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Agence France Trésor is tasked with managing the government debt and cash positions under the most secure conditions in the interest of the taxpayer.

**News at Agence France Trésor**

## Public finance policy debate: the Government acts decisively to hold the deficit at 3% of GDP

The latest public finance policy debate was an opportunity for the Government to unveil its strategy for growth and jobs, in line with the path laid out by the President of the Republic. This strategy is threefold: restoring France's credibility, implementing structural reforms, and reducing public spending on a lasting basis while lowering mandatory levies.

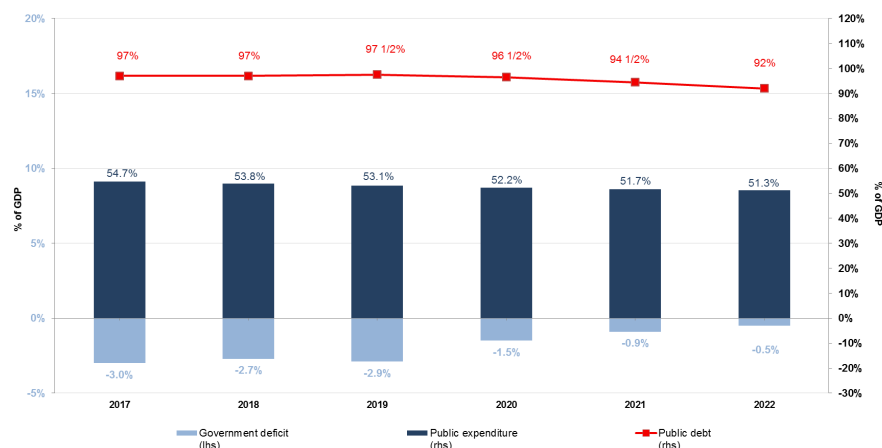
To restore France's credibility at European level, the Government must respect its public finance commitments. Hence it has presented ambitious cost-cutting measures. These measures will be implemented in H2 2017, securing a public deficit below 3% of GDP already this year.

The structural reforms are aimed at modernising the economy. The labour market will be overhauled to reduce unemployment on a lasting basis. Public spending will be redirected to become a source of leverage for employment and growth, on one hand, and to boost the efficiency of government action, on the other. Beginning this year, major structural reforms will be launched in the areas of government action that contain sizeable potential for greater efficiency. These areas include housing, welfare benefits, professional training and transportation.

Efforts on public spending will allow for a reduction in mandatory levies, with a positive knock-on effect for business competitiveness and consumer purchasing power. The corporate income tax rate will gradually be lowered from 33% to 25% over the next five years; this lower rate will make the French economy more attractive for businesses. The Competitiveness and Employment Tax Credit (CICE) will be converted into permanent reductions in employer contributions, further bolstering the competitiveness of French firms over the longer term.

The International Monetary Fund (IMF), following an official visit to France over the past few weeks, declared in its Concluding Statement: "The Government's ambitious reform programme could go a long way in addressing France's longstanding economic challenges", and "The emphasis on reducing public spending, to allow gradual fiscal consolidation and tax relief, is appropriate."

**Deficit-cutting trajectory out to 2022**



Source: Preliminary report, public finance policy debate for 2018

## Supply unlikely to drive structural steepening

Sphia Salim, European rates strategist, Bank of America Merrill Lynch

The shifting pattern of government bond issuance is often cited as a reason for “structural steepening” in EUR curves. The thinking goes that, in a push to lock-in low long-term rates before QE ends, treasuries will increasingly skew issuance towards long maturities. We disagree.

Debt agencies’ mandates strike a balance between lowering the average cost of debt and ensuring refinancing risks are limited. The latter certainly means avoiding heavy reliance on short-term funding. However, issuers must also adapt supply to market demand, maintain some degree of predictability, and ensure good liquidity in secondary markets. Deviations from historical patterns thus require caution and take time to materialize.

### Sovereigns have been lengthening maturities...but it’s been demand-driven

The last years have seen a continuous rise in the weighted average maturity (WAM) of Euro government bond issuance, with a declining supply of very short-dated bonds and rising amount of long-dated issues.

Crucially, however, we find that the unprecedented increase in long-dated supply has been a response to a shift in investor demand rather than an intentional push from treasuries to lock-in exceptionally low long-term rates. The chart below uncovers this. It compares the WAM of bids received across all auctions

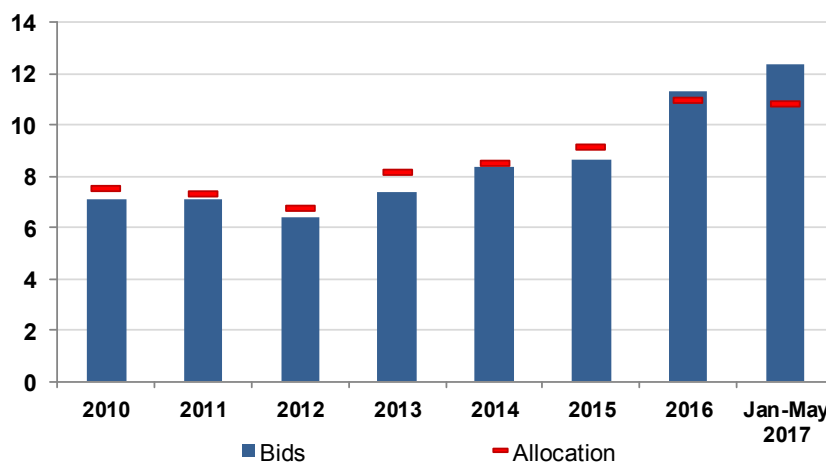
and syndications each year, to the WAM of final allocations. In 2012, for example, bids were concentrated in maturities lower than the average targeted by treasuries. To maintain regular issuance in the 10y and longer, treasuries had to accept weaker auction results than in the shorter-end. The picture has totally changed in the last two years. If anything, treasuries have contained allocation in the long-end in the face of surging demand (the €31bn of bids at the 30y OAT syndication in May was a clear example of that).

QE has thus already helped, not only in lowering funding costs, but also in allowing sovereigns to lengthen the maturity of their outstanding debt, back to pre-crisis levels for most.

### Adapting to demand even more crucial as end of QE nears... this could mean shorter issuance

We argue that, as QE tapering starts, the main focus for treasuries is unlikely to be on locking in cheap long-term funding, but rather on sending the message that, even with the ECB out of the market, auctions will continue to draw good demand and refinancing risks will remain limited. This should entail being even more responsive to changes in investor demand, thus curbing long-dated supply if demand there declines and curves steepen. After such a lengthening in the average maturity of outstanding debt and with redemptions relatively stable over coming years, a move to shorter-dated supply could be easily engineered.

**Weighted average maturity of bids vs weighted average maturity of allocations, at Eurozone government bond auctions & syndications**



Source : Eurozone sovereign debt agencies, BofA Merrill Lynch Global Research

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**NB:** this Agence France Trésor forum offers economists an opportunity to express their personal opinion. Thus, the above article strictly reflects the author’s view, and should not be construed as expressing the viewpoints of Agence France Trésor or the Ministry of the Economy and Finance.

Indicative auction schedule

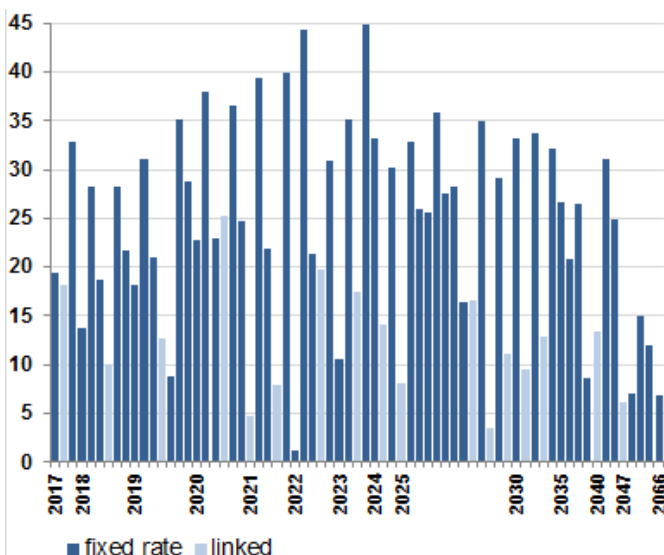
		Short-term				Medium-term	Long-term	Index-linked
August 2017	auction date	7	14	21	28	3	3	3
	settlement date	9	17	23	30	7	7	7
September 2017	auction date	4	11	18	25	21	7	21
	settlement date	6	13	20	27	25	11	25

optional auctions

Source: Agence France Trésor

Medium- and long-term negotiable government debt at 30 June 2017

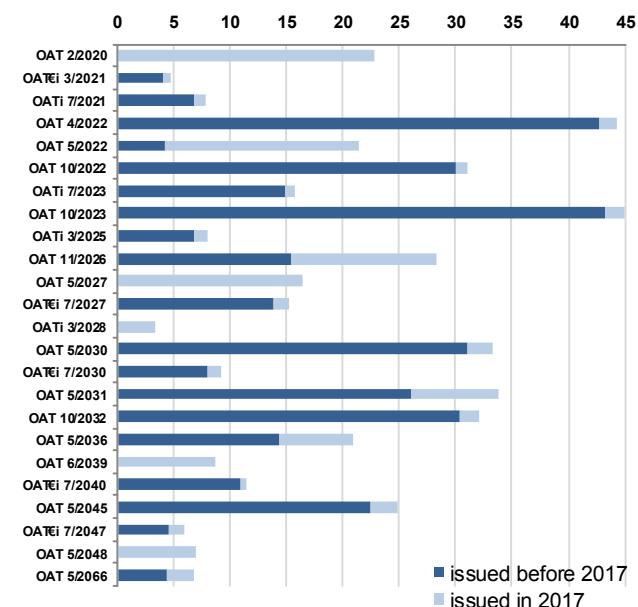
Nominal value of each line, in € billion



Source: Agence France Trésor

Medium- and long-term: securities issued during the year and total issuance at 30 June 2017

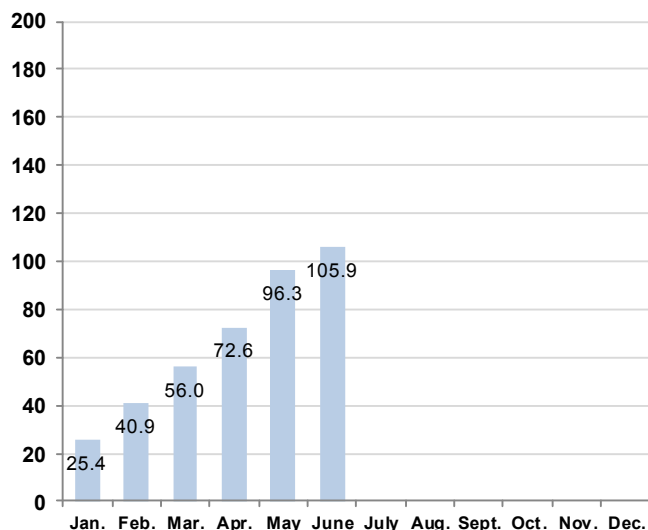
In € billion



Source: Agence France Trésor

Issuance net of buybacks at 30 June 2017

In € billion



Source: Agence France Trésor

Medium- and long-term: provisional maturity schedule at 30 June 2017

In € billion

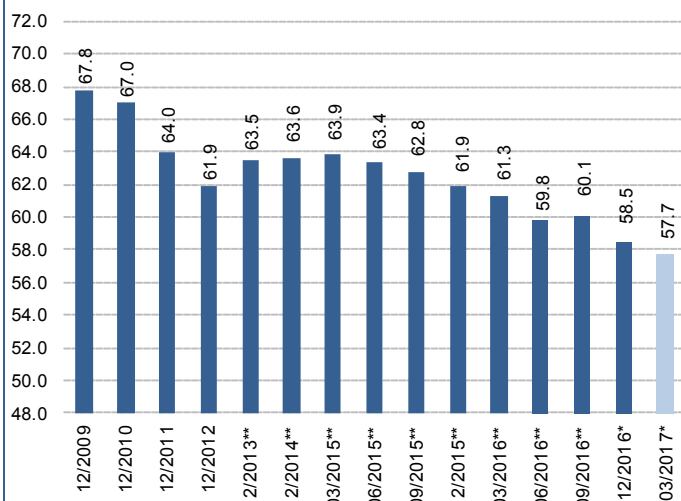
Month	Coupon	Redemption
Jul-17	3.2	37.5
Aug-17		
Sep-17		
Oct-17	14.9	32.8
Nov-17	1.3	
Dec-17		
Jan-18		
Feb-18		13.7
Mar-18	0.0	
Apr-18	14.2	28.2
May-18	4.9	18.7
Jun-18	0.2	

Source: Agence France Trésor



### Non-resident holders of negotiable government debt in first quarter of 2017

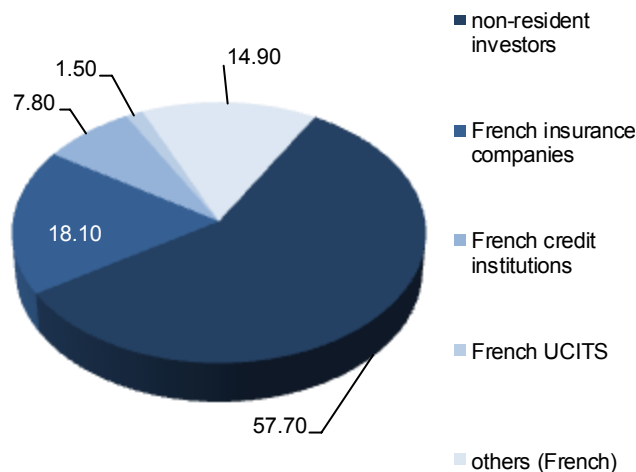
As a % of negotiable debt outstanding expressed in market value



(\* figures quarterly revised  
(\*\*) figures annually revised  
Source: Banque de France

### Negotiable government debt by group of holders in first quarter of 2017

Structure in % expressed in market value



Source: Banque de France

### Negotiable government debt at 30 June 2017

In euros

Total medium- and long-term debt	1,550,115,643,839
Total stripping activity	61,851,852,700
Average maturity	8 years and 122 days
Total short-term debt	150,551,000,000
Average maturity	115 days
<b>TOTAL OUTSTANDING</b>	<b>1,700,666,643,839</b>
<b>Average maturity</b>	<b>7 years and 228 days</b>

Source: Agence France Trésor

### Negotiable government debt and interest rate swaps at 30 June 2017

In € billion

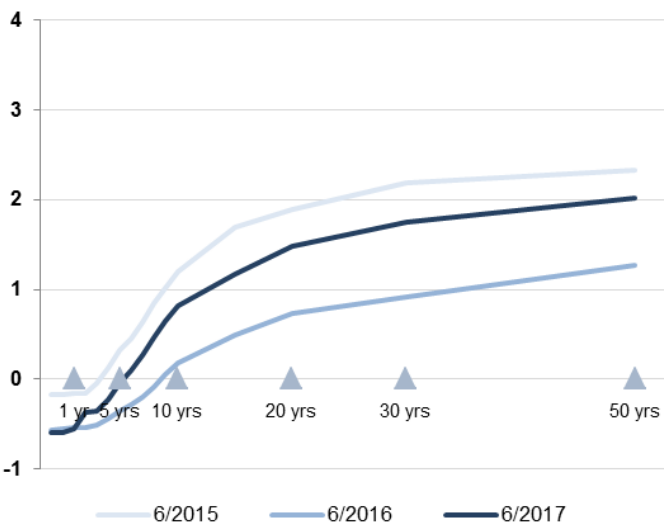
	End 2014	End 2015	End 2016	End May 2017	End June 2017
<b>Negotiable government debt outstanding</b>	<b>1,528</b>	<b>1,576</b>	<b>1,621</b>	<b>1,691</b>	<b>1,701</b>
of which index-linked securities	189	190	200	210	211
Medium- and long-term	1,352	1,424	1,487	1,541	1,550
short-term	175	153	134	150	151
<b>Swaps outstanding</b>	<b>6</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Average maturity of the negotiable debt</b>					
before swaps	6 years 363 days	7 years 47 days	7 years 195 days	7 years 232 days	7 years 228 days
after swaps	6 years 362 days	7 years 47 days	7 years 195 days	7 years 232 days	7 years 228 days

Source: Agence France Trésor



### Yield curve for French government securities

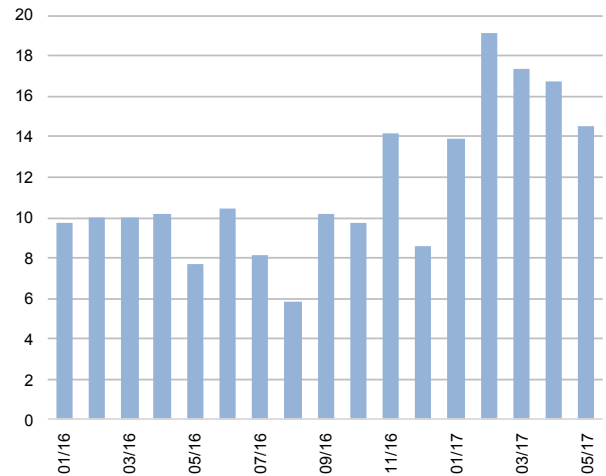
End-of-month value, %



Source: Bloomberg

### Average daily volume of medium- and long-term transactions

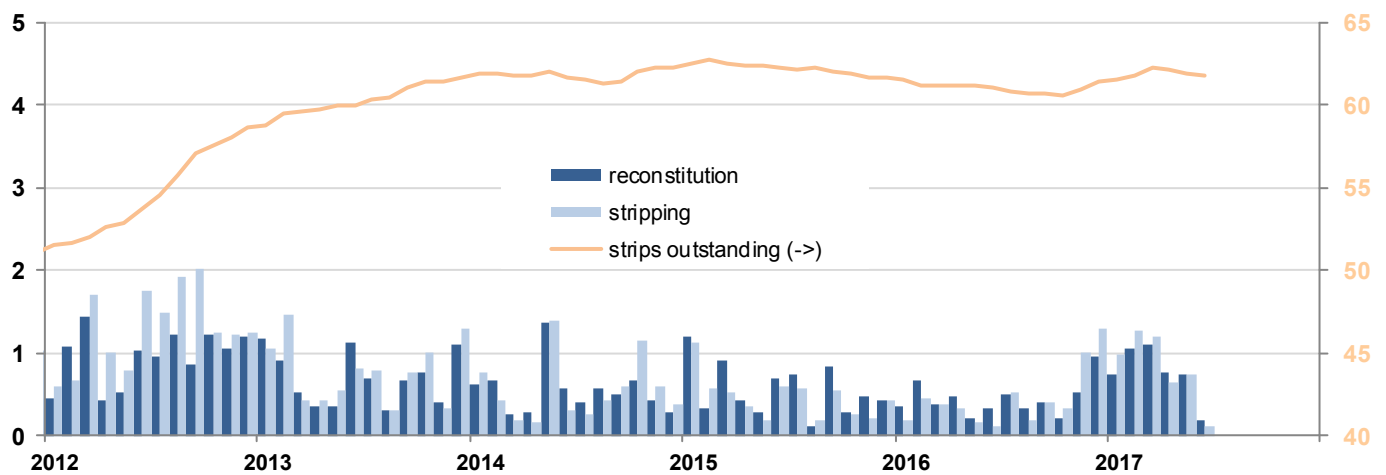
In € billion



Source: reporting by primary dealers in government securities, excluding flows arising from the Eurosystem public sector purchase programme.

### Total stripping and reconstitution

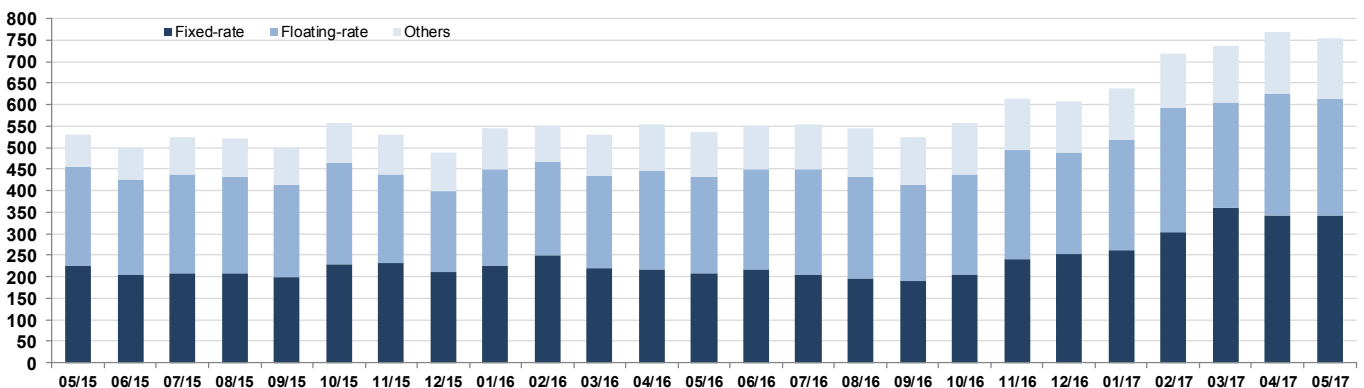
In € billion



Source: Euroclear

### Primary dealers, repo outstanding at end of month

In € billion



Source: reporting by primary dealers in government securities

### Short-term debt at 30 June 2017

	Maturity	Outstanding (€)
BTF	05 July 2017	7,990,000,000
BTF	12 July 2017	7,113,000,000
BTF	19 July 2017	3,979,000,000
BTF	26 July 2017	7,187,000,000
BTF	02 August 2017	6,682,000,000
BTF	09 August 2017	8,325,000,000
BTF	17 August 2017	5,088,000,000
BTF	23 August 2017	7,553,000,000
BTF	30 August 2017	5,465,000,000
BTF	13 September 2017	12,721,000,000
BTF	20 September 2017	6,394,000,000
BTF	27 September 2017	6,010,000,000
BTF	11 October 2017	6,152,000,000
BTF	25 October 2017	6,991,000,000
BTF	08 November 2017	6,440,000,000
BTF	22 November 2017	4,454,000,000
BTF	06 December 2017	8,412,000,000
BTF	31 January 2018	7,467,000,000
BTF	28 February 2018	7,133,000,000
BTF	28 March 2018	6,272,000,000
BTF	25 April 2018	5,795,000,000
BTF	24 May 2018	6,928,000,000

### Medium- and long-term debt (maturing 2017–2020) at 30 June 2017

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
<b>Maturity 2017</b>		<b>70,296,349,760</b>			
FR0120746609	BTAN 1% 25 July 2017	19,340,000,000			–
FR0010235176	OATi 1% 25 July 2017	18,116,349,760	(1) 1.14704	15,794,000,000	0
FR0010517417	OAT 4.25% 25 October 2017	32,840,000,000			0
<b>Maturity 2018</b>		<b>120,580,759,230</b>			
FR0012634558	OAT 0% 25 February 2018	13,734,000,000			0
FR0010604983	OAT 4% 25 April 2018	28,172,000,000			0
FR0011394345	OAT 1% 25 May 2018	18,741,000,000			0
FR0011237643	OAT€i 0.25% 25 July 2018	9,971,759,230	(1) 1.05818	9,423,500,000	0
FR0010670737	OAT 4.25% 25 October 2018	28,207,000,000			0
FR0011523257	OAT 1% 25 November 2018	21,755,000,000			20,000,000
<b>Maturity 2019</b>		<b>155,801,262,888</b>			
FR0013101466	OAT 0% 25 February 2019	18,223,000,000			0
FR0000189151	OAT 4.25% 25 April 2019	31,028,000,000			0
FR0011708080	OAT 1% 25 May 2019	21,035,000,000			0
FR0010850032	OATi 1.3% 25 July 2019	12,672,743,000	(1) 1.07945	11,740,000,000	0
FR0000570921	OAT 8.5% 25 October 2019	8,844,392,893			5,420,585,100
FR0010776161	OAT 3.75% 25 October 2019	35,225,000,000			0
FR0011993179	OAT 0.5% 25 November 2019	28,737,000,000			0
FR0000570954	OAT cap. 9.82% 31 December 2019	36,126,995	(2)	6,692,154	–
<b>Maturity 2020</b>		<b>170,292,302,200</b>			
FR0013232485	OAT 0% 25 February 2020	22,835,000,000			0
FR0010854182	OAT 3.5% 25 April 2020	37,927,000,000			0
FR0012557957	OAT 0% 25 May 2020	22,969,000,000			0
FR0010050559	OAT€i 2.25% 25 July 2020	25,217,302,200	(1) 1.24162	20,310,000,000	0
FR0010949651	OAT 2.5% 25 October 2020	36,562,000,000			0
FR0012968337	OAT 0.25% 25 November 2020	24,782,000,000			0

(1) face value x indexation coefficient (face value if coefficient < 1)

(2) Including coupons capitalised at 31 December 2016; not open to subscription

Medium- and long-term debt (maturing in 2021 and beyond) at 30 June 2017

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)	
<b>Maturity 2021</b>		<b>113,830,286,300</b>				
FR0013140035	OAT€i 0.1% 1 March 2021	4,761,502,300	(1)	1.01785	4,678,000,000	0
FR0010192997	OAT 3.75% 25 April 2021	39,352,000,000				0
FR0013157096	OAT 0% 25 May 2021	21,852,000,000				0
FR0011347046	OATi 0.1% 25 July 2021	7,973,784,000	(1)	1.02228	7,800,000,000	0
FR0011059088	OAT 3.25% 25 October 2021	39,891,000,000				0
<b>Maturity 2022</b>		<b>117,778,253,030</b>				
FR0000571044	OAT 8.25% 25 April 2022	1,243,939,990				369,768,400
FR0011196856	OAT 3% 25 April 2022	44,359,000,000				0
FR0013219177	OAT 0% 25 May 2022	21,414,000,000				0
FR0010899765	OAT€i 1.1% 25 July 2022	19,789,313,040	(1)	1.10376	17,929,000,000	0
FR0011337880	OAT 2.25% 25 October 2022	30,972,000,000				0
<b>Maturity 2023</b>		<b>108,213,565,053</b>				
FR0000571085	OAT 8.5% 25 April 2023	10,606,195,903				5,387,040,200
FR0011486067	OAT 1.75% 25 May 2023	35,237,000,000				0
FR0010585901	OATi 2.1% 25 July 2023	17,452,369,150	(1)	1.11197	15,695,000,000	0
FR0010466938	OAT 4.25% 25 October 2023	44,918,000,000				415,585,000
<b>Maturity 2024</b>		<b>77,445,973,340</b>				
FR0011619436	OAT 2.25% 25 May 2024	33,135,000,000				0
FR0011427848	OAT€i 0.25% 25 July 2024	14,075,973,340	(1)	1.03363	13,618,000,000	0
FR0011962398	OAT 1.75% 25 November 2024	30,235,000,000				46,000,000
<b>Maturity 2025</b>		<b>92,513,298,318</b>				
FR0012558310	OATi 0.1% 1 March 2025	8,031,370,200	(1)	1.01355	7,924,000,000	0
FR0012517027	OAT 0.5% 25 May 2025	32,870,000,000				0
FR0000571150	OAT 6% 25 October 2025	26,039,928,118				3,000,764,400
FR0012938116	OAT 1% 25 November 2025	25,572,000,000				0
<b>Maturity 2026</b>		<b>91,560,000,000</b>				
FR0010916924	OAT 3.5% 25 April 2026	35,814,000,000				0
FR0013131877	OAT 0.5% 25 May 2026	27,522,000,000				0
FR0013200813	OAT 0.25% 25 November 2026	28,224,000,000				0
<b>Maturity 2027</b>		<b>67,975,238,720</b>				
FR0013250560	OAT 1% 25 May 2027	16,439,000,000				0
FR0011008705	OAT€i 1.85% 25 July 2027	16,507,238,720	(1)	1.08772	15,176,000,000	0
FR0011317783	OAT 2.75% 25 October 2027	35,029,000,000				27,043,600
<b>Maturity 2028</b>		<b>3,467,550,860</b>				
FR0013238268	OATi 0.1% 1 March 2028	3,442,381,740	(1)	1.01187	3,402,000,000	0
FR0000571226	OAT zero coupon 28 March 2028	25,169,120	(3)		46,232,603	-
<b>Maturity 2029</b>		<b>40,163,718,100</b>				
FR0000571218	OAT 5.5% 25 April 2029	29,091,880,458				3,257,719,100
FR0000186413	OATi 3.4% 25 July 2029	11,071,837,642	(1)	1.26765	8,734,144,000	0
<b>Maturity 2030</b>		<b>42,629,911,900</b>				
FR0011883966	OAT 2.5% 25 May 2030	33,208,000,000				0
FR0011982776	OAT€i 0.7% 25 July 2030	9,421,911,900	(1)	1.02035	9,234,000,000	0
<b>Maturity 2031</b>		<b>33,749,000,000</b>				
FR0012993103	OAT 1.5% 25 May 2031	33,749,000,000				103,000,000
<b>Maturity 2032</b>		<b>44,943,805,800</b>				
FR0000188799	OAT€i 3.15% 25 July 2032	12,781,483,200	(1)	1.25802	10,160,000,000	0
FR0000187635	OAT 5.75% 25 October 2032	32,162,322,600				11,508,357,400
<b>Maturity 2033 and later</b>		<b>198,874,368,340</b>				
FR0010070060	OAT 4.75% 25 April 2035	26,678,000,000				5,002,967,000
FR0013154044	OAT 1.25% 25 May 2036	20,894,000,000				0
FR0010371401	OAT 4% 25 October 2038	26,534,000,000				4,915,211,400
FR0013234333	OAT 1.75% 25 June 2039	8,632,000,000				0
FR0010447367	OAT€i 1.8% 25 July 2040	13,369,716,360	(1)	1.16532	11,473,000,000	0
FR0010773192	OAT 4.5% 25 April 2041	31,111,000,000				7,238,539,000
FR0011461037	OAT 3.25% 25 May 2045	24,908,000,000				1,178,600,000
FR0013209871	OAT€i 0.1% 25 July 2047	6,058,651,980	(1)	1.01553	5,966,000,000	0
FR0013257524	OAT 2% 25 May 2048	7,000,000,000				0
FR0010171975	OAT 4% 25 April 2055	14,926,000,000				7,474,888,000
FR0010870956	OAT 4% 25 April 2060	11,918,000,000				6,387,684,100
FR0013154028	OAT 1.75% 25 May 2066	6,845,000,000				98,100,000

(1) face value x indexation coefficient (face value if coefficient < 1)  
(3) Revised on 28 March 2017; not open to subscription

## The French economy and international comparisons

### Most recent economic indicators

Industrial output, year-on-year	1.9%	May. 2017
Household consumption*, year-on-year	0.7%	Jun. 2017
Unemployment rate (ILO)	9.6%	Mar. 2017
Consumer prices, year-on-year		
all items	0.7%	Jun. 2017
all items excluding tobacco	0.7%	Jun. 2017
Trade balance, fob-fob, sa (€bn)	-€4.9bn	May. 2017
" "	-€5.6bn	Apr. 2017
Current account balance, sa (€bn)	-€2.3bn	May. 2017
" "	-€2.6bn	Apr. 2017
10-year constant maturity rate (TEC10)	0.85%	28 Jul. 2017
3-month interest rate (Euribor)	-0.33%	26 Jul. 2017
EUR / USD	1.1729	28 Jul. 2017
EUR / JPY	130.37	28 Jul. 2017

\* manufactured products

Sources: Insee, Minefi, Banque de France

### Monthly government budget position

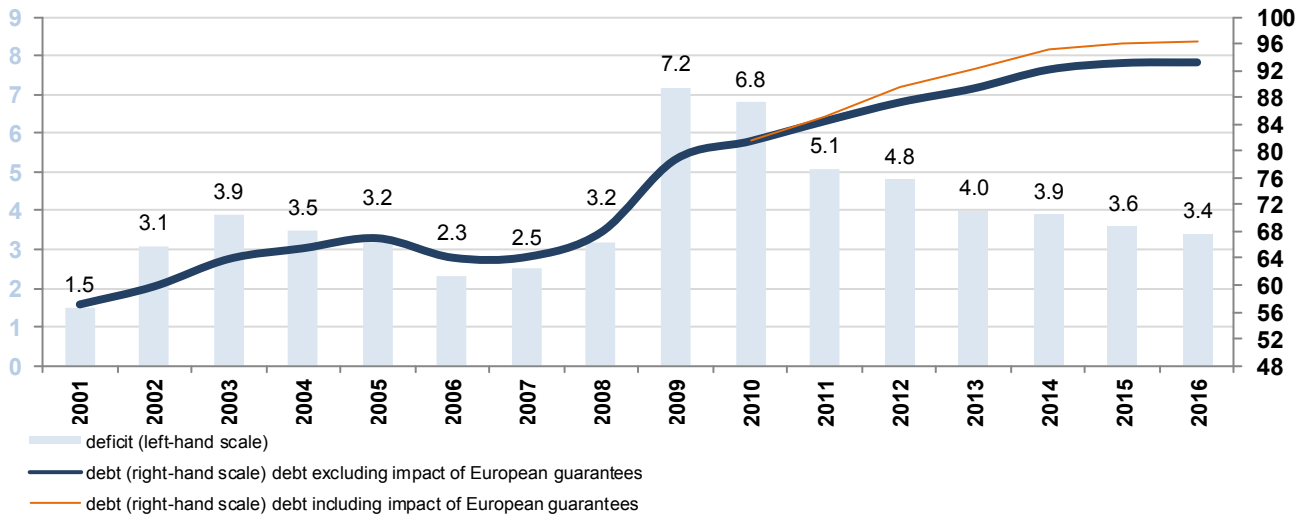
In € billion

			end of May level		
	2015	2016	2015	2016	2017
General budget balance	-72.15	-75.85	-42.24	-38.93	-39.48
revenue	299.66	303.97	123.23	126.37	127.83
expenditure	371.81	379.82	165.47	165.30	167.31
Balance of special Treasury accounts	1.62	6.80	-21.69	-26.74	-26.97
<b>General budget outturn</b>	<b>-70.53</b>	<b>-69.06</b>	<b>-63.93</b>	<b>-65.67</b>	<b>-66.45</b>

Source: Minefi

### Public finances: deficit and debt

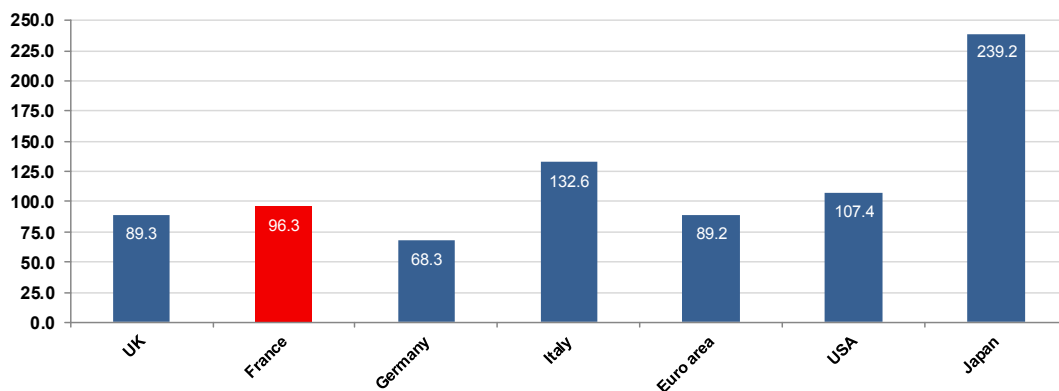
As % of GDP



Source: Eurostat, Insee

### General government debt in 2016

As % of GDP



Sources: Eurostat, IMF, Insee



## French economic indicators: timetable

August 2017		September 2017	
 8	Foreign trade by value in June	 8	Industrial production: July index
 8	Balance of payments in June	 14	Consumer prices: August index
 10	Industrial production: June index	 18	Inflation (HICP): August index
 11	Consumer prices: July index	 22	Quarterly national accounts: final results Q2-2017
 11	Flash estimate of payroll employment: Q2-2017	 26	Monthly business survey (goods-producing industries) in September
 14	Net international reserves in July	 27	Consumer confidence survey: September survey
 17	Inflation (HICP): July index	 29	Household consumption expenditure on goods in August
 24	Industrial investments: July survey	 29	Debt of the general government according to Maastricht definition Q2-2017
 24	Monthly business survey (goods-producing industries) in August		
 24	Job seekers in July		
 25	Consumer confidence survey: August survey		
 29	Household consumption expenditure on goods in July		
 29	Quarterly national accounts: second estimate Q2-2017		
 29	Housing starts in July		
 31	Industrial producer and import price: July indices		

Sources: Insee, Eurostat

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