailed examination of the situation of the entities most affected by the maintenance of low long-term rates for a prolonged period, including points-based supplementary retirement schemes and life insurers. It also paid special attention to the health and providential sectors, which are engaged in a concentration process and which present specific risks that must be taken into account. Finally, the ACPR continued actively dealing with the difficulties of the weakest organisations, with its Insurance Supervisory College requesting recovery measures on several occasions.

4|2 International coordination of economic policies

After the Washington summit in November 2008, the Group of 20 (G20) emerged as the main forum for international economic and financial cooperation. Russia took over the G20 presidency from Mexico in 2013, with the aim of effectively supporting the global economic recovery while continuing to find solutions to the strain on financial markets.
The Saint Petersburg Summit in September 2013 resulted in the adoption of an action plan to promote growth and employment, which established new commitments on structural reforms to meet this shared objective. The G20 also reaffirmed the need to pursue efforts to rebalance global growth, with surplus and deficit economies sharing the burden of the adjustment more fairly. By contrast, the objectives in terms of stabilising government debt to GDP ratios by 2016, which were adopted in Toronto in 2010, were not renewed and a more flexible approach was adopted.

Long-term investment financing issues, which were highlighted at the end of the Mexican presidency, remained in the spotlight under Russia’s presidency. A G20 working group co-chaired by Germany and Indonesia established a work agenda to address the identified obstacles. The programme led to the commissioning of several more in-depth reports from the international organisations, including the OECD’s high-level principles on long-term investment financing by institutional investors, which were endorsed by the heads of state and government in Saint Petersburg.

Efforts by the Russian presidency to build an agreement on the IMF quota formula review were unsuccessful. Discussions on the Fifteenth General Review of Quotas (GRQ) will continue in 2014. Supplementing the Fourteenth GRQ, which will enter into effect after US ratification, the new governance and quota reforms will give the IMF greater legitimacy and enhance its ability to promote more effective international cooperation. Other topics relating to the global financial architecture were also tackled in 2013, including the update of IMF/World Bank joint guidelines for public debt management, the sustainability of lending to low-income countries (discussions on the adoption of guidelines), and deeper cooperation between regional financing arrangements and the IMF.

In terms of financial regulation, the Russian presidency provided support for work underway within the Financial Stability Board (FSB), which was established as a legal entity with increased financial autonomy. Progress was made in the implementation of the Basel agreements, the regulation of OTC derivatives markets and the shadow banking system, as well as in the supervision and resolution of too big to fail institutions.

Significant headway was also made in coordinating the fight against tax evasion and fraud. Spurred on by a broad coalition of advanced countries, G20 members committed to beginning automatic exchange of tax information by 2015. In addition, the G20 approved the action plan prepared by the OECD to prevent base erosion and profit shifting (BEPS), which recognises, among other things, the importance of taking account of the digital economy.

Australia took over from Russia in December 2013, setting two priorities: develop growth strategies and promote long-term investment financing, with a focus on infrastructure projects. The growth strategies are designed to boost activity, based on a shared analysis of the barriers to global growth, through measures to stimulate investment, employment (notably the participation rate) and international trade, and encourage competition. The growth strategies also seek to enhance the coordination of economic policies by putting the emphasis on coordinated measures and by targeting stimulus measures that generate the greatest positive externalities.
Fiscal consolidation

The recovery in euro area government finances continued in 2013, as the area’s government deficit was cut to 3.1% of GDP, after 3.7% in 2012.

All euro area countries improved their fiscal position in 2013 with the exception of Greece, whose government deficit deteriorated because of the cost of bank recapitalisations, which amounted to 10.6% of GDP, despite a huge structural improvement worth 2.2 points of GDP (see Chart 14). Spain achieved the largest reduction in its government deficit (3.8 points of GDP in 2013, although the deficit was still high, at 6.8%). Of the main countries, only Germany posted a balanced fiscal position in 2013.

Despite these efforts, the euro area government debt ratio is expected to continue to grow, rising from 92.6% of GDP in 2012 to 95.5% in 2013. Moreover, debt levels in the main euro area countries (see Chart 15) are above 90% of GDP everywhere except Germany, which, with its balanced fiscal position, managed to reduce its debt-to-GDP ratio by 1.4 point compared with 2012.

Countries under financial assistance programmes

In 2013, five European countries were under EU/IMF financial assistance programmes: Greece, Ireland, Portugal, Spain and Cyprus. In return for financial aid, these countries committed themselves to carrying out major structural reforms and fiscal consolidation measures to achieve sustainable economic growth and get their government finances on a sustainable path. For each country, these commitments, and the monitoring criteria, were recorded in a memorandum of economic and financial policies and a memorandum of understanding. The joint task forces of the European Commission, the IMF and the ECB (or “Troika”) used these memoranda as a framework to conduct quarterly reviews of compliance with conditionalities prior to disbursing tranches of assistance.

However, the economic situation and outlook varied from country to country, as did progress in economic recovery and fiscal consolidation. At end-2013, the five countries were in different situations:

- Ireland and Spain officially completed their assistance programmes in December 2013 and at end-January 2014 respectively.

  - In December 2010, Ireland became the second country, after Greece, to enter into an EU/IMF assistance plan. The plan, worth EUR 85 billion (58% of GDP), enabled the country to profoundly reform its banking system, which was oversized and weakened by the bursting of the property bubble. In return for the aid, Ireland adopted...
In 2013, France’s government deficit stood at 4.3% of GDP, or EUR 87.6 billion, down EUR 11.1 billion compared with 2012 (EUR 98.7 billion, or 4.9% of GDP), but higher than the European target set under the stability programme submitted to the European Commission in April 2013.

The improvement in government finances compared with 2012 resulted from a structural consolidation effort worth 1 point of GDP, connected mainly with the tax increase voted in the 2013 budget. Compared with 2012, household tax and social security contributions rose by more than those of companies. All in all, tax and social security contributions increased by 0.9 percentage point of GDP from 45.0% in 2012 to 45.9% in 2013.

Box 10

France’s public finances in 2013

Public finance developments in 2013

In 2013, France’s government deficit stood at 4.3% of GDP, or EUR 87.6 billion, down EUR 11.1 billion compared with 2012 (EUR 98.7 billion, or 4.9% of GDP), but higher than the European target set under the stability programme submitted to the European Commission in April 2013.

The improvement in government finances compared with 2012 resulted from a structural consolidation effort worth 1 point of GDP, connected mainly with the tax increase voted in the 2013 budget. Compared with 2012, household tax and social security contributions rose by more than those of companies. All in all, tax and social security contributions increased by 0.9 percentage point of GDP from 45.0% in 2012 to 45.9% in 2013.

.../...

seven austerity plans, worth a total of approximately EUR 30 billion. This substantial budgetary adjustment allowed Ireland to bring its government deficit back to 7.2% of GDP in 2013 from 30.6% in 2010, assistance to the banking system included. However, government debt remains at an elevated level (122.3% in 2013 according to Commission projections, up 5 points of GDP on 2012), although economic activity has expanded at a faster pace than the euro area average since 2011. Ireland’s completion of its financial assistance programme was officially recorded at the Eurogroup meeting on 14 November 2013.

- Spain has benefited from European financial assistance since July 2012. However, unlike the other countries under programmes, Spain did not enter into an overall economic assistance plan; rather, the EUR 41.4 billion loaned through the European Stability Mechanism (ESM) was provided solely to recapitalise the banking sector, since the state managed to maintain market access to obtain refinancing. In addition, the assistance was exclusively financed by the EU via the ESM, with the IMF called on only to provide supervisory and consulting expertise. However, Spain was hit by a severe economic recession, making it harder than expected to get the government finances back in order. Spain’s government deficit is expected to reach 7.2% of GDP in 2013, according to Commission forecasts, whereas the target under the excessive deficit procedure was 6.5%. Because of these difficulties, on 20 June 2013, Spain’s fiscal targets were eased, and the country must now get its government deficit below 3% of GDP by 2016 instead of 2014.

- Portugal and Cyprus have been under financial assistance programmes since May 2011 and March 2013 respectively.

- The EUR 78 billion in aid to Portugal was provided in return for a fiscal austerity plan and extensive economic reforms to boost growth and competitiveness. Portugal was however hit by a large-scale economic recession that complicated the task of consolidating the government finances. As a result, Portugal’s government deficit remains high (5.9% of GDP according to the Commission’s forecasts for 2013) and above the 5.5% target set by the excessive deficit procedure. Because of the challenging macroeconomic conditions, Portugal successfully applied to have the targets relaxed and is now required to bring its government deficit below 3% of GDP by 2015, instead of 2014.

- Cyprus was pushed to the brink of bankruptcy because of its banks’ massive exposure to Greek debt. In May 2013, the country received a loan of EUR 10 billion from the EU and the IMF. In return, Cyprus had to liquidate Laiki bank, one of the country’s leading financial institutions, and restructure Bank of Cyprus, its biggest bank, with, in a first for the euro area, a bail-in of depositors and the simultaneous introduction of temporary restrictions on capital movements. Cyprus also committed itself to drastic budget cuts and privatisations to reduce its high government deficit (5.5% of GDP forecast in 2013 according to the Commission). These measures had a severe impact on the Cypriot economy, plunging it into a deep recession, with the Commission forecasting a 6.0% contraction in 2013.

- Despite the substantial amount of international aid provided since 2010 (EUR 73 billion after the first programme, plus more than EUR 143 billion under the second programme adopted on 14 March 2012) and drastic measures to improve government finances, Greece’s economic and fiscal situation remains extremely fragile, especially in terms of government debt, which was still over 170% of GDP in 2013 (European Commission forecasts), with no major reduction expected for the coming years. Large-scale reforms were adopted, notably to promote a better-functioning labour market and improve the organisation of the country’s tax administration and banking sector. A EUR 50 billion privatisation programme is also planned, but has suffered considerable delays. Accordingly, the persistent difficulties in Greece make it seem unlikely that international creditors will be repaid quickly.
The ratio of government spending to GDP was up slightly in 2013, reaching 57.1% after 56.7% in 2012. This reflected the limits of the push to consolidate spending in 2013, amid weak economic conditions, as contrasted with the adjustment made on the revenue side.

The ratio of government debt to GDP stood at 93.5% in 2013, an increase of 2.9 points compared with the previous year, representing total outstanding debt of EUR 1,925.3 billion. The nominal interest rate on French debt (interest paid on debt) trended downwards, reaching 2.8% in 2013, after 3.3% in 2012.

The European Commission’s opinion on the 2014 draft budget

Pursuant to the new rules under the “Two-Pack” reform package, the European Commission (EC) was required in 2013, for the first time, to give its opinion on the draft budgets of France and other euro area Member States (except for those under EU-IMF programmes, see Box 9).

In an opinion issued on 15 November 2013, the EC considered France’s draft budgetary plan for 2014 to be compliant with the rules of the Stability and Growth Pact. However, it made several observations:

- The EC noted that the overshoot on the nominal deficit for 2013 in the draft budget, which was in line with its own forecast (4.1%), was above the target set in the April 2013 stability programme (3.7%), owing to a shortfall in tax receipts and spending overruns.

- It pointed out that its own forecast for the 2014 deficit was more pessimistic than that of the draft budgetary plan (3.8%, compared with 3.6%), particularly because its projections for the fall in public investment and the increase in the wage bill were less bullish than those anticipated by the authorities. It also expects a shortfall in revenues.

- The Commission and the government differ in their assessments of the composition of the fiscal tightening for 2014. The draft budgetary plan aims at spending cuts accounting for 80% of the adjustment, while the EC forecast projects that savings in spending will make up less than half of the adjustment.

The EC therefore called on the French government to pursue its efforts.

Box 11

First-time implementation of European governance in the euro area under the “Two-Pack” regulations

Pursuant to the provisions of the “Two-Pack” regulations, for the first time on 15 November 2013, the Commission issued a non-binding opinion on the draft budgetary plans of euro area Member States (except for those under EU-IMF programmes). The goal of the exercise was to assess the compliance of the drafts with Member State commitments, notably in terms of the path towards the medium-term objective (MTO) under realistic macroeconomic projections. If the Commission thinks that a Member State has deviated from commitments made in the previous half, it may ask for the budget to be revised within three weeks; the Member State then has two weeks to submit, if it chooses, a revised version of the draft budgetary plan. The Commission may then issue a new opinion, again non-binding, on the revised draft budgetary plan.

Following this first exercise, the Commission found that none of the draft budgetary plans presented major slippage relative to Stability and Growth Pact obligations. However, the Commission thought that eight countries,

<table>
<thead>
<tr>
<th>Country</th>
<th>Overall conclusion based on the Commission 2013 autumn forecast</th>
<th>Overall conclusion on progress towards fiscal-structural reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>DE</td>
<td>Compliant</td>
<td>No progress</td>
</tr>
<tr>
<td>EE</td>
<td>Compliant</td>
<td>Some progress</td>
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<tr>
<td>NL</td>
<td>Compliant with no margin</td>
<td>Some progress</td>
</tr>
<tr>
<td>SI</td>
<td>Compliant with no margin</td>
<td>Limited progress</td>
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<tr>
<td>FR</td>
<td>Compliant with no margin</td>
<td>Limited progress</td>
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<tr>
<td>AT</td>
<td>Broadly compliant</td>
<td>Some progress</td>
</tr>
<tr>
<td>BE</td>
<td>Broadly compliant</td>
<td>Limited progress</td>
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<tr>
<td>SK</td>
<td>Broadly compliant</td>
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<td>ES</td>
<td>Risk of non-compliance</td>
<td>Some progress</td>
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<td>FI</td>
<td>Risk of non-compliance</td>
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<td>MT</td>
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</table>
Monetary policy, measures to promote financial stability

including Spain, Italy and Belgium, displayed more significant risks of deviation from the adjustment path towards the objectives under the excessive deficit procedure or the MTO (see table). It called on those countries to take these considerations into account in their draft budgetary plans.

In addition, the Commission said that further structural reform was necessary to strengthen government finances in the medium term. Despite progress by countries in fiscal consolidation, the results are mixed on tax, pension and health system reforms. Furthermore, the Commission stressed the importance of the composition of fiscal consolidation. In particular, it pointed out that expenditure restraint (excluding government investment) is key to any consolidation strategy.

The Commission gave a relatively measured recommendation for France, which alongside the Netherlands and Slovenia, was included in the “Compliant with no margin” category. Note that only Germany and Estonia were rated higher (“Compliant”).

4.4 Implementation of structural reforms to stimulate growth

The crisis had a severe impact on the potential growth of euro area economies. According to the Banque de France’s most recent estimates, potential growth in the euro area averaged approximately 2% a year over the 2000-2007 period, but fell to 0.5% in 2013 (0.2% as an annual average over 2009-2013), with France and Germany on a similar footing (0.8% and 0.9% respectively).

Against this background, which also features persistent imbalances in government finances, the implementation of structural reforms on goods and labour markets is vital to boost the ability of Europe’s economies to create an environment that will support economic activity. Although France has fallen behind in adopting the European Commission’s recommendations in this regard (such as the removal of barriers to entry in some professions or sectors), several major reforms have nevertheless been undertaken in recent months.

One major advance was the adoption of the Employment Protection Act on 14 June 2013, which transposed the National Interprofessional Agreement (ANI) of 11 January 2013 into the Labour Code. The new legislation follows the flexicurity concept that has featured in reforms by several European countries (Germany, Spain and Italy) and that seeks to reconcile companies’ needs for flexibility with the needs of employees to keep their jobs and build skills. By reducing the legal risks linked to dismissal procedures, the Act of June 2013 provides companies with several ways to be more flexible in terms of work organisation (including employment protection agreements that can be used to adjust working times and wages when economic conditions take a turn for the worse). Meanwhile, employees enjoy greater security over their professional career, gaining the ability to accumulate unemployment benefit entitlements, across-the-board supplementary health coverage, and a framework for part-time work contracts. In addition, vocational training reforms, which will transpose into legislation the ANI signed by employer and employee representatives in December 2013, include several mechanisms to preserve employability (personal and transferable training accounts, training for job-seekers).

Other measures, aimed at cutting costs for companies and the cost of labour, were introduced in 2013. Steps to reduce red tape for companies were undertaken as part of a streamlining campaign announced in May 2013, which saw the government promise to introduce 200 streamlining measures by 2017. In addition, the Competitiveness and Employment Tax Credit (CICE) introduced by the Supplementary Budget Act of 29 December 2012 began to reduce the cost of labour for businesses3 (see Box 4). Funding for the scheme, worth some EUR 20 billion a year, is provided in equal measure by budget savings and new receipts (including from the change in VAT rates).

3 Note that since the first quarter of 2013, the CICE has been counted as an employer subsidy when measuring the cost of labour index compiled by Insee.
Second part

Report on activities
Tasks and strategy of the Banque de France

Delphine M.
IT, Methods and Human Resources Directorate
The Banque de France’s activities can be divided into three core categories: Eurosystem-related tasks, the safeguarding of financial stability, and the provision of services to the national community.

- Eurosystem-related tasks: as a Eurosystem national central bank, the Banque de France is responsible, alongside the European Central Bank (ECB) and the other Eurosystem national central banks, for preparing and implementing monetary policy with a view to ensuring price stability in the euro area, and for the issuance and management of currency.

- Actions to safeguard financial stability: these include prudential oversight, conducted through the Autorité de contrôle prudentiel et de résolution (ACPR – French Prudential Supervision and Resolution Authority), the supervision of market infrastructures and of systems and means of payment, and the submission of analyses and proposals to international bodies charged with maintaining financial stability, such as the European and global regulatory bodies of which the Banque de France is a member.

- Services for the national community: these include a wide range of activities, primarily:
  - assessing the economy and its financing;
  - monitoring and attributing ratings to businesses – as a result of this role, the Bank was well placed to take charge of credit mediation when the financial crisis erupted;
  - managing general interest databases and protecting consumers;
  - examining household indebtedness cases and preparing debt commissions’ decisions.

The past two years have seen the ongoing roll-out of the Bank’s long-term 2020 strategic plan which has three core objectives:

- to assert the Bank’s influence and ensure it fulfils its missions effectively, a goal which is a continuation

**The Banque de France’s Strategic Roadmap**

- Strengthen our position within the Eurosystem
- Play a central role in safeguarding financial stability
- Contribute to the definition and implementation of financial system regulation
- Mitigate systemic risk
- Contribute to and prepare for the implementation of the European Banking Union
- Provide increased protection for consumers of financial products
- Develop the economic and financial education of the public
- Reinforce the security of means of payment
- Strengthen the Bank’s financial structure
- Transform the Bank
- Improve our assessment of the economy and its financing
- Improve our influence in the definition and implementation of monetary policy
- Identify attractive offers for the Eurosystem
- Decrease our influence in the definition and implementation of monetary policy
- Mitigate systemic risk
- Contribute to the smooth functioning of the economy
- Improve the performance of operational activities and control risk exposures
- Enhance staff skills, promote cross-business collaboration and well-being in the workplace
- Expand our European and international presence
- Optimize our investments
- Provide the best service at the lowest cost
- Modernize the branch network
- Roll out the digital plan
- Strengthen the Bank’s operational positioning in the markets
- Contribute to the definition and implementation of financial system regulation
- Improve the smooth functioning of the economy
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- Contribute to the smooth functioning of the economy
- Conclude with a special emphasis on the services to the national community.

Source: Banque de France.
of the previous strategic plan and comprises the first three points of the strategic roadmap:

– strengthen our position within the Eurosystem in the conduct of core central banking activities,

– play a central role in safeguarding financial stability, both as a supervisory and a control authority, and as a major contributor to international and European projects in this field,

– contribute to the smooth functioning of the economy, thanks to the different activities the Bank carries out for the public authorities and for the nation as a whole;

• to maintain the Bank’s financial independence, a strategic focus adopted in 2008;

• to prepare the Bank for the period after 2020, a new and significant strategic focus.

1| Asserting the Bank’s Influence

The unifying ambition behind the first three objectives of the strategic roadmap – to strengthen our position within the Eurosystem, play a central role in safeguarding financial stability and contribute to the smooth functioning of the economy – is to assert the Banque de France’s position as an influential player in the field of central banking.

1|1 Strengthening the Bank’s position within the Eurosystem

The Banque de France plays a key role in three main areas:

• The preparation of the Eurosystem’s monetary policy decisions: through its high-quality economic research, statistical analysis tools and collection of economic data, the Bank makes an active contribution to the process of monetary policy analysis. In coordination with the other national central banks on the Eurosystem Monetary Policy Committee, it provides forecasts both for economic activity and for inflation. The Bank also conducts analyses into the operational framework of monetary policy, including risk control, and makes proposals on these issues to other Eurosystem committees.

• Participation in major Eurosystem IT infrastructure projects: alongside the other national central banks, the Banque de France is firmly committed to the successful completion of the Target2 Securities project which will help to increase the integration of euro area capital markets and harmonise operating methods in the European financial sector. By helping to spearhead these infrastructure projects, the Bank has been able to leverage its expertise and consolidate its leadership both within the Eurosystem and in European financial markets.

The signature of an agreement with the Banco de España to implement a shared Market Activities Processing System (MAPS) has opened up new opportunities for collaboration within the Eurosystem, in an area that is key to central banking activities. The project is...
intended to showcase the Banque de France’s expertise and capabilities to its European partners and could be opened up to other central banks in the near future.

- Banknote manufacturing: the Banque de France has recognised expertise in banknote manufacturing, making it the leading public player in the field within the Eurosystem. It has substantial operational capacity, and successfully manufactured and issued the new ES2 series €5 banknote. The €5 note is the first stage in the gradual renewal of the existing euro banknote series (see Box 13).

### 1|2 A central role in safeguarding financial stability

In 2013, the Banque de France was closely involved in preparations for the bank single supervisory mechanism; in addition to new prudential regulations, it became clear that Europe needed a unified system of prudential oversight to break the vicious circle between bank and sovereign risk (see Box 14). The Bank and the ACPR worked closely with the ECB and their European partners at all levels, to establish the precise definition of this new supervisory framework.

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**Box 13**

**Innovation in cash management: the first note in the Europa series**

On 2 May 2013, national central banks simultaneously launched a new series of euro-denominated banknotes, dubbed the “Europa” series, throughout the Eurosystem. Harnessing the technological advances of the past ten years, this new series meets three objectives: to maintain public confidence in the currency by making the security features easier to verify and harder to counterfeit; to increase the durability of the two smaller denominations by using a more resistant substrate; and to make the notes easier to use for the visually impaired. The new banknotes will be issued in increasing order of value. Accordingly, the €5 note is the first to be issued, and will be followed by the €10, then the €20, and so on.

The French cash industry has changed radically since the first euro series was issued in 2002: much of the processing has been automated and, while the Banque de France has always maintained close relationships with its traditional partners (commercial banks and cash-in-transit companies), the issuance of a new banknote requires much broader communication to raise awareness among professionals and the general public. As a result, the ECB set up the dedicated website [http://www.new-euro-banknotes.eu/](http://www.new-euro-banknotes.eu/), which provides a fun insight into the new series, translated into all European languages.

By the end of December 2013, the launch of the first ES2 banknote had already proved a resounding success, with the new €5 accounting for 55% of all €5 notes in the sorting and recycling circuit. This rapid take-up was achieved thanks to the massive issuance of the banknote in the first three months after launch, in line with projections.

1 For more information: [https://www.banque-france.fr/fileadmin/user_upload/banque_de_france/publications/8_5-euros.pdf](https://www.banque-france.fr/fileadmin/user_upload/banque_de_france/publications/8_5-euros.pdf)
Box 14

The challenges and outlook for the Single Supervisory Mechanism (SSM)

2013 saw various major legislative advances, including the adoption by the Ecofin Council on 15 October of two regulations relating to the SSM: the first (the SSM Regulation) confers specific tasks on the ECB relating to the prudential supervision of credit institutions, while the second amends the regulations on the functioning of the European Banking Authority (EBA). The SSM Regulation came into force on 3 November 2013. On 16 December 2013, the European Council appointed Danièle Nouy, Secretary General of the ACPR, as Chairman of the ECB's SSM Supervisory Board. This new body met for the first time on 30 January 2014.

In parallel, preparations for the SSM, which began in 2012 under the aegis of the ECB and to which the ACPR is actively contributing, continued and intensified over 2013, with the drafting of framework regulations, and the definition of supervision practices, the risk assessment methodology, the list of institutions under direct ECB oversight, and the IT and reporting system. The aim is for the “single supervisor” to be fully operational by 4 November 2014, when the 13 largest French banking groups – comprising 350 credit institutions and representing 95% of banking sector assets – will come under direct ECB supervision. In October 2013, the ECB published the methodology for bank balance sheet assessments, a process which began in November 2013 and comprises three stages: a prudential risk assessment, an asset quality review and a stress test carried out in conjunction with the EBA. The process is designed to promote transparency and increase private sector confidence in the resilience of the euro area banking sector.

The majority of these projects are already well underway, and will continue to advance in 2014. Others should be completed, including the Single Resolution Mechanism (SRM) designed to complement the SSM, the general guidelines of which were approved by the Ecofin Council on 18 December 2013.

Box 15

The ACPR’s resolution role

French law No. 2013/672 of 26 July 2013 on the separation and regulation of banking activities entrusts the ACPR with the new role of preventing and resolving banking crises for the purpose of “safeguarding financial stability, maintaining the continuity of the activities, services and operations of institutions whose failure would have a serious impact on the economy, protecting depositors and avoiding, or limiting to the greatest possible extent, any recourse to public financial aid.”

The Law also created a specific resolution college, comprising the Governor of the Banque de France, the head of the French Treasury, the Chairman of the Autorité des marchés financiers (AMF – the French Financial Markets Authority), one of the deputy governors of the Banque de France (chosen by the Governor), the President of the Commercial, Financial and Economic Chamber of the Court of Cassation and the Chairman of the Board of the Fonds de garantie des dépôts et de résolution (FGDR – the Deposit Guarantee and Resolution Fund). The resolution college’s work is prepared by an ad hoc board within the ACPR General Secretariat, which was created at the end of 2013 (the head of this board is nominated by the Governor of the Banque de France, as the Chairman of the ACPR, and appointed by the Minister of the Economy).

The ACPR is charged with assessing the preventive recovery plans drawn up by all credit institutions and investment companies (excluding portfolio management companies) whose total balance sheet exceeds a threshold determined by decree. These plans are established either on an individual or on a consolidated basis, depending on the level of supervision applied to the institution. They describe the measures the institutions will implement in the event of a significant deterioration in their financial position. The ACPR in turn draws up preventive resolution plans for each institution setting out how the specific resolution measures are to be implemented in the event of actual difficulties. If the ACPR deems that the organisation and functioning of a particular institution are likely to constitute an obstacle to the resolution measures, it is entitled to ask the institution to reduce or remove these obstacles.

The ACPR has substantial authority over institutions undergoing a resolution procedure: it can revoke the mandates of the managers, appoint a temporary administrator, transfer or sell off all or part of the company's business lines, request the intervention of a third-party institution or ask that certain balance sheet liabilities be cancelled or transformed.

French legal texts will have to be adapted to take into account the new European legislation due to be finalised in 2014 (the EU Bank Recovery and Resolution Directive and the regulation creating the Single Supervisory Mechanism).
The year 2013 saw two major advances towards the implementation of the future Solvency II prudential framework.

To help market participants get ready for the transition to the new prudential regulations, the European Insurance and Occupational Pensions Authority (EIOPA) adopted preparatory guidelines applying some of the provisions of Solvency II in advance – notably those relating to reporting, governance and the own risk and solvency assessment system (ORSA). The texts for these guidelines were published on 31 October 2013 and national authorities were given a two-month period to state whether they intended to comply, and if not why (comply or explain principle). The guidelines then came into force on 1 January 2014. In 2014, the ACPR will begin preparatory exercises on reporting and on ORSA, and will closely monitor all preparations conducted by insurance bodies and groups. Due to constraints in the legal calendar, the ACPR will not be able to implement the preparatory guidelines on governance, but is encouraging all participants in the French market to actively prepare for this essential pillar of Solvency II.

This delay in application should have a negligible impact, however, as the overall system was finalised at the end of the year and the new Solvency II regime should come into force on 1 January 2016. Based on the impact study conducted by the EIOPA on long-term guarantees and the report it submitted to the European Commission (to which the ACPR actively contributed), the European Parliament, European Commission and European Council reached a political agreement on the proposed directive, called Omnibus II, on 13 November 2013. This agreement notably amends the prudential rules on the balance sheet valuation of long-term insurance guarantees and thereby removes the remaining obstacles to the effective application of the Solvency II package.

The new resolution role assigned to the ACPR by the public authorities strengthens the Banque de France’s ability to handle banking crises. It is also a sign of the trust the government places in the Bank, and of the value of its supervisory role during the recent crisis (see Box 15).

The Banque de France plays a significant role in negotiating the terms of new international regulations (notably in finalising the Basel III rules on maturity transformation and liquidity). It is closely involved in preparations for the introduction of new regulations such as Solvency II, so that it can ensure they are correctly implemented by all concerned (see Box 16).

In conjunction with the ACPR, the Banque de France carries out important work on the analysis and early detection of financial vulnerabilities and risk factors, including potentially systemic threats. Its efforts in this field have earned the recognition of French legislators who, under the law on the separation and regulation of banking activities, have officially assigned the Bank responsibilities in maintaining financial stability, as well as creating a formal macroprudential authority, the Haut Conseil de la stabilité financière (HCSF – High Council for Financial Stability).

1|3 Contributing to the smooth functioning of the economy

The Banque de France provides a number of essential services to the national community, including assessing the state of the French economy and its financing, monitoring means of payment and protecting the interests of consumers.

In 2013, the Bank modified its company ratings system to take into account the concept of default as defined by the Basel Committee.

In coordination with the AMF, it also expanded its activities in the assessment of financial sector sales practices, in order to create a comprehensive oversight system covering all aspects of the marketing and sale of financial products, and thus improve consumer protection.

The Bank is actively involved in developing means of payment, notably assisting in France’s migration to the SEPA payment instruments and working to improve internet payment security.


2| **CONTINUING EFFORTS TO STRENGTHEN
THE BANK’S FINANCIAL STRUCTURE**

One of the key challenges the Bank faces for the years ahead is to strengthen its financial structure, in order to ensure it has the necessary resources to carry through its transformation plan. There are three main focuses of action:

- increasing the Bank's capital, and notably its fund for general risks which is designed to cover the risk of adverse changes in the value of the Bank’s balance sheet;
- ensuring there are adequate provisions for all employee-related liabilities, particularly pension liabilities;
- keeping costs under control to be able to continue with the major transformation projects currently underway.

As part of this third objective, the Bank recently introduced new methods for steering its projects, with the aim of keeping costs down at a time when major investments are being planned as part of the transformation.

3| **TRANSFORMING THE BANK WHILE ENSURING IT CONTINUES TO MEET ITS CORPORATE SOCIAL RESPONSIBILITIES**

The Bank’s long-term strategic focus is to prepare itself for the year 2020 and beyond by modernising its operations and methods of interaction with both its partners and its customers, and improving its ability to adapt and respond to changes in its environment.

There are three main reasons behind the Banque de France’s ambition to transform itself:

- To guarantee the continuity of its work and the credibility of its actions: in order to continue fulfilling its role effectively, the Banque de France needs to be able to adapt to a rapidly changing environment. It is constantly interacting with and meeting the demands of a wide variety of stakeholders – households, banks, businesses, the State, central banks, students, journalists, etc. – placing it under growing pressure in terms of quality, responsiveness and efficiency. The Banque de France has to adapt if it is to continue meeting these expectations and preserve its legitimacy.

- To improve working conditions (reducing hazardous work, improving safety, etc.) and provide work tools and methods that are adapted to the external environment: this is vital both for current Banque de France employees, who need up-to-date professional resources, and to continue attracting young recruits to replace the high proportion of staff due to retire at the end of the decade.
• To contribute to the national objective of reducing public spending: the Bank derives seigniorage income from its exclusive currency issuance rights and from its role as a central bank. However, as an institution of the French Republic, it has to ensure that its activities are cost-efficient.

In order to meet these challenges, the Bank’s transformation comprises both “business-specific” projects, targeted at individual functions or groups of functions in operations or support, and “cross-business” projects designed to capitalise on the transformations already implemented and promote a genuine “business culture”.

3.1 Modernisation of the branch network

The main objectives of the 2020 branch transformation plan are as follows:

• for service activities: to maintain a permanent presence in each département, with greater specialisation at certain sites (separation of reception sites for the general public and businesses on the one hand and pooled processing centres on the other), the connection of branches via a computer network and the increased use of digital tools;

• for cash management: to concentrate flows at 38 strategic centres, increase automated banknote processing, and make the cash circuit more robust via a controlled increase in external banknote recycling.

These major changes to the branch network will be rolled out gradually and pragmatically, taking into account the large number of staff due to retire between 2015 and 2020, and the specific situation of each site.

With regard to service activities, the main focus of the first part of the transformation plan will be to digitise and outsource all files, in order to be able to adjust each unit’s workload and maintain the overall operational capacity of the network.

The project to transform the cash management business involves a complete reorganisation of activities, a switch to harmonised, modern equipment with increased sorting capabilities, the introduction of new packaging and the renovation of the existing information system. For our external partners – banks and cash-in-transit companies – the most visible parts of this transformation will be the construction of two new currency management centres, one in the north of France and one in the Paris region, and the restructuring of the remaining cash centres (see Box 17).

Box 17

New currency management centres and equipment renewal: first stages and future projects

The Banque de France has launched a cash management efficiency programme which aims to meet three objectives by 2020: improve performance by increasing automated banknote processing at cash centres, improve working conditions and raise the quality of services to cash industry participants. The first two phases of this programme were launched in 2013.

• In the first quarter of 2014, a new banknote sorting machine was selected to replace all existing models by 2020. The new model can sort 33 banknotes per second (against 21 notes per second for the existing machines). In the second half of 2013, following a Europe-wide call for tenders, the Banque de France tested three possible machines for its site in Paris. Once all tests and analyses have been completed, the selected model will gradually be installed at Banque de France cash centres from 2015 onwards.

• The construction of the second new currency management centre near Lille is due to start in the second half of 2014. The building is a radically new design, with a high degree of automation, particularly for storage operations. It is scheduled for completion in the second half of 2015, and should open for business in 2016. Work on the second new cash management centre to the north of Paris will begin in 2015 and should be completed in 2017.
In addition to the challenges of coordinating these projects, managing the transition and improving the tools to manage the network, the Bank is taking an innovative approach to its modernisation plan, increasing staff participation and testing each phase of the project.

### 3|2 Optimisation of the support functions

Like any company, the Banque de France needs strong support functions if it is to operate effectively. A number of projects have already been conducted to enhance these functions. These have concentrated in particular on:

- the digitisation and automation of processes, to allow the directorates in charge of these processes to manage them more directly;

- increased pooling of needs between general directorates, to build up sufficient volumes of activity and thus use resources more efficiently;

- the use of outsourcing, where justified, to get the best value for money for the Bank.

In recent years, the main functions targeted have been human resources, IT, and the accounting and property departments. Going forward, the Bank will continue its efforts to simplify and standardise its procedures, in order to apply the best practices used by other institutions and businesses.

### 3|3 Implementation of the Digital Plan

The aim of the Digital Plan is to prepare the Bank to face the challenges of a digital era. It comprises all the major transformation projects designed to take the Bank forward in terms of information-sharing, technological innovation, skill-sharing and cooperation. As a result, it also involves a radical change in working methods.

The Digital Plan is a portfolio comprising projects that will directly help to modernise the branch network, and optimise the support or operational functions, or that will have a direct impact on the internal functioning of the Bank – for example, the creation of the Bank’s enterprise social network.
Inauguration of the Michèle Bergsten Centre

On Friday 18 September 2013, the Governor of the Banque de France, Christian Noyer, officially inaugurated the new Michèle Bergsten IT centre. The event was a key milestone in the Bank’s project to modernise and secure its IT operations, one that will help it meet the challenges of the future, increase its efficiency and assert its position within the ESCB.

The Michèle Bergsten Centre is a state-of-the-art, ultra-reliable and scalable IT platform, covering a total surface area of 2,000 m². It meets the highest standards in terms of energy-efficiency and is built to HQE (high environmental quality) requirements. Following on from the installation of the new network and data management infrastructure, work has begun on transferring the IT hardware from the existing centre in Noisiel; the first wave of servers was transferred across in December and the entire move is expected to be completed by the summer of 2014. Renovation work will then begin on the IT centre in Noisiel, with the ultimate aim of creating a fully redundant replica platform, to ensure that all applications have high processing availability.
Activities
of the Banque de France in 2013

Eddy B.,
Directorate of Human Resources,
Methods and Information Systems
The Banque de France’s activities in 2013 can be divided into three core categories: the provision of services to the national community, Eurosystem-related tasks, and the safeguarding of financial stability.

1 | Services for the community

1.1 Assessing the economy and its financing

Business surveys

Based on its monitoring and analysis of business conditions, the Banque de France provides the Eurosystem and policy-makers with an assessment of the French economy comprised of indicators, forecasts and structural studies. The Banque de France branch network conducts monthly surveys of a broad panel of business managers on manufacturing, market services and construction, and publishes monthly balances of opinion. The branches also conduct a retail trade survey, publishing turnover indices.

The national overview is complemented by regional publications. These were redesigned in 2013 to better meet readers’ expectations. The business survey was expanded to cover the construction sector and an agreement was reached with the distance selling industry federation to include online sales in 2014. The Banque de France also conducts and publishes quarterly surveys of the wholesale trade and public works sectors, along with a survey of the financial situation in industry.

In June 2012, the Banque de France launched its quarterly survey of access to credit for small and medium-sized enterprises (SMEs) and for mid-tier enterprises (MTEs). The survey was later expanded to include the construction sector. The frequency and statistical depth of this survey are unmatched in Europe. It is a key tool for assessing bank lending.

Business observatories

The Banque de France contributes to the work of several business observatories.

One of the oldest of these is the Observatoire des délais de paiement (the Trade Credit Observatory), which was set up in 1991 with the Banque de France providing the secretariat. The Observatory’s 2013 report details the progress achieved during the year on curbing late payments, but once again, the report expresses regret about the instability of laws and regulations in these matters. It provides more specific details than the 2012 report about the efforts to be made by local governments and social administrations to reduce payment times.

The 2013 report of the Observatoire du financement des entreprises (the Observatory for the Financing of Enterprises), created in 2010, states that, despite maintaining healthy cash and equity positions, investment is still soft, particularly in construction, whereas investment in industry is devoted primarily to replacing plant and equipment. The report sees this pattern as weakening the non-price competitiveness of the French economy, even though the banking system as a whole seems willing to approve loan applications from businesses.

1.2 Monitoring companies

Corporate credit ratings

At the end of 2013, the Bank had attributed ratings to some 270,000 companies, based on their accounting records and their parent company and consolidated financial statements. The credit rating system reflects the Banque de France’s overall assessment of a company’s ability to meet its financial commitments over the next three years. The Banque de France eschews fully automated credit scoring processes and applies an “expert assessment” approach based on in-depth individual analysis of the financial and non-financial situation of a given company or group. The three-year timeframe for the analysis helps to limit the impact of short-term factors as far as possible (see Box 19).

The rated companies can use the ratings as an external assessment to determine where they stand on a scale of risks. The company manager can also use the rating when dealing with banks. The rating promotes greater transparency, thereby facilitating access to credit.
Box 19

Credit rating as a synoptic assessment

The rating comprises two components:

- the turnover rating, which indicates the company’s level of turnover, if known, material and recent. The ratings range from A (EUR 750 million or more) to M (EUR 100,000 or less);

- the credit rating, which represents an assessment of the company’s solvency risk. In descending order of quality, the categories are: 3++, 3+, 3, 4+, 4, 5+, 5, 6, 7, 8, 9 and P. A rating of 0 is given in the absence of any negative information or recent financial statements (7,446,868 enterprises concerned). Ratings of 7 to 9 are given to companies that have been delinquent in paying bills. A rating of P is given to companies undergoing insolvency proceedings (turnaround procedure or judicial liquidation). Such proceedings concern 747,801 entities without any valid financial statements and 1,534 entities that have provided a balance sheet (see table opposite).

Box 20

Banque de France manager indicator

The Banque de France manager indicator is assigned to individuals who have managed or are managing enterprises. It is drawn from freely available public information obtained from the courts, which the Banque de France then summarises, using an objective and transparent scoreboard. It does not imply any value judgments about managers’ management abilities.

The value of the manager indicator can be 000, 050 or 060. The manager indicator 040, which was assigned to managers and/or sole proprietors having worked for one enterprise that was liquidated by a court order, was abolished by Decree No. 2013-799 of 2 September 2013.

Several conditions may determine the indicator value assigned to a manager:

- 000: neutral indicator;

- 050 and 060: the individual manager has been a legal representative and/or sole proprietor of two enterprises (050) or three or more enterprises (060) that have each been wound up by a court order in the last 5 years (unless the enterprises are covered by a judgment affecting a third party or the extension of a judgment). Furthermore, the indicator 050 is assigned when a recovery plan is drawn up as part of a court-ordered personal recovery procedure; the indicator 060 is assigned for a period determined by the court to an individual personally affected by certain court decisions (personal bankruptcy or a ban on managing or controlling an enterprise). Only 0.6% of managers had indicators of 050 and 060 at 31 December 2013 (6,600 with 050 and 30,900 with 060).

Managers are notified of their manager indicator when it is no longer 000 or when it is reset to 000. The information that the Banque de France has about company managers and sole proprietors may be disclosed to credit institutions and economic and financial administrations under the procedures set out in Article D144-12 of the French Monetary and Financial Code, which also sets the disclosure time limits for such information. Access to this information requires a subscription to the FIBEN banking database on companies, which the Banque de France operates for the benefit of the banking industry.
The Banque de France’s rating system has been approved as an In-house Credit Assessment System (ICAS) within the Eurosystem. This means that its corporate ratings can be used to gauge the credit quality of assets pledged as collateral for bank refinancing operations. The Eurosystem regularly assesses ICAS’ compliance with eligibility criteria against pre-defined credit quality thresholds. Since 2012, the notion of “Basel default”, defined in Basel II, has replaced the notion of “failure” as the fundamental criterion of a default. The credit quality thresholds have not changed. To meet this new requirement, the Banque de France set up a system for collecting statistics on “Basel defaults” from banks and adapted its methodology.

As the Banque de France is also recognised as an External Credit Assessment Institution (ECAI), credit institutions may use its ratings to calculate their regulatory capital requirements. This recognition also shows that the rating system meets the international criteria for credit risk assessment, such as objectivity and independence in assigning ratings, regular ratings reviews, transparency and communication on its methodology. Furthermore, banks can also use the rating system in their decision-making process, with the possible addition of the indicators that the Banque de France assigns to company managers (see Box 20).

Credit mediation

As part of the structure set up in 2008 under the national mediation framework, and upheld by the national industry-wide agreement which was renewed for two years at the start of 2013, Banque de France branch directors, in their capacity as departmental credit mediators, continued to facilitate dialogue between financial institutions (bankers, credit insurers and factoring companies) and business managers.

Working with the national mediation framework analysts, the local mediation teams handled an average 365 cases per month, 7.4% more than in 2012 (340 cases per month).

The economic slowdown has exacerbated many companies’ structural problems, making their cases more complex to handle. This is the main reason for the lower rate of successful mediations, which stood at 57% in 2013, five points lower than the long-term average. In addition to the increase in applications and

---

1 i.e. a probability of default within one year of 0.1% or less for ratings of 3 and 0.4% for ratings of 4+. As part of a temporary eligibility programme for credit claims, banking claims on companies rated 4 have also been eligible collateral, under certain conditions, since February 2012.

2 A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:
   • the bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realising security (if held);
   • the obligor is past due more than 90 days on any material credit obligation to the banking group.

3 Failure is assimilated with the opening of insolvency proceedings (turnaround procedure or judicial liquidation).
cases accepted, 2013 was marked by the successful conclusion of four major cases involving exceptionally large numbers of jobs and amounts. This explains the marked increase in these indicators compared to 2012 (see the mediation figures above). Credit mediation led to a total of nearly EUR 1.4 billion in loans being made available in 2013.

Since the system was introduced in November 2008, nearly 42,000 troubled enterprises have applied for credit mediation and 80% were admitted for the procedure. Mediation has enabled more than 18,000 enterprises to obtain financing after an initial rejection. More than EUR 5 billion in loans was granted, helping to save or preserve some 300,000 jobs (see Box 21).

### 13 Management of general interest databases and consumer protection

#### Database management

The national legislator has entrusted the Banque de France with the task of managing various databases aimed at preventing over-indebtedness and improving the security of payment instruments (see Box 22).

The service charter drafted in collaboration with the banking industry defines indicators for monitoring the performance of the FICP. The indicators show that the real-time data availability rate was very close to 100% in 2013.

### Box 21

**Mediation figures in 2013**

- 4,382 applications (+7.4%), of which 74% were deemed eligible
- 2,682 applications processed and concluded (–16.2%)
- 1,530 enterprises kept in business (–1.3%)
- 47,725 jobs saved (+38%)
- EUR 1.4 billion in loans made available (+158%)

### Box 22

**Household payment incident databases managed by the Banque de France**

The National Register of Household Credit Repayment Incidents (FICIP) records serious repayment incidents related to personal loans, along with the measures to deal with over-indebtedness.

The Central Cheque Register (FCC) centralises information about payment incidents involving cheques and bankcards, to prevent bad cheques and abuse of bankcards.

The National Register of Irregular Cheques (FNCI) compiles information about stolen and lost cheques and disseminates it to merchants and service providers, enabling them to verify the lawfulness of cheques.

### Supervision of business practices

The Autorité de contrôle prudentiel et de résolution (ACPR – French Prudential Supervision and Resolution Authority) ensures that the entities under its supervision comply with the rules implemented to protect their customers. These rules deal with advertising, pre-contractual information, the duty to advise or warn, and the execution and settlement of contracts. Supervisory inspections are made of many credit institutions, insurance entities and intermediaries.

In 2013, these inspections highlighted room for improvement in the banking sector when dealing with “vulnerable” customers as regards the marketing and execution of revolving credit contracts, as well as upholding the right to a bank account. The inspections also found room for improvement in the insurance sector as regards unclaimed life insurance policies and the duty to advise on life insurance and general insurance.

Some of the breaches found led to penalties handed down by the ACPR Enforcement Committee.

The ACPR analysed the compliance of 4,193 advertisements for consumer credit, life insurance and health insurance and processed 4,762 written claims and requests from customers.
Compliance with requirements for access to the professions of insurance intermediaries and banking transaction and payment services intermediaries is a matter of particular concern with regard to customer protection.

The ACPR responded to the entry into force of new regulations governing banking transaction and payment services intermediaries by defining internal control requirements for institutions that use such intermediaries to market their products and services (Position 2013-P-01 of 13 November 2013).

Finally, the ACPR also approved two codes of conduct for marketing and customer protection, which complement the business practices guide available on its website.

1|4 Handling of household over-indebtedness

The government has entrusted the Banque de France with the specific task of handling cases of household over-indebtedness. The Bank’s branches provide the secretariats for household debt commissions, which are collegial administrative bodies that work under the supervision of the courts to define and propose solutions for certain individuals facing serious financial problems.

In 2013, 223,012 cases were submitted to household debt commissions. This represents a 0.98% increase with respect to 2012 and a 4% decrease compared with 2011 (see the national overview of household debt commissions’ activity reports in the appendix).

Preparations were made in 2013 for changes in the procedure for dealing with over-indebtedness under the terms of the Banking Act, which came into force on 2 January 2014. The reforms aim to simplify and speed up the procedure, and enhance protection for debtors, by helping over-indebted households remain in their homes and facilitating the provision of social services.

1|5 Holding general government accounts and managing Treasury auctions

Holding general government accounts

The holding of general government accounts is governed by the agreement signed on 25 July 2011 between the Banque de France and the Ministries of the Economy and of the Budget. This agreement provides for:

• the provision of real-time information to Agence France Trésor (AFT), the government agency tasked with public debt and treasury management;

• the provision of online banking services for government accountants;

• the migration of the Treasury to European payment instruments (SEPA credit transfers and SEPA direct debits);

• the reduction of collection times for cheques of less than EUR 5,000, which account for 98% of the total number of cheques cashed by the government.

These changes were made in accordance with the core principles governing the operation of the accounts. More specifically, the Banque de France may not provide government entities with advances, under the terms of Article L141-3 of the French Monetary
Activities of the Banque de France in 2013

Box 23
Managing Treasury auctions

Agence France Trésor (AFT) has given the Banque de France the task of organising auctions of fixed-rate short-term discount Treasury bills (BTFs), fungible Treasury notes (BTANs) and fungible Treasury bonds (OATs).

As part of the service rendered to the central government, the Banque de France has developed and improved the TELSAT auction system that enables primary dealers (SVTs) to transmit their bids directly from their trading rooms in real time and enables AFT to answer the bids in accordance with the provisions of the relevant laws and regulations (anonymity of bidders, “Dutch” auction). Since the beginning of 2013, the TELSAT application has provided primary dealers with multiple-connection facilities.

The ongoing contacts between the Banque de France and AFT have helped to optimise the auction process (e.g. reducing the time lag between the deadline for primary dealers’ bids and the publication of the auction results).

2| EurosysteM-related tasks

2|1 Monetary policy

Economic and inflation forecasts

The Banque de France prepares the Eurosystem’s monetary policy decisions by compiling statistics and data on the French economy and producing economic forecasts and analysis. It publishes a monthly business survey (EMC), along with a forecast of GDP growth over the next three months (monthly index of business activity or MIBA). The Banque de France also takes part in the work of the Eurosystem’s Monetary Policy Committee by producing growth and inflation forecasts for France for the next two years in coordination with the other central banks in the Eurosystem. These forecasts contribute to the production of forecasts for the euro area.

Together with additional information from the euro area forecasts, they provide the Banque de France with its own economic assessment for France and the euro area. This assessment has been particularly helpful during the economic turmoil in recent years.

Compiling the balance of payments

The Banque de France compiles France’s balance of payments and international investment position. The balance of payments records the French economy’s economic and financial transactions with the rest of the world: trade in goods and services, income received or paid, inward and outward foreign investment, cross-border loans, variation in foreign exchange reserves, etc. The international investment position records France’s foreign liabilities and assets.

The balance of payments is an important tool for making economic and financial assessments. It is used to determine other national aggregates, such as GDP and national income, and international aggregates, such as the euro area balance of payments.

and Financial Code, which means that the Treasury account must always be in credit.

The Banque de France has also undertaken to improve the quality of its banking services, in terms of security, information and financial neutrality. For example, the Banque de France provides the AFT with supervisory services for large payments made from the 7,000 public accountants’ accounts and provides real-time traceability of financial flows by broad transaction categories. Quality indicators have been defined and are reviewed at monthly steering committee meetings.

Since 4 November 2013, some public treasury entities have started using the new online banking functions for entering orders for individual credit transfers in foreign currencies and for downloading payment order files. These transactions are then submitted to the application that verifies customer orders and transmits them to the account-keeping and banking transaction-processing applications.

Implementation of these functions is the first stage of the ATENA project, which aims to implement a new application for managing the Banque de France’s institutional customers’ euro-denominated cash accounts in November 2014.
These statistics are also used for the European Commission’s scoreboard of indicators that provides early warning of macroeconomic imbalances.

In 2013, the Banque de France continued to expand its understanding of trade in services and financial transactions, and its contribution to the international work of the IMF and the OECD.

Research and publications

The Banque de France’s economic research helps to inform monetary policy decisions, discussions at international gatherings (G20, G7, BIS, IMF, etc.), the national economic policy debate and financial stability assessments. This research has led to the development of tools for economic assessments and medium-term macroeconomic forecasts, models for evaluating the impact of monetary policy, and estimates of potential growth and the impact of structural reform on medium-term growth.

Research in 2013 focused on both the financial economy and the real economy, and the link between the two, particularly in the context of a crisis: non-standard monetary policies, the impact of the crisis on lending, incentive systems for banks, shadow banking, wage and price rigidity, etc.

The number of publications by Banque de France economists in academic journals remained stable, with 64 publications in 2013 (many of which appeared in the best journals, as rated by France’s national research centre – CNRS). The Banque de France has continued to climb in the international rankings, achieving third place among the Eurosystem central banks at the end of 2013, behind the ECB and Banca d’Italia, according to the IDEAS ranking of the Federal Reserve Bank of Saint Louis.

Some ten high-level conferences were held, bringing together academics and officials from institutions.

Research partnerships

The Banque de France strengthened its cooperation with universities by signing partnership agreements either directly or through the Banque de France Foundation (see Box 25). The Banque de France signed
Activities of the Banque de France in 2013

Box 24

Conference on the contribution of microdata to the analysis of firms’ behaviour in times of crisis

On 28 and 29 November 2013, the Banque de France hosted an international conference on “Firms’ behaviour in crises: what do microdata tell us?” The event brought together some of the top European specialists in microeconomic analysis and microdata processing from universities, central banks and statistics institutes.

The dual thrust of the conference was stressed: improving our understanding of the impact of firms, during and after the “great recession”, on key variables such as output, prices, investment and jobs; and emphasising the importance of microdata, an area in which the Banque de France is particularly active, through the collection of data and the conduct of microeconomic research.

The four sessions of the conference highlighted the wide range of areas where microeconomic databases and econometric research can contribute to a closer understanding of adjustment mechanisms during crises: firm demographics, labour market adjustments (jobs, wages), access to bank financing and firms’ export market positions.

Box 25

The Banque de France Foundation for Research into Monetary, Financial and Banking Economics

The Banque de France Foundation held 20 seminars in 2013 and hosted 13 visiting scholars from leading universities, including MIT, EUI Florence, Pompeu Fabra and the London School of Economics, and from central banks, including the Federal Reserve Bank of New York, the Federal Reserve Bank of San Francisco and the Bank of Canada. The visiting scholars worked productively with the Banque de France research teams.

Two macroeconomic workshops were organised in partnership with Crest/Polytechnique, PSE, TSE, and Sciences Po. The first was held at TSE in June and the second at the Banque de France in November. Several research papers in 2013 focused on taxation issues and the macroeconomic effects of technological change, in addition to topics relating to monetary policy and economic fluctuations.

The Foundation awarded four research grants as part of its 17th call for tenders. These grants went to international research teams working on the following subjects: currency option markets; credit default swap markets; links between macroeconomic fluctuations and inequality; social welfare gains from wage flexibility. The 18th call for tenders attracted 55 applications for research projects by 132 researchers from 22 different countries. Their research topics are illustrated in the chart above.

The Foundation awarded three prizes to young economics researchers, consisting in a partial release from their teaching obligations. It also awarded its monetary and financial thesis prize at the 62nd annual conference of the French Economics Association held in Aix-en-Provence in June 2013.

Research project topics (%)

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agreements with France’s top three economics faculties (Toulouse School of Economics or TSE in 2008, Paris School of Economics or PSE in 2009 and Sciences Po since 2012), as well as with Foundation for International Development Studies and Research (FERDI) in Clermont-Ferrand in 2012. The Banque de France has also continued its partnership with the Aix-Marseille School of Economics. Relationships with universities are also expanding through research projects, through the participation of Banque de France economists in university conferences and through exchanges of research personnel.

2|2 Market operations

The Banque de France conducts market operations on its own account and on behalf of the European Central Bank (ECB) for the purposes of its management of foreign exchange reserves and the services it provides to its institutional customers. It is responsible for implementing the Eurosystem’s monetary policy for France and it carries out market analysis with a special focus on bank refinancing.

The Banque de France conducts market activities for a number of different purposes including:

• managing bond portfolios: management of the Banque de France’s foreign exchange reserve portfolios to ensure liquidity and security, delegated management of some of the ECB’s foreign exchange reserves and management of euro-denominated asset portfolios;

• conducting spot foreign exchange transactions: this activity includes transactions carried out for the purposes of managing the Banque de France’s foreign exchange reserves, implementing the Eurosystem foreign exchange policy and providing services to customers;

• managing term deposits: the Banque de France takes term deposits and reinvests the funds in the market as part of the services it provides to its international institutional customers;

• monetary policy implementation: the Banque de France contributes to the execution of the Eurosystem’s monetary policy transactions by ensuring that French banks meet their reserve requirements, comply with collateral eligibility and delivery rules, etc. It also participates in the execution of refinancing and intervention transactions with the credit institutions in France that are counterparties for the Eurosystem. The Banque de France also analyses day-to-day changes in bank liquidity, market expectations regarding monetary policy, money market operations and French banks’ refinancing arrangements (see Box 26).
Activities of the Banque de France in 2013

2|3 Banknotes and coins

Banknote production

The Banque de France operates two factories in Puy-de-Dôme that are fully dedicated to producing banknotes: the paper mill in Vic-le-Comte and the printing works in Chamalières. In this capacity, the Banque de France is a major industrial player in the Puy-de-Dôme département and in the Auvergne region as a whole. These two manufacturing activities have a high technological content. They require a substantial flow of investment each year that has an impact on the local subcontracting industry. The Banque de France is the largest (public or private) producer of euro banknotes.

Box 26

Securitisation of credit claims

Expanding the use of credit claims as collateral is a major issue for the Banque de France and the Paris financial markets. Promoting the use of credit claims is especially appropriate, since this category of collateral proved to be very important and resilient during the crisis.

The Banque de France has played a leading role in a project started in 2012 to achieve this. It is expected to produce many benefits. The first would be wider use of credit claims as collateral for transactions with central banks (not only domestic transactions, but cross-border transactions as well) and also for interbank market transactions. The project should lead to the emergence of a new type of collateral to meet the tighter collateral requirements stemming from regulatory changes. The project should facilitate the refinancing of loans to businesses and to SMEs more particularly, thereby enhancing the transmission of monetary policy to the real economy. Finally, it should reduce dependence on rating agencies, since it is based on central bank rating systems (FIBEN in France), and on banks’ internal rating systems, as is already the case for collateralisation of credit claims for transactions with the Banque de France.

The project entered an operational phase in 2013, thanks to the commitment of six major banks and the French Banking Federation, with very active support from the Banque de France. Some of the leading industry associations in Europe are also very committed to disseminating the arrangement in Europe.

The market vehicle used to transform credit claims into securities will take the form of a public limited securitisation company. Each bank or group will have its own compartment in the company for issuing bonds that can be traded on a regulated market or over-the-counter. The first security issue is expected in the first quarter of 2014. The Banque de France is particularly vigilant about ensuring that the arrangement is simple, legally and financially robust, and transparent. These characteristics will ensure that the new assets will be of very high quality, meeting the highest collateral standards for the Eurosystem. Leading investors have expressed their interest in the product. Work within the Eurosystem on determining the eligibility of the new product as collateral for monetary policy operations continued in 2013 and should be completed in 2014.


Eligible claims for the Eurosystem

Transparent approach, loan level ratings

No securitisation *

Over-collateralisation

Assets

Bank A
Collateralised loan 1

Bank B
Collateralised loans 1, 2

Bank C
Collateralised loans 1, 2

Bank A
Collateralised loan(s)

Liabilities

ISIN securities X1

ISIN securities Y1, Y2

ISIN securities Z1, Z2

ISIN securities...

Standardised contract documentation

Documentation adapted to suit requirements

Straightforward collateral pledge

No tranching

* Not securitisation in the prudential meaning of the term.

The Banque de France has played a key role in the project since (i) existing infrastructures for collateralisation of credit claims have been adapted for the use of the securities issued, (ii) corporate credit ratings given by Banque de France branches will be used to assess underlying assets, and (iii) refinancing of business loans through simple securitisation arrangements is a major objective of the Eurosystem.
Both factories have been certified OHSAS 18001 (occupational health and safety), ISO 9001 (quality management) and ISO 14001 (environmental management). They have also received the AFNOR sustainable development certification 1000 NR (maturity level).

The year 2013 saw the consolidation of production of the new series of euro banknotes, and all of the factories’ export contracts.

The Chamalières printing works has two sheet-fed printing lines and operates around the clock, four or five days a week, depending on the order book. In 2013, its activity concentrated on production of the new €5 banknote, which was issued on 2 May 2013 (see Tasks and strategy, Box 13). It also focused on producing the future €10 banknote (to be issued in September 2014) and on producing large quantities of banknotes for foreign central banks with which the Banque of France has forged strong partnership links.

The Vic-le-Comte paper mill worked on meeting the printing works’ supply requirements, as well as taking part in the development of the different denominations of the future “Europa” banknote series, since several of the technological innovations incorporated into the new series involve the way the paper is produced. This is especially true of the future €20 banknote. With this in mind, a major investment in a new security paper machine was made in 2012, which puts the paper mill at the forefront of the factories qualified to produce the new series of euro banknotes. The ECB designated the Vic-le-Comte site as the Paper Test Centre for the Eurosystem.

In addition to ensuring mass production of the new €5 and €10 banknotes, both factories are also working on preparations for the new €20 and €50 banknotes to be introduced next.

### Banknote production in 2012 and 2013

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual volume produced and delivered</td>
<td>2.30</td>
<td>3.07</td>
</tr>
<tr>
<td>Employees</td>
<td>944</td>
<td>931</td>
</tr>
</tbody>
</table>

Source: Banque de France.

Managing banknotes and coins in circulation

One of the Banque de France’s key tasks is to issue banknotes and coins and maintain the quality of banknotes and coins in circulation throughout France. The central bank acts as a wholesaler: its 68 branches in metropolitan France deliver new banknotes or recirculated banknotes that have been sorted, authenticated and deemed fit for circulation. Unfit banknotes are destroyed.

Net banknote issuance in France in 2013, which is defined as the difference between total withdrawals of banknotes and total deposits of banknotes at national central banks since the first issuance of each denomination, increased by 7.1% in volume (for an increase of 260 million banknotes) and by 6.3% in face value (for an increase of EUR 6.1 billion). However, the growth rate, which is driven mainly by demand for transaction denominations (€5, €10, €20, €50), has been trending lower for several years now.

In terms of gross flows, banks deposited and withdrew more than 7 billion banknotes and coins at the Banque de France and the IEDOM. The period under review saw a decrease in the volume of banknote withdrawals (-2.9%) and deposits (-2.5%).

Net issuance of coins was also up on 2012, rising 5.1% in volume and 3.2% in value. More than 80% of net withdrawals (difference between total withdrawals...
Box 27

Recirculation of euro banknotes and coins in 2013

Agreements governing coins to be delivered to the Banque de France and inspections by the Banque de France

As at the end of 2013, 34 agreements were in force between the Banque de France, credit institutions, cash-in-transit companies and companies operating ATMs. In metropolitan France, there are 141 sites processing coins that may be deposited at the Banque de France.

Banque de France inspectors visited 52 sites in 2013. The inspections revealed some problems (inadequate equipment, operating and internal control procedures, etc.) that were quickly remedied.

National laws and regulations are being adapted to the provisions of European Regulation 1210/2010 concerning the authentication and handling of euro coins. These adaptations will not have any material impact on the operational and authentication arrangements implemented since 2004.

Agreements governing automatic distribution of banknotes that are not withdrawn from the central bank and inspections by the Banque de France

The European Central Bank decision ECB/2010/14 of 16 September 2010 on the authenticity and fitness checking and recirculation of euro banknotes was amended by the decision of 7 September 2012. The latter decision incorporates the provisions dealing with the new ES2 series of banknotes, harmonisation of banknote categories for equipment used for recirculation, stepping up of off-site monitoring and streamlining of certain reporting requirements.

At the end of 2013, the Banque de France and credit institutions had signed 61 agreements on “the distribution through self-service machines of banknotes not withdrawn from a Eurosystem central bank”. The ATMs of 6,602 bank branches distributed banknotes that had not come from the central bank. In most cases, the banks had processed the banknotes themselves. Even though recirculation of banknotes is still primarily the work of bank branches, bankers are increasingly subcontracting this task to their cash-in-transit companies. When banknotes that do not come from the Banque de France are used to load ATMs, up to 23% of them have been processed on the premises of a cash-in-transit company.

In 2013, the Banque de France conducted 267 on-site inspections of bank branches or sites processing banknotes to be loaded into ATMs. None of these inspections led to an immediate suspension of recirculation. Problems detected by off-site monitoring resulted in letters of formal notice to remedy non-compliant situations. At the end of 2013, all of these situations had been remedied.

Training bank employees in banknote authentication

In accordance with the provisions of Article R122-6 of the French Monetary and Financial Code, the Banque de France continued to provide support to banks that requested it in the training of staff responsible for the manual distribution of banknotes in bank branches. In 2013, the Banque de France trained 3,589 credit institution employees.

Implementation of banknote recirculation and coin processing in the overseas departments (Guadeloupe, French Guiana, Martinique, Reunion and Mayotte) and in the collectivities of Saint Barthelemy, Saint Pierre and Miquelon, and Saint Martin

The Banque de France made the French overseas note-issuing bank (IEDOM) responsible for managing the system for credit institutions headquartered in the overseas departments and collectivities. At the end of 2013, nine agreements on the delivery of recirculated banknotes through ATMs had been signed. IEDOM conducted inspections in three of the 59 sites concerned. In addition, ten agreements on “automated coin processing” governing ten production sites were in force. Six of the sites were inspected.

1 Report presented for the purposes of Article R123-3 of the French Monetary and Financial Code.
and total deposits) involved the smallest coins (1 cent, 2 cent, 5 cent) given the low rate of return of these coins to the Banque de France.

### Box 28 Transposition of CRD IV

The CRD IV legislation package, which is made up of a Regulation and a Directive, tightens prudential requirements for credit institutions and investment firms as of 1 January 2014 by implementing the Basel III regulatory framework in Europe. The ACPR worked hard in 2013 to prepare a proposal for the transposition of the Directive. It worked in liaison with the Directorate General of the Treasury and consulted with the industry. The proposal called for amendments to certain articles of the French Monetary and Financial Code and the drafting of proposed Orders from the Minister of the Economy to introduce prudential rules, such as capital buffers, or changes to the Pillar 2 arrangement. These changes concern the individual measures that supervisors may take based on an assessment of each bank’s risk profile, in addition to the minimum regulatory requirements under Pillar 1.

The Regulation deals with all of the prudential requirements under Pillar 1. This is the first time that a directly applicable regulation dealing with prudential matters has come into force. It required an exhaustive review of existing French regulations, many of which had become null and void. Another consequence was the definition of a new category of finance companies in the Order of 27 June 2013 to cover entities with activities that do not entirely match the definition of credit institutions subject to the Regulation. The ACPR played a major role in preparing the new definition and the ministerial order of 23 December 2013 that sets the prudential requirements for the new category.

### 3| The bank’s role in ensuring financial stability

#### 3|1 Prudential supervision

The tasks given to the ACPR under the terms of Article L612-1 of the French Monetary and Financial Code encompass all of the events affecting the entities subject to its supervision: the ACPR issues the authorisations and approvals provided for under the laws and regulations and monitors their financial situation and operating conditions. In addition, the Act of 26 July 2013 on the separation and regulation of banking activities gives the ACPR a key role in setting up the bank resolution system.

In addition to preparing French insurance industry players for Solvency II, the ACPR engaged in many supervisory actions with regard to insurers under the current regulations. It renewed its recommendations to the industry on monitoring insurance companies’ investment diversification. Close attention was also paid to supervision of insurance groups. ACPR staff also contributed to the work of the Financial Stability Board (FSB) drawing up a list of nine Global Systemically Important Insurers. One French insurer (AXA) is on the list.
The ACPR’s bank supervision activity focused largely on preparations for major regulatory changes (tracking solvency and liquidity trajectories for the entry into force of CRD IV/Basel III, EMIR, the new Act on the “separation and regulation of banking activities”), and major upcoming institutional changes, such as setting up the Single Supervisory Mechanism in November 2014. Special attention was also given to monitoring the consequences of the crisis for banks. This supervisory effort was stepped up with regard to systemically important French groups, with enhanced cooperation between supervisors.

The ACPR also represents France’s prudential supervision structure in European and international insurance and banking bodies, working closely with the Banque de France and the relevant government bodies. The ACPR plays an active part in defining supranational standards and working to achieve financial stability objectives in France and in Europe.

3|2 Security of means of payment and oversight of market infrastructures

The implementation of the European Market Infrastructure Regulation (EMIR) regarding over-the-counter derivatives, central counterparties and trade repositories was a major focus of the Banque de France’s oversight of market infrastructures in 2013. The French clearing house LCH.Clearnet SA filed an application for authorisation in September 2013 that was deemed to be complete in November. The college of regulators for LCH.Clearnet SA was set up at the end of 2013. It is made up of 18 authorities, including the three competent authorities from France (ACPR, Banque de France and AMF), and it is chaired by the Banque de France. The task of the college is to issue an opinion as part of the authorisation process for the clearing house, in consideration of a report drafted in early 2014 by the three national competent authorities on the assessment of the central counterparty’s risks in light of the requirements under EMIR. In 2013, the Banque de France also made an assessment of the risks incurred by LCH.Clearnet SA in providing clearing services as part of the triparty repo service, EuroGC+, offered by Euroclear France.

As part of its tasks relating to the surveillance of means of payment under the terms of Article L141-4 of the French Monetary and Financial Code, the Banque de France pays very special attention to the security of bankcard payments. Even though such payments account for only 9.2% of the value of national transactions, they account for 61% of the amount of cashless payment fraud. This action involves promoting best practices for merchants and payment service providers with regard to online payments.

Box 29

SEPA

The Single Euro Payments Area (SEPA) aims to create a single set of euro cashless payment instruments. As of 1 February 2014, which was the deadline set by the European regulations for replacing domestic credit transfers and direct debits with their European equivalents, French government bodies and many large corporations had successfully completed their migration to SEPA instruments. At the end of February 2014, SEPA credit transfers and SEPA direct debits accounted respectively for 92% and 87% of transfers and debits executed through retail payment systems in France (by transaction date).

Throughout 2013, the Banque de France worked within the framework of the National SEPA Committee, which it also co-chairs, alongside the French Banking Federation and industry bodies to launch many communications campaigns. These campaigns were aimed at laggard companies, primarily SMEs and very small enterprises, providing them with information for successful migration to the new SEPA payment instruments. The Banque de France branches played a key role by organising some sixty meetings throughout France. The Banque de France also conducted a massive communications campaign in the national and local newspapers. These campaigns have been maintained in 2014 so that all stakeholders continue to provide their full support to laggards during the supplementary transitional phase allowed for under the terms of European regulations.
(using non-reusable customer authentication for payments and high-risk transactions).

At the same time, the Banque de France took part in the work by the European SecuRe Pay forum on the security of retail payments. The *Observatoire de la sécurité des cartes de paiement* (the Observatory for Payment Card Security) continued its technology watch over contactless payments. The Observatory is chaired by the Governor of the Banque de France and the Bank provides its secretariat. Act 2013-100 of 28 January 2013 also gives the Banque de France the new task of overseeing special virtual payment instruments.

The Banque de France has also promoted public discussion of innovation and security as the payment instruments market becomes increasingly integrated. On 21 and 22 October, the Banque de France and the ECB jointly hosted an international conference entitled “Retail Payments at a Crossroads: Economics, Strategies and Future Policies”. An article about the dangers of using virtual currencies, and bitcoins in particular, was also published to inform the public debate.

### 3|3 The Banque de France’s action to ensure financial stability

The Banque de France has played its full part within the Eurosystem for decision-making and implementation of the ECB’s action to support the recovery in the euro area and to curb macro-financial imbalances. The Banque de France and the ACPR have also taken part in international efforts to reduce the risks of financial instability through further development of a harmonised regulatory framework that promotes more accurate assessment of threats to financial stability.

Generally speaking, the Banque de France actively participates in international work on financial regulation (Financial Stability Board – FSB, European Systemic Risk Board – ESRB, Basel Committee, Committee on the Global Financial System, etc.). In 2013, it placed special emphasis on ensuring that the new regulatory framework did not impinge on other public policy areas, such as monetary policy, and that its impact on the real economy was measured.

### Domestic developments

The Banque de France and the ACPR made a joint contribution to the drafting and implementation of the Banking Act of 27 July 2013, particularly with regard to the separation and regulation of banking activities and the creation of the High Council for Financial Stability (HCSF). This new authority, which replaces the Financial Regulation and Systemic Risk Committee (Corefris), will be responsible for systemic risk oversight and prevention. Furthermore, the Act
Box 30

**Coordination of the Financial Stability Board**

In 2009 the G20 Leaders set up the Financial Stability Board (FSB), expanding the capacities of the Financial Stability Forum and increasing the number of participating countries. The mandate of the FSB is as follows:

- assess vulnerabilities affecting the global financial system and identify and review the regulations for preventing them;
- promote implementation of international financial regulation standards;
- promote coordination of the work of international technical standard-setting bodies.

In January 2013, the FSB, which had been an informal body up until then, became an association under Swiss law in order to give its action a more permanent basis and to increase its resources for fulfilling its mandate to ensure global financial stability. Its members comprise 70 institutions (ministries, central banks) representing 24 countries, six regional and international financial institutions¹ and six international standard-setting bodies.² It relies on the Bank for International Settlements (BIS) for technical and financial support services. Since the end of 2011, the FSB has also included 65 other countries in its work through regional consultative groups. The Banque de France conducts and coordinates work to inform discussions at the FSB’s quarterly plenary meetings, steering committee meetings and the meetings of the four standing committees.³

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2 Basel Committee on Banking Supervision (BCBS), International Association of Insurance Supervisors (IAIS), Committee on the Global Financial System (CGFS), Committee on Payment and Settlement Systems (CPSS), International Accounting Standards Board (IASB), International Organization of Securities Commissions (IOSCO).
3 These are the Standing Committee on Assessment of Vulnerabilities (SCAV), the Standing Committee on Supervisory and Regulatory Cooperation (SCSR), the Standing Committee on Standards Implementation (SCSI) and the Standing Committee on Budget and Resources (SCBR).
The Banque de France also played an active role in implementing the new macroprudential policy framework that must respect the different international, European and domestic echelons.

The ACPR and the Banque de France contributed to work by the Basel Committee on finalising the one-month liquidity coverage ratio, which will take effect on 1 January 2015, and the one-year net stable funding ratio to be applied in 2018. In the Basel Committee working groups, the Banque de France contributed its expertise on the interactions between prudential liquidity requirements and implementation of monetary policy and on calibration of a leverage ratio.

The Banque de France participated in ESRB working groups that developed the definition and calibration of new macroprudential tools, and more particularly, the tools relating to the distribution of real-estate loans.

The Banque de France contributed to theoretical work on the relationships between financial stability and economic performance, early warning systems and systemic risk indicators, and the assessment of contagion risk conducted by the MaRs macroprudential research network of economists from the European System of Central Banks, which aims to provide a framework for macroprudential supervision and supervisory tools in the European Union.
Governance
Executive Bodies

### The Governor and Deputy Governors

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

The Banque de France’s independence is reflected in the independence of its Governor (who is also a member of the Governing Council of the European Central Bank – ECB) and of its Deputy Governors. In accordance with Article L141-1 of the French Monetary and Financial Code, the Banque de France, represented by its Governor and Deputy Governors, can neither seek nor accept instructions from the government or from any other body in the performance of the tasks arising from its membership of the European System of Central Banks (ESCB).

The Governor is responsible for the executive management of the Banque de France. He chairs the Executive Committee, which is composed of the heads of the different business areas.

The Governor is also Chairman of the Autorité de contrôle prudentiel et de résolution (ACPR – French Prudential Supervision and Resolution Authority), and of the Banking Mediation Committee and the Observatory for Payment Card Security. He is also a member of the Haut Conseil de stabilité financière (HCSF – High Council for Financial Stability), created under the Law of 26 July 2013, and has exclusive responsibility for proposing preventive or countercyclical measures to mitigate risks to financial stability.\(^1\)

### The Executive Committee

Both in its plenary and reduced form, the Executive Committee is at the core of the Banque de France’s day-to-day operations. It provides a forum for the Bank’s managers to exchange views on issues of common interest, in order to facilitate the collegial decision-making process. Chaired by the Governor, it comprises the Deputy Governors, the Directors General, and the Deputy Secretary General for Strategy, as well as the Legal Affairs Director. It also includes the Director General of the Institut d’émission des départements d’outre-mer (IEDOM – French overseas departments note-issuing bank) and the Institut d’émission d’outre-mer (IEOM – French overseas note-issuing bank), in order to increase integration.

The Executive Committee examines issues relating to the Bank’s strategy and its internal management. If required, its meetings can be prepared by smaller committees made up of the managerial staff directly concerned. It may also meet as a Careers Committee to express an opinion on the appointment of head office managers and regional managers.

### Operational management bodies

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

The Assets-Liabilities Committee is chaired by the Governor and advises him on the Bank’s portfolio investment strategy (for both euro and foreign currency denominated portfolios). In particular, it examines the volume of investments, their allocation by asset class and their investment horizons.

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\(^1\) The Governor can propose that the HCSF impose more restrictive capital requirements on financial institutions, “to avoid excessive credit growth or prevent serious risks to the stability of the financial system” (Article L631-2-1 4 of Law No. 2013-672 of 26 July 2013). He can also propose that the HCSF set tighter lending conditions for people under the ACPR’s supervision “in order to prevent excessive rises in asset prices or prevent economic agents from accumulating excessive levels of debt” (Article L631-2-1 5 of the same law).
MEMBERS OF THE EXECUTIVE COMMITTEE
(AT 11 MARCH 2014)

1 – Michel Cardona, Deputy Secretary General, Committee Secretary, and Jacques Milleret, Director Legal Affairs
2 – Nathalie Aufauvre, Secretary General
3 – Nicolas de Sèze, Director General of the IEDOM and the IEOM
4 – Édouard Fernandez-Bollo, Secretary General of the ACPR
5 – Marc-Olivier Strauss-Kahn, Director General Economics and International Relations

1 2 3 4 5
6 – Jacques Fournier, Director General Statistics, and Gilles Vaysset, Director General Cash Management and Branch Network Activities
7 – Frédéric Peyret, Director General Human Resources
8 – Didier Elbaum, Comptroller General Operations
9 – Denis Beau, Director General Operations
10 – Erick Lacourrège, Director General Banknote Manufacturing
Governance

The Risk Committee is chaired by one of the Deputy Governors and defines the overall risk framework governing the Bank’s proprietary market transactions. It updates the list of authorised issuers, countries and instruments, validates the methodology for measuring the risk exposure and performance of proprietary market activities, ensures that the risk limits for these operations are respected and examines the audit, control and activity reports relating to its particular area of expertise.

The Bank’s support functions are also managed on a collegial basis, through three committees which report to the Secretary General: the IT Strategy Group, which is responsible for defining the Bank’s short- and medium-term IT investment policy; the Real Estate Strategy Group, which defines the Bank’s property investment strategy; and the Procurement Strategy Group, which examines the Bank’s procurement policy.

1|4 The branch network and College of Regional Managers

The Banque de France network currently has 96 departmental branches (including 22 regional head offices), to which are linked 21 economic centres and 7 household debt centres. Services related to the management of currency in circulation are carried out in 63 of these establishments and 3 specialised centres.2

To facilitate user access to the public services provided by the Banque de France (household debt, access to payment incident databases, right to a bank account), 85 customer service and information offices have been opened in towns where the Banque de France has neither an economic centre nor a centre for processing cases of over-indebtedness. These offices are non-permanent, and are typically located on the premises of other public institutions, such as sous-préfectures or town halls. Individuals can also contact the Bank about these services either in writing or by telephone, and, in some towns, via interactive kiosks.

The Banque de France’s branch network is now organised into two levels:

- the regional level, with a regional manager (i.e. the manager of the branch in the region’s administrative centre) who coordinates and supervises the activities of the branches in the region’s various départements, and monitors the consistency and quality of the work carried out;

- the département level, which comprises the departmental branch and, in some cases, other associated specialised units, and which is responsible for implementing the objectives assigned to the branch network, working closely with the Banque de France’s usual partners (banks, companies, private individuals, local authorities and administrative bodies).

The regional manager is also in charge of human resources, budget management, and management control for the region. Regional managers are assisted by centres of expertise and a specific unit in charge of supervising operations and procedures, called the Regional Risk Monitoring and Control Division.

In view of their responsibilities, the regional managers are the primary contacts for the Bank’s senior executives regarding questions relating to the branch network. The College of Regional Managers, chaired by the Director General of Cash Management and Branch Network Activities and his deputy, holds meetings every two months, which are also attended by the five regional inspectors.

2 In 2013, the first year of the 2013-2015 cash centre transformation plan, 4 sites were closed.
Box 31

The Banque de France network at end-2013

- Branch
- Branch carrying out cash operations
- Economic centre
- Economic centre carrying out cash operations
- Currency management centre
- Household debt centre

Cities where regional head offices are located are indicated in capitals (e.g.: LILLE).
2| DECISION-MAKING AND CONTROL BODIES

2|1 The General Council

Pursuant to Article L142-3 of the French Monetary and Financial Code, the General Council comprises the Governor and the two Deputy Governors, two members appointed by the President of the Senate, two members appointed by the President of the National Assembly, and two members appointed by the Council of Ministers on the proposal of the Minister of the Economy, the Vice-Chairman of the ACPR and an elected Banque de France staff representative.

The General Council’s meetings are also attended by the Censor, or Alternate Censor, who is appointed by the Minister of the Economy and represents the French State. The Censor may submit proposals and oppose any decisions.

The General Council performs the main functions of a board of directors at the Banque de France. It deliberates on issues relating to the management of activities that are not within the remit of the ESCB. It also defines the terms of employment of the Bank’s staff, which are submitted for approval to the relevant ministers, and determines the rules applicable to the Bank’s staff in areas where the provisions of the French Labour Code are incompatible with the Bank’s statutes or the public service tasks within its remit. The General Council decides on the use of the...
Bank's own funds, draws up the Bank's budgets and annual accounts and makes proposals for the allocation of profits.

In accordance with the above-mentioned principles, the General Council is notably responsible for discussing the Banque de France's short- and medium-term strategy. Each year, it examines the business plan for the coming financial year and reviews the progress of the major projects underway. It ensures that the Banque de France has the necessary resources to carry out the tasks it must perform as a member of the ESCB.

Like the Bank's Governor and Deputies, the members of the General Council are all independent; Article L142-3 of the French Monetary and Financial Code stipulates that the General Council shall ensure that the professional activities performed by its members are consistent with the principle of independence of the Banque de France.

In 2013 the General Council met ten times.

2|2 Audit Committee

The Banque de France’s Audit Committee was created by a decision taken on 22 October 2004. Its Chairman is appointed by the General Council on the proposal of the Governor, and its secretariat is provided by the Comptroller General.

In accordance with Directive 2006/43/EC of 17 May 2006, the Audit Committee is charged with informing the General Council about issues relating to financial reporting, external and internal auditing, internal control and risk management. In all these fields, the Audit Committee may interview any Banque de France manager it requires, as well as the Bank’s auditors.

In 2013 the Audit Committee met five times. It focused primarily on the following areas:

- Financial reporting: the Bank’s auditors presented their report on the 2012 annual financial statements to the members of the Audit Committee.
• Internal auditing: the Audit Committee took note of the main conclusions of the internal audits and the progress report on the action plans drawn up by the audited units. It also examined and approved the audit programme for 2014.

• Internal control and risk management: the Audit Committee took note of the latest changes to the Bank’s risk management system – including the introduction of an annual report to be drafted by each business line on the effectiveness of its internal control procedures – and the main findings of the procedure for identifying operational risks.

• The Audit Committee also held a joint meeting with the ACPR at which it examined the practical implementation of the financial agreement signed between the Banque de France and the ACPR.

2|3 Compensation Committee

Created by a General Council decision dated 12 March 2010, the Compensation Committee is composed of two members of the General Council appointed by the Bank’s Governor. Its task is to examine the remuneration received by the Bank’s senior management.

3| INTERNAL AUDIT AND RISK MANAGEMENT

3|1 Internal Audit

The Internal Audit is responsible for inspecting all the Bank’s units, processes and activities. It conducts its missions at the Bank’s head offices, at the regional administrative centres and throughout the branch network, and is structured accordingly; the branch network, for example, is broken down into five sectors, each of which is supervised by one inspector (or sector supervisor).

The Internal Audit establishes its annual work programme on the basis of its risk priorities. Its primary mission is to ensure the quality of and advise on management, risk control and internal audit processes, and thus to provide the Bank with assurances that these aspects are effectively under control. By assisting the Bank in attaining its objectives, the Internal Audit helps to enhance the quality of its corporate governance.

With regard to both the organisation and the conduct of audit missions, the Banque de France’s Internal Audit complies with international standards for the professional practice of internal auditing as defined by the Institute of Internal Auditors (IIA). An external evaluation carried out in 2013 confirmed that it complied with these standards.

The work of the Internal Audit is also conducted within the framework of the ESCB. The Comptroller General and the Director of the Head Office Audit are permanent members of the ESCB Internal Auditors Committee (IAC) which meets several times a year at the ECB. Together with their counterparts at the other national central banks and at the ECB, they draw up the ESCB’s audit programme and oversee the conduct of audits. The Banque de France continues to chair the IAC’s Audit Task Force Management Support, which manages all issues relating to organisation, budgets, accounting and human resources. The IAC’s findings are submitted to the Audit Committee and to the ECB Governing Council.

3|2 Risk management

Since 2006 the Banque de France has used a specific operational risk control system (the AMARIS method, adapted for the network in the CLARIS system), which is designed to meet two objectives:

• strengthen internal control by assessing all operational risks as well as the internal control mechanisms and action plans in place to reduce these risks;

• adopt the best practices in place within the ESCB as well as those recommended by the Basel Committee.

For risks relating to its information system, the Bank has also adopted an organisation, methodology and assessment procedures similar to those adopted by the ESCB.
The risk management organisation is decentralised and structured as follows:

- The Risk Prevention Directorate, which reports to the Comptroller General, comprises a unit responsible for structuring a common approach to risk analysis and management for all the directorates general; another unit is responsible for the security of the IT system, and notably for defining the security strategy, managing the development of IT security software and controlling sensitive IT operations.

- Each directorate general includes a risk manager charged with updating the mapping of operational risks and assisting in the implementation of risk-reduction action plans. In addition, in each regional branch, a risk management and control unit contributes to these efforts.

- The Internal Control Coordination Committee supervises the functioning of the operational risk management system. It is chaired by the Comptroller General and comprises the directors general, the Legal Affairs and Audit Directors and the risk managers.

- The Executive Committee and Audit Committee examine the report on consolidated operational risks each year.
Corporate social responsibility at the Banque de France

Benjamin B.
Credit Institutions
On-Site Inspection
Delegation

Lidwine M.
Monetary and Financial Statistics

Jean-Luc E.
Organisation of the Information System
The Banque de France has for several years striven to make corporate social responsibility (CSR) part of its operational approach. It went one step further in 2013. Having initiated a large number of projects aimed at transforming itself on a lasting basis, it reiterated the need to take into account its commitments to society when managing this transformation. The Bank’s corporate social responsibility policy is incorporated into its transformation strategy and acts as a guiding principle in cross-functional activities. It targets four areas: human resources policy, on which the Bank’s transformation is based; development of financial and economic education for the public; initiatives to encourage banking and financial inclusion; and finally, reaffirmation of the Bank’s environmental responsibility.

The results achieved in 2013 attest to the Banque de France’s commitment in managing its transformation.

1| MANAGEMENT OF HUMAN RESOURCES

The Banque de France is aware of its responsibility towards the nation in terms of managing its costs and participating in general efforts to control public finances. At a time when large numbers of staff are retiring, it has adopted a policy of reducing its headcount in order to take account of productivity gains. To meet this objective, it has put in place an ambitious transformation policy that favours a collaborative approach.

1|1 Progressive management of the reduction in the headcount

Taking into account changes in the age pyramid, the proportion of staff aged 50 and over is now almost 55%. More than 4,800 employees are due to retire between 2014 and 2020.

This demographic trend will allow the Bank to build on what it has already achieved. The headcount has been reduced by more than 18.5% over the last ten years despite an increase in the Bank’s responsibilities with regard to prudential supervision, particularly in connection with the integration of the Autorité de contrôle des assurances et des mutuelles (ACAM – Mutual Insurance Supervisory Authority) when the Autorité de contrôle prudentiel (ACP – French Prudential Supervision Authority) was set up in 2010.

The total number of staff stood at 12,682 full-time equivalents as at 31 December 2013, of whom 85.2% were tenured employees, 14.4% were contractors and 0.4% were civil servants.

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**Chart 19**
Breakdown of headcount by age bracket
(salaried employees in full-time equivalents as at 31 December 2013)

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 30</td>
<td>21%</td>
</tr>
<tr>
<td>30 to 49</td>
<td>34%</td>
</tr>
<tr>
<td>50 to 54</td>
<td>39%</td>
</tr>
<tr>
<td>55 and over</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Banque de France.

**Chart 20**
Headcount
(salaried employees in FTEs as at 31 December 2013)

<table>
<thead>
<tr>
<th>Year</th>
<th>Headcount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>16,000</td>
</tr>
<tr>
<td>2004</td>
<td>14,000</td>
</tr>
<tr>
<td>2005</td>
<td>12,000</td>
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<tr>
<td>2006</td>
<td>10,000</td>
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<td>2007</td>
<td>8,000</td>
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<td>2008</td>
<td>6,000</td>
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<td>2009</td>
<td>4,000</td>
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<tr>
<td>2010</td>
<td>2,000</td>
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<tr>
<td>2011</td>
<td>1,000</td>
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<tr>
<td>2012</td>
<td>0</td>
</tr>
<tr>
<td>2013</td>
<td>1,000</td>
</tr>
</tbody>
</table>

a) ACP set up in 2010.
Source: Banque de France.
While 48.4% of the Bank’s employees work in its head office, 44.2% are in the branch network and 7.4% at banknote manufacturing facilities.

The Banque de France has begun an overhaul of its operating methods, particularly for support activities, as part of which it will replace only some of the staff lost through attrition, while its tasks and activities will remain the same.

An active recruitment policy is required to deal with such a large number of departures in a short time, which involves making the Bank attractive to students at leading educational institutions and universities. The Bank’s departments have raised their profile with groups of potential applicants, a strategy which paid off in 2013 with a very significant increase in the number of candidates sitting the competitive entry examinations. Qualitative changes in requirements, the second recruitment policy challenge, will be reflected in the next set of competitive entry examinations, in which the baccalauréat will be required for technical jobs and two years of higher education for office staff.

At the same time, the Bank’s transformation will depend on the adaptability and skills development of existing staff. Maintaining motivation among older employees constitutes a key factor in the success of the Bank’s transformation and the integration of younger personnel.

1|2  A collaborative approach

The large number of changes to be implemented and a shift in mentality among younger employees are increasingly leading us to favour cross-functional operating methods over previous practices, which tended to be based on a pyramidal decision-making structure.

This collaborative approach is intended to involve all employees, the agents of change. The implementation of the network modernisation plan illustrates this participatory approach.

At the same time, tools have been put in place for assessing and dealing with difficult situations, to help manage the change.

A shared vision

With the aid of consultant sociologists, around 100 managers at different hierarchical levels were called on in 2013 to identify potential improvements to the Bank’s internal operating methods and possible ways of making them more compatible with the transformation that has begun. Discussions held by 21 working groups and 33 workshops gave rise to a large number of proposals, the vast majority of which were thought by the Bank to be worth retaining and examining in more detail.

The proposals have been grouped into five themes, which will now form the basis for five projects.

Capitalising on the creation of the management community

This forum aims to provide a space where all managers can exchange information. It allows them to share knowledge and practices, and to support each other,
Corporate social responsibility at the Banque de France

Regional managers are calling for a management system that is more flexible and better adapted to the transition to a modernised network. Future changes will aim to ensure a more qualitative management system and greater flexibility in managing the workforce, as well as optimising information feedback and re-examining the operations of the executive committees for different regions and départements and relations with the Audit department.

Simplifying day-to-day staff management

The various courses of action that have been identified include making management of internal recruitment more flexible, making project management easier and introducing a differentiated risk management system organised according to the potential impact of risks. Administrative procedures will be simplified in a wide variety of ways.

Box 32

2013-2015: the first stage in the Bank’s transformation plan

The first stage in the Bank’s transformation plan through to 2020 involves the reorganisation of its network’s banknote activities and the closure of 15 cash centres between 2013 and 2015.

This restructuring has been accompanied by an employment preservation plan including specific, concrete measures intended to allow employees whose positions have been abolished to find new positions within the Bank quickly and under the best possible conditions. This scheme gives priority to internal transfers.

The plan included three separate phases:

• a redeployment phase, during which employees whose positions were being abolished were asked to indicate which of the positions offered they would like to be assigned to;
• an internal job transfer phase, during which the Bank offered positions to employees who were not redeployed during the first phase;
• an external job transfer phase for employees who have refused internal transfers, which aims to help them find another job with the provision of external expert advice.

The first two phases have now been concluded, and we can conduct an initial assessment. Of the 133 staff affected by the abolition of posts at the start of the redeployment phase, 97 had found an internal solution by the end of this phase, either by taking up one of the positions offered (in the vast majority of cases, this was the employee’s first choice), or by choosing one of the measures offered under the employment preservation plan that allowed them to remain at the same site until retirement. The internal job transfer phase therefore involved 36 employees. In this phase, each employee received six new job offers. A further 12 employees were transferred internally as a result. Only 24 employees refused internal transfers, two of whom decided to set up their own business with financial support from the Bank.

A total of 109 staff have thus been redeployed or transferred internally at this stage, while the Bank has left the option open for employees who have not been transferred and whose cash centres will not close until 2014 or 2015 to choose an internal transfer if the opportunity arises. These encouraging results would not have been possible without a substantial effort from all those involved – human resources (HR) management at the head office, regional HR departments and local teams – who ensured a strong network of support was available on the ground to listen, explain, pass on messages and thus establish ongoing dialogue with the employees concerned.

as well as contributing to a more cross-functional approach in operations and maintaining the participatory dynamic of the workshops in the long term. Different formats are used for exchanges, including workshops, conferences and a collaborative website. The management community is also one of the pilot groups for the corporate social networking project.

Improving the model for managing the nationwide network

Regional managers are calling for a management system that is more flexible and better adapted to the transition to a modernised network. Future changes will aim to ensure a more qualitative management system and greater flexibility in managing the workforce, as well as optimising information feedback and re-examining the operations of the executive committees for different regions and départements and relations with the Audit department.
Encouraging and facilitating transfers, favouring adaptability

This initiative involves professional development programmes or “bridging courses” for transferring between positions, which use employees’ current skills to help them switch to a different business area by providing better logistical support for relocations, organising introductory work placements in the field and ensuring greater support for employees when they take up their posts. The creation of an electronic CVthèque (CV bank) that can be consulted by human resources managers is one example of a tool that will allow HR staff to actively manage careers.

Highlighting the importance of first-level management and providing better recognition of performance

Proposals that came out of the workshops include, for example, strengthening the position of the direct line manager in the appraisal process and taking care to promote staff on the basis of actual performance, emphasising options for transfers and the possibilities offered by internal promotion systems.

These projects were launched in the second half of 2013 and are expected to lead to concrete proposals in the first half of 2014.

Collaborating on the assessment and management of difficult situations

Managing the workload

As part of Bank initiatives undertaken in accordance with the agreement on psychosocial risk prevention signed on 21 December 2011, the Bank has introduced a strategy that aims to measure workloads more effectively.

The objective is to define a reference framework for assessing workloads and their components (physical, psychological and ergonomic assessment) and then identify the factors that influence this workload.

Enhancing other initiatives for psychosocial risk prevention

The issue of psychosocial risk prevention is a major concern and must be borne in mind at all times throughout the Bank’s modernisation.

Following projects that brought together staff and management representatives and experts, the Bank commissioned the Observatoire paritaire de la prévention des risques de santé au travail (Joint Observatory for the Prevention of Occupational Health Risks) to conduct a nationwide survey beginning in September 2013. 49% of employees responded to the survey, which demonstrated the high level of interest it generated. While 70% of staff said that they were happy or fairly happy with their work, 79% believed that their health was good or fairly good, with discrepancies depending on gender, site and grade. The impact of the recent changes on health has been felt more keenly in the network. Workload and psychological stress are the most commonly experienced risk factors. This survey will enable us to draw up a chart of risk factors
and to put in place action plans that are adapted to local conditions.

Several measures are already in place to help provide individual support for employees who are experiencing problems: regular meetings between staff managers and medico-social professionals; overhaul of the procedure for providing warnings about employees experiencing problems at work; involvement of work doctors at sites undergoing transformation; recruitment of an occupational psychologist whose main task is to oversee current and future support measures and to ensure that action plans are followed.

Ensuring better collaboration between generations

The Banque de France signed an intergenerational agreement with employee representatives on 24 December 2013, in line with the objectives of the law of 1 March 2013 establishing the “generation contract”. A large proportion of the Banque de France’s staff will need to be replaced during the period from 2013 to 2020, which makes the timing of this agreement particularly favourable. Older staff are already well represented at the Banque de France (the average age is 48, with 34% of employees aged over 55) and this group is faced with the fact that working lives are getting longer. Recruiting young staff will help compensate for departures and will go some way towards rebalancing the age pyramid.

The intergenerational agreement sets out measures to help younger staff, focusing in particular on developing programmes that combine work and study. The Banque de France has undertaken to hire a growing number of young people on contracts that give them time off to study (60 in 2014, increasing to 100 in 2017) and to help them to access jobs at the Bank, particularly by cutting down on the tests involved in the competitive entry examination for accounting secretaries and financing preparatory courses provided by the Centre national d’enseignement à distance (CNED – National Centre for Distance Education).

The agreement also stipulates measures aimed at developing and valuing employees’ professional experience. A joint observatory for skills and professions will help to promote professional adaptability. This also involves taking professional certification into account in internal promotions and encouraging mobility.

Mentoring is encouraged to facilitate intergenerational exchange, whereby older staff provide guidance for younger employees and vice versa.

The Banque de France has also undertaken to continue implementing measures aimed at making certain tasks less difficult, a process that has already begun with a reduction in night work for security staff and research into ways to improve working conditions as part of the reorganisation of banknote activities.

Finally, the agreement stipulates measures relating to retirement, particularly the introduction of a part-time scheme for older staff that will allow employees to reduce their working hours three years before they retire if they wish.

Paying more attention to accommodating and integrating disabled people

A ninth agreement promoting the employment of disabled people (2014-2016) was negotiated at the end of 2013 and signed on 5 February 2014 by the five representative trade union organisations.

The main measures relate to the following:

• a commitment to recruit 60 disabled people between 2014 and 2016, primarily on the basis of competitive entry examinations or other examinations;

• the significant attention that must be given to the appointment, accommodation, integration and monitoring of these employees, particularly by means of a mentor, a role whose importance is to be recognised;

• training and career development;

• adaptation of working conditions, including, among other points, the approval of staggered working hours, a reduction in working hours and four additional days of leave;

• arrangements for retirement, including an improved part-time working scheme for older staff.
The Bank set up an initiative several years ago to promote economic and financial education for the public, which involves various aspects.

2|1 Support measures for social workers

As part of its task of acting as a secretariat for commissions dealing with excessive household debt, the Banque de France continued its initiatives for social workers in 2013. The units in the network invited 250 social workers to presentations on processes for dealing with cases of excessive debt. The Banque de France also hosted 650 talks with the aim of keeping them informed of the latest developments in regulations and providing them with training in procedures for handling excessive debt. A total of 10,390 social workers took part in information or training initiatives on this subject.

2|2 Responding to the public’s questions

The Banque de France welcomes questions from the public on economic and financial education issues and throughout the year endeavours to provide answers. Its Press and Communication Directorate handled over 24,000 questions from individuals and companies in 2013, relating mainly to issues such as how databases on credit repayment incidents work, the legal right to a bank account, foreign exchange, economic statistics and the new five-euro note. The “individuals” portal on the website received 340,000 hits in 2013.

Furthermore, the telephone platform Assurance Banque Épargne Info Service (ABEIS – Insurance Banking Savings Info Service), which is run in collaboration with the Autorité des marchés financiers (AMF – Financial Markets Authority) and the Autorité de contrôle prudentiel et de résolution (ACPR – French Prudential Supervision and Resolution Authority) and answers all questions from consumers concerning insurance, banking and financial investments, was in high demand and received 328,000 calls.

2|3 Initiatives relating to economic and financial education

The Banque de France is aware of its corporate social responsibility and the importance of educating the public on economics and finance in order to help ensure economic stability and the effectiveness of monetary policy. With this in mind, it continued its educational initiatives in 2013.

The Bank’s educational workshops

The Banque de France organises educational workshops for different groups, whether they be from schools (secondary schools, advanced vocational training classes), universities (in France and abroad) or made up of members of the general public (senior citizens, associations). These interactive workshops are run by executives at the Bank and explain the Banque de France’s role in the Eurosystem, looking specifically at currency, excessive debt, inflation and purchasing power and bringing these subjects to life. The workshops use brochures, videos and, for younger participants, quizzes to supplement and illustrate school and university syllabuses and allow experts to share their experience. A total of 80 workshops, including technical or fun presentations, welcomed 2,200 participants in 2013, with some also visiting the Golden Gallery in the oldest part of the head office building and learning more about the Bank’s heritage and history.

The Bank put together specific programmes for two schools in Paris, continuing the initiative launched in 2012 and as part of the agreement signed with the Paris education authority. These involved almost 100 pupils at the Simone Weil and Roger Verlhomme secondary schools. Pupils and teachers alike enjoyed these visits, which gave them some direct experience and helped to familiarise them with economics and finance.

The branch network also ran numerous initiatives, receiving over 500 secondary school pupils from educational priority areas on individual or group
visits, with the involvement of tutors or apprenticeship supervisors in the regions, providing guidance to students under apprenticeship or professional training contracts.

New partnership agreements with the Créteil and Clermont-Ferrand education authorities

The aim of these agreements is to receive and support young people from educational priority areas and, as of recently, to train teachers.

The three-year partnership agreement with the Créteil education authority (2010-2013), the most innovative in this area, has been extended to include students taking advanced vocational training courses. The initiatives launched with two secondary schools, Samuel de Champlain in Chennevières-sur-Marne and Jean Moulin in Torcy, continued.

Box 33
Three-year assessment of the partnership between the Créteil education authority and the Banque de France (2010-2013)

Since the system was set up at the start of the new school year in 2010, the measures implemented have developed significantly, with the main aim being to help young people from educational priority areas to enter the workplace. The impetus for this focus was provided by teaching staff and was also informed by feedback from the centre for secondary school pupils at the Banque de France as well as mentors and other participants. A service has been set up to help young people write CVs and covering letters, supplemented by mock recruitment interviews and immersion courses in English. Over 100 young people received mentoring between 2010 and 2013.

A total of 650 pupils from the two partner schools received 1,300 hours of methodological support at the Noisiel training centre. The Bank wants to incorporate this pilot partnership and the initiatives linked to it into its corporate culture. The schools are also keen to promote this partnership, particularly on their websites and at their open days, in which they regularly involve representatives of the Banque de France.

Box 34
Cooperation agreement with the Clermont-Ferrand education authority

The Bank’s regional head office for Auvergne signed a cooperation agreement with the Clermont-Ferrand education authority on 16 April 2013 with a view to promoting economic and financial education for the public. This agreement aims to keep secondary school teachers better informed about the latest economic developments. It follows the recent finding that the majority of French people feel they do not have a good understanding of economics and that society has become distrustful of it.

A key point in the agreement relates to initiatives that aim to allow teachers to enhance their lessons with concrete, practical methodology used at the Banque de France.

The Bank’s regional head office has thus undertaken to provide training each year for teachers from the Clermont-Ferrand education authority on topical issues relating to monetary policy that are not dealt with in school textbooks, such as non-standard monetary policy, prudential policy and Basel III. Employees of the Bank will also participate directly in classes, as is already the case in Allier.

The inspection bodies of the national education authorities are involved in putting together the initiatives and systems that will be implemented.

A new agreement was signed with the Créteil education authority on 4 November 2013. Other local initiatives involving partnership agreements with education authorities or educational establishments attest to the Banque de France’s commitment in this field.

2|4 The Cité de l’économie et de la monnaie

The aim of the future Cité de l’économie et de la monnaie (City of Economics and Money), which is scheduled to open in late 2016, is to help improve the public’s knowledge of economics, particularly among young people. It will present the main concepts and issues of economics and money in interactive form, and will also exhibit part of the Bank’s collections of banknotes, coins and machines.
Corporate social responsibility at the Banque de France

Box 35

“The economy: crash, boom, transformation?”

The temporary exhibition “L’économie : krach, boom, mue ?” (The economy: crash, boom, transformation?) ran from 26 March 2013 to 5 January 2014 at the Cité des sciences et de l’industrie (Paris Science Museum). The exhibition was organised in partnership with the Banque de France as part of a cooperation agreement on the museography of economics and was signed by the two organisations in 2010. The aim of this exhibition, which took up an area of approximately 1,000 m², was to present various economic concepts using an educational and interactive approach, so as to help visitors gain a better understanding of current economic issues and debates.

The exhibition was divided into three sections, each of which was introduced by a question: “Who makes the economy?” (key players, discussions, thinkers, choices), “How does the economy work?” (market mechanisms, market and non-market areas), “What is the current state of the world?” (growth, crisis, sustainable development).

A coloured museographic guide and a wide variety of exhibition media helped to bring out this rich content and included animated films, group games, multimedia elements, interactive experiences and large graphic wall displays. Several of these components will be reinstalled in the future Cité de l’économie et de la monnaie.

The exhibition was very well received by both the media and the general public. It received a large amount of media coverage with around 100 reviews, most of them positive. An analysis of visitor numbers, which totalled around 130,000, showed that it was very popular with schools and young people generally (15-34-year-olds accounted for more than half of all visitors). The displays shown around the periphery of the exhibition also proved very popular. In qualitative terms, the vast majority of visitors found the exhibition fun, accessible and educational. Sales of the companion book to the exhibition, B.A. BA de l’économie contemporaine (Beginners’ Guide to Contemporary Economics), surpassed forecasts and have led to its reprint. The animated film that the Banque de France produced especially for the exhibition on the “economic circuit”, was selected for the “Nuit du film scientifique” (Scientific film night) in June 2013.

The exhibition closed at the beginning of 2014, but several requests have been made for it to be shown again or duplicated, both in France and abroad. Publishers of school textbooks have also shown an interest in the animated films presented in the exhibition, which they hope to incorporate into educational media for secondary school classes.

Several public and/or educational events have already taken place in 2013, including an exhibition and lectures presenting the Cité de l’économie project in collaboration with the town council of the 17th arrondissement of Paris (January-February), the second Rencontres des sciences économiques et sociales (Economic and Social Science Conferences) in partnership with the Paris education authority, on the subject of exchange (January), a major exhibition at the Cité des sciences et de l’industrie (see box) and a wide-ranging project on the theme of confidence (educational project with schools, exhibition, lecture, educational videos) at the Journées de l’économie conference in Lyon (November). The Cité de l’économie
was also presented at the *Forum de la visite scolaire* (School Visit Forum) in Paris (September) and at the OECD’s symposium on financial education (October).

The educational services already available online have been expanded regularly (especially through videos, data visualisations and games), both on the website [www.citedeleconomie.fr](http://www.citedeleconomie.fr) and on the *Cité de l’économie*’s new social networks pages that were launched in 2013 (Twitter, Facebook). The *Cité* published its first serious game, Cit€co, on Facebook.

The Bank signed a partnership agreement with the Ministry of Education in 2013, which formalises, strengthens and expands the cooperation that has been undertaken since the beginning of the project. It has also entered into a partnership with the Île-de-France region as part of plans to promote the architectural heritage of the Hôtel Gaillard, which will house the *Cité de l’économie*.

### 3| Banking and Financial Inclusion

The Banque de France has made ongoing efforts to support banking and financial inclusion for many years. This campaign aims, on one hand, to help vulnerable sections of the population access specially adapted banking services and, on the other hand, to prevent the exclusion of people who are experiencing difficulties following the unsound use of financial services.

The Bank enforces the legal procedure for the right to a bank account, whereby, at the request of any natural person or legal entity that has been refused a bank account, it will appoint a bank that is then obliged to open an account for them. This account will offer a number of basic banking services free of charge, which will allow the account holder to manage the account. Almost 50,000 accounts were opened under this system in 2013.

The *Comité consultatif du secteur financier* (CCSF – Advisory Committee on the Financial Sector) also organised a meeting with all key players, which led banks to develop a range of alternative payment systems to cheques, including, in particular, a payment card requiring systematic authorisation (zero floor limit cards) that offers a safe payment method for both cardholders and bankers and thus also constitutes an effective tool for financial inclusion.

Developments in these systems are closely monitored by the *Observatoire de l’épargne réglementée* (Observatory for Regulated Savings), which has set up a system for collecting data from credit institutions. The first results of this system were published in 2013. This data will make it possible to find out more about how accounts with small balances are used as part of efforts to make banking services more accessible to vulnerable sections of the population, as well as providing information on how the legal right to a bank account is exercised in concrete terms and about changes in the number of zero floor limit cards.

In future this monitoring will be the responsibility of the *Observatoire de l’inclusion bancaire* (Observatory for Banking Inclusion) set up by the Banque de France in accordance with the law of 26 July 2013, extending the...
Corporate social responsibility at the Banque de France

multi-year plan against poverty and for social inclusion that the government adopted at the beginning of 2013. This observatory will have the task of collecting and regularly publishing information about access to and use of banking services and the practices of credit institutions with regard to banking inclusion. As part of this multi-year plan and in connection with its role in dealing with excessive household debt, described in Chapter 2 of this report, the Bank launched an in-depth survey in 2013 at the request of the Minister of the Economy to look into situations that lead individuals to accumulate excessive debt. It also actively participated in discussions initiated by the authorities regarding plans to draw up “Points of advice on budgets”, intended to help households to manage their budgets and prevent excessive debt.

The Bank is keen to ensure that it provides quality support for people with excessive debts and has set up specific training courses, which almost 10,000 support workers attended in 2013. The agreement concluded in July 2013 with the Union nationale des centres communaux d’action sociale (UNCCAS – National Union of Social Action Community Centres) will further reinforce this essential cooperation with the social and community sector.

Assisted microcredit is another means of encouraging financial inclusion. In 2006 the Banque de France set up an Observatoire de la microfinance (Microfinance Observatory) to encourage discussion and analysis of this subject and to promote this tool.

Moreover, the Banque de France set up a quantitative data collection project at the end of 2011 in coordination with the Conseil national de l’information

Box 36

The Banque de France prize for assisted microcredit

The creation of prizes for assisted microcredit was announced at a symposium on assisted microcredit organised by the Banque de France in December 2012, which brought together the main associations as well as researchers and people working in the field of microcredit in France.

The main bodies and associations working in this field were invited to present representative cases of a system to enable vulnerable sections of the population to be integrated or re-integrated into economic and social life.

The selection committee, chaired by the Governor of the Banque de France, brought together associations, banks, the CCSF and the various departments of the Banque de France, highlighting the partnership specific to assisted microcredit between the three categories of stakeholder (borrowers, associations and credit institutions).

The first awards ceremony for assisted microcredit took place in November 2013 and was chaired by the Governor of the Banque de France. The prize for personal microcredit, worth EUR 2,000, was awarded to Marie Josée L’Horphelin, accompanied by the Union nationale des associations familiales (UNAF – National Union of Family Associations). The prize for microcredit for businesses, worth EUR 5,000, went to Mathieu Deymonnaz for his business project, presented by “Initiative France”.

François B.
Recruitment and Careers
statistique (CNIS – French National Council for Statistical Information). The main associations and the Fonds de cohésion sociale (Social Cohesion Fund) managed by the Caisse des dépôts et consignations contribute to this and are working towards better overall knowledge of the microcredits allocated and of their purpose, cost and performance.

4| ENVIRONMENTAL RESPONSIBILITY

The Bank has for many years embraced a structured environmental approach involving many contributors at its head office and in the network. With almost a million square metres of property and over 36 million kilometres travelled on work trips in 2013, the Banque de France is continuing its commitment to take into account the issues involved in climate change.

The Bank’s environmental targets mainly involve reducing greenhouse gas emissions from energy consumption in its buildings and from staff travel.

The Bank’s environmental strategy focused more sharply on the following areas in 2013:

• new three-year targets for reducing its environmental impact;

• closer monitoring of the achievement of these objectives.

4|1 New three-year targets (2013-2015)

Aware of its environmental impact and convinced of the need to respond to the challenges posed by climate change, the Banque de France has for five years been committed to a strategy of reducing its environmental footprint. It has set itself two new targets, spread over a period of three years.

• Reduction in energy consumption in its buildings.

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<td>2013</td>
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• Reduction in CO₂ emissions linked to energy consumption and travel (commuting and business trips).

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<th>The Bank’s targets</th>
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<td>2013</td>
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<td>-10%</td>
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The Banque de France’s strategy is in line with the Grenelle I and the Grenelle II Acts, particularly the target of reducing its energy consumption in buildings by 38% by 2020,¹ and with the commitments made under the Stratégie nationale pour la transition écologique (National Strategy for Ecological Transition). The Bank has also used the targets of the “Model State” circular and the European Climate and Energy Package² as a guide when setting its own targets. It is keen to keep looking forward and therefore plans to carry out periodic reviews of its targets and to adhere to general environmental regulations.

4|2 Results for 2013

The Bank regularly monitors changes in its environmental footprint, particularly with regard to energy consumption and travel but also in terms of its water and paper consumption, and measures their impact in terms of greenhouse gas emissions.

Reducing energy consumption

Energy consumption in buildings has fallen by 12.7% compared with 2008 but has risen by 5% compared with 2012, mainly due to the fact that the number

¹ Compared with 2008.
² Target: to reduce emissions in each European country by 20% by 2020 compared with 1990; this target is combined with a commitment to ensure that 20% of the energy mix is made up of renewable energy, together with a 20% reduction in energy consumption.
100% of the electricity supply for the sites with the highest consumption (banknote manufacturing, IT and head office) comes from renewable energy sources made a significant contribution to this result.

Cutting down on business trips and commuting

The number of kilometres travelled by staff for business trips and commuting fell by 11% in 2013 compared with 2009, while the corresponding CO₂ emissions were down 22.6%.

There was a net reduction of 10% in business trips between 2012 and 2013, confirming the downward trend that has been apparent since 2011. However, the number of kilometres travelled was still up 7.4% compared with 2009.

Staff commuted a total of 108 million kilometres in 2013, compared with 113 million in 2012, representing a reduction of 5%, or of 15.8% compared with 2009. This drop was due in particular to the development of home working.

We have also noted a shift since 2009 away from cars and towards means of transport with lower emissions (public transport, train, bicycle).
Corporate social responsibility at the Banque de France

Changes in CO₂ emissions from energy use and travel

CO₂ emissions from energy consumption have fallen by almost 38% since 2008, the reference year. This significant drop is mainly due to the growing share of renewable energy in electricity consumption and a reduction in energy consumption.

CO₂ emissions from work trips have fallen by 15.9% since 2011, although they are up 6% compared with 2009, the reference year. There has been a considerable reduction in business class air travel with a shift towards economy class and trains, which has led to a decrease of around 22% in greenhouse gas emissions from business class travel in 2013 and a 31% reduction over the last two years, due to the fact that less space is occupied.

CO₂ emissions from commuting have fallen by 11.5% since 2011 and by 31% since 2009. This fall is due in particular to the rapid expansion of home working and to improved conditions for refunding travel tickets.

The Bank is also continuing to give preference to “cleaner” vehicles when replacing its fleet.

Reducing water consumption in operations

There has been a substantial reduction of 29.3% in the Banque de France’s water consumption since 2008. This reduction relates to both operating activities, in which there was a drop of 29%, and industrial activities, where there was a 30% reduction.

To ensure that all these measures are being properly implemented, the Bank rolled out its Sustainable Development Information System (SDIS), an internal reporting and management tool used as part of its CSR strategy, throughout the organisation in 2013.
Corporate social responsibility at the Banque de France

Minergie label that it received in March 2012. This label focuses on energy performance and energy savings and is a reward for the Bank’s commitment to efforts to optimise its energy consumption, particularly through the installation and management of high-performance technical equipment.

The Bank has begun a process of High Environmental Quality (HQE®) certification for the construction of its two future banknote processing centres, as part of plans to modernise its sites throughout France between now and 2020.

Ongoing efforts to improve environmental performance in the management of existing buildings

A project at the head office aims to improve the building’s thermal performance, particularly by replacing old metal frames with new thermal break aluminium ones, with low-emissivity double glazing (30% of the 1,476 frames had been replaced by the end of 2013), thermal insulation for the façades, terraces and roofs and an overhaul of the heating systems.

The Bank launched a sustainable management plan at its new building, Le Bayard, in Lyon Confluence at the end of 2013, with the aim of extending the double Minergie and BBC 2005 certification it has received for this building. The plan relates to the building’s environmental quality, and to the implementation and promotion of best practices with regard to use and operation.

This step demonstrates that the Bank wants to extend its ambitions beyond energy performance and to improve its environmental performance more generally (water, comfort in the workplace, etc.), as well as affirming its commitment to society.

A new “high environmental quality” IT centre

The Bank took possession of its new Michèle Bergsten IT centre on 10 September 2013. This site is in line with the Bank’s overall strategy of high environmental quality in construction and management, and is expected to obtain the HQE® construction label in early 2014.

This system is based on more than 150 environmental indicators and allows detailed monitoring and analysis of the Bank’s environmental footprint.

4|3 Strategies followed in 2013

Measures taken by the Bank in 2013 to help reduce all aspects of its environmental impact related to energy efficiency in buildings, optimisation of business trips, green IT, optimum management of the banknote manufacturing site and other cross-functional initiatives.

A real estate policy with a permanent focus on environmental performance

In 2013, the Bank stepped up its efforts to obtain environmental quality certification for new buildings, those being modernised and those already in operation.

Buildings that conform to environmental best practice

The Lyon Confluence building, which was handed over in 2013, has received the BBC 2005 (HPE 2005) “High energy performance” label, on top of the Swiss
Travelling less, travelling better

A reduction in the number of trips made contributes directly towards a reduction in greenhouse gas emissions. Journeys made by employees represent the Bank’s biggest source of greenhouse gas emissions. A large number of measures have been implemented to maintain and reinforce this downward trend.

A review of the travel policy

The Bank’s revised travel policy from 2013 has given greater weight to environmental criteria, alongside purely financial criteria, in choosing from the available means of transport. In environmental terms, the travel policy sets out two objectives, “travel less” and “travel better”. This new policy favours those means of transport with the lowest emissions. In particular, it makes it compulsory to travel by train rather than by air for any journey lasting up to three and a half hours.

Implementation of new Workplace Travel Plans

Following the Paris, Poitiers and Marseille sites, five new sites introduced a Workplace Travel Plan in 2013, drawing up action plans intended to encourage the use of “soft” means of transport. These include the signature of an agreement with the town, security solutions for bicycles, specifying an area for an ecomobility scheme and developing training courses in energy-efficient driving.

Growth in home working: working differently

The Banque de France has gradually introduced home working since the end of 2009, when a company agreement was signed. Around 1,000 employees or 7.5% of the workforce were making use of this option at the end of 2013. Thanks to remote communication tools, this system makes it possible to maintain performance alongside a good work/life balance.

Green IT

For several years, the Bank has been working on limiting energy consumption in its IT activities while maintaining their scope. In 2013, the Bank launched a “Digital Plan” consisting of several projects identified as essential levers in the Bank’s transformation in the period up to 2020. The introduction of a corporate social network (AGORA), which will act as a forum for information sharing and exchange, and the project for digital re-engineering of the archiving process will thus play a part in the approach to environmental responsibility.

The Bank has set up a project to rationalise its entire stock of printers and photocopiers. The aim is to promote the use of shared multi-function printing equipment in order to provide the best possible service at the best possible cost while reducing the Bank’s environmental footprint. The Bank has set incentive targets to encourage all those involved to contribute to

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3 Bordeaux, Clermont-Ferrand, Montpellier, Rennes and Toulouse.
the rationalisation of this equipment. For the period from 2013 to 2015, a three-year target has been set of a 20% reduction in the total number of printers and a long-term objective of a ratio of four users to each piece of printing equipment. The target for the end of 2013 was met, with a reduction of almost 10% in the Bank’s total stock of this equipment.

Almost 170,000 balance sheets were received electronically in 2013 under the BilanDirect FIBEN system, a 24% increase compared with 2012. This was the first time that over 50% of balance sheets were sent electronically, using a service that was only set up in 2010. The Banque de France has thus made progress on two fronts, reaching a new milestone in the modernisation of its information system and supporting sustainable development.

Banknote manufacturing: a model site

Banknote Manufacturing has thus far received triple certification with ISO 9001, ISO 14001 and OHSAS 18001. Its CSR strategy was reassessed by an external body in 2013 based on ISO 26000, as a result of which its “maturity” level was confirmed.

With regard to its industrial activities, the site recycled almost all of its waste in 2013 (99% of printing waste and 96% of waste paper).

Innovative solutions that are better for health and the environment were also implemented in 2013, improving working conditions (air quality, noise pollution, ergonomics of work stations, etc.).

Helping to spread best practices

The Bank is aware of its role and is continuing to implement measures to renew its commitment to the eco-responsible business model.

Assessment of CSR in all the Bank’s pilot projects

The Bank has initiated a large number of projects as part of its strategy between now and 2020, which will allow it to transform while fulfilling its commitments to society. To this end, the Bank has begun the process of integrating an assessment of the issues involved in the main projects in terms of the Bank's corporate social responsibility with regard to governance, objectives and consideration of the expectations of stakeholders and priorities. This approach is based on the principles and expectations of corporate social responsibility standard ISO 26000.

Optimising waste management: helping to spread best practices

In view of recent changes in regulations and to support the roll-out of best practices across its network, the Bank published a guide to waste management in 2013, which was aimed mainly at operational teams. A rigorous policy is in place for dealing with IT equipment that has reached the end of its useful life, allowing for the management of associated environmental and social risks. The Bank has awarded a contract for the collection and processing of this equipment to a suitable company, underlining its commitment to society.

Raising awareness and training employees in all aspects of sustainable development

Communication is the key to establishing and expanding a CSR strategy. The Bank ran internal communication campaigns on sustainable development issues throughout the year using various media to raise awareness among staff, both within and outside their institutions.

Box 37

Measuring corporate social responsibility based on ISO 26000

Following on from the Directorate General Banknote Manufacturing, a department in charge of service units underwent an external assessment of its CSR strategy in 2013 based on the principles of ISO 26000. Obtaining ISO 26000 certification is fully in keeping with the Bank’s corporate social responsibility strategy. The Bank met with peers before the assessment, to compare its strategy with those of other organisations.

The scope of the assessment included management of the sustainable development strategy and monitoring of the Bank’s environmental footprint, as well as how CSR is implemented within this department in operational terms.

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Note 4 Particularly the obligation to keep a register for monitoring waste.
jobs. These included dedicated sections on the intranet, educational tools, newsletters and communication campaigns to coincide with events during the year (Sustainable Development Week, European Week for Waste Reduction, etc.).

These campaigns related to both environmental responsibility projects implemented within the Bank and eco-responsible habits to be encouraged. Employees were offered two new training modules relating to waste management and environmental regulations.
1| Report on assets, liabilities and results

The Banque de France General Council approved the accounts for the year ending 31 December 2013 at its meeting of 24 March 2014. The Bank’s net profit stood at EUR 2,441 million, down EUR 705 million on 2012.

The decline in total assets, coupled with low yields in the main economic regions, caused net profit from activities to fall by 20% compared with 2012, to EUR 8,331 million in 2013. After covering operating expenses, down 3.3% on 2012, profit before tax and exceptional items came to EUR 6,142 million.

The Banque is continuing efforts begun in 2007 to strengthen its balance sheet. It transferred EUR 1,252 million to the fund for general risks (FRG) and accelerated depreciation. Distributable profit totalled EUR 2,441 million after corporate income tax of EUR 2,449 million.

For clarity, items appearing in the published accounts have been grouped in the presentation below. On the balance sheet, negative figures indicate net sources of funds or liabilities, while positive figures indicate net uses of funds or assets. Details of the accounting principles used by the Banque de France are provided in the Notes to the annual accounts.

1|1 Assets and liabilities

The Banque de France’s balance sheet contracted by 25% in 2013, from EUR 732 billion to EUR 550 billion between year-ends. This chiefly reflected an improvement in financial markets, resulting in a decline in the amounts held on the balance sheet for non-standard monetary policy measures.

<table>
<thead>
<tr>
<th>Financial position</th>
<th>(year-end amounts and change, EUR millions)</th>
<th>2013</th>
<th>2012</th>
<th>Change 2013/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sources of funds (–)</td>
<td>-308,294</td>
<td>-391,566</td>
<td>83,272</td>
<td></td>
</tr>
<tr>
<td>Net sources of funds from banknote operations</td>
<td>-174,515</td>
<td>-166,570</td>
<td>-7,945</td>
<td></td>
</tr>
<tr>
<td>Deposits by banks for monetary policy purposes</td>
<td>-106,980</td>
<td>-189,832</td>
<td>82,852</td>
<td></td>
</tr>
<tr>
<td>Operations with institutional customers</td>
<td>-10,291</td>
<td>-19,709</td>
<td>9,418</td>
<td></td>
</tr>
<tr>
<td>Own funds and other items</td>
<td>-16,508</td>
<td>-15,455</td>
<td>-1,053</td>
<td></td>
</tr>
<tr>
<td>Net uses of funds (+)</td>
<td>308,294</td>
<td>391,566</td>
<td>-83,272</td>
<td></td>
</tr>
<tr>
<td>Net banking refinancing</td>
<td>74,251</td>
<td>191,908</td>
<td>-117,657</td>
<td></td>
</tr>
<tr>
<td>Securities portfolios held for monetary policy purposes</td>
<td>45,139</td>
<td>51,802</td>
<td>-6,663</td>
<td></td>
</tr>
<tr>
<td>Net position with Eurosystem</td>
<td>69,235</td>
<td>28,777</td>
<td>40,458</td>
<td></td>
</tr>
<tr>
<td>Gold and net foreign exchange position</td>
<td>32,343</td>
<td>31,894</td>
<td>449</td>
<td></td>
</tr>
<tr>
<td>Other euro-denominated securities</td>
<td>87,326</td>
<td>87,185</td>
<td>141</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Banknotes in circulation</th>
<th>(year-end amounts and change, EUR millions)</th>
<th>2013</th>
<th>2012</th>
<th>Change 2013/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sources of funds from banknote operations (euro banknotes)</td>
<td>-174,515</td>
<td>-166,570</td>
<td>-7,946</td>
<td></td>
</tr>
<tr>
<td>Banknotes allocated to the Banque de France</td>
<td>-178,754</td>
<td>-170,641</td>
<td>-8,113</td>
<td></td>
</tr>
<tr>
<td>Advance to the IEDOM</td>
<td>4,239</td>
<td>4,071</td>
<td>167</td>
<td></td>
</tr>
</tbody>
</table>
Institut d’émission des départements d’outremer (IEDOM), the French Overseas Departments’ note-issuing bank, acts on behalf of the Banque de France in managing banknote circulation in France’s five overseas departments and in its overseas territorial collectivities of Saint Pierre and Miquelon, Saint Barthelemy and Saint Martin. It receives a non-interest bearing advance in return for the notes it distributes. This advance, amounting to EUR 4.2 billion at end-2013, corresponds to a percentage of France’s euro banknote allocation, which, since 1 July 2007, has been calculated according to the allocation mechanism in force within the Eurosystem. This advance is eliminated in the Banque de France/IEDOM combined accounts.

Total euro banknotes allocated to the Banque de France, net of the amount of the free advance granted to the IEDOM, make up the Banque de France’s net sources of funds from banknote operations.

Net banking refinancing and bank deposits

As a national central bank (NCB) member of the Eurosystem, the Banque de France makes loans to authorised credit institutions that apply for funding. This liquidity provision is reported as an asset, while deposits by banks, corresponding to the current accounts where they hold their minimum reserves, are carried as liabilities. Other deposits that credit institutions choose to make and that correspond to liquidity absorption are added to these amounts, which are left in the account.

The Eurosystem had excess liquidity in 2012, meaning that total outstanding refinancing exceeded the liquidity requirements of banks to finance the value of banknotes put into circulation and to make up their minimum reserves. This led to extensive use of the marginal deposit facility and, from July 2012, when the rate on the facility was reduced to 0%, to excess reserves on top of the minimum reserves. Excess liquidity was still present in the euro area in 2013, but was less substantial than before. In France, at end-December 2013, bank deposits exceeded bank refinancing.

The provision of liquidity in US dollars, conducted in coordination with the US Federal Reserve, continued in 2013, but no bids were made on these refinancing operations in France.

Securities portfolios in euros held for monetary policy purposes

These portfolios include:

- securities from Covered Bond Purchase Programmes (CBPP) 1 and 2 launched in 2009 and 2011;
- securities from the Securities Markets Programme (SMP) launched in 2010.

No transactions were conducted under the Outright Monetary Transactions (OMT) programme announced.
Financial management and the accounts

in September 2012, which is concentrated on securities with a residual maturity of up to three years. Implementation of OMT is linked, for each affected issuer, to compliance with the conditionality attached to European Financial Stability Facility/European Stability Mechanism programmes.

With no new purchases, the outstanding amount in portfolios held for monetary policy purposes declined in the amount of maturing securities.

Net position with the Eurosystem

The Banque de France has several claims and liabilities with the Eurosystem. These include:

• a claim arising on adjustments to banknotes, corresponding to the difference between banknotes allocated to the Banque de France in accordance with its share in the ECB’s capital and the banknotes put into circulation by the Banque de France;

• a claim arising from gold (15%) and foreign exchange (85%) assets transferred to the ECB; this claim is denominated in euro and 85% of it bears interest, with the remaining non-interest bearing 15% portion corresponding to transfers of gold;

• a liability relating to the functioning of the Target2 payment system; this liability, which fell sharply between December 2012 and December 2013, corresponds to the balance of payments initiated by the Bank, on its own behalf and for entities whose accounts it holds, to other Eurosystem central banks;

• accrued income resulting from interim ECB dividends (EUR 278 million) and the pooling of monetary income (EUR 100 million in 2013, after EUR 410 million in 2012).

These positions, whether on the assets or liabilities side, bear interest at the Eurosystem’s main refinancing operations rate, with the exception of the 15% portion of the claim on the ECB corresponding to transferred gold assets.

Gold and foreign exchange reserves

The Banque de France manages the State’s gold and foreign exchange reserves. These are recorded as an asset pursuant to the agreement between the State and the Banque de France on the management and accounting of the State foreign exchange reserves, published in the Official Journal of 2 February 2011. The reserves are partly backed by the revaluation reserve of State gold and foreign exchange reserves, which covers foreign exchange risk, in accordance with the same agreement.

<table>
<thead>
<tr>
<th>Net position with the Eurosystem</th>
<th>2013</th>
<th>2012</th>
<th>Change 2013/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net position with the Eurosystem</td>
<td>69,235</td>
<td>28,777</td>
<td>40,458</td>
</tr>
<tr>
<td>Claim on the Eurosystem for banknotes in circulation</td>
<td>76,822</td>
<td>74,845</td>
<td>1,977</td>
</tr>
<tr>
<td>Claim on the ECB for gold and foreign exchange assets transferred</td>
<td>8,230</td>
<td>8,255</td>
<td>-25</td>
</tr>
<tr>
<td>Other claims on the Eurosystem</td>
<td>378</td>
<td>527</td>
<td>-149</td>
</tr>
<tr>
<td>Liability towards the Eurosystem related to Target2</td>
<td>-16,195</td>
<td>-54,850</td>
<td>38,654</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gold and foreign exchange reserves</th>
<th>2013</th>
<th>2012</th>
<th>Change 2013/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold assets</td>
<td>32,343</td>
<td>31,894</td>
<td>449</td>
</tr>
<tr>
<td>Gold</td>
<td>68,217</td>
<td>98,751</td>
<td>-30,534</td>
</tr>
<tr>
<td>Net assets in reserve currencies</td>
<td>31,104</td>
<td>32,797</td>
<td>-1,694</td>
</tr>
<tr>
<td>SDR assets (relations with the IMF)</td>
<td>17,023</td>
<td>18,119</td>
<td>-1,095</td>
</tr>
<tr>
<td>Counterpart to SDR allocations</td>
<td>-11,335</td>
<td>-11,815</td>
<td>480</td>
</tr>
<tr>
<td>Revaluation accounts (gold, foreign exchange and securities denominated in foreign currencies)</td>
<td>-50,765</td>
<td>-83,951</td>
<td>33,186</td>
</tr>
<tr>
<td>Revaluation reserve of State gold and foreign exchange reserves</td>
<td>-21,901</td>
<td>-22,007</td>
<td>106</td>
</tr>
</tbody>
</table>

Source: Banque de France.
Financial management and the accounts

The Banque de France’s gold reserves were unchanged at 2,435 tonnes. The euro value of the reserves fell by EUR 30.5 billion because of the decline in the gold price. The gold revaluation account, which booked unrealised capital gains during the period when the price was rising, contracted pro tanto.

Convertible foreign currency reserves are largely managed in short-term investment portfolios invested in securities or money market instruments: the objective assigned to these investments is to ensure security but also liquidity. To a lesser extent, foreign currency reserves are invested in long-term investment portfolios in order to generate returns while continuing to meet the security objective.

Positions in Special Drawing Rights (SDRs) reflect relations with the IMF. These positions are recorded on the Banque de France’s balance sheet pursuant to a 2011 agreement with the State. After increasing for three years between 2010 and 2012, the net SDR position fell slightly in 2013, reflecting the IMF’s reduced financing requirements.

The Banque de France’s other euro-denominated assets

In addition to the portfolios established for monetary policy programmes, the Bank holds portfolios to invest its monetary resources as part of the framework adopted by the Eurosystem in 2003, which allows NCBs to hold euro-denominated portfolios unrelated to implementation of monetary policy within annually reviewed limits. Accordingly, the Bank holds a short-term available-for-sale (AFS) portfolio, which has been scaled down in view of the low level of returns, as well as an own-account held-to-maturity portfolio intended to make financial income less sensitive to the policy rate cycle.

Other euro-denominated securities held by the Banque de France correspond to own funds investment portfolios (capital, reserves and provisions), as well as participating interests held by the Bank, notably in the ECB’s capital.

Operations with institutional customers

The Banque de France offers banking services such as current account-keeping to institutional customers, mainly central banks outside the European Union. Non-euro area central banks and international organisations have access to a range of services allowing them, inter alia, to invest a portion of their foreign reserve assets and carry out foreign currency transactions.

<table>
<thead>
<tr>
<th>Operations with institutional customers (year-end amounts and change, EUR millions)</th>
<th>2013</th>
<th>2012</th>
<th>Change 2013/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations with institutional customers</td>
<td>-10,291</td>
<td>-19,709</td>
<td>9,418</td>
</tr>
<tr>
<td>Assets</td>
<td>127,316</td>
<td>151,096</td>
<td>-23,780</td>
</tr>
<tr>
<td>o/w lending to the French Treasury</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Liabilities</td>
<td>-137,607</td>
<td>-170,805</td>
<td>33,198</td>
</tr>
<tr>
<td>o/w liabilities vis-à-vis the French Treasury</td>
<td>-3,266</td>
<td>-4,883</td>
<td>1,618</td>
</tr>
</tbody>
</table>

Outstanding liabilities vis-à-vis the French Treasury and other government bodies remained marginal compared with outstanding deposits by international institutional customers, falling from EUR 4.9 billion at 31 December 2012 to EUR 3.3 billion at 31 December 2013.

Own funds and other items

The balance in “Own funds and other items” is a resource whose growth, after stripping out net profit for the year, reflects the Banque de France’s strengthened capital structure.

The Bank’s capital structure was strengthened mainly through allocations to reserves, made as part of the appropriation of 2012 income, and increased employee-related provisions in connection with the
change in the discount rate used to calculate long-term employee-related liabilities. This allocation was offset by reversing the remainder of the provision for risk and liabilities recognised in the 2008 accounts, in the amount of EUR 64 million, in accordance with Article 32.4 of the ESCB statute.

A total of EUR 1.25 billion was transferred to the fund for general risks, bringing it to EUR 6.91 billion, to improve coverage of the financial risks to which the Bank is exposed in the course of its operations. These risks have substantially increased as a result of the financial and sovereign crises that began in 2008.

### 1|2 Breakdown of profit

Given the 3.3% decline in operating expenses to EUR 2,188 million, the fall in profit before exceptional items and tax reflects the decline in net income from activities, which decreased from EUR 10,367 million to EUR 8,331 million.

The decline reflects the reduction in the outstanding amounts in securities portfolios held for monetary policy purposes, as well as low bond yields in the main economic regions, which lessened the profit earned from AFS portfolios in euros and foreign exchange. In the case of held-to-maturity portfolios, maturing securities could not be reinvested at the same rates as when they were purchased. Furthermore, the rate of interest paid on deposits by banks for monetary policy purposes fell by less than the rate on refinancing operations, which narrowed the interest margin on monetary policy operations with credit institutions.

These factors explain the decline in the rate of return earned on net interest-bearing assets, which fell from 5.1% in 2012 to 3.9% in 2013 and remained above break-even (0.73%).

After recognition of corporate income tax plus surcharges, the Bank’s net profit for the year was EUR 2,441 million, down EUR 705 million on 2012.

### Net income from activities

Net income from the Banque de France’s activities contracted by 20% from EUR 10,367 million in 2012 to EUR 8,331 million in 2013.

Analysing the breakdown of net income from activities mainly shows a decline in interest received (and paid) in connection with monetary policy operations with banks, and lower portfolio returns resulting from secularly low interest rates in the main economic regions. There was also a decline in the net result
for the pooling of monetary income, equal to the difference between the portion of Eurosystem NCBs’ monetary income earmarked for the Banque de France under pooling rules and monetary income pooled by the Banque de France (see Note 34 in the notes to the annual accounts for a detailed explanation).

As regards other income in euro, the very low level of rates weighed on net income from operations with institutional clients, which contracted by EUR 143 million. Despite the overall downward trend, the dividend paid by the ECB actually rose by EUR 228 million. In 2013, the ECB paid a dividend of EUR 86 million to the Banque de France in respect of income generated earned in 2012. The ECB also settled the balance of its seigniorage income after deducting the allocation to the provision for risks, representing an interim dividend of EUR 278 million for the Banque de France.

Regarding other non-monetary income, the amount paid by the State for services provided by the Bank fell by EUR 12 million, reflecting the freeze on the public spending budget. The contribution from entities subject to the supervision of the Autorité de contrôle prudentiel et de résolution (ACPR – Prudential Supervision and Resolution Authority), which is part of the Banque de France, covered the cost of the resources allocated to supervision and did not affect the Bank’s income.

### Operating expenses

Operating expenses fell EUR 74 million to EUR 2,188 million in 2013, a decline of 3.3% compared with 2012.

Within this expense item, personnel and related expenses, which concern current employees, fell EUR 6 million, attributable to a workforce reduction and the introduction of the CICE tax credit for competitiveness and employment. Pension expenses increased, reflecting demographic trends and the inflation-linking of pensions using the same scale as for the civil service pension scheme. Depreciation charges fell EUR 75 million in 2013 compared with 2012, when accelerated depreciation for IT projects

<table>
<thead>
<tr>
<th>Net income from activities</th>
<th>2013</th>
<th>2012</th>
<th>Change 2013/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET INCOME FROM ACTIVITIES</td>
<td>8,331</td>
<td>10,367</td>
<td>-2,036</td>
</tr>
<tr>
<td>Net income in connection with monetary policy</td>
<td>3,351</td>
<td>4,870</td>
<td>-1,520</td>
</tr>
<tr>
<td>Interest received on refinancing operations</td>
<td>771</td>
<td>1,904</td>
<td>-1,133</td>
</tr>
<tr>
<td>Interest paid on bank deposits</td>
<td>-139</td>
<td>-354</td>
<td>215</td>
</tr>
<tr>
<td>Income from securities held for monetary policy purposes</td>
<td>2,353</td>
<td>2,517</td>
<td>-164</td>
</tr>
<tr>
<td>Net interest on positions with the Eurosystem</td>
<td>201</td>
<td>261</td>
<td>-60</td>
</tr>
<tr>
<td>Net result of pooling of monetary income</td>
<td>100</td>
<td>410</td>
<td>-310</td>
</tr>
<tr>
<td>Reversal of monetary policy provision</td>
<td>64</td>
<td>132</td>
<td>-68</td>
</tr>
<tr>
<td>Income from foreign currency and SDR assets</td>
<td>653</td>
<td>1,007</td>
<td>-354</td>
</tr>
<tr>
<td>Net income from other euro-denominated assets</td>
<td>4,327</td>
<td>4,490</td>
<td>-163</td>
</tr>
<tr>
<td>Income from euro-denominated securities earmarked against the liability base (excluding monetary policy)</td>
<td>2,790</td>
<td>3,000</td>
<td>-209</td>
</tr>
<tr>
<td>ECB and IEDOM dividends</td>
<td>378</td>
<td>151</td>
<td>227</td>
</tr>
<tr>
<td>Net income from operations with institutional clients</td>
<td>244</td>
<td>387</td>
<td>-143</td>
</tr>
<tr>
<td>Other non-monetary income</td>
<td>914</td>
<td>952</td>
<td>-38</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating expenses</th>
<th>2013</th>
<th>2012</th>
<th>Change 2013/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses</td>
<td>-2,188</td>
<td>-2,263</td>
<td>74</td>
</tr>
<tr>
<td>Personnel and related expenses</td>
<td>-1,006</td>
<td>-1,012</td>
<td>6</td>
</tr>
<tr>
<td>Pensions and related expenses</td>
<td>-450</td>
<td>-440</td>
<td>-10</td>
</tr>
<tr>
<td>Taxes other than income tax</td>
<td>-38</td>
<td>-38</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation charges on fixed assets</td>
<td>-111</td>
<td>-187</td>
<td>75</td>
</tr>
<tr>
<td>Capitalised production</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>-584</td>
<td>-586</td>
<td>2</td>
</tr>
</tbody>
</table>
covered by the accounting mechanism for capitalised production was discontinued.

Spending controls stabilised the Banque de France’s break-even point at 0.73%, representing the minimum return that has to be generated on net interest-bearing assets to cover expenses.

### Net profit

<table>
<thead>
<tr>
<th>Net profit from activities</th>
<th>8,331</th>
<th>10,367</th>
<th>-2,036</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses</td>
<td>-2,188</td>
<td>-2,263</td>
<td>74</td>
</tr>
<tr>
<td>Profit before exceptional items and tax</td>
<td>6,142</td>
<td>8,104</td>
<td>-1,962</td>
</tr>
<tr>
<td>Net transfer to fund for general risks and accelerated tax depreciation</td>
<td>-1,252</td>
<td>-1,848</td>
<td>596</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>-2,449</td>
<td>-3,110</td>
<td>661</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>2,441</td>
<td>3,146</td>
<td>-705</td>
</tr>
</tbody>
</table>

### Financial management and the accounts

**Corporate income tax**

The Banque de France is liable for corporate income tax and a number of additional tax contributions. For 2013, the Banque de France’s income tax commitment amounted to EUR 2,449 million, including the 10.7% addition to corporate income tax introduced by the Supplementary Budget Act No. 2011-1978 dated 28 December 2011, amended by the Supplementary Budget Act No. 2013-1279 dated 29 December 2013 (EUR 224 million), and the dividend tax introduced by the Supplementary Budget Act for 2012 (EUR 72 million).

After consolidation of the Bank’s fund for general risks, a provision of EUR 2 million for accelerated tax depreciation charges and payment of the Bank’s income tax commitment, net profit for the Bank was down EUR 705 million in 2013 to EUR 2,441 million.

The Bank’s General Council approved the 2013 accounts at its meeting of 24 March 2014. As in previous years these accounts were certified by the auditors, who issued an unqualified opinion.

### Fund for general risks

The fund for general risks (FRG) is intended to cover all possible risks to which the Bank is exposed in the course of its activities, except currency risk on gold and foreign exchange reserves, which is covered by the revaluation reserve of State gold and foreign exchange reserves. The fund is a provision intended to cover any risks that could not be adequately met from operating profit.

The increase in the volume of operations conducted as part of monetary policy since 2007 and the risks associated with the exceptional measures taken in response to the financial crisis prompted the Bank to continue raising the FRG. In doing so, it was pursuing a policy put in place in 2007 and stepped up in 2009. An additional EUR 1.25 billion was transferred to the FRG in 2013, bringing the value of the fund to EUR 6.91 billion.

### Chart 31

Payments to the State

(EUR millions)

Source: Banque de France.
## Individual Accounts of the Banque de France

### Balance sheet and profit and loss account

#### Balance sheet at 31 December 2013

<table>
<thead>
<tr>
<th>Notes to annual accounts</th>
<th>Item Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>A1 Gold</td>
<td>68,217</td>
<td>98,751</td>
</tr>
<tr>
<td>2</td>
<td>A2 Foreign exchange assets (excl. relations with the IMF)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>Foreign exchange assets held with non-euro area residents</td>
<td>20,046</td>
<td>30,589</td>
</tr>
<tr>
<td>2.2</td>
<td>Foreign exchange assets held with euro area residents</td>
<td>14,212</td>
<td>8,072</td>
</tr>
<tr>
<td>3</td>
<td>A3 Relations with the IMF</td>
<td>17,023</td>
<td>18,119</td>
</tr>
<tr>
<td>3.1</td>
<td>Financing provided to the IMF</td>
<td>5,785</td>
<td>6,432</td>
</tr>
<tr>
<td>3.2</td>
<td>Acquisitions of Special Drawing Rights</td>
<td>11,238</td>
<td>11,687</td>
</tr>
<tr>
<td>4</td>
<td>A4 Euro-denominated loans to euro area credit institutions in the framework of monetary policy operations</td>
<td>74,250</td>
<td>181,933</td>
</tr>
<tr>
<td>5</td>
<td>A5 Other euro-denominated loans to euro area credit institutions</td>
<td>38,038</td>
<td>45,182</td>
</tr>
<tr>
<td>6</td>
<td>A6 Euro-denominated securities issued by euro area residents</td>
<td>124,183</td>
<td>130,427</td>
</tr>
<tr>
<td>7.1</td>
<td>Securites held for monetary policy purposes</td>
<td>45,139</td>
<td>51,802</td>
</tr>
<tr>
<td>7.2</td>
<td>Other securites</td>
<td>79,043</td>
<td>78,625</td>
</tr>
<tr>
<td>8</td>
<td>A8 Relations within the Eurosystem</td>
<td>86,965</td>
<td>85,163</td>
</tr>
<tr>
<td>8.1</td>
<td>Participating interest in the ECB</td>
<td>1,535</td>
<td>1,536</td>
</tr>
<tr>
<td>8.2</td>
<td>Claims arising on the transfer of reserve assets to the ECB</td>
<td>8,230</td>
<td>8,255</td>
</tr>
<tr>
<td>8.3</td>
<td>Claims arising on the Eurosystem for euro banknotes in circulation</td>
<td>76,822</td>
<td>74,845</td>
</tr>
<tr>
<td>8.4</td>
<td>Other claims on the Eurosystem</td>
<td>378</td>
<td>527</td>
</tr>
<tr>
<td>10</td>
<td>A9 Advance to the IEDOM</td>
<td>4,239</td>
<td>4,071</td>
</tr>
<tr>
<td>11</td>
<td>A10 Claims on the French Treasury</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>12</td>
<td>A11 Other euro- and foreign currency-denominated financial assets</td>
<td>87,770</td>
<td>112,660</td>
</tr>
<tr>
<td>13</td>
<td>A12 Miscellaneous</td>
<td>7,396</td>
<td>8,987</td>
</tr>
<tr>
<td>13.1</td>
<td>Tangible and intangible fixed assets</td>
<td>900</td>
<td>853</td>
</tr>
<tr>
<td>13.2</td>
<td>Participating interests (other than interest in the ECB)</td>
<td>405</td>
<td>436</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td>550,006</td>
<td>731,781</td>
</tr>
</tbody>
</table>

#### LIABILITIES

<table>
<thead>
<tr>
<th>Notes to annual accounts</th>
<th>Item Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>P1 Banknotes in circulation</td>
<td>178,754</td>
<td>170,641</td>
</tr>
<tr>
<td>2</td>
<td>P2 Euro-denominated liabilities to euro area credit institutions in the framework of monetary policy operations</td>
<td>106,980</td>
<td>189,832</td>
</tr>
<tr>
<td>2.1</td>
<td>Current accounts</td>
<td>68,174</td>
<td>104,368</td>
</tr>
<tr>
<td>2.2</td>
<td>Other liabilities</td>
<td>38,806</td>
<td>85,464</td>
</tr>
<tr>
<td>15</td>
<td>P3 Other euro-denominated liabilities to euro area credit institutions</td>
<td>20</td>
<td>926</td>
</tr>
<tr>
<td>16</td>
<td>P4 Euro-denominated liabilities to non-euro area residents</td>
<td>28,067</td>
<td>35,593</td>
</tr>
<tr>
<td>2</td>
<td>P5 Foreign exchange liabilities</td>
<td>3,154</td>
<td>5,863</td>
</tr>
<tr>
<td>3</td>
<td>P6 Counterpart to SDR allocation</td>
<td>11,335</td>
<td>11,815</td>
</tr>
<tr>
<td>16</td>
<td>P7 Relations within the Eurosystem</td>
<td>16,195</td>
<td>54,850</td>
</tr>
<tr>
<td>17</td>
<td>P8 Euro-denominated liabilities to other euro area residents</td>
<td>7,617</td>
<td>10,135</td>
</tr>
<tr>
<td>8.1</td>
<td>Treasury's account</td>
<td>3,266</td>
<td>4,883</td>
</tr>
<tr>
<td>8.2</td>
<td>Other liabilities</td>
<td>4,351</td>
<td>5,252</td>
</tr>
<tr>
<td>18</td>
<td>P9 Items in the course of settlement</td>
<td>90</td>
<td>206</td>
</tr>
<tr>
<td>19</td>
<td>P10 Banking transactions</td>
<td>101,903</td>
<td>124,151</td>
</tr>
<tr>
<td>20</td>
<td>P11 Miscellaneous</td>
<td>4,748</td>
<td>4,683</td>
</tr>
<tr>
<td>21</td>
<td>P12 Provisions for liabilities and charges</td>
<td>924</td>
<td>932</td>
</tr>
<tr>
<td>22</td>
<td>P13 Revaluation accounts</td>
<td>52,037</td>
<td>85,050</td>
</tr>
<tr>
<td>23</td>
<td>P14 Fund for general risks and accelerated tax depreciation</td>
<td>7,902</td>
<td>5,750</td>
</tr>
<tr>
<td>24</td>
<td>P15 Revaluation reserve of State gold and foreign exchange reserves</td>
<td>21,901</td>
<td>22,007</td>
</tr>
<tr>
<td>25</td>
<td>P17 Capital, reserves and retained earnings</td>
<td>6,838</td>
<td>6,200</td>
</tr>
<tr>
<td>26</td>
<td>P18 Profit for the year</td>
<td>2,441</td>
<td>3,146</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td></td>
<td>550,006</td>
<td>731,781</td>
</tr>
</tbody>
</table>

*a) Each item of the balance sheet is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise.*
2013 profit and loss account

<table>
<thead>
<tr>
<th>Item Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Net income from activities of the Banque de France</td>
<td>8,331</td>
<td>10,367</td>
</tr>
<tr>
<td>1.1 Interest and related income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1.1 Interest and related income</td>
<td>7,872</td>
<td>10,475</td>
</tr>
<tr>
<td>1.1.2 Interest and related expenses</td>
<td>-1,068</td>
<td>-2,106</td>
</tr>
<tr>
<td>1.2 Net income/loss on financial transactions</td>
<td>123</td>
<td>432</td>
</tr>
<tr>
<td>1.2.1 Net of realised gains/losses and unrealised losses on foreign exchange</td>
<td>-106</td>
<td>137</td>
</tr>
<tr>
<td>1.2.2 Net of charges to/releases from the revaluation reserve of State foreign exchange reserves</td>
<td>+106</td>
<td>-137</td>
</tr>
<tr>
<td>1.2.3 Net of other income and expenses on financial transactions</td>
<td>123</td>
<td>432</td>
</tr>
<tr>
<td>1.3 Commission</td>
<td>-8</td>
<td>16</td>
</tr>
<tr>
<td>1.3.1 Commission (income)</td>
<td>43</td>
<td>48</td>
</tr>
<tr>
<td>1.3.2 Commission (expense)</td>
<td>-51</td>
<td>-32</td>
</tr>
<tr>
<td>1.4 Income from equity securities and participating interests</td>
<td>420</td>
<td>185</td>
</tr>
<tr>
<td>1.5 Net result of pooling of monetary income</td>
<td>164</td>
<td>542</td>
</tr>
<tr>
<td>1.6 Net of other income and expenses</td>
<td>829</td>
<td>823</td>
</tr>
<tr>
<td>2. Operating expenses</td>
<td>-2,188</td>
<td>-2,263</td>
</tr>
<tr>
<td>2.1 Personnel and related expenses</td>
<td>-1,006</td>
<td>-1,013</td>
</tr>
<tr>
<td>2.2 Pensions and related expenses</td>
<td>-450</td>
<td>-440</td>
</tr>
<tr>
<td>2.3 Taxes other than income tax</td>
<td>-38</td>
<td>-38</td>
</tr>
<tr>
<td>2.4 Provisions, depreciation and amortisation</td>
<td>-111</td>
<td>-187</td>
</tr>
<tr>
<td>2.5 Net of other operating income and expenses</td>
<td>-584</td>
<td>-586</td>
</tr>
<tr>
<td>PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS (1 + 2)</td>
<td>6,142</td>
<td>8,104</td>
</tr>
<tr>
<td>3. Net charge to the fund for general risks and accelerated tax depreciation</td>
<td>-1,252</td>
<td>-1,848</td>
</tr>
<tr>
<td>4. Exceptional Items</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>4.1 Exceptional income</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>4.2 Exceptional expenses</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>5. Corporate income tax</td>
<td>-2,449</td>
<td>-3,110</td>
</tr>
<tr>
<td>PROFIT FOR THE YEAR (1 + 2 + 3 + 4 + 5)</td>
<td>2,441</td>
<td>3,146</td>
</tr>
</tbody>
</table>

a) Each item of the profit and loss account is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise.

2|2 Notes to the annual accounts

Accounting principles and valuation methods

Legal framework

The annual accounts of the Banque de France are presented in accordance with the format determined by the General Council, which complies with the Order of the Minister of the Economy, Finance and Industry of 7 February 2000, amended on 16 November 2010. Their structure is designed to reflect the specific nature of the tasks carried out by the Bank as part of the ESCB and its diverse range of activities. The accounts are expressed in millions of euro.

The accounting and valuation methods applied by the Banque de France are defined in Article R 144-6 of the Monetary and Financial Code, which specifies the following:

- The Banque de France must comply with the accounting and valuation methods laid down by the ECB Governing Council in its 11 November 2011 Guideline1 for all activities carried out within the framework of the ESCB. This Guideline establishes in particular the accounting rules applicable to refinancing operations for the banking sector, securities, foreign currency transactions carried out in the course of foreign currency reserve management, and the issue of banknotes.

Financial management and the accounts

The accounting rules established by the Autorité des normes comptables (ANC – Accounting Standards Authority) apply to all the Bank’s other activities. However, the Bank’s General Council may also decide to apply the accounting and valuation rules recommended by the ECB to its other activities.

With effect from 1 January 2003, the Banque de France extended the accounting methods laid down by the ECB Governing Council in its 5 December 2002 Guideline (since replaced by the Guideline of 10 November 2006, and subsequently by that of 11 November 2011) to cover the securities portfolios recorded in asset item A11.

Valuation methods

Foreign currency gains/losses

Spot and forward purchases and sales of foreign currencies are recorded in off-balance sheet accounts at the trade date. They are recognised in the balance sheet at the settlement date.

Foreign currency gains/losses on State gold and currency reserves

Realised gains/losses are computed for each currency. Every day, a weighted average price is calculated, firstly on inflows (spot or forward purchases on the trade date and income in foreign currencies, in particular daily accrued interest), and secondly on outflows (spot or forward sales on the trade date and expenses in foreign currencies, in particular accrued interest in foreign currencies). The realised gain/loss is calculated by applying the difference between these average prices to the lower of the day’s inflows or outflows.

Where outflows exceed inflows, a second realised gain/loss is calculated, equal to the difference between the net outflows of the day valued at the average outflow price on the one hand, and at the average price of the day’s opening position on the other. Where inflows exceed outflows, the net inflow is added to the assets held at the beginning of the day, thus changing the average price of the position.

Gold and foreign exchange positions are valued at year-end on the basis of the rates/prices prevailing on the last business day of the year. Unrealised gains are recorded as liabilities in revaluation accounts (item P13). Unrealised losses are taken to the profit and loss account in item 1.2.1. Unrealised gains and losses are not netted.

Revaluation reserve of State gold and foreign exchange reserves

Pursuant to the new agreement between the State and the Banque de France which came into force on 2 February 2011 and replaces the agreement of 31 March 1999, the revaluation reserve of State gold reserves (RRROE) and the revaluation reserve of State foreign exchange reserves (RRRDE) were merged into a single reserve called the revaluation reserve of State gold and foreign exchange reserves (RRRODE).

Like the 1999 agreement, the new agreement of 2011 neutralises the impact on the Bank’s profit and loss account of realised gains and losses and of unrealised losses at year-end, thanks to a mechanism whereby the counterpart in the profit and loss account is symmetrically offset against the RRRODE. However, as before, the amount of net foreign currency gains taken to the RRRODE is limited to the net profit for the year before the transfer to the reserves.

The new agreement also stipulates that:

• the amount of the RRRODE must henceforth be equal to at least 12% of the gold and foreign exchange position; it must also be sufficient to cover the losses that would arise if prices were to fall to their lowest level of the past ten years;
• if the RRRODE falls below its minimum amount as defined above, it is supplemented from profits for the financial year, without exceeding 20% of net profit.

Other foreign currency gains/losses

The Banque de France applies Regulation 89-01 of the Comité de la réglementation bancaire et Financière (CRBF – Banking and Financial Regulation Committee) to foreign currency operations not connected to its main responsibilities. Foreign currency deposits and investments are marked to market on the last business day of the year. Realised and unrealised foreign currency gains and losses are posted to profit and loss in item 1.2.3 “Net of other income and expenses on financial transactions”. Accrued income and expenses are converted into euro at the rate
prevailing on the day the transaction is recorded. Forward foreign currency hedges are valued at the closing date exchange rate.

**Securities portfolio (excluding pension fund)**

Fixed-income securities and variable-yield securities are recorded under the following items:

- A2 of the balance sheet for securities denominated in foreign currencies held in connection with foreign currency reserve management;
- A7.1 for securities acquired for monetary policy purposes;
- A11 for euro-denominated securities earmarked against the Bank's own funds, provisions and customer deposits recorded in items P4 or P10;
- A12 for securities held in the Bank's Employee Reserve Fund (see Note 29);
- A4 or A7.2 for other securities denominated in euro depending on whether they are issued by non-residents or residents.

Fixed-income securities that the Banque de France has decided to hold to maturity are recognised in the accounts at amortised cost but may be subject to impairment in the event of a risk of non-recovery.

The other fixed-income securities that may be sold before their maturity, and variable-yield securities, are revalued line by line at their market price on the last business day of the year. Unrealised gains are recorded as liabilities in revaluation accounts (item P13). Unrealised losses are booked as expenses on financial transactions (profit and loss item 1.2.3). Unrealised gains and losses are not netted. Gains and losses arising from sales realised during the year are calculated on the basis of the weighted average price of each line of securities; they are booked in item 1.2.3 “Net of other income and expenses on financial transactions” of the profit and loss account.

For all fixed-income securities, differences between the acquisition and redemption price are spread over the remaining life of the securities on a discounted basis.

**Financial futures**

Interest rate financial futures traded on organised markets are recorded off-balance sheet at the notional amount, while daily margin calls paid or received are recognised in item 1.2.3 of the profit and loss account.

Interest rate swaps are revalued at market value at 31 December. Unrealised gains are recorded as liabilities in revaluation accounts (item P13). Unrealised losses are booked as expenses on financial transactions (profit and loss item 1.2.3). Unrealised gains and losses are not netted. Unrealised losses are amortised over the remaining life of the contract. The interest is recorded in item 1.1 of the profit and loss account on an accrual basis.
Currency option premiums are recorded on the asset side of the balance sheet if they relate to currency purchases and on the liabilities side if they relate to currency sales. In the event that the option is exercised, the premium is included in the price of the currency purchased. If the option is not exercised, at its expiry date the premium is recorded in item 1.2.1 of the profit and loss account “Net of realised gains/losses and unrealised losses on foreign currency”. At the end of the year, the premium amounts booked to the profit and loss account during the year are transferred to the revaluation reserve of State gold and foreign exchange reserves in the same way as realised foreign currency gains and losses.

Open positions on currency options at the balance sheet date are valued at their market price. Unrealised gains are recorded as liabilities in revaluation accounts (item P13). Unrealised losses are booked in item 1.2.3 of the profit and loss account. Unrealised gains and losses are not netted.

**Synthetic instruments**

A synthetic instrument is a financial instrument created artificially by combining two or more instruments with the aim of replicating the cash flows and valuation patterns of another instrument.

At the end of the year, a synthetic instrument that replicates a fixed-income security that is not intended to be held to maturity is marked to market using the market prices of its component instruments. The unrealised gain or loss on the synthetic instrument is calculated based on the net amount of the unrealised gains and losses on its component instruments.

Unrealised gains are recorded as liabilities in revaluation accounts (item P13). Unrealised losses are booked as expenses on financial transactions (profit and loss item 1.2.3). Unrealised gains and losses on different synthetic instruments are not netted. Where appropriate, gains and losses arising from sales realised during the year are booked in item 1.2.3 “Net of other income and expenses on financial transactions” of the profit and loss account.

**Eurosystem claims and liabilities**

Net claims on or liabilities to the Eurosystem arise on cross-border transfers between the ESCB’s national central banks and the ECB via Target. These cross-border operations give rise to bilateral claims and liabilities between national central banks. All such bilateral claims and liabilities are netted on a daily basis within the Target system so that only one position is shown for each NCB vis-à-vis the ECB. The Banque de France’s net position in Target vis-à-vis the ECB along with other euro-denominated liabilities to the Eurosystem are carried on the Bank’s balance sheet as a net liability to the Eurosystem in item P7 (see Note 16).

The Bank has other Eurosystem claims and liabilities due to its stake in the ECB’s capital (Note 13), the transfer of a portion of reserve assets (Note 7), interim dividends and accrued income receivable from the ECB in respect of the distribution of the balance of monetary income (Note 9), and the allocation of banknotes among national central banks and the ECB (Note 14).

**Tangible and intangible fixed assets**

Tangible and intangible fixed assets are accounted for and valued in accordance with French standards.

Land is valued at acquisition cost. Buildings and equipment are carried at historical cost, less depreciation or provisions for impairment booked since they were brought into service.

In accordance with Article 322-1 of the Plan comptable général (PCG – French General Chart of Accounts), the depreciation period for each asset is determined on the basis of its probable useful life. Components of the Bank’s property assets are depreciated over 50, 33, 20 or 10 years, depending on the type of asset. Computer equipment is depreciated over 2 to 10 years, and most other equipment over periods ranging from 3 to 12 years. Purchased software is amortised over 3 or 6 years. Most fixed assets are depreciated using the straight-line method. In accordance with CRC Regulation 2002-10, the useful lives of long-term assets are reviewed regularly and modified as required.

Accelerated tax depreciation is applied for assets that can be depreciated more rapidly for tax purposes than for accounting purposes.
Financial management and the accounts

Banknotes in circulation
See Note 14.

Fund for general risks
See Note 23.

Pension scheme
See Note 29.

Post-balance sheet events
None.

Information on balance sheet, off-balance sheet and profit and loss items

A certain amount of confidential information relating to operations carried out in the exercise of the Banque de France's core operations is not disclosed, in accordance with decisions taken by the General Council and pursuant to Article R144-6 of the Monetary and Financial Code.

Balance sheet

Note 1: Gold
In 2009, the Eurosystem central banks, Swiss National Bank and Sveriges Riksbank renewed the agreement capping their sales of gold. Under the agreement, entered into for a five-year period commencing 27 September 2009, annual sales by the 19 central banks concerned may not exceed 400 tonnes.

The gold stock of the Banque de France remained unchanged at 2,435 tonnes in 2013.

Note 2: Foreign currency assets and liabilities
Foreign currency reserves are invested in overnight deposits, fixed-term deposits, deliver-out repos, and fixed-income securities. The Bank may also borrow foreign currencies in the form of deliver-out repos, recorded in liability item P5.

Fixed-income securities denominated in foreign currencies comprise securities that the Bank has the intention of holding to maturity and securities that may be sold. These two portfolio categories are subject to different valuation rules that are described in the section above on accounting principles and valuation methods. Securities intended to be held to maturity totalled EUR 9,587 million at 31 December 2013 compared with EUR 10,842 million at 31 December 2012.

In 2012, “foreign currency assets” also included claims on euro area residents in the form of securities repurchase agreements. At 31 December 2012, the full amount of these loans was settled. The loans had been granted under the temporary reciprocal currency arrangement (swap lines) put in place by the US Federal Reserve System and the ECB. Under this programme, the US Federal Reserve System provided the dollars to the ECB through a EUR/USD swap. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct US dollar liquidity-providing operations with Eurosystem counterparties.

In 2012, these back-to-back swap transactions resulted in non-remunerated intra-Eurosystem balances between the ECB and the NCBs, reported under liability item P7 “Relations within the Eurosystem”. In 2013, no French bank entered bids in the context of these swap lines.

<table>
<thead>
<tr>
<th>Foreign currency assets and liabilities (excl. relations with the IMF)</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset item A2 and Liability item P5</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overnight deposits</td>
<td>259</td>
<td>707</td>
</tr>
<tr>
<td>Fixed-term deposits</td>
<td>8,919</td>
<td>11,666</td>
</tr>
<tr>
<td>Provision of US dollar liquidity to Eurosystem counterparties</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Securities received under repurchase agreements</td>
<td>966</td>
<td>507</td>
</tr>
<tr>
<td>Fixed-income securities</td>
<td>23,915</td>
<td>25,560</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>198</td>
<td>220</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>34,257</td>
<td>38,660</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities delivered under repurchase agreements</td>
<td>3,144</td>
<td>5,850</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>3,154</td>
<td>5,863</td>
</tr>
</tbody>
</table>

2 Initially established by the Eurosystem on a temporary basis, these swap lines became permanent in 2013.
Financial management and the accounts

Note 3: Relations with the IMF
The amount of financing provided to the IMF is equivalent to the euro value of:

- drawing rights under the reserve tranche that corresponds to the fraction of France’s share in the IMF’s capital that is settled in gold and other foreign currency assets, plus the IMF’s net utilisation of euro, notably in the form of euro-denominated drawings and repayments by member countries on France’s account;

- loans granted to the IMF as part of the agreement that came into effect on 2 December 2009 (see below);

- loans granted to the Poverty Reduction and Growth Trust (PRGT) set up through the IMF.

The “Acquisitions of Special Drawing Rights” item includes the euro equivalent of the SDRs held by France, and chiefly comprises SDRs allocated to France as part of the IMF’s general SDR allocations to member countries, along with purchases of SDRs as part of voluntary swap agreements with member countries designated by the IMF.

The amount of acquisitions of SDRs should be considered together with that recorded in liability item P6 “Counterpart to SDR allocations” to determine France’s net SDR position.

Changes in financing provided to the IMF stem from:

- net repayment by the IMF of EUR 569.6 million on France’s quota (excess of repayments over drawings);

- net drawing of SDR 156.3 million (equivalent to EUR 180.6 million) in 2013 under the loan agreement between the Banque de France and the IMF of December 2009 – this agreement provides for a maximum of EUR 21,178 million since the bilateral loan agreements were merged with the New Arrangements to Borrow of February 2011;

- the remainder of the change is due to SDR depreciation relative to the euro.

The change in asset item A3.2 “Acquisitions of Special Drawing Rights” (SDR assets) arises from the payment of interest relating to receivables and liabilities in SDRs as well as the purchases of SDRs under voluntary swap agreements with other central banks and the change in the price of SDRs from one year-end to the next. The counterpart of loans granted to the PRGT set up under the auspices of the IMF is the “SDR assets” item. In 2013, loans granted in this respect totalled SDR 329 million (equivalent to EUR 376 million).

The last entry under liability item P6 “Counterpart to SDR allocations” was made in 2009 with a general allocation and a special allocation of SDRs by the IMF for a total of SDR 9 billion. The change in the item results from movements in the SDR/euro exchange rate.

Note 4: Monetary policy operations
Total receivables held by the Eurosystem in relation to monetary policy operations amounted to EUR 752,288 million, of which EUR 74,250 million recorded on the Banque de France’s balance sheet. In accordance with Article 32.4 of the ESCB Statute, any risks that may materialise as a result of monetary policy operations are eventually to be shared in full by the Eurosystem NCBs, in proportion to their prevailing ECB capital key shares.

Asset item A5 and liability item P2.2 show operations carried out by the Banque de France under the Eurosystem’s single monetary policy.

Short-term open market operations conducted by the Eurosystem were the main refinancing operations in volume terms until 2008 and they play a key role in steering interest rates, managing bank liquidity.

<table>
<thead>
<tr>
<th>Relations with the IMF</th>
<th>Asset item A3 and Liability item P6 (EUR millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td>Financing provided to the IMF</td>
<td>5,785</td>
</tr>
<tr>
<td>Acquisitions of Special Drawing Rights</td>
<td>11,235</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>17,023</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
</tr>
<tr>
<td>Counterpart to SDR allocation</td>
<td>11,333</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>11,335</td>
</tr>
</tbody>
</table>
and signalling the stance of monetary policy. These operations are conducted through weekly tenders in the form of temporary sales of assets (repurchase agreements) for a one-week maturity. Since October 2008, these operations have been conducted as fixed-rate tender procedures.

**Long-term refinancing operations (LTROs)** are carried out through monthly tenders for loans with a maturity of 3, 6, 12 or 36 months.

In connection with the enhanced credit support measures to support bank lending and liquidity in the euro area money market, the Governing Council decided in December 2011 to conduct two LTROs with a maturity of 36 months and the option of early repayment after one year. These operations are conducted as tender procedures with full allotment. The rate applicable to these operations is equal to the average rate applicable to the main refinancing operations over the life of the longer-term refinancing operation concerned. Interest is paid when each operation matures. The first operation was allotted on 21 December 2011 (EUR 109 billion from a total EUR 489.2 billion for the Eurosystem) and the second was allotted on 1 March 2012 (EUR 60 billion from a total EUR 529.5 billion for the Eurosystem). Partial early repayment of these operations (64%) took place in 2013.

**Marginal lending facilities** are overnight facilities granted in the form of reverse transactions with Banque de France counterparties at their request. Interest is paid on these facilities at a rate fixed by the Eurosystem.

**Fine-tuning operations and the collection of deposits** are executed as and when needed to manage the liquidity situation in the market and to guide interest rates. Fine-tuning operations take the form of reverse transactions, outright foreign currency swaps or the collection of deposits. These operations are generally executed by means of quick tenders or bilateral procedures. They were used throughout 2013 to neutralise the liquidity provided through the SMP portfolio, and increased sharply at end-December 2013 to stand at EUR 10,589 million. Interest is paid on the collection of deposits at a variable rate close to Eonia.

### Euro-denominated loans to euro area credit institutions within the framework of monetary policy operations

<table>
<thead>
<tr>
<th>Asset item A5</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main refinancing operations</td>
<td>11,875</td>
<td>7,611</td>
</tr>
<tr>
<td>Long-term refinancing operations</td>
<td>61,525</td>
<td>172,879</td>
</tr>
<tr>
<td>Fine-tuning operations</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Structural operations</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Marginal lending facility</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Margin calls paid</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>850</td>
<td>1,443</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>74,250</strong></td>
<td><strong>181,933</strong></td>
</tr>
</tbody>
</table>
Liability item P2.1 comprises the current accounts opened by credit institutions in the books of the Banque de France. These accounts mainly comprise minimum reserves. The minimum reserve build-up period begins on the main refinancing operation settlement date following the Governing Council meeting at which the monthly assessment of monetary policy direction is made (Article 7 of EC Regulation 1745/2003 of the ECB, dated 12 September 2003). Holdings of minimum reserves bear interest at the average rate of the main refinancing operations over the period the reserves are built up. Deposits exceeding minimum reserves do not bear interest. The minimum reserve base was reduced from 2% to 1% in January 2012.

Deposit facilities enable Banque de France counterparties to make overnight deposits. The interest rate on the deposit facility is set by the Eurosystem and normally acts as a floor for the interbank market rate (0% since 11 July 2012), which explains why a portion of the excess liquidity was maintained in MFI current accounts at 31 December 2012 (these accounts are only remunerated to the extent of minimum reserves). Because a portion of the 36-month LTROs was repaid early, the high level of the deposit facility in 2012 fell correspondingly as at 31 December 2013.

Note 5: Items A4 “Euro-denominated claims on non-euro area residents” and A6 “Other loans to euro area credit institutions”

These items include euro-denominated investments earmarked against euro-denominated deposits recorded in liability item P4 (see Note 15). These claims and loans, which do not relate to monetary policy operations, are split between these two asset items A4 and A6, according to whether the counterparty is located within or outside the euro area.

In response to the ECB’s request, since April 2012 item A6 has also included all Emergency Liquidity Assistance (ELA) of any type (purchase of investment fund units, collateralised loans). All ELA was repaid in 2013.

Note 6: Item A7 “Euro-denominated securities issued by euro area residents”

A7.1 “Securities held for monetary policy purposes”

Asset item 7.1 includes securities acquired within the scope of the two Covered Bond Purchase Programmes and the Securities Markets Programme (SMP).

The amount of covered bond purchases established in the first programme was reached at end-June 2010.

On 6 October 2011, the ECB Governing Council decided to launch a second CBPP. This provided for the purchase by NCBs and the ECB of covered bonds issued in the euro area with a view to improving

<table>
<thead>
<tr>
<th>Euro-denominated claims on non-euro area residents</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset item A4 (EUR millions)</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>Securities held until maturity</td>
<td>1,704</td>
<td>2,299</td>
</tr>
<tr>
<td>Other claims</td>
<td>4,625</td>
<td>4,189</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>34</td>
<td>51</td>
</tr>
<tr>
<td>TOTAL</td>
<td>6,363</td>
<td>6,539</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Euro-denominated claims issued by euro area residents</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset item A6 (EUR millions)</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>ELA loans</td>
<td>0</td>
<td>3,977</td>
</tr>
<tr>
<td>Other ELA commitments</td>
<td>0</td>
<td>5,998</td>
</tr>
<tr>
<td>Other loans excluding ELA</td>
<td>38,038</td>
<td>35,207</td>
</tr>
<tr>
<td>TOTAL</td>
<td>38,038</td>
<td>45,182</td>
</tr>
</tbody>
</table>

Note 6: Item A7 “Euro-denominated securities issued by euro area residents”

A7.1 “Securities held for monetary policy purposes”

Asset item 7.1 includes securities acquired within the scope of the two Covered Bond Purchase Programmes and the Securities Markets Programme (SMP).

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability item P2 (EUR millions)</td>
<td>2013</td>
</tr>
<tr>
<td>Current accounts</td>
<td>68,169</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>38,806</td>
</tr>
<tr>
<td>Deposit facilities</td>
<td>28,217</td>
</tr>
<tr>
<td>Fixed-term deposits</td>
<td>10,589</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>–</td>
</tr>
<tr>
<td>Margin calls received</td>
<td>–</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>106,980</td>
</tr>
</tbody>
</table>

Note 6: Item A7 “Euro-denominated securities issued by euro area residents”

A7.1 “Securities held for monetary policy purposes”

Asset item 7.1 includes securities acquired within the scope of the two Covered Bond Purchase Programmes and the Securities Markets Programme (SMP).

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On 6 October 2011, the ECB Governing Council decided to launch a second CBPP. This provided for the purchase by NCBs and the ECB of covered bonds issued in the euro area with a view to improving

<table>
<thead>
<tr>
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</thead>
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<td>10,589</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>–</td>
</tr>
<tr>
<td>Margin calls received</td>
<td>–</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>106,980</td>
</tr>
</tbody>
</table>

Note 6: Item A7 “Euro-denominated securities issued by euro area residents”

A7.1 “Securities held for monetary policy purposes”

Asset item 7.1 includes securities acquired within the scope of the two Covered Bond Purchase Programmes and the Securities Markets Programme (SMP).

The amount of covered bond purchases established in the first programme was reached at end-June 2010.

On 6 October 2011, the ECB Governing Council decided to launch a second CBPP. This provided for the purchase by NCBs and the ECB of covered bonds issued in the euro area with a view to improving

Note 6: Item A7 “Euro-denominated securities issued by euro area residents”

A7.1 “Securities held for monetary policy purposes”

Asset item 7.1 includes securities acquired within the scope of the two Covered Bond Purchase Programmes and the Securities Markets Programme (SMP).

The amount of covered bond purchases established in the first programme was reached at end-June 2010.
the financing conditions of credit institutions and companies and encouraging banks to maintain and step up customer lending. This programme was completed in October 2012.

Moreover, under the SMP, the ECB and NCBs may purchase debt instruments issued by public or private entities from the euro area with a view to correcting the severe tensions in certain euro area security market segments and to restoring the proper functioning of the monetary policy transmission mechanisms. Total securities held by Eurosystem NCBs under the SMP amounted to EUR 178,836 million at 31 December 2013, compared with EUR 208,114 million in 2012. The Banque de France's share totalled EUR 33,243 million at end-2013 and EUR 37,661 million in 2012. Pursuant to Article 32.4 of the ESCB Statute, any risks that may materialise as a result of holding securities under the SMP are ultimately to be shared in full by the NCBs of the Eurosystem in proportion to their ECB capital key shares.

All securities held for monetary policy purposes are fixed-income securities held to maturity and valued at amortised cost; they are subject to impairment tests carried out on the basis of the available information and an estimate of the recoverable amounts at accounts closing date.

In February 2012, Eurosystem central banks swapped Greek government bonds held in the SMP monetary policy portfolio and, where applicable, in other portfolios, for new Greek bonds. These newly acquired bonds have exactly the same characteristics as the bonds they replace in terms of their nominal amount, interest rate, coupon payment dates and final redemption date. They were not included in the list of assets eligible for Greek debt restructuring conducted under the private sector involvement (PSI) initiative.

Based on the final impairment tests performed on 3 January 2014, the Governing Council decided that no impairment losses needed to be recognised in the accounts in respect of the portfolios held by the Eurosystem in connection with monetary policy.

**A7.2 “Other securities”**

Asset item 7.2 includes euro-denominated securities issued by residents of the euro area, other than those that are specifically earmarked against the Bank’s own funds, the Employee Reserve Fund and customer deposits that are recorded in asset item A11 (see Notes 11 and 27). In addition to fixed-income securities, this item also includes a fixed-income fund.

As with portfolios of securities held for monetary policy purposes, impairment tests were performed on the Banque de France’s other portfolios. No impairment was recognised as a result of these tests.

**Note 7: Claims arising on the transfer of reserve assets to the ECB**

This claim held by the Banque de France results from the transfer of foreign reserve assets to the ECB. The claim is denominated in euro and is equivalent to the euro value of the transferred foreign currency reserves as at the date of the transfer. It is remunerated...
Financial management and the accounts

at the marginal rate applied to the main refinancing operations, adjusted to reflect a zero return on the gold component.

Note 8: Claims arising on the Eurosystem for euro banknotes in circulation
The intra-ESCB claim arising from the allocation of euro banknotes within the Eurosystem and the liability to the ECB relating to the 8% share of euro banknotes in circulation are shown as a net amount in item A8.3 “Claims arising on the Eurosystem for euro banknotes in circulation”, along with accrued interest receivable as at 31 December 2013. The remuneration of this net claim is shown in profit and loss item 1.1.1 “Interest and related income” (see Note 14 on banknotes in circulation).

Note 9: Other claims on the Eurosystem
This item includes any income receivable from the ECB in respect of the distribution of the balance of monetary income (see Note 33 of the profit and loss account) as well as the ECB’s interim distribution of profit (see Note 14 on banknotes in circulation).

In 2013, the ECB Governing Council decided to distribute an interim dividend of EUR 1,370 million to the Eurosystem NCBs, of which EUR 278 million for the Banque de France.

Note 10: Advance to the IEDOM

The circulation of banknotes in the Overseas Departments and the territorial collectivities of Saint Pierre and Miquelon, Saint Barthelemy and Saint Martin is managed by the IEDOM in the name of, on behalf of and under the authority of the Banque de France.

To this end, the Banque de France grants the IEDOM a non-interest-bearing advance for an amount corresponding to an estimate of the value of the banknotes in circulation in the territories concerned.

Note 11: Other euro and foreign currency denominated financial assets
Asset item 11 notably includes securities linked to customer deposits, recorded in liability items P4 and P10, the Bank’s own funds and provisions.

<table>
<thead>
<tr>
<th>Other euro and foreign currency denominated financial assets</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed-income securities held until maturity&lt;sup&gt;a&lt;/sup&gt;</td>
<td>71,322</td>
<td>71,431</td>
</tr>
<tr>
<td>Other fixed-income securities and variable-yield securities</td>
<td>5,628</td>
<td>4,931</td>
</tr>
<tr>
<td>Other operations</td>
<td>10,747</td>
<td>36,219</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>74</td>
<td>79</td>
</tr>
<tr>
<td>TOTAL OTHER EURO AND FOREIGN CURRENCY DENOMINATED FINANCIAL ASSETS</td>
<td>87,770</td>
<td>112,660</td>
</tr>
</tbody>
</table>

<sup>a</sup> In 2013, none of these securities were transferred to another portfolio and none of these securities were sold before maturity.

<sup>b</sup> Of which foreign currency-denominated securities: EUR 54,269 million. Of which EUR 70,885 million in collateralised securities (see Note 27)

<table>
<thead>
<tr>
<th>Securities portfolios</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed-income securities and government securities</td>
<td>70,986</td>
<td>70,986</td>
</tr>
<tr>
<td>Securities issued by public bodies</td>
<td>85</td>
<td>85</td>
</tr>
<tr>
<td>Other issuers</td>
<td>253</td>
<td>253</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>NET BALANCE SHEET VALUE</td>
<td>71,390</td>
<td>71,508</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equities and other variable-yield securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>French and foreign mutual funds</td>
</tr>
<tr>
<td>Capitalisation mutual funds</td>
</tr>
<tr>
<td>Other variable-yield securities</td>
</tr>
<tr>
<td>NET BALANCE SHEET VALUE</td>
</tr>
</tbody>
</table>
Note 12: Miscellaneous

“Other items” reflect the revaluation impact of off-balance sheet foreign currency positions held in relation to transactions with customers (see Note 19). Their impact on the profit and loss account is cancelled out by the revaluation of foreign currency positions in the balance sheet, the overall foreign currency position from these activities being close to zero.

Note 13: Fixed assets

In 2012, the Banque de France acquired BEH Holding, whose wholly-owned subsidiary BEH SAS held land in La Courneuve on which a new currency management centre is to be built. After a first merger with BEH Holding at end-2012, in 2013 the Banque de France conducted a simplified merger with BEH SAS, which was retroactively integrated in the Banque de France’s accounts as at 1 January 2013. The EUR 31 million reduction in participating interests (excluding the ECB) reflects this merger.

As from 2012, internal development costs for the Banque de France’s IT projects are no longer capitalised but expensed in full. Development costs relating to European projects continue to be capitalised in accordance with current accounting methods.

### Miscellaneous

<table>
<thead>
<tr>
<th>Asset item A12</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred income, accrued expenses, etc.</td>
<td>3,011</td>
<td>4,912</td>
</tr>
<tr>
<td>Accrued income</td>
<td>221</td>
<td>339</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>20</td>
<td>26</td>
</tr>
<tr>
<td>Other items</td>
<td>2,769</td>
<td>4,547</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>4,385</td>
<td>4,075</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>7,396</strong></td>
<td><strong>8,987</strong></td>
</tr>
</tbody>
</table>

### Fixed assets at 31 December 2013

<table>
<thead>
<tr>
<th>Asset items A8.1 and A13</th>
<th>2013</th>
<th>Increase</th>
<th>Decrease</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participating interest in the ECB (gross value)</td>
<td>1,530</td>
<td>–</td>
<td>–</td>
<td>1,530</td>
</tr>
<tr>
<td>FX translation difference on participating interest in the ECB</td>
<td>6</td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Participating interest in the ECB (balance sheet value)</td>
<td>1,536</td>
<td></td>
<td></td>
<td>1,536</td>
</tr>
<tr>
<td>Participating interest excluding ECB (gross value)</td>
<td>405</td>
<td>–</td>
<td>31</td>
<td>436</td>
</tr>
<tr>
<td>Intangible fixed assets (gross value)</td>
<td>307</td>
<td>139</td>
<td>71</td>
<td>238</td>
</tr>
<tr>
<td>Amortisation</td>
<td>147</td>
<td>28</td>
<td>–</td>
<td>119</td>
</tr>
<tr>
<td>Net value of intangible fixed assets</td>
<td>160</td>
<td>111</td>
<td>71</td>
<td>119</td>
</tr>
<tr>
<td>Tangible fixed assets (gross value)</td>
<td>2,211</td>
<td>339</td>
<td>366</td>
<td>2,237</td>
</tr>
<tr>
<td>Depreciation and provisions</td>
<td>1,471</td>
<td>87</td>
<td>120</td>
<td>1,504</td>
</tr>
<tr>
<td>Net value of tangible fixed assets</td>
<td>740</td>
<td>252</td>
<td>246</td>
<td>734</td>
</tr>
<tr>
<td>Total tangible and intangible fixed assets (net value)</td>
<td>900</td>
<td>363</td>
<td>317</td>
<td>853</td>
</tr>
</tbody>
</table>

Note: Increases and decreases also include transfers between fixed asset accounts.

### Information relating to subsidiaries and participating interests at 31 December 2013

<table>
<thead>
<tr>
<th>Asset items A8.1 and A13.2</th>
<th>Listed</th>
<th>Share of capital held</th>
<th>2013 shareholders’ equity</th>
<th>2013 profit/loss equity</th>
<th>2013 book value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank for International Settlements</td>
<td>A 13.2</td>
<td>No</td>
<td>8.96</td>
<td>21,213</td>
<td>1,003</td>
</tr>
<tr>
<td>European Central Bank</td>
<td>A 8.1</td>
<td>No</td>
<td>20.32</td>
<td>28,631</td>
<td>1,440</td>
</tr>
<tr>
<td>La Prévoyance immobilière</td>
<td>A 13.2</td>
<td>No</td>
<td>98.20</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>Banque de France Gestion</td>
<td>A 13.2</td>
<td>No</td>
<td>99.99</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

ns: not significant
na: not available

a) The interest in the capital is the BdF’s share in all of the NCBs that are members of the euro area. It is this key that is used for the allocation of dividends.
As a result of the revised accounting policy for these internal IT projects, the amounts carried in fixed assets have been written down in full and removed from intangible assets.

**Participating interest in the ECB**

In 2010, the ECB increased its subscribed capital by EUR 5,000 million to stand at EUR 10,760,652,402.58. The Eurosystem NCBs paid up their additional capital contribution in three equal annual instalments starting in 2010 (EUR 237 million for France). The second instalment was made on 29 December 2011 and the last on 27 December 2012.

Consequently, the subscribed and paid-up capital of the Banque de France in the ECB have changed as follows:

<table>
<thead>
<tr>
<th>Subscribed capital and paid-up capital (EUR)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribed capital since 29 December 2010</td>
<td>1,530,293,899.48</td>
</tr>
<tr>
<td>Paid-up capital at 31 December 2010</td>
<td>1,056,253,899.48</td>
</tr>
<tr>
<td>Paid-up capital at 28 December 2011</td>
<td>1,293,273,899.48</td>
</tr>
<tr>
<td>Paid-up capital from 27 December 2012</td>
<td>1,530,293,899.48</td>
</tr>
</tbody>
</table>

Pursuant to Article 28 of the ESCB Statute, the capital of the ECB is held solely by the NCBs of the ESCB. The formula for determining the capital subscription of each NCB to the ECB (the “capital key”) is defined in Article 29.3 of the ESCB Statute and adjusted every five years. The most recent adjustment took effect on 1 January 2009. The next one will take effect on 1 January 2014. Croatia's entry into the European Union on 1 July 2013 led to an adjustment of the capital keys.

The share in the capital of the ECB recorded on the assets side of the balance sheet corresponds to the net amount of the subscribed and paid-up capital (subscription minus the unpaid capital subscription).

<table>
<thead>
<tr>
<th>Share of the Banque de France in the capital of the ECB (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 31 December 2003</td>
<td>16.8337</td>
</tr>
<tr>
<td>From 1 May 2004 to 31 December 2006</td>
<td>14.8712</td>
</tr>
<tr>
<td>From 1 January 2007 to 31 December 2008</td>
<td>14.3875</td>
</tr>
<tr>
<td>From 1 January 2009 to 31 December 2012</td>
<td>14.2212</td>
</tr>
<tr>
<td>Since 1 January 2013</td>
<td>14.1342</td>
</tr>
</tbody>
</table>

Monetary income and ECB dividends in respect of monetary and seigniorage income are allocated using a different key that is determined solely on the basis of the participating interests of NCBs that have adopted the euro. The Banque de France’s share in this regard fell to 20.3246% on 1 January 2011 (compared with 20.3767% before), to 20.3199% on 1 July 2013 and to 20.2623% on 1 January 2014, reflecting Latvia’s entry into the euro area and the impact of the five-year adjustment.

**Note 14: Banknotes in circulation**

The ECB and the 17 euro area NCBs which together make up the Eurosystem issue euro banknotes. The total value of euro banknotes in circulation in the Eurosystem is allocated on the last business day of each month in accordance with the banknote allocation key.5

The ECB has been allocated an 8% share of the total value of euro banknotes in circulation, with the remaining 92% allocated to euro area NCBs according to their weightings in the ECB’s capital key. The share of banknotes in circulation allocated to each NCB is disclosed in the liability item “Banknotes in circulation”.

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes actually put into circulation also gives rise to remunerated intra-Eurosystem balances (see Asset item A8.3).

For a five-year period from the year of adoption of the euro,6 intra-Eurosystem balances resulting from euro banknote allocation are adjusted to avoid significant changes in the NCBs’ profit positions compared to previous years. These adjustments are effected by taking into account the difference between, on the one hand, the average value of banknotes in circulation...
Financial management and the accounts

of each NCB in the reference period7 and, on the other hand, the value of banknotes that would have been allocated to them during that period under the ECB’s banknote allocation key. These adjustment amounts will be reduced each year until the first day of the sixth year following adoption of the euro, after which income on banknotes will be allocated fully between the NCBs in proportion to their paid-up share in the ECB’s capital. The adjustment period for Cyprus and Malta ended on 1 January 2013; for Slovakia it ended on 1 January 2014, and it will end on 1 January 2017 for Estonia.

Interest income and expense on these balances are cleared through the accounts of the ECB and included in item 1.1 “Net interest income” in the profit and loss account.

The ECB Governing Council decided that the ECB’s seigniorage income arising from the 8% share of euro banknotes in circulation allocated to it,8 as well as the income generated on the securities that it holds under the Securities Markets Programme, is due to the NCBs in the same year it accrues and distributed to them at the beginning of the following year in the form of an interim dividend. This income is distributed in full unless the ECB’s profit is lower. The Governing Council may also decide to reduce the redistribution of seigniorage income by the amount of the costs incurred by the ECB on the issuance and storage of euro banknotes. Lastly, the Governing Council may decide to transfer all or part of this income to a provision for foreign currency rate, interest rate and gold price risks.

Note 15: Euro-denominated liabilities to non-euro area residents
This item comprises credit balances in euro (excluding Target) with central banks, commercial banks and non-financial customers in non-Eurosystem member countries. In most cases, the assets matching these liabilities are included in asset items A4 or A6 (see Note 5) or asset item A11 (see Note 11), depending on whether they are invested in the same currency or are covered by cross-currency swaps (see Note 27).

Note 16: Euro-denominated liabilities to the Eurosystem

<table>
<thead>
<tr>
<th>Euro-denominated liabilities to the Eurosystem</th>
<th>Liability item P7</th>
<th>(EUR millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>Euro-denominated liabilities to the Eurosystem</td>
<td>16,188</td>
<td>54,800</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>7</td>
<td>50</td>
</tr>
<tr>
<td>Accrued expenses in respect of monetary income</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>TOTAL</td>
<td>16,195</td>
<td>54,850</td>
</tr>
</tbody>
</table>

Euro-denominated liabilities to the Eurosystem comprise France’s net debt arising on cross-border transfers via Target with other NCBs in the ESCB.

These liabilities were sharply down compared with 2012, owing to the partial and early repayment of the 36-month LTROs over 2013 and the decrease in minimum reserves. As at 31 December 2013 there were no foreign currency swaps with the ECB under the dollar-denominated auction facility (See Note 2).

Note 17: Euro-denominated liabilities to other euro area residents

Liability item P8.1 comprises:

- The Treasury’s account which, since 1 May 2002, has been remunerated at the rate applied to main refinancing operations up to EUR 300 million; above this amount, it is remunerated at the deposit facility rate. Interest is credited to the Treasury’s account on the last business day of the month.
- The account of other government agencies.

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7 ECB decision of 17 November 2005 (ECB/2005/11) on the distribution of the income of the ECB on euro banknotes in circulation to the NCBs of participating member countries.

8 ECB decision of 17 November 2005 (ECB/2005/11) on the distribution of the income of the ECB on euro banknotes in circulation to the NCBs of participating member countries.
Liability item P8.2 “Other liabilities” chiefly comprises the current account with the IEDOM. The assets matching this liability are recorded mainly in asset item A9 “Advance to the IEDOM” (See Note 10).

Note 18: Items in the course of settlement
In compliance with banking rules, balance sheet item P9 “Items in course of settlement” includes only items (primarily cheques) debited or credited to a customer’s account but not yet credited or debited to a credit institution’s account, and vice-versa.

Note 19: Banking transactions
This item mainly comprises overnight and fixed-term deposits denominated in foreign currencies by French or foreign public bodies, or foreign national central banks. The management of such foreign currency transactions is totally separate from the management of the State’s foreign currency reserves. The assets matching these liabilities, which may be hedged by cross-currency swaps, are included either in asset item A11 (see Note 11) or in items A4 or A6 (see Note 5), depending on whether they are invested in a foreign currency or in euro.

For the record, euro-denominated deposits made by institutional customers (other than monetary and financial institutions) and private customers are recorded in liability item P8.2.

Note 20: Miscellaneous
In 2013, this item mainly included:

- the capital of the Banque de France Employee Reserve Fund (See Note 29);

- miscellaneous creditors (State, etc.).

Note 21: Provisions for liabilities and charges
Provisions for liabilities and charges mainly include employee-related provisions:

- provisions for restructuring, relating to the cash activities and banknote manufacturing plans, the plan to adapt the Banque de France’s branch network, and the plan to discontinue retail banking activities;

- provisions for changing the age pyramid, relating to the early retirement incentive scheme for employees reaching the end of their working life;

- provisions for retirement benefits;

- a provision covering the Bank’s commitment to fund a portion of the complementary health plan for employees and retirees;

- provisions for various liabilities in relation to working employees (death benefits, long-service medals, end-of-career leave, extended sick leave, pensions for industrial injuries, unemployment benefits);

- provisions to cover various commitments towards retired employees (death benefits, complementary health funds, etc.) that are not funded by the pension scheme.
The increase in employee-related provisions, particularly the net EUR 30 million allocation to the complementary health provision, primarily reflects the 50 basis-point decline in the discount rate compared with 2012.

Pursuant to Article 32.4 of the ESCB Statute, a EUR 5,736 million provision for counterparty risk relating to monetary policy operations was established in 2008 for transactions with a number of defaulting counterparties, notably Lehman Brothers, and distributed among the NCBs of the Eurosystem in proportion to their respective share in the ECB’s capital as at the date when the default occurred. Pursuant to the general prudence principle, the Governing Council re-examines the amount of this provision each year and decided to gradually reduce it to EUR 310 million at end-2012 before reversing it completely at end-2013. Accordingly, the Banque de France’s remaining share of this provision (EUR 64 million at 31 December 2012) was fully reversed at end-2013, which impacted item 1.5 “Net result of pooling of monetary income” in the profit and loss account (See Note 33).

Other provisions include, inter alia, provisions for major repairs (such as façade repair).

Note 22: Revaluation accounts
Gold and foreign exchange assets and liabilities are revalued at the reference prices indicated by the ECB on 31 December 2013. The unrealised gain on gold was calculated using a price of EUR 28,010.37 per kilogram of fine gold, compared with EUR 40,547.8 at end-2012.

The revaluation rates used at 31 December 2013 for the main currencies held were the following:

- 1 euro = 1.3791 US dollars (compared with 1.3194 at end-2012);
- 1 euro = 0.8942 SDRs (compared with 0.8578 at end-2012).

Note 23: Fund for general risks
The fund for general risks (FRG) is booked as a liability in item P14, with counterparty entries for charges and releases from this fund recorded through item 3 of the profit and loss account.

The FRG is intended to cover all possible risks to which the Bank is exposed through its activities, except for the exchange rate risk on gold and foreign exchange reserves, which is covered by the relevant revaluation accounts and by the RRRODE (see paragraph on valuation methods). The amount of the FRG is reviewed each year on the basis of the volume of outstanding operations at the accounts closing date and an analysis of the attendant risks, based notably on past losses or stress tests. In order to calculate corporate income tax, the allocation to the FRG is not a deductible expense and vice versa: the reversal of the FRG is not subject to tax. The 2013 allocation amounted to EUR 1.25 billion.

Note 24: Revaluation reserve of State gold and foreign exchange reserves
See the notes on the RRRODE in the section describing the valuation methods.
Note 25: Capital, reserves and retained earnings

<table>
<thead>
<tr>
<th>Capital, reserves and retained earnings</th>
<th>Liability item P17</th>
<th>(EUR millions)</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>1,000</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td>5,827</td>
<td>5,097</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statutory reserves(a)</td>
<td>364</td>
<td>206</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term capital gains</td>
<td>100</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special pension reserve fund (see Note 29)</td>
<td>2,191</td>
<td>1,618</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other reserves(b)</td>
<td>3,172</td>
<td>3,173</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>11</td>
<td>103</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>6,838</strong></td>
<td><strong>6,200</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(a)\) In accordance with Article R114-4 of the Monetary and Financial Code, 5% of profit for the year is earmarked for a special reserve that ceases to receive allocations when it reaches an amount equal to twice capital.

\(b)\) Other reserves include the investment reserve and the insurance fund to cover claims against the Bank. In accordance with Article R144-2 of the Monetary and Financial Code, the Banque de France must maintain reserves to finance its investments. The Bank is also its own insurer with respect to civil liability risks, claims on property it owns and damages to this property by third parties.

Off-balance sheet items

Note 26: Interest rate futures contracts

<table>
<thead>
<tr>
<th>Notional amount of financial futures contracts</th>
<th>(EUR millions)</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outright transactions on organised markets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate contracts denominated in foreign currency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>627</td>
<td>13,996</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>1,104</td>
<td>19,243</td>
<td></td>
</tr>
<tr>
<td>Interest rate contracts denominated in euro</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Over-the-counter markets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps denominated in foreign currency</td>
<td>705</td>
<td>945</td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps denominated in euro</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note 27: Forward foreign currency transactions with customers and the ECB

The Banque de France collects euro-denominated deposits from non-euro area residents, in particular foreign central banks and international bodies; these deposits are recorded in liability item P4. The Banque de France also collects foreign currency-denominated deposits, mainly from non-resident institutions; these deposits are recorded in liability item P10.

These euro-denominated or foreign currency-denominated deposits are invested either in the same currency or in a different currency (euro-denominated investments are recorded in asset items A4 or A6 depending on the area of residence of the counterparty, while foreign currency investments are recorded in item A11). Where necessary, foreign currency risk is neutralised by cross-currency swaps of the same amount and maturity as the deposits. These foreign currency deposits and investments, and the related spot and forward foreign currency transactions, form part of an activity that is totally separate and independent from the management of foreign currency reserves. Consequently, they are recorded in dedicated accounts separate from those used for the management of foreign currency reserves, and are valued in accordance with the standards issued by the ANC (see valuation methods for “Other foreign currency gains/losses” and Note 20).

Amounts of foreign currency receivable and deliverable in respect of transactions carried out with customers and the ECB (see Note 2) are detailed in the following table:

<table>
<thead>
<tr>
<th>Amounts of foreign currency receivable and deliverable in respect of transactions carried out with customers (EUR millions)</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Euro to be received against foreign currency to be delivered</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Euro to be received</td>
<td>12,591</td>
<td>18,126</td>
</tr>
<tr>
<td>Foreign currency to be delivered</td>
<td>11,401</td>
<td>16,707</td>
</tr>
<tr>
<td>Foreign currency to be received against euro to be delivered</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency to be received</td>
<td>45,858</td>
<td>49,739</td>
</tr>
<tr>
<td>Euro to be delivered</td>
<td>46,884</td>
<td>50,242</td>
</tr>
<tr>
<td>Foreign currency to be delivered against foreign currency to be delivered</td>
<td>51,430</td>
<td>69,655</td>
</tr>
<tr>
<td>Foreign currency to be delivered against foreign currency to be received</td>
<td>48,511</td>
<td>65,622</td>
</tr>
</tbody>
</table>

Note 28: Commitments given or received in respect of operations with the IMF

**Commitments given by the Banque de France**

In 2010, the Banque de France had a bilateral loan financing commitment of EUR 11.060 billion.
The financing commitment was merged with that of the New Arrangements to Borrow (NAB), signed by France on 4 April 2011. Since that date, all bilateral loans come under the NAB. The total amount of the credit line that the IMF can draw on is taken off the balance sheet and initially totalled SDR 18,657 million. At 31 December 2013, total loans granted stood at SDR 2,394 million (SDR 632 million at end-2012), or EUR 2,677 million (EUR 681 million at end-2012), with the balance of the financing commitment totalling SDR 16.263 billion (EUR 18.187 billion) at 31 December 2013.

A new bilateral loan agreement between France and the IMF was signed in October 2012. Under this agreement, France undertakes to provide further financing of EUR 31.4 billion (SDR 28.08 billion at 31 December 2013).

In addition, the Bank grants loans under the IMF’s Poverty Reduction and Growth Facility and Exogenous Shocks Facility (PRGF-ESF). These loans form part of a commitment made by France at the annual general meeting of the IMF on 4 October 2009 to grant SDR loans for a maximum amount equivalent to USD 2 billion. When the loan is drawn down, this amount is converted into SDRs at the dollar rate for the day and the repayment schedule will also be denominated in SDRs. A first drawdown on the Banque de France was made in 2011 for SDR 194 million (EUR 230 million). Drawdowns on the Banque de France in 2012 and 2013 totalled SDR 339 million (EUR 406 million) and SDR 329 million (EUR 376 million) respectively.

Commitments received by the Bank
In the Supplementary Budget Act for 2008, the State provided its guarantee for loans granted by the Banque de France under the PRGF-ESF.

Note 29: Pension obligations
Banque de France employees benefit from a pension scheme set up by an Imperial Decree of 16 January 1808. This scheme is currently governed by Decree 2007-262 of 27 February 2007, which entered into force on 1 April 2007, amended by Decrees 2008-1514 of 30 December 2008, 2012-701 of 7 May 2012 and 2012-847 of 2 July 2012, which aligned the Banque de France’s pension scheme with that of the civil service.

The Employee Reserve Fund (CRE)
The Banque de France has a pension fund known as the Caisse de réserve des employés de la Banque de France (CRE – Banque de France Employee Reserve Fund), which is designed to service the pensions of the Bank’s statutory employees. The CRE does not have a legal personality distinct from that of the Bank; it constitutes, as the Conseil d’État set out in its decisions of 5 November 1965 and 28 April 1975, “a means for the Bank to manage itself assets that are assigned to a special purpose and whose separate financial identity has been recognised with the sole purpose of showing the results of this management in a special account”.

As a consequence, the CRE is subject to separate accounting treatment. However, its assets, liabilities, income and expenses are an integral part of the Bank’s accounts.
The pensions provided by the CRE to retirees are partly funded by the income on a securities portfolio, which has been set up over time and is specifically devoted to this purpose. The securities acquired by the CRE appear in balance sheet item A12 “Miscellaneous”. The CRE’s capital is shown in liability item P11 “Miscellaneous”.

In accordance with CRBF Regulation 90-01, securities purchased by the CRE are recorded as available-for-sale and held-to-maturity securities. Differences between the acquisition and redemption price are spread over the remaining life of the securities according to the internal rate of return method. Unrealised losses on available-for-sale securities are provided for on a line-by-line basis. However, under the CRE’s rules, realised gains and losses, unrealised losses and contributions paid and recognised in the profit and loss account require a matching charge to or withdrawal from the CRE’s capital.

Pension expenses are included in profit and loss item 2.2 “Pensions and related expenses”. The income from the CRE’s securities portfolios is recorded in profit and loss item 1.6 “Net of other income and expenses”.

Other sources of financing for pensions
In order to ensure the progressive financing of the unfunded portion of liabilities in respect of pension rights vested before the entry into force of Decree 2007-262 of 27 February 2007, in 2007 the General Council set up a Special Reserve Fund, in accordance with the third indent of Article R144-4 of the French Monetary and Financial Code. This reserve fund is regularly replenished, within the limits permitted by the gross income of the Banque de France and the payment to the State of the predominant share incumbent on it. The special reserve fund for pensions appears in liability item P17 “Capital, reserves and retained earnings”.

As part of the restructuring programmes implemented since 1999 (cash activities and banknote manufacturing plans, the plan to adapt the Banque de France’s branch network and the plan to discontinue retail banking activities), early retirement schemes were set up, with additional seniority granted to retirees. This additional seniority, including that resulting from the neutralisation of the effects of the pension scheme’s reform on employees benefiting from the early retirement scheme at the date of the reform’s entry into force, has been entirely provisioned. The corresponding provisions appear in liability item P12 “Provisions for liabilities and charges”.

The resources constituted by this reserve fund and these provisions have been invested in a securities portfolio that appears in asset item A11. This portfolio is recorded in accordance with the rules set out in the section on the valuation methods used for securities portfolios. The income from this portfolio is shown, as appropriate, in items 1.1 “Net interest income”, 1.2.3 “Net of other income and expenses on financial transactions” or 1.4 “Income from equity securities and participating interests” of the profit and loss account.

Actuarial assumptions
The amount of pension liabilities has been calculated in accordance with actuarial standards (using the projected unit credit method), taking into account all current employees, retirees and their dependants.

### Pension liabilities and funding

(EUR millions)

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2013</th>
<th>2012</th>
<th>Funding</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities in respect of the special retirement scheme</td>
<td>11,264</td>
<td>10,405</td>
<td>Funding</td>
<td>6,359</td>
<td>5,594</td>
</tr>
<tr>
<td>o/w to current workforce</td>
<td>4,544</td>
<td>4,150</td>
<td>o/w Employee Reserve Fund</td>
<td>4,168</td>
<td>3,976</td>
</tr>
<tr>
<td>o/w to retirees</td>
<td>6,720</td>
<td>6,255</td>
<td>o/w Special Reserve Fund</td>
<td>2,191</td>
<td>1,618</td>
</tr>
<tr>
<td>Liabilities in respect of the additional seniority granted as part of restructuring plans</td>
<td>131</td>
<td>123</td>
<td>Provision</td>
<td>131</td>
<td>123</td>
</tr>
<tr>
<td>Total gross liabilities</td>
<td>11,395</td>
<td>10,528</td>
<td>Total funding</td>
<td>6,490</td>
<td>5,717</td>
</tr>
<tr>
<td><strong>NET LIABILITIES</strong></td>
<td>4,905</td>
<td>4,811</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The amount of obligations vis-à-vis current employees was determined using a prospective method with assumptions concerning future career and salary developments.

The TGH-TGF 2005 statutory mortality tables applicable to life insurance contracts were used to calculate pension liabilities at 31 December 2013. These tables take into account the increase in the working lives of the employees concerned and, as in previous years, are mortality experience tables by gender.

Since the reform of the pension system with effect from 1 April 2007, pension entitlements may be accessed between 60 and 65. The increase in the number of quarters required to obtain a full pension was effected gradually at the rate of one quarter per half-year to reach 164 quarters in the second half of 2013 (as against 150 until 2006). The retirement age and the upper age limit (60 and 65 respectively) are being raised in parallel to allow employees to acquire the requisite number of quarters to obtain a full pension. In addition, a system of supplements/reductions has progressively been put in place from 1 January 2009 and applies to employees who start drawing their pension with a greater/smaller number of quarters than that required to obtain a full pension.

With the new reform that should come into force on 1 January 2016, the retirement age will be raised to 62 and the upper age limit to 67.

The level of pensions is adjusted at the beginning of every year with reference to projected developments in the household consumer price index excluding tobacco.

Calculations of pension liabilities and the underlying assumptions used are validated and monitored by the Bank’s actuary. The discount rate applied was reduced from 4.5% to 4% in 2013.

**Profit and loss account**

**Note 30: Net interest income**

See table below.

<table>
<thead>
<tr>
<th>Net interest income</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and loss item 1.1</td>
<td>EUR millions</td>
<td></td>
</tr>
<tr>
<td>Interest on foreign exchange assets</td>
<td>740</td>
<td>985</td>
</tr>
<tr>
<td>o/w: interest on held-to-maturity securities</td>
<td>470</td>
<td>515</td>
</tr>
<tr>
<td>Interest on claims on the IMF</td>
<td>14</td>
<td>19</td>
</tr>
<tr>
<td>Interest on euro-denominated claims on non-residents</td>
<td>655</td>
<td>1,863</td>
</tr>
<tr>
<td>Interest on lending to credit institutions</td>
<td>5,106</td>
<td>5,447</td>
</tr>
<tr>
<td>Interest on euro-denominated securities</td>
<td>2,605</td>
<td>2,930</td>
</tr>
<tr>
<td>o/w: interest on held-to-maturity securities</td>
<td>2,353</td>
<td>2,517</td>
</tr>
<tr>
<td>Interest on claims arising on the transfer of reserve assets to the ECB</td>
<td>39</td>
<td>62</td>
</tr>
<tr>
<td>Interest on net claims on the Eurosystem⁴</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Interest on net euro banknote position</td>
<td>413</td>
<td>674</td>
</tr>
<tr>
<td>Interest on other euro- and foreign currency-denominated financial assets</td>
<td>906</td>
<td>1,424</td>
</tr>
<tr>
<td>o/w: interest on available-for-sale securities</td>
<td>127</td>
<td>229</td>
</tr>
<tr>
<td>interest on held-to-maturity securities</td>
<td>779</td>
<td>1196</td>
</tr>
<tr>
<td>total interest and related income (1)</td>
<td>7,872</td>
<td>10,475</td>
</tr>
<tr>
<td>Interest on euro-denominated liabilities to monetary financial institutions in the euro area</td>
<td>-160</td>
<td>-550</td>
</tr>
<tr>
<td>o/w: interest paid on minimum reserves</td>
<td>-106</td>
<td>-185</td>
</tr>
<tr>
<td>Interest on euro-denominated liabilities to non-euro area residents</td>
<td>-590</td>
<td>-874</td>
</tr>
<tr>
<td>Interest on foreign exchange liabilities</td>
<td>-11</td>
<td>-78</td>
</tr>
<tr>
<td>Interest on counterpart to SDR allocation</td>
<td>-9</td>
<td>-13</td>
</tr>
<tr>
<td>Interest on the net liability to the Eurosystem⁴</td>
<td>-251</td>
<td>-477</td>
</tr>
<tr>
<td>Interest paid on the Treasury account</td>
<td>-2</td>
<td>-35</td>
</tr>
<tr>
<td>Other interest</td>
<td>-45</td>
<td>-79</td>
</tr>
<tr>
<td>total interest and related expenses (2)</td>
<td>-1,068</td>
<td>-2,106</td>
</tr>
<tr>
<td>net interest income (3 = 1 + 2)</td>
<td>6,804</td>
<td>8,369</td>
</tr>
</tbody>
</table>

⁴ Interest on the Banque de France’s net position within the Target system (See Notes 9 and 16).
Note 31: Net income/loss on financial transactions
In 2013, the net balance of realised gold and foreign exchange gains and losses and unrealised foreign currency losses was a loss of EUR 106 million.

### Net of other income and expenses on financial transactions

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net gain/loss on foreign currency-denominated securities</td>
<td>-55</td>
<td>95</td>
</tr>
<tr>
<td>Net gain/loss on euro-denominated securities included in item A72</td>
<td>159</td>
<td>273</td>
</tr>
<tr>
<td>Net gain/loss on available-for-sale securities included in item A11</td>
<td>0</td>
<td>47</td>
</tr>
<tr>
<td>Net foreign exchange gain/loss (excluding foreign exchange reserve management)</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>TOTAL</td>
<td>123</td>
<td>432</td>
</tr>
</tbody>
</table>

a) Excluding the impact of foreign exchange fluctuations, shown in profit and loss item 1.2.1.
b) These items include realised gains and losses, and unrealised losses at year-end.
c) These items also include margin calls on interest rate futures and profits and losses on synthetic instruments.

In accordance with the agreement of 2 February 2011 between the State and the Banque de France on the management of and accounting for State foreign currency reserves, the realised gains on gold and on foreign currency amounting to EUR 198 million were allocated to the RRRODE, with the matching entry taken to the profit and loss account (item 1.2.2). Year-end unrealised losses of EUR 304 million were taken to the RRRDOE.

Note 32: Income from equity securities and participating interests
For 2013, the Governing Council decided to distribute the ECB’s share of seigniorage income and income from SMP securities to the NCBs, which was only partly the case in 2012. The ECB made an interim profit distribution of EUR 1,370 million, of which EUR 278 million to the Banque de France. Also in 2013, the ECB paid out an additional dividend in respect of 2012, of which EUR 86 million was paid to the Banque de France.

### Profit and loss item 1.4

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECB dividend</td>
<td>364</td>
<td>132</td>
</tr>
<tr>
<td>Dividends from other participating interests</td>
<td>43</td>
<td>39</td>
</tr>
<tr>
<td>Dividends from available-for-sale securities</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>Other income</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>420</td>
<td>185</td>
</tr>
</tbody>
</table>

Note 33: Net result of pooling of monetary income
This item includes the net result of pooling of monetary income for 2013, corresponding to EUR 100 million, compared with income of EUR 410 million in 2012, as well as the Banque de France’s share in the reversal of the provision for counterparty risk in relation to Eurosystem monetary policy operations amounting to EUR 64 million, as against a reversal of EUR 132 million in 2012 (see Note 21). The monetary income of each NCB is made up of income derived from the earmarkable assets held against its liability base.

The liability base is composed of the following items: banknotes in circulation; liabilities to credit institutions in connection with euro-denominated monetary policy operations; intra-Eurosystem liabilities arising from Target transactions; and net intra-Eurosystem liabilities arising from the allocation of euro banknotes within the Eurosystem. Any interest accruing on liabilities included in the liability base is deducted from the monetary income to be pooled.

Earmarkable assets consist of the following items: euro-denominated lending to euro area credit institutions in the framework of monetary policy operations; securities held for monetary policy purposes; claims arising on the transfer of reserve assets to the ECB; the net intra-Eurosystem claim arising from Target transactions; the net intra-Eurosystem claim arising from the allocation of euro banknotes within the Eurosystem; and a limited amount of gold in proportion to each NCB’s interest in the ECB’s capital under the capital key. Where the value of an NCB’s earmarkable assets differs from the value of gold is deemed to generate no income.

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9 Gold is deemed to generate no income.
the liability base, the difference is offset by applying the marginal rate applicable to main refinancing operations to the value of the difference.

The monetary income pooled by the Eurosystem is allocated between NCBs according to their share in the ECB’s capital. The difference between the monetary income pooled by the Banque de France (EUR 3,292 million) and that reallocated to the Bank (EUR 3,392 million) constitutes the net result of pooling of monetary income recorded in profit and loss item 1.5.

**Note 34: Net of other income and expenses**

The Autorité de contrôle prudentiel et de résolution (ACPR – Prudential Supervision and Resolution Authority), established by Order 2010-76 of 21 January 2010 merging the licensing and supervisory authorities of the banking and insurance sectors, is a financially autonomous, independent administrative authority without legal personality. It is chaired by the Governor of the Banque de France and its budget is a sub-budget of the Banque de France. Expenses are booked as operating expenses according to their nature and income consists of levies raised from the organisations under the supervision of the ACPR. In 2013, levies for supervisory expenses generated EUR 181 million (EUR 179 million in 2012), recorded in profit and loss item 1.6 “Net of other income and expenses”.

Services provided by the Banque de France to the State are remunerated at full cost.

**Note 35: Personnel and related expenses**

<table>
<thead>
<tr>
<th>Personnel and related expenses</th>
<th>Profit and loss item 2.1 (EUR millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>-670</td>
</tr>
<tr>
<td>Taxes on salaries and wages</td>
<td>-111</td>
</tr>
<tr>
<td>Social security expenses</td>
<td>-192</td>
</tr>
<tr>
<td>Profit-sharing and incentive plans</td>
<td>-33</td>
</tr>
<tr>
<td><strong>TOTAL PERSONNEL EXPENSES</strong></td>
<td>-1,006</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Profit and loss item 2.2 (EUR millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
</tr>
<tr>
<td>Pensions and related expenses</td>
</tr>
<tr>
<td><strong>TOTAL PENSION EXPENSES</strong></td>
</tr>
</tbody>
</table>

**Note 36: Corporate income tax**

According to Art. 8 of Act 2007-212 of 20 February 2007 on various measures concerning the Banque de France, the taxable profit or loss of the Banque de France is calculated using accounting rules defined in accordance with Article L144-4 of the Monetary and Financial Code and the agreement referred to in Article L141-2 of the said Code.

The Supplementary Budget Act for 2011 provided for an exceptional contribution to corporate income tax amounting to 5% of statutory corporate income tax in 2011 and 2012 and 10.7% in 2013. The Supplementary Budget Act for 2012 introduced a 3% tax on amounts distributed on or after 1 August 2012.

<table>
<thead>
<tr>
<th>Corporate income tax</th>
<th>Profit and loss item 5 (EUR millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
</tr>
<tr>
<td>Income taxes for the year</td>
<td>2,449</td>
</tr>
<tr>
<td>On profit before exceptional items</td>
<td>2,449</td>
</tr>
<tr>
<td>On exceptional items</td>
<td>–</td>
</tr>
</tbody>
</table>

**Other information**

<table>
<thead>
<tr>
<th>Remuneration of management bodies (EUR millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
</tr>
<tr>
<td>Total remuneration paid to management bodies</td>
</tr>
</tbody>
</table>

Notes: The members of the General Council and the Executive Committee constitute the Bank’s management bodies. Remuneration includes any payment in kind. The Staff Representative and the Censor are not remunerated for positions they hold in the General Council.
2|3 Auditors’ report on the annual accounts of the Banque de France

In accordance with the assignment entrusted to us by the Banque de France's General Council, we hereby report to you for the year ended 31 December 2013, on:

• our audit of the accompanying annual accounts of the Banque de France;

• the basis for our assessments;

• the specific procedures required by Article R144-8 of the Monetary and Financial Code.

The annual accounts have been approved by the Governor. Our responsibility is to express an opinion on these annual accounts based on our audit.

1| Opinion on the annual accounts

We conducted our audit in accordance with professional standards applicable in France; these standards require that we plan and perform the audit in such a way as to obtain reasonable assurance that the annual accounts are free from material misstatement. An audit includes examining, on a test basis or via other selection methods, evidence supporting the figures and disclosures in the annual accounts. It also includes assessing the accounting principles used and significant estimates made as well as evaluating the overall presentation of the annual accounts. We believe that the information we have collected provides a reasonable basis for our opinion.

In our opinion, the annual accounts give a true and fair view of the results of operations for the year ending 31 December and of the Banque de France’s financial position, assets and liabilities at that date, in accordance with the accounting rules and principles set out in Article R144-6 of the Monetary and Financial Code.

Without prejudice to our opinion, we draw your attention to the following points:

• The introduction to the Notes to the annual accounts describes the accounting principles and valuation methods applicable to the Bank, some of which are specific to the European System of Central Banks (ESCB).

• The General Council has determined the level of detail of the financial information published in accordance with its right provided for in Article R144-6 of the Monetary and Financial Code.

2| Basis for our assessments

In accordance with Article L823-9 of the French Commercial Code regarding the basis for our assessments, we draw your attention to the following matters:

• The section on valuation methods and Note 6 to the annual accounts describe the methods used to value the securities held by the Banque de France and, in particular, the impairment methods applicable to held-to-maturity securities. We reviewed the processes put in place by management in order to assess the risk of non-recovery of securities carried at amortised cost and also reviewed the assumptions used and documentation held in relation to these estimates.

.../...
Financial management and the accounts

- Note 21 to the annual accounts describes the methods used to set aside provisions for liabilities and charges. Our work consisted in reviewing the documentation and checks performed by the Banque de France or ESCB and assessing the data and assumptions on which the related estimates were based.

- Note 29 to the annual accounts sets out the method for assessing pension obligations and other related liabilities. These obligations were assessed by actuaries. Our work consisted in examining the data used, evaluating the assumptions applied, and checking the calculations made.

Our assessment of these issues was made within the context of our audit approach to the annual accounts taken as a whole, and contributed to the opinion expressed in the first part of this report.

3] Specific procedures

In accordance with the standards of the profession applicable in France, we have also carried out the specific procedures required by law.

We have no comment to make as to the fair presentation and consistency with the annual accounts of the information given in the report on the Bank’s assets, liabilities and results.

Paris La Défense and Neuilly-sur-Seine, 24 March 2014
The Auditors

KPMG Audit
A division of KPMG S.A.
Pascal Brouard
Partner

Deloitte & associés
José-Luis Garcia
Partner
### The Combined Accounts

#### Combined balance sheet and profit and loss account

**Combined balance sheet at 31 December 2013**

EUROS (EUR millions)

<table>
<thead>
<tr>
<th>Notes to combined annual accounts</th>
<th>Item</th>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td>A1</td>
<td>Gold</td>
<td>68,217</td>
<td>98,751</td>
</tr>
<tr>
<td></td>
<td>A2</td>
<td>Foreign exchange assets (excl. relations with the IMF)</td>
<td>34,257</td>
<td>38,660</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.1 Foreign exchange assets held with non-euro area residents</td>
<td>20,046</td>
<td>30,589</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.2 Foreign exchange assets held with euro area residents</td>
<td>14,212</td>
<td>8,072</td>
</tr>
<tr>
<td></td>
<td>A3</td>
<td>Relations with the IMF</td>
<td>17,023</td>
<td>18,119</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.1 Financing provided to IMF</td>
<td>5,784</td>
<td>6,431</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.2 Acquisitions of Special Drawing Rights</td>
<td>11,238</td>
<td>11,686</td>
</tr>
<tr>
<td></td>
<td>A4</td>
<td>Euro-denominated claims on non-euro area residents</td>
<td>6,363</td>
<td>6,539</td>
</tr>
<tr>
<td></td>
<td>A5</td>
<td>Euro-denominated claims on euro area residents</td>
<td>74,250</td>
<td>181,933</td>
</tr>
<tr>
<td></td>
<td></td>
<td>74,250</td>
<td>181,933</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>7.1 Securities held for monetary policy purposes</td>
<td>45,139</td>
<td>51,802</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7.2 Other securities</td>
<td>79,043</td>
<td>78,625</td>
</tr>
<tr>
<td></td>
<td>A6</td>
<td>Other euro-denominated claims to euro area credit institutions</td>
<td>38,038</td>
<td>45,183</td>
</tr>
<tr>
<td></td>
<td>A7</td>
<td>Euro-denominated securities issued by euro area residents</td>
<td>124,183</td>
<td>130,427</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7.1 Financing provided to IMF</td>
<td>5,784</td>
<td>6,431</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7.2 Acquisitions of Special Drawing Rights</td>
<td>11,238</td>
<td>11,686</td>
</tr>
<tr>
<td></td>
<td>A8</td>
<td>Euro-denominated claims on non-euro area residents</td>
<td>6,363</td>
<td>6,539</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8.1 Participating interest in the ECB</td>
<td>1,535</td>
<td>1,536</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8.2 Claims arising on the transfer of reserve assets to the ECB</td>
<td>2,230</td>
<td>8,255</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8.3 Claims arising on the Eurosystem for euro banknotes in circulation</td>
<td>76,822</td>
<td>74,845</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8.4 Other claims on the Eurosystem</td>
<td>378</td>
<td>527</td>
</tr>
<tr>
<td></td>
<td>A9</td>
<td>Claims on the French Treasury in respect of coins</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>A10</td>
<td>Other euro- and foreign currency-denominated financial assets</td>
<td>87,773</td>
<td>112,663</td>
</tr>
<tr>
<td></td>
<td>A11</td>
<td>Miscellaneous</td>
<td>9,327</td>
<td>10,925</td>
</tr>
<tr>
<td></td>
<td>A12</td>
<td>Fixed assets</td>
<td>3,146</td>
<td>3,126</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12.1 Tangible and intangible fixed assets</td>
<td>930</td>
<td>880</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12.2 Participating interests (other than interest in the ECB)</td>
<td>416</td>
<td>414</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td>547,746</td>
<td>729,689</td>
<td></td>
</tr>
</tbody>
</table>

**LIABILITIES**

<table>
<thead>
<tr>
<th>Notes to combined annual accounts</th>
<th>Item</th>
<th>Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>P1</td>
<td>Banknotes in circulation</td>
<td>178,754</td>
<td>170,641</td>
<td></td>
</tr>
<tr>
<td>P2</td>
<td>Euro-denominated liabilities to euro area credit institutions in the framework of monetary policy operations</td>
<td>106,980</td>
<td>189,832</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.1 Current accounts</td>
<td>68,174</td>
<td>104,368</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.2 Other liabilities</td>
<td>38,806</td>
<td>85,464</td>
<td></td>
</tr>
<tr>
<td>P3</td>
<td>Other euro-denominated liabilities to euro area credit institutions</td>
<td>0</td>
<td>926</td>
<td></td>
</tr>
<tr>
<td>P4</td>
<td>Euro-denominated liabilities to non-euro area residents</td>
<td>28,067</td>
<td>35,593</td>
<td></td>
</tr>
<tr>
<td>P5</td>
<td>Foreign exchange liabilities</td>
<td>3,154</td>
<td>5,883</td>
<td></td>
</tr>
<tr>
<td>P6</td>
<td>Counterpart to SDR allocation</td>
<td>11,335</td>
<td>11,815</td>
<td></td>
</tr>
<tr>
<td>P7</td>
<td>Relations within the Eurosystem</td>
<td>16,195</td>
<td>54,850</td>
<td></td>
</tr>
<tr>
<td>P8</td>
<td>Euro-denominated liabilities to other euro area residents</td>
<td>4,573</td>
<td>7,249</td>
<td></td>
</tr>
<tr>
<td></td>
<td>8.1 Treasury's account</td>
<td>3,363</td>
<td>5,015</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>P9</td>
<td>Other liabilities</td>
<td>1,210</td>
<td>2,234</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8.2 Other liabilities</td>
<td>1,210</td>
<td>2,234</td>
</tr>
<tr>
<td>P10</td>
<td>Items in the course of settlement</td>
<td>144</td>
<td>272</td>
<td></td>
</tr>
<tr>
<td>P11</td>
<td>Miscellaneous</td>
<td>4,758</td>
<td>4,693</td>
<td></td>
</tr>
<tr>
<td>P12</td>
<td>Provisions for liabilities and charges</td>
<td>1,156</td>
<td>952</td>
<td></td>
</tr>
<tr>
<td>P13</td>
<td>Revaluation accounts</td>
<td>52,037</td>
<td>85,050</td>
<td></td>
</tr>
<tr>
<td>P14</td>
<td>Fund for general risks</td>
<td>6,910</td>
<td>5,660</td>
<td></td>
</tr>
<tr>
<td>P15</td>
<td>Revaluation reserve of State gold reserves</td>
<td>21,901</td>
<td>22,007</td>
<td></td>
</tr>
<tr>
<td>P16</td>
<td>Revaluation reserve of State foreign exchange reserves</td>
<td>7,627</td>
<td>6,843</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>P17</td>
<td>Capital, reserves and retained earnings</td>
<td>7,627</td>
<td>6,843</td>
</tr>
<tr>
<td></td>
<td>17.1 IEDOM capital grant, reserves and retained earnings</td>
<td>149</td>
<td>149</td>
<td></td>
</tr>
<tr>
<td></td>
<td>17.2 Capital, reserves and retained earnings of the Banque de France</td>
<td>7,478</td>
<td>6,694</td>
<td></td>
</tr>
<tr>
<td>P18</td>
<td>Profit for the year</td>
<td>2,499</td>
<td>3,292</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td></td>
<td>547,746</td>
<td>729,689</td>
<td></td>
</tr>
</tbody>
</table>

---

*a) Each item of the balance sheet is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise.*
## 2013 combined profit and loss account

### Notes to combined annual accounts

<table>
<thead>
<tr>
<th>Item Description</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Net income from activities of the Banque de France</td>
<td>8,383</td>
<td>10,421</td>
</tr>
<tr>
<td>1.1 Net interest income</td>
<td>6,853</td>
<td>8,425</td>
</tr>
<tr>
<td>1.1.1 Interest and related income</td>
<td>7,905</td>
<td>10,504</td>
</tr>
<tr>
<td>1.1.2 Interest and related expenses</td>
<td>-1,052</td>
<td>-2,080</td>
</tr>
<tr>
<td>2. Net income/loss on financial transactions</td>
<td>123</td>
<td>432</td>
</tr>
<tr>
<td>2.1 Net of realised gains/losses and unrealised losses on foreign exchange</td>
<td>-106</td>
<td>137</td>
</tr>
<tr>
<td>2.2 Net of charges to/releases from the revaluation reserve of State foreign exchange reserves</td>
<td>106</td>
<td>-137</td>
</tr>
<tr>
<td>2.3 Net of other income and expenses on financial transactions</td>
<td>123</td>
<td>432</td>
</tr>
<tr>
<td>1.3 Commission</td>
<td>-8</td>
<td>15</td>
</tr>
<tr>
<td>1.3.1 Commission (income)</td>
<td>43</td>
<td>48</td>
</tr>
<tr>
<td>1.3.2 Commission (expense)</td>
<td>-51</td>
<td>-32</td>
</tr>
<tr>
<td>2.4 Income from equity securities and participating interests</td>
<td>406</td>
<td>167</td>
</tr>
<tr>
<td>2.5 Net result of pooling of monetary income</td>
<td>164</td>
<td>542</td>
</tr>
<tr>
<td>2.6 Net of other income and expenses</td>
<td>846</td>
<td>840</td>
</tr>
<tr>
<td>2. Operating expenses</td>
<td>-2,242</td>
<td>-2,316</td>
</tr>
<tr>
<td>2.1 Personnel and related expenses</td>
<td>-1,023</td>
<td>-1,029</td>
</tr>
<tr>
<td>2.2 Pensions and related expenses</td>
<td>-452</td>
<td>-442</td>
</tr>
<tr>
<td>2.3 Taxes other than income tax</td>
<td>-39</td>
<td>-38</td>
</tr>
<tr>
<td>2.4 Provisions, depreciation and amortisation</td>
<td>-115</td>
<td>-190</td>
</tr>
<tr>
<td>2.5 Other operating expenses</td>
<td>-614</td>
<td>-617</td>
</tr>
<tr>
<td>PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX (1 + 2)</td>
<td>6,141</td>
<td>8,105</td>
</tr>
<tr>
<td>3. Net charge to the fund for general risks (FRG)</td>
<td>-1,250</td>
<td>-1,850</td>
</tr>
<tr>
<td>4. Exceptional items</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>4.1 Exceptional income</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>4.2 Exceptional expenses</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>5. Corporate income tax</td>
<td>-2,392</td>
<td>-2,962</td>
</tr>
<tr>
<td>PROFIT FOR THE YEAR (1 + 2 + 3 + 4 + 5)</td>
<td>2,499</td>
<td>3,292</td>
</tr>
</tbody>
</table>

*a) Each item of the profit and loss account is rounded up or down to the nearest one million euro. For this reason, discrepancies between totals or sub-totals and their components may arise.*

### 32 Notes to the combined annual accounts

#### Scope of consolidation

### Undertakings excluded from the consolidation

At 31 December 2013, the Banque de France held participating interests in four undertakings (see Note 13 to the balance sheet of the Banque de France). The Banque de France holds an interest of over 20% in three of these undertakings.

The interests held in Banque de France Gestion and La Prévoyance Immobilière are excluded from the consolidation as they are not material.

Under the Statute of the ESCB and ECB, the ECB Governing Council functions in such a way that the Banque de France does not exert control or significant influence over the ECB. Monetary policy is defined by the Governing Council, composed of 18 members since 2011, on the basis of the “one member, one vote” principle, in compliance with Article 10.2 of the Statute.

### Consolidation of the Institut d’émission des départements d’outre-mer (IEDOM)

In compliance with Order No. 2000-347 of 19 April 2000, amending Order No. 59-74 of 7 January 1959 reforming issuance arrangements in the overseas departments of Guadeloupe, French Guiana, Martinique, Mayotte and Réunion, the French
Overseas Departments’ note-issuing bank (IEDOM) came under the control of the Banque de France as from 1 July 2000. The Banque de France does not, however, hold an equity interest in the IEDOM.

The IEDOM is a national, financially autonomous, public institution with legal personality. It receives a capital grant from the State.

It is administered by a supervisory board composed of seven members, three of whom are appointed by the Governor of the Banque de France for a four-year term. The Governor, or his representative, chairs the supervisory board.

The Director General of the IEDOM is appointed by the chairman of the supervisory board.

The IEDOM pays the balance of its net profits, after the constitution of reserves, to the Banque de France. Any losses are borne by the Banque de France.

Article 9 of the aforementioned Order states that the accounts of the IEDOM are to be consolidated with those of the Banque de France.

Activities of the IEDOM

The IEDOM’s catchment area is the five Overseas Departments and the territorial collectivities of Saint Pierre and Miquelon, Saint Barthelemy and Saint Martin.

The role of the IEDOM can be split into three categories:

- central banking tasks: issuing and managing the circulation of banknotes; the rating of companies for the use of private loans as part of Eurosystem refinancing operations; supervision of systems and means of payment; acting as an intermediary between national authorities (ACPR, AMF) and European authorities (ECB);

- the provision of public services in compliance with national law: putting coins into circulation; managing relations with the Treasury; providing the secretariat for household debt commissions; managing local interbank registers (the FICOM or overseas territories accounts register, the FCC or central cheque register and the FICP or register of household credit repayment incidents); providing information to the public (rights of access to these registers, rights of access to banking services); monitoring banking fees;

- the provision of services of general interest to public or private bodies: acting as an economic and financial observatory; providing credit mediation for businesses; managing information on businesses; producing information for the banking community.

Accounting principles and valuation methods used in the combined accounts

The same accounting principles and valuation methods apply to both the combined accounts and the individual annual accounts of the Banque de France, except in the computation of corporate income tax which, in the combined accounts, takes into account all temporary timing differences arising for tax purposes.

Information on items in the combined balance sheet and profit and loss account

Note 1: Deferred taxes

A net deferred tax asset of EUR 594 million is included in item A11 “Miscellaneous” in the combined balance sheet. It arises solely on temporary timing differences between the recognition of expenses and income for accounting purposes and their recognition for tax purposes. This asset is made up of the items shown in the table below.

<table>
<thead>
<tr>
<th>Deferred tax assets</th>
<th>Deferred tax liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income temporarily exempted from taxation</td>
<td>13</td>
</tr>
<tr>
<td>Tax on unrealised gains and losses on mutual funds</td>
<td>289</td>
</tr>
<tr>
<td>Other deferred tax relating to securities</td>
<td>0</td>
</tr>
<tr>
<td>Provisions not deductible for tax purposes</td>
<td>346</td>
</tr>
<tr>
<td>Other recurring timing differences</td>
<td>7</td>
</tr>
<tr>
<td>Charges deducted for tax purposes but not yet recognised in the accounts</td>
<td>35</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>642</strong></td>
</tr>
</tbody>
</table>
The matching entry for this deferred tax asset is split between:

- the tax charge for the year, which in 2013 was EUR 58 million lower than in the individual annual accounts;

- item P17 “Capital, reserves and retained earnings”, which includes a balance of EUR 536 million representing the net deferred tax asset at the start of 2013.

Apart from recognition of deferred taxes, the principal consolidation adjustments are (i) the elimination of inter-institutional transactions with the IEDOM, and (ii) the elimination of tax-regulated provisions from the balance sheet and of the related charges to/releases from the profit and loss account.

**Note 2: Elimination of inter-institutional transactions**

Elimination of inter-institutional transactions relates to:

- the advance to the IEDOM (asset item A9 in the individual balance sheet of the Banque de France);

- the IEDOM’s current account with the Banque de France (included in liability item P8.2 in the individual balance sheet);

- interest paid on the IEDOM current account (included in item 1.1.2 “Interest and related expenses” in the individual profit and loss account);

- the dividend paid by the IEDOM (included in item 1.4 “Income from equity securities and participating interests” in the individual profit and loss account);

- the related ongoing management expenses and income.
3|3 Auditors’ report on the combined annual accounts

In accordance with the assignment entrusted to us by the Banque de France's General Council, we hereby report to you for the year ended 31 December 2013 on:

• our audit of the accompanying combined annual accounts of the Banque de France and the Institut d'Émission des départements d'outre-mer (IEDOM - French Overseas Departments' note-issuing bank) prepared in accordance with Article 9 of Order No. 2000-347 of 19 April 2000;

• the basis for our assessments.

The combined annual accounts have been approved by the Governor. Our responsibility is to express an opinion on these annual accounts based on our audit.

1| Opinion on the combined annual accounts

We conducted our audit in accordance with professional standards applicable in France; these standards require that we plan and perform the audit in such a way as to obtain reasonable assurance that the combined annual accounts are free from material misstatement. An audit includes examining, on a test basis or via other selection methods, evidence supporting the figures and disclosures in the combined annual accounts. It also includes assessing the accounting principles used and significant estimates made as well as evaluating the overall presentation of the accounts. We believe that the information we have collected provides a reasonable basis for our opinion.

In our opinion, the combined annual accounts of the Banque de France and IEDOM give a true and fair view of the results of their operations for the year ending 31 December and of their financial position, assets and liabilities for the year then ended, in accordance with the accounting rules and principles set out in Article R144-6 of the Monetary and Financial Code.

Without prejudice to our opinion, we draw your attention to the following points:

• For a description of the accounting rules and valuation methods used to prepare the combined accounts, the Notes to the combined annual accounts refer back to the Notes to the annual accounts. The introduction to the Notes to the annual accounts describes the accounting principles and valuation methods applicable to the Banque de France, some of which are specific to the European System of Central Banks (ESCB).

• As explained in the Notes to the annual accounts, the General Council of the Banque de France has determined the level of detail of the financial information published, in accordance with its rights under Article R144-6 of the Monetary and Financial Code.
2] Basis for our assessments

In accordance with the provisions of Article L823-9 of the French Commercial Code regarding the basis for our assessments, we bring to your attention the following matters:

• The section on valuation methods and Note 6 to the annual accounts describe the methods used to value the securities held by the Banque de France and, in particular, the impairment methods applicable to held-to-maturity securities. We reviewed the processes put in place by management in order to assess the risk of non-recovery of securities carried at amortised cost and also reviewed the assumptions used and documentation held in relation to these estimates.

• Note 21 to the annual accounts describes the methods used to set aside provisions for liabilities and charges. Our work consisted in reviewing the documentation and checks performed by the Banque de France or ESCB and assessing the data and assumptions on which the related estimates were based.

• Note 29 to the annual accounts sets out the method for assessing pension obligations and other related liabilities. These obligations were assessed by actuaries. Our work consisted in examining the data used, evaluating the assumptions applied, and checking the calculations made.

• As indicated in Note 1 to the combined accounts, the Banque de France recognised deferred tax assets. We reviewed the main estimates and assumptions resulting in the recognition of these deferred taxes.

Our assessments of these issues were made within the context of our audit approach to the combined annual accounts taken as a whole, and contributed to our opinion expressed in the first part of this report.

Paris La Défense and Neuilly-sur-Seine, 24 March 2014
The Auditors

KPMG Audit
A division of KPMG S.A.
Pascal Brouard
Partner

Deloitte & associés
José-Luis Garcia
Partner
Appendix 1

THE BANQUE DE FRANCE IN 2020:
MODERNISING THE NETWORK
(17 June 2013)

The Banque de France has been highly committed to supporting the economy and the French nation during the financial crisis. It has contributed to monetary and financial stability, at the heart of its missions, especially thanks to its in-depth knowledge of the economic fabric which it has acquired from the exceptional density of its branch network. Like any institution, the Banque de France must continue to adjust to the changing environment, all the more so as it faces major challenges in the coming years; it is in the interest of the French economy, public finances and citizens. This is the meaning of the project “Building the Bank of 2020”, which was approved on 17 June 2013 by the General Council1 and which sets out the principles that will underpin the Banque de France network in 2020 in order to strengthen its role and give visibility to the Bank’s staff and partners.

Major challenges up to 2020

These are three-fold:

• Demographic: by 2020, close to 5,000 employees will retire, of which around 2,600 in the network. This requires reviewing the way in which the Bank exercises its tasks to organise the necessary recruitments and knowledge transfers.

• Technological: mass processing has to a large extent been automated for a long time. However, current technologies enable us to consider other relationships with our partners and other types of organisation: electronic transmission of information, remote collaborative work, etc.

• Territorial: the density of the business fabric is changing, the geography of indebtedness is evolving, cash circuits are becoming more concentrated, the “Grand Paris” project is becoming a reality... The Banque de France must adapt to these changes.

All of these challenges need to be taken up with a view to improving the provision of services and minimising the costs that weigh directly (for services such as household debt processing, the cost of which is reimbursed by government) or indirectly (through taxes and dividends paid to government) on the national community.

Overview of the Bank’s current regional organisation

The Banque de France now has 128 permanent regional sites, including 72 banknote processing centres (of which Paris and Chamalières).

In order to ensure the best possible proximity to economic agents, this network has been completed by 85 customer service and information offices and 17 delegated managers specifically in charge of economic centres in the cities where the Bank is not permanently present.

The network employs close to 6,200 staff members.1

1 Average full-time equivalents in 2012, including the cash centre staff at the head office.

1 After consulting with the Central Works Committee and regional employee representative bodies.
The Banque de France in 2020:
modernising the network

Optimising the Bank’s regional organisation

In order to meet these challenges, the Banque de France will continue to optimise its regional organisation around three major principles:

• A permanent presence of the Banque de France in each département, generally the prefecture city. The departmental network has indeed proved its usefulness and effectiveness during the crisis. The regional directorates will continue to provide the operational management of the network.

• Network-based operation and increased specialisation of Bank offices to meet the expertise requirements of our activities and optimise management. Shared processing centres dedicated to businesses and household debt processing will be set up (at least one per region).

• The use of all the resources of communication tools to improve services provided: household debt cases will be directly entered into a database and over-indebted persons will be able to follow the different stages of the procedure; exchanges with companies will rely more widely on the Internet.

As regards cash services, the reorganisation aims at:

• taking into account changes in the cash circuits and the expected decline in volumes to be processed by the Bank due to the steady rise in denominations used (in particular the €50 banknote) and the controlled increase in banknote recycling by cash industry professionals;

• ensuring efficient industrial processing, on the occasion of the replacement of sorting machines and with the creation of new cash centres on dedicated new premises;

• maintaining a sufficiently dense presence to provide cash services across the whole of France; this justifies, in exceptional cases, keeping remote centres, despite a reduced volume of activity.

Overview of the network of Banque de France sites in 2020

By 2020, the Banque de France’s network is expected to consist of 115 permanent sites organised around 95 branches supplemented by ten economic centres (Paris-Bastille, Châlons-en-Champagne, Quimper, Valenciennes, Colmar, Bayonne, Le Havre, Dunkerque, Boulogne-sur-Mer and Cluses), plus ten units conducting local operations, receiving the public and maintaining contact with economic players through a delegated manager (Béziers, Castres, Chalon-sur-Saône, Cholet, Compiègne, Marne-la-Vallée, Montrouge, Roanne, Sarreguemines and Vienne). The Bank will receive the members of the public in 196 cities nationwide.

All in all, company dossiers and household debt cases are expected to be processed in 84 units (46 devoted to companies and 38 to household debt) spread across 52 permanent sites.

Customer service and information offices will be maintained or created in places where the Bank has at least 500 visitors a year.

With respect to cash operations, the target for 2020 will be 38 cash centres, including 2 new currency management centres: one in the Nord region, where the project has already been launched, and one in the Île-de-France where it will replace the cash centres of the whole region, including that at the head office. A cash centre will be set up in Chamalières, which will take over the activities currently performed in Clermont-Ferrand and, along with the two new currency management centres, will support the bank’s other cash centres.

Staff levels in the branch network are expected to be reduced to 4,200-4,600 employees.
Organising and supporting the changes

Ensuring the success of these changes requires substantial investment, whether in terms of real estate (building of two new currency management centres), technical developments (modernising the Bank’s banknote sorting machines), IT (overhaul of the application for processing household debt, integration of the various modules pertaining to companies) or human resources (recruitment and staff training). Implementation of the changes will therefore be progressive.

In the first stage, 2013-2015:

• The adaptation of the network of cash centres will begin, with the closure of the cash centres of 15 branches: Brive, Charleville-Mézières, Chartres, Digne (2013); Béziers, Épinal, Lons-le-Saunier, Nevers, Périgueux, Troyes and Valence (2014); Auxerre, Nîmes, Saint-Lô and Toulon (2015). This will lead to the setting in place of a job protection programme for the 176 employees that work in these 15 cash centres, with offers of redeployment within the Bank made to all of the employees affected.

• The network of customer service and information offices for the general public will be adapted, with the closure of the offices that are visited the least.

• A mobility incentive scheme for the 2013-2016 period will make it possible to redeploy, on a voluntary basis, staff from units liable to be downsized or closed by 2020 to units that are due to expand. In any case, no tertiary units are scheduled to be closed before 2016.

In the second stage, 2016-2020:

• The network of cash centres will be finalised with, in particular, the opening of the two new currency management centres in the Île-de-France region (La Courneuve) and the Nord region (Sainghin-en-Mélantois) and deployment of new sorting machines.

• The changes to the network of branches and offices will be implemented and the shared processing centres will become fully operational.

In 2020, the Bank will no longer have a permanent presence in Saint-Quentin, Dieppe, Cherbourg, Calais, Roubaix, Douai, Maubeuge, Remiremont, Lorient and Brive. Contact with these local areas will be maintained with the opening, in coordination with the local authorities, of customer service and information offices.

Depending on the actual developments in the volume of activity, there will be 4,200-4,600 employees in the Banque de France’s network by end-2020. A special human resources programme, including training, will be put in place to facilitate employees’ geographical and operational mobility.

Given the uncertainties surrounding actual retirement dates, we can consider that the Bank will recruit 500-1,000 employees for its network by end-2020. These recruitments and the integration of new employees, particularly managerial staff, will in fact be spread over the whole of the 2013-2020 period in order to facilitate the transfer of knowledge and contribute to the optimal functioning of the network.

All in all, the project presented should enable the Banque de France to perform with enhanced effectiveness all of the tasks entrusted to it by the Treaty on European Union, the French Parliament and the State within the framework of a Public Service Contract, drawing on a modernised and dynamic regional network.
The Banque de France in 2020: modernising the network

Proposed Banque de France presence at end-2020

Open to members of the public

Cities where regional head offices are located are indicated in capitals (e.g. LILLE).
The Banque de France in 2020: modernising the network

Branch and economic centre with shared processing centre

Branch and economic centre

Unit in charge of local operations

Cities where regional head offices are located are indicated in capitals (e.g. LILLE).

Proposed permanent Banque de France network at end-2020
The Banque de France in 2020: modernising the network

Proposed network of Banque de France cash centres in 2020

NCF: new currency management centre
Organisation of the Banque de France at 11 March 2014

Governor’s Private Office
Director, Hervé Gonsard
Advisor, Didier Brunet
Parliamentary Advisor, Véronique Bensaid
Advisor on Relations with the Regions, Jean-Philippe Valentin
Diplomatic Advisor, Marc Laubrié
Security Advisor, Thierry Couture
Communications Advisor, Corinne Drumer
Technical Advisor, Lisa Simon
Head of Protocol, Emmanuelle Paolini

Legal Affairs
Director: Jacques Millener
Deputy: Christophe Amsaud

Ethics Officer: Joëli Petit

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21 economic centres, 7 household debt centres and 3 currency circulation management centres

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Appendix 3

Summary of the Household Debt Commissions’ Activity Reports for the Year 2013

In accordance with the provisions of Article L331-12 of the French Consumer Code, each Household Debt Commission draws up an annual activity report on the number of applications processed, the measures applied, the types of debt involved and all the difficulties encountered. These reports are communicated to the Banque de France, which publishes a summary thereof in its annual report.

The Household Debt Commissions saw sustained levels of activity throughout 2013 with a slight increase in the number of applications filed compared with 2012.

The Household Debt Commissions received 223,012 applications in 2013, 0.98% more than in 2012.

With 241,368 applications processed by the end of December 2013, the Commissions and their secretariats maintained a sustained level of activity throughout 2013.1 The distribution of measures applied was broadly stable and well balanced as the Commissions continued working, in keeping with guidelines from the public authorities, to promote measures that ensure, wherever possible, sustainable solutions for the cases submitted to them. The following chart shows that 28% of applications were steered towards a personal recovery procedure (PRP) entailing full debt cancellation.

Table

<table>
<thead>
<tr>
<th>Key data for the Commissions’ activity (in number of applications)</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications filed</td>
<td>223,012</td>
<td>220,836</td>
</tr>
<tr>
<td>o/w re-files (%)</td>
<td>39.1</td>
<td>37.8</td>
</tr>
<tr>
<td>Admissible applications</td>
<td>195,219</td>
<td>194,866</td>
</tr>
<tr>
<td>Non-admissible applications</td>
<td>16,059</td>
<td>14,693</td>
</tr>
<tr>
<td>Steered towards amicable resolution</td>
<td>133,432</td>
<td>133,268</td>
</tr>
<tr>
<td>Steered towards Personal Recovery Procedure</td>
<td>71,187</td>
<td>71,838</td>
</tr>
<tr>
<td>Recommended for Personal Recovery Procedure without judicial liquidation</td>
<td>66,889</td>
<td>66,059</td>
</tr>
<tr>
<td>Agreement by debtor to Personal Recovery Procedure with judicial liquidation</td>
<td>1,346</td>
<td>1,352</td>
</tr>
<tr>
<td>Agreed debt repayment plans</td>
<td>66,601</td>
<td>70,531</td>
</tr>
<tr>
<td>Measures imposed or recommended by the Commissions</td>
<td>58,883</td>
<td>60,399</td>
</tr>
<tr>
<td>o/w measures imposed by the Commissions</td>
<td>30,911</td>
<td>31,291</td>
</tr>
<tr>
<td>o/w measures recommended by the Commissions</td>
<td>27,972</td>
<td>29,108</td>
</tr>
<tr>
<td>Cases closed</td>
<td>30,144</td>
<td>32,133</td>
</tr>
<tr>
<td>Other outcomes (including cases found non-admissible by a court)</td>
<td>1,970</td>
<td>2,201</td>
</tr>
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![Breakdown of Commissions’ decisions in 2013 (as a % of total applications processed)]

1 https://www.banque-france.fr/la-banque-de-france/missions/protection-du-consommateur/surendettement.html (in French only)
Consolidating cooperation with the parties involved in debt resolution procedures

In 2013, cooperation was stepped up with the parties involved in debt resolution procedures, leading to a large number of training and information sessions for social workers and various social services such as the Social Action Community Centres, District Social Services, Family Allowance Schemes and Housing Solidarity Funds (FSL). Commission secretariats organised around 670 sessions, involving more than 10,000 people. This proactive approach was backed up by efforts to identify synergies and partnerships aimed at explaining the procedures and finding ways to improve coordination between different schemes. In addition, a nationwide agreement was signed with the National Union of Social Action Community Centres (UNCCAS) in July 2013 to regulate, promote and encourage local partnerships.

The legal framework provided by the new Banking Act addresses the main difficulties reported in previous years

Act 2013-672 of 26 July 2013 on the separation and regulation of banking activities introduced new provisions relating to the procedure for dealing with situations of individual over-indebtedness, based around four main objectives:

• To speed up the procedure, by reducing the large number of cases where negotiations break down because of an almost systematic refusal by creditors to accept proposals involving the cancellation of some or all of debt. The new provisions allow Household Debt Commissions to avoid having to go through an out-of-court phase if this seems bound to fail and if the person’s ability to repay is insufficient to settle all outstanding debts within the maximum statutory period. In such circumstances, Commissions may immediately impose or recommend a solution, without having to attempt to reach an agreement between the debtor and his/her creditors.

• To simplify the situation review phase, as some Commissions suggested in previous reports, by allowing debtors themselves to determine whether they wish to re-submit their situation to the Commission for review at the end of the debt repayment suspension period. Other procedural improvements mentioned by the Commissions also feature in the new legal framework. For example, the maximum repayment suspension period has been extended to two years, and the decision on the type of procedure to implement may no longer be appealed.

• To help over-indebted people to stay in their homes, notably by proposing, in the light of comments made by some Commissions, to leave over-indebted home owners with a budget that is below the distrainable portion (in principal the statutory minimum), to allow them to make repayments that are sufficient to avoid having to sell their principal residence. The Commissions’ reports also inspired measures to enable tenant debtors to stay in their homes. These measures apply in particular to people who have signed social cohesion agreements, who will be allowed to remain in the property while subject to a debt resolution procedure, at the end of which the measures adopted by the Commission will automatically replace the previously signed agreement.

• To facilitate the provision of social support to over-indebted people who need it, in line with repeated requests from the Commissions.
The need to achieve better coordination between the debt resolution scheme and housing-related provisions

Enable debtors who own their principal residence to stay in their home

Some Commissions said in their reports that the current limit of 96 months on debt resolution plans might result in the sale of a debtor’s owned principal residence, whereas extending the period for repaying all the debts in the dossier beyond the maximum limit, in cases where debtors have sufficient repayment capacity, would make it possible in some cases to avoid having to sell the principal residence.

Reinstate housing benefits once an application is ruled to be admissible

Housing benefits from family allowance schemes are not always effectively or automatically reinstated once applications are ruled to be admissible.

Personal Recovery Procedure and cancellation of rental arrears

Some Commissions noted an increase in appeals against PRP decisions, notably from private landlords and certain public agencies seeking to obtain special treatment for rental debt in the framework of a PRP.

Other reports described difficulties for tenant debtors following the implementation of a PRP and cancellation of rental arrears. Some tenants were subject to eviction procedures after the PRP decision was announced and found it hard to obtain a new lease, creating a risk of social exclusion.

Find ways to make improvements in terms of preventing tenant evictions

Some Commissions suggested relaxing the rules of communication with the Commissions de coordination des actions de prévention des expulsions (CCAPEX – Eviction Prevention Coordination Commissions) to improve coordination between the various existing services.

Appointing CCAPEX correspondents to Household Debt Commissions might be a way to help prevent evictions and improve tenant protection.

Focus on supporting debtors at the filing stage and when establishing debt resolution measures

As highlighted in previous years, some complex situations require tailored assistance from the very outset, including support when preparing the initial application. Follow-up is also needed in the early months of implementation to ensure the viability of the measures and mitigate the risk of a new and unjustified application.
Need to maintain dialogue with creditors

Some difficulties mentioned last year were raised once again in this year’s reports by the Debt Commissions:

• non-compliance with the repayment suspension on debts incurred before the debtor’s dossier admissibility date in the form of continued deductions from the debtor’s account and difficulties recovering the sums erroneously deducted;

• recurrent demands from credit institutions for monthly “contact” payments,\(^2\) despite their being prohibited by the regulatory provisions;

• those responsible for recovering outstanding funds (notably bailiffs) are unaware that the debtor’s case has been accepted by the creditors that have mandated them to recover the outstanding funds, leading to continued proceedings against the debtor after the dossier has been accepted as admissible.

Some Commissions highlighted difficulties encountered in processing receivables that have been sold to third parties during the procedure. Such sales of receivables are becoming increasingly common. Often unknown to the debtors themselves and to the Commissions, they complicate the processing of the dossiers and may lead to the failure of the debt resolution procedures.

Some reports mentioned cases where utilities such as water and electricity were cut off after the decision to implement a PRP was upheld by a judge.

Finally, some Commissions reported ongoing marginal difficulties in applying the professional standard\(^3\) regarding relations between banks and their over-indebted clients. Problems mentioned included fixing meetings beyond the deadlines defined by the professional standard, cases of accounts being closed or blocked following the debt resolution procedure, and unwillingness in some cases to provide means of payment appropriate to the debtor’s financial position (problems in obtaining a zero floor limit payment card, for example).

Different interpretations of the legal texts remain

Because of their professional status, certain over-indebted persons are bound by collective procedures that are governed by the French Commercial Code and, therefore, their personal over-indebtedness cannot be resolved in the framework of a debt resolution procedure. Yet some natural persons also find themselves denied access to the implementation of a collective procedure by the Commercial Court due to the absence of “professional” debts. The same observation can also be made regarding natural persons who have ceased their activity with social debts (Régime social des indépendants – the social security scheme for self-employed workers), which are considered to be professional debts under the debt resolution procedure but as personal debts by the Commercial Court in the case of collective procedures.

Some difficulties were also mentioned regarding relations with third parties in debt resolution procedures, particularly lawyers and solicitors. In fact, the law obliges the Commissions and their secretariats to maintain confidentiality with respect to these professionals, a fact which may lead to misunderstandings and difficulties in the processing of debt dossiers.

\(^2\) Monthly payments of very small sums (less than 10 euro), the primary of objective of which is not to repay the debt but to maintain contact with the debtor.

\(^3\) Order of 24 March 2011 approving the professional standards regarding relations between banks and their over-indebted clients.
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