

N°352
SEPTEMBER
2019

MONTHLY BULLETIN

AGENCE FRANCE TRÉSOR IS TASKED WITH MANAGING THE GOVERNMENT DEBT AND CASH POSITIONS UNDER THE MOST SECURE CONDITIONS IN THE INTEREST OF THE TAXPAYER.

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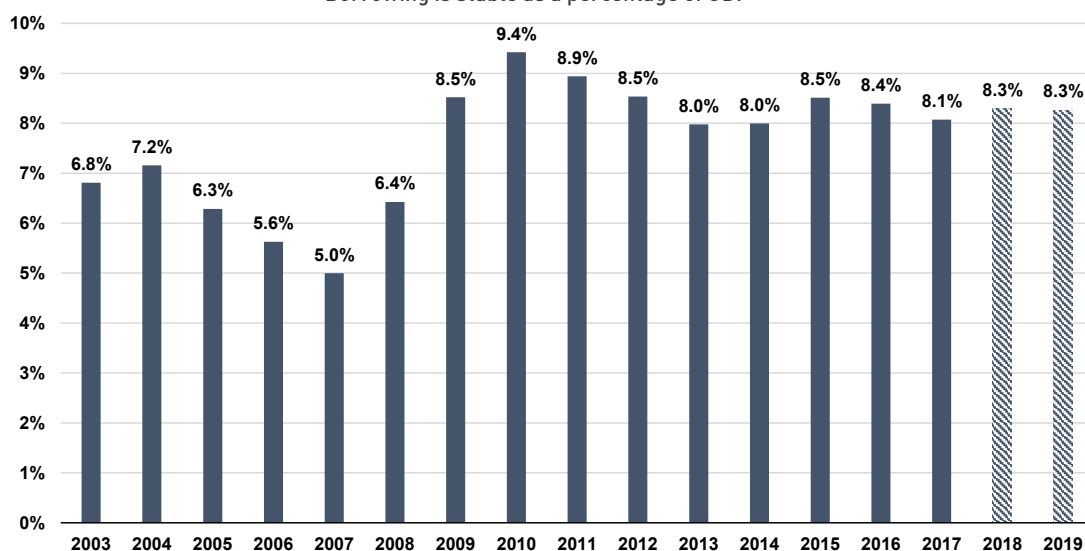
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News at Agence
France Trésor

PRESENTATION OF THE 2020 DRAFT BUDGETARY PLAN IN AN ENVIRONMENT WITH UNPRECEDENTED LOW YIELDS

The size of the French government borrowing programme, measured as a percentage of GDP, will be stable for the third year in a row in 2020 (see chart). The 2020 medium- and long-term issuance programme will increase by €5 billion compared to 2019 to stand at €205 billion, net of buybacks.

Borrowing is stable as a percentage of GDP



Source : Agence France Trésor

Despite a smaller fiscal deficit of €93.1 billion in 2020, versus the projected deficit of €96.3 in 2019¹, the borrowing requirement in 2020 will rise to €230.5 billion as a result of a €6.2-billion increase in government debt redemptions, amounting to €136.4 billion in 2020, plus €1.8 billion in redemption of *SNCF Réseau* debt out of the 25 billion that the government has pledged to assume on 1 January 2020.

France has continued to enjoy unprecedented financing terms since the beginning of 2019. At the end of September 2019, French sovereign bonds posted negative yields for maturities approaching 15 years after a year of steadily declining yields, followed by a sharp drop between the end of May and August 2019. The weighted average yield of medium- and long-term debt issuance stood at 0.17% for the first three quarters of 2019, as compared to a yield of 0.53% in 2018 and an average yield of 2.17% for the period from 2009 to 2014.

Under the circumstances, the debt burden scenario for 2020 assumes that short-term yields will be stable and long-term yields will rise slightly. Yields on 3-month and 10-year maturities are projected to stand at -0.50% and 0.70% respectively at the end of 2020. Under these assumptions, the fiscal cost of the debt burden is projected to stand at €38.6 billion in 2020, including €0.4 billion in interest expense on the *SNCF Réseau* debt. As measured in the government's financial accounts and according to the Maastricht rules (reporting to the European Commission), the cost of debt service is projected to stand at €31.4 billion in 2019 and €29.5 billion in 2020². These new projections are lower than the ones made one year ago since inflation and yields were lower than projected in the 2019 Draft Budgetary Plan.

¹ this data has been revised €11.6 billion downwards compared to the French budget bill initial deficit of €107.7 billion.

² cash-based budgetary accounting shows different amounts because the selling prices of bonds are not recognised, including issue premiums from negative yields. These premiums occur when the borrower sells bonds for more than their redemption cost.

New wave (Nouvelle vague). At its 12 September meeting, the ECB announced a new wave of measures to support the euro area economy. This set of measures is proclaimed to be powerful and coherent: the asset purchase programme, negative interest rates and TLTROs are intended to work together to improve credit terms for the private sector.

Misunderstanding (Le mépris). It has become clear that this announcement has not totally swayed the markets: the initial reaction was fairly negative, with tension at the short end of sovereign yield curves and an appreciation of the euro. However, we think that this reaction stems solely from a poor understanding of the ECB's tools and an underestimation of its capability for action.

Mario's vagaries (Pierrot le fou). On the one hand, many players misinterpreted the two-tier system for reserve remuneration, seeing a risk of tension for short-term interbank lending rates and short-term sovereign yields, which we do not see as likely: the excess liquidity holdings subject to the ECB deposit facility rate (€1 trillion) are more than enough to keep all short-term rates down. We estimate that €500 billion is enough for maximum containment of short-term rates. »

Number two (Numéro deux). On the other hand, the second net asset purchase programme failed to sway the markets, since its length was presented as possibly infinite ("as long as necessary"), even though the ECB has not changed the limits on its purchases. As things stand, we think that the ECB, if it complies with its own limits, will be able to continue the programme for 9 to 12 months only, before running out of German, Dutch and Finnish sovereign securities to purchase.

Goodbye to language (Adieu au langage). By linking the end of its QE2 to the first rate hike (ending the programme "shortly before starting to raise key rates"), the ECB made a major shift in its forward guidance. Just when markets had accepted that negative rates were going to last for a very long time, linking the first rate hike to the end of QE, which is assumed to be short-lived if there is no change in the limits, led to expectations that the first rate hike would happen much sooner.

Everything is fine (Tout va bien). We expect the ECB to clear up the various factors causing uncertainty soon. More specifically, we expect the ECB to change the limits on its asset purchases, which will confirm its willingness to maintain QE in the long run (until the end of 2021 at the soonest) and to keep rates very low for an even longer period. On the legal front, Coeuré clearly stated in June that the ECJ's decision on the PSPP granted the ECB broad discretion in designing its instruments. At the same time, the implementation of the two-tier system for remunerating reserves should reassure market participants about the transparency of this tool in steering short-term rates. We must not forget to mention the implementation of TLTRO-III. These tools should be the most capable of supporting credit in the euro area in view of their now very favourable terms (3-year maturity and interest rate in line with the ECB deposit facility rate).

Nevertheless, these measures are not enough at this point.

Hail Mario (Je vous salue, Marie). On the one hand, the discussion on the asset purchase limits, which is a critical discussion in the framework of the ECB's current monetary policy, should be conducted by the next President: it will be the first major issue that Christine Lagarde will have to address.

Fiscal policy to the rescue (Sauve qui peut (la vie)). On the other hand, even though there is no limit on the ECB's capability for supporting the euro area economy, thereby achieving its inflation target, the collateral impact of monetary policy is increasing, as its effectiveness wanes. As the President pointed out at the press conference, fiscal policy should become the main instrument for boosting demand in the economy, relieving the ECB of some of its burden.

Two or three things I know about her (Deux ou trois choses je sais d'elle). Ms Lagarde is facing two kinds of challenges: first, persuading the ECB to ease the asset purchase limits for QE, and second, encouraging more expansionary fiscal policy in the euro area. Her skills in building consensus and promoting decision-making, which she demonstrated when she was France's Minister of Finance and then Managing Director of the IMF, will be very precious and critical for success: this is how the ECB will prove that it is not *Breathless (à bout de souffle)*.

NB: this Agence France Trésor forum offers economists an opportunity to express their personal opinion. Accordingly, 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.

The views expressed in this article reflect the personal views of the author and do not represent an official view of Crédit Agricole CIB. Furthermore, the author has not and will not receive any compensation for having provided a specific recommendation in this report.

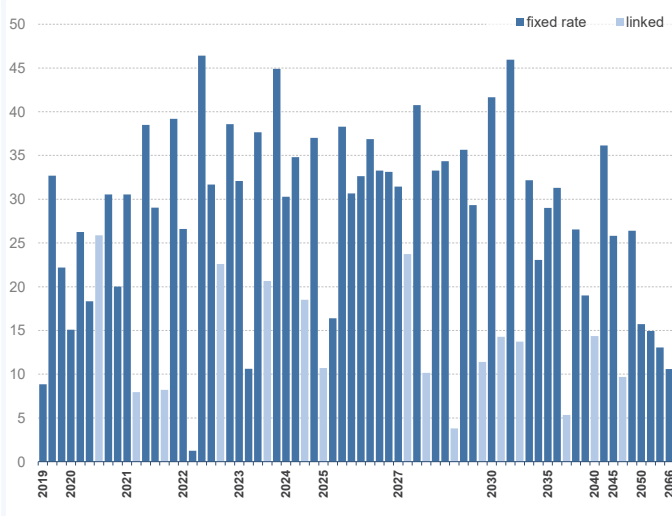
INDICATIVE AUCTION SCHEDULE

		Short-term					Medium-term	Long-term	Index-linked
October 2019	auction date	7	14	21	28	/	17	3	17
	settlement date	9	16	23	30	/	21	7	21
November 2019	auction date	4	12	18	25	/	21	7	21
	settlement date	6	14	20	27	/	25	11	25

Source: Agence France Trésor

MEDIUM- AND LONG-TERM NEGOTIABLE GOVERNMENT DEBT AT 31 AUGUST 2019

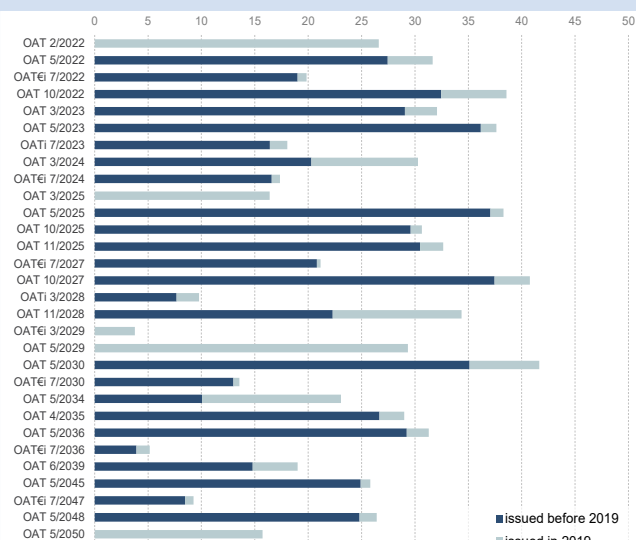
NOMINAL VALUE OF EACH LINE, IN € BILLION



Source: Agence France Trésor

MEDIUM- AND LONG-TERM: SECURITIES ISSUED DURING THE YEAR AND TOTAL ISSUANCE AT 31 AUGUST 2019

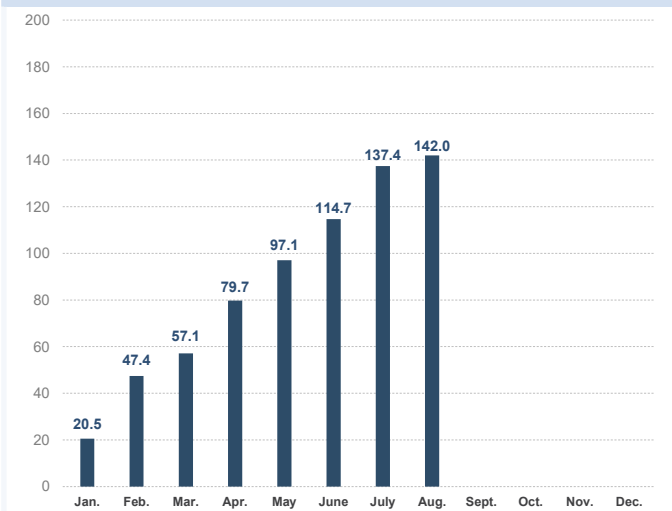
IN € BILLION



Source: Agence France Trésor

ISSUANCE NET OF BUYBACKS AT 31 AUGUST 2019

IN € BILLION



Source: Agence France Trésor

MEDIUM- AND LONG-TERM: PROVISIONAL MATURITY SCHEDULE AT 31 AUGUST 2019

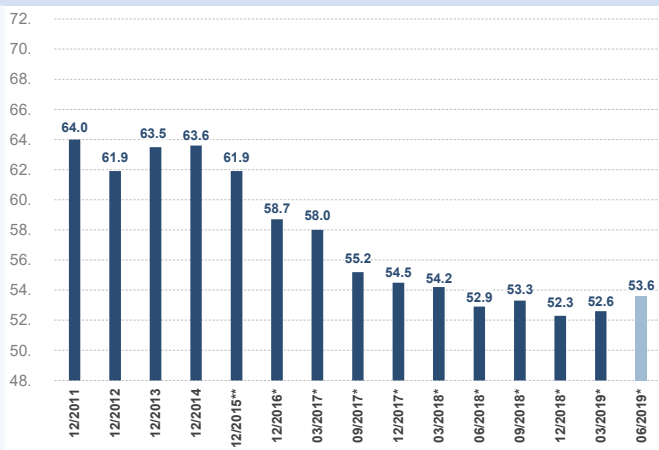
IN € BILLION

Month	Coupon	Redemption
Sep-19		
Oct-19	12.7	41.5
Nov-19	1.5	22.2
Dec-19		0.0
Jan-20		
Feb-20		15.1
Mar-20	0.0	
Apr-20	12.1	26.3
May-20	6.7	18.3
Jun-20	0.3	
Jul-20	3.0	26.1
Aug-20		

Source: Agence France Trésor

NON-RESIDENT HOLDERS OF NEGOTIABLE GOVERNMENT DEBT IN SECOND QUARTER OF 2019

AS A % OF NEGOTIABLE DEBT OUTSTANDING
EXPRESSED IN MARKET VALUE

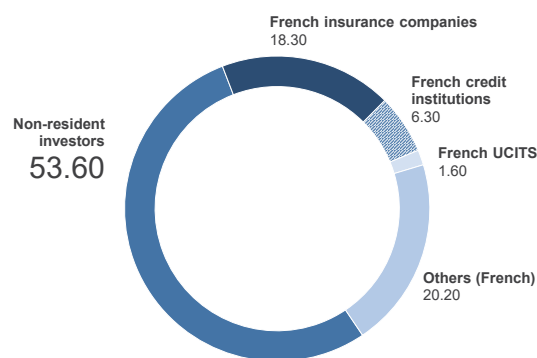


(*) figures quarterly revised

(**) figures annually revised

NEGOTIABLE GOVERNMENT DEBT BY GROUP OF HOLDERS IN SECOND QUARTER OF 2019

STRUCTURE IN % EXPRESSED IN MARKET VALUE



Source: Banque de France

NEGOTIABLE GOVERNMENT DEBT AT 31 AUGUST 2019

IN EUROS

Total medium- and long-term debt	1,721,496,583,319
Total stripping activity	62,781,134,700
Average maturity	8 years and 172 days
Total short-term debt	114,487,000,000
Average maturity	119 days
Total outstanding	1,835,983,583,319
Average maturity	7 years and 352 days

Source: Agence France Trésor

NEGOTIABLE GOVERNMENT DEBT SINCE 2015 AT 31 AUGUST 2019

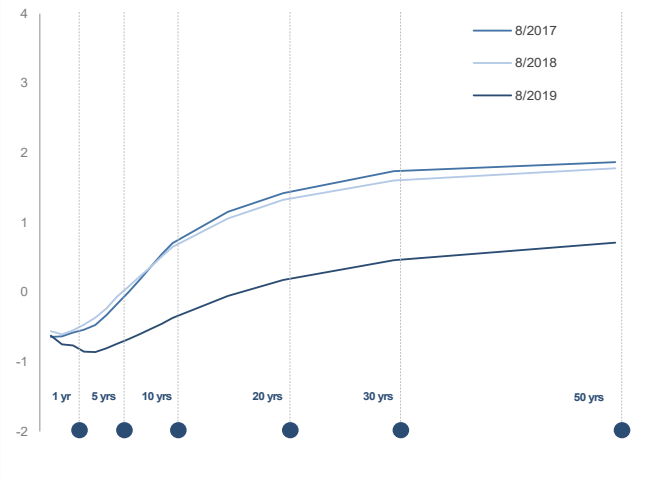
IN € BILLION

	End 2016	End 2017	End 2018	End July 2019	End Aug. 2019
Negotiable government debt outstanding	1,621	1,686	1,756	1,828	1,836
<i>of which index-linked securities</i>	<i>200</i>	<i>202</i>	<i>220</i>	<i>221</i>	<i>221</i>
Medium- and long-term	1,487	1,560	1,644	1,716	1,721
Short-term	134	126	113	112	114
Average maturity of the negotiable debt	7 years	7 years	7 years	8 years	7 years
	195 days	296 days	336 days	12 days	352 days

Source: Agence France Trésor

YIELD CURVE FOR FRENCH GOVERNMENT SECURITIES

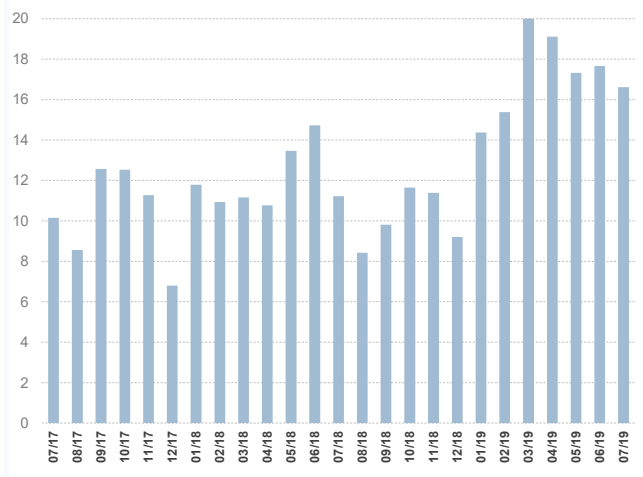
END-OF-MONTH VALUE, %



Source: Bloomberg

AVERAGE DAILY VOLUME OF MEDIUM- AND LONG-TERM TRANSACTIONS

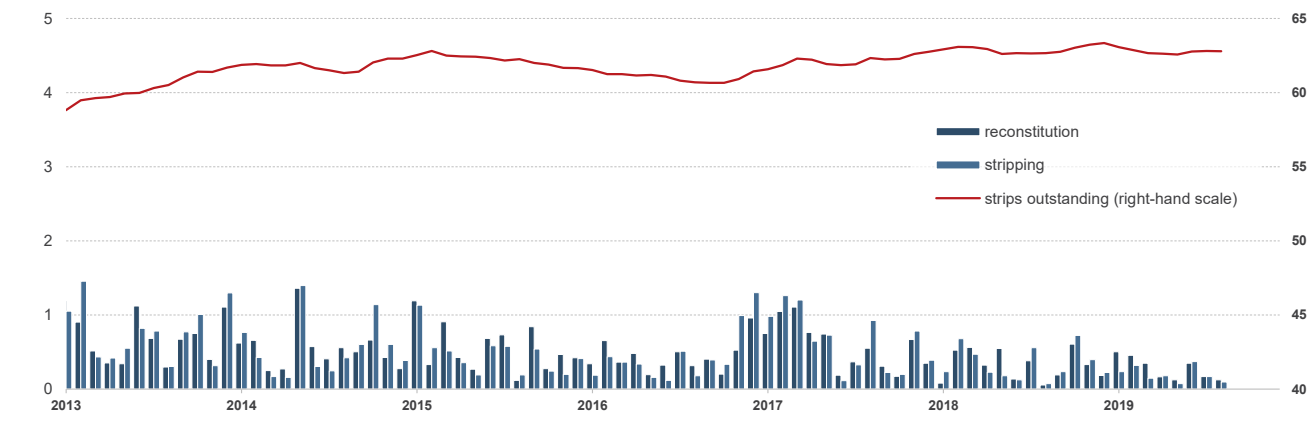
IN € BILLION



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

TOTAL STRIPPING AND RECONSTITUTION

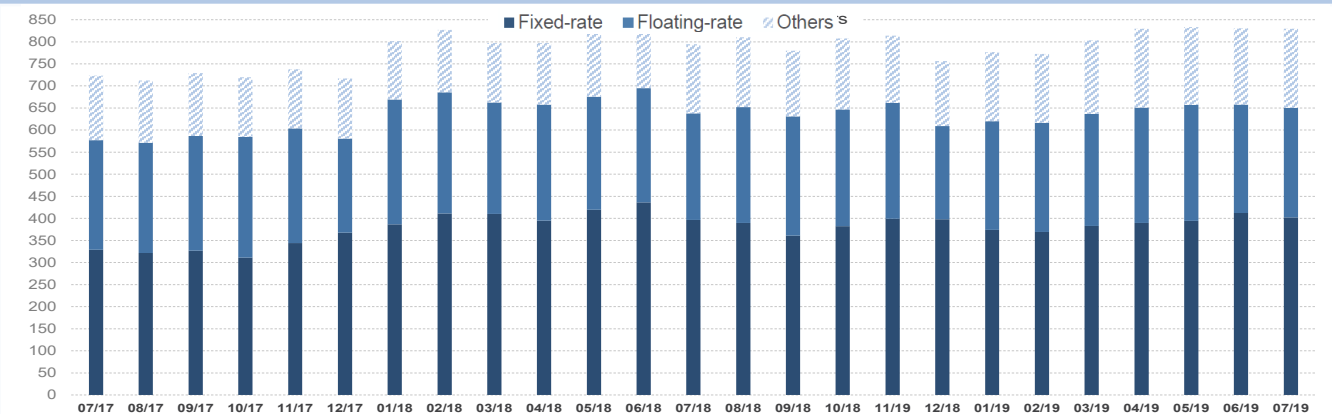
IN € BILLION



Source: Euroclear

PRIMARY DEALERS, REPO OUTSTANDING AT END OF MONTH

IN € BILLION



Source: reporting by primary dealers in government securities

SHORT-TERM DEBT AT 31 AUGUST 2019

ISIN Code	Maturity	Outstanding(€)
FR0125533069	BTF 4 September 2019	5,464,000,000
FR0125064891	BTF 11 September 2019	4,510,000,000
FR0125533077	BTF 18 September 2019	5,798,000,000
FR0125533036	BTF 25 September 2019	4,285,000,000
FR0125692352	BTF 2 October 2019	5,620,000,000
FR0125218257	BTF 9 October 2019	4,848,000,000
FR0125692360	BTF 16 October 2019	4,994,000,000
FR0125533093	BTF 23 October 2019	4,101,000,000
FR0125692378	BTF 30 October 2019	5,729,000,000
FR0125218265	BTF 6 November 2019	4,204,000,000
FR0125692386	BTF 14 November 2019	5,293,000,000
FR0125533101	BTF 20 November 2019	4,665,000,000
FR0125692394	BTF 27 November 2019	2,787,000,000
FR0125692410	BTF 18 December 2019	5,609,000,000
FR0125375099	BTF 2 January 2020	4,991,000,000
FR0125692428	BTF 15 January 2020	5,122,000,000
FR0125375107	BTF 29 January 2020	4,165,000,000
FR0125375115	BTF 26 February 2020	4,483,000,000
FR0125533119	BTF 25 March 2020	5,811,000,000
FR0125533127	BTF 22 April 2020	4,897,000,000
FR0125533135	BTF 20 May 2020	4,669,000,000
FR0125533143	BTF 17 June 2020	4,616,000,000
FR0125692451	BTF 15 July 2020	5,158,000,000
FR0125692469	BTF 12 August 2020	2,668,000,000

MEDIUM- AND LONG-TERM DEBT (MATURING 2019-2022) AT 31 AUGUST 2019

ISIN Code	Bond	Outstanding(€)	Ind. Coeff.	Face value(€)	Stripped(€)	CAC*
	Maturity 2019	63,759,963,611				
FR0000570921	OAT 8.50% 25 October 2019	8,844,392,893			5,590,585,100	
FR0010776161	OAT 3.75% 25 October 2019	32,695,000,000			0	
FR0011993179	OAT 0.50% 25 November 2019	22,177,000,000			5,000,000	x
FR0000570954	OAT cap. 9.82% 31 December 2019	43,570,718 (2)		6,692,154	-	
	Maturity 2020	136,128,117,600				
FR0013232485	OAT 0.00% 25 February 2020	15,090,000,000			0	x
FR0010854182	OAT 3.50% 25 April 2020	26,261,000,000			0	
FR0012557957	OAT 0.00% 25 May 2020	18,332,000,000			0	x
FR0010050559	OAT€i 2.25% 25 July 2020	25,880,117,600 (1)	1.28056	20,210,000,000	0	
FR0010949651	OAT 2.50% 25 October 2020	30,547,000,000			0	
FR0012968337	OAT 0.25% 25 November 2020	20,018,000,000			3,000,000	x
	Maturity 2021	153,419,762,375				
FR0013311016	OAT 0.00% 25 February 2021	30,555,000,000			0	x
FR0013140035	OAT€i 0.10% 1 March 2021	7,942,559,820 (1)	1.04977	7,566,000,000	0	x
FR0010192997	OAT 3.75% 25 April 2021	38,501,204,555			0	
FR0013157096	OAT 0.00% 25 May 2021	29,029,000,000			0	x
FR0011347046	OATi 0.10% 25 July 2021	8,200,998,000 (1)	1.05141	7,800,000,000	0	
FR0011059088	OAT 3.25% 25 October 2021	39,191,000,000			0	
	Maturity 2022	167,122,198,130				
FR0013398583	OAT 0.00% 25 February 2022	26,608,000,000			0	x
FR0000571044	OAT 8.25% 25 April 2022	1,243,939,990			614,888,400	
FR0011196856	OAT 3.00% 25 April 2022	46,422,000,000			0	
FR0013219177	OAT 0.00% 25 May 2022	31,666,000,000			0	x
FR0010899765	OAT€i 1.10% 25 July 2022	22,600,258,140 (1)	1.13838	19,853,000,000	0	
FR0011337880	OAT 2.25% 25 October 2022	38,582,000,000			0	

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

(2) Including coupons capitalised at 31 December 2018; not open to subscription

* Like all euro area bonds, the bonds issued after 1 January 2013 have collective action clauses (CACs), which means that they are not fungible with bonds issued prior to this date.

MEDIUM- AND LONG-TERM DEBT (MATURING IN 2023 AND BEYOND) AT 31 AOÛT 2019

ISIN Code	Bond	Outstanding(€)	Ind. Coeff.	Face value(€)	Stripped(€)	CAC*
Maturity 2023		145 878 791 103				
FR0013283686	OAT 0.00% 25 March 2023	32 076 000 000			0	×
FR0000571085	OAT 8.50% 25 April 2023	10 606 195 903			5 391 665 200	
FR0011486067	OAT 1.75% 25 May 2023	37 638 000 000			0	×
FR0010585901	OATi 2.10% 25 July 2023	20 640 595 200 (1)	1,14365	18 048 000 000	0	
FR0010466938	OAT 4.25% 25 October 2023	44 918 000 000			436 585 000	
Maturity 2024		120 625 190 240				
FR0013344751	OAT 0.00% 25 March 2024	30 288 000 000			0	×
FR0011619436	OAT 2.25% 25 May 2024	34 810 000 000			0	×
FR0011427848	OAT€i 0.25% 25 July 2024	18 502 190 240 (1)	1,06604	17 356 000 000	0	×
FR0011962398	OAT 1.75% 25 November 2024	37 025 000 000			42 000 000	×
Maturity 2025		128 675 235 198				
FR0012558310	OATi 0.10% 1 March 2025	10 692 307 080 (1)	1,04244	10 257 000 000	0	×
FR0013415627	OAT 0.00% 25 March 2025	16 394 000 000			0	×
FR0012517027	OAT 0.50% 25 May 2025	38 297 000 000			0	×
FR0000571150	OAT 6.00% 25 October 2025	30 653 928 118			2 822 764 400	
FR0012938116	OAT 1.00% 25 November 2025	32 638 000 000			0	×
Maturity 2026		103 265 000 000				
FR0010916924	OAT 3.50% 25 April 2026	36 867 000 000			0	
FR0013131877	OAT 0.50% 25 May 2026	33 274 000 000			0	×
FR0013200813	OAT 0.25% 25 November 2026	33 124 000 000			0	×
Maturity 2027		95 941 922 800				
FR0013250560	OAT 1.00% 25 May 2027	31 451 000 000			0	×
FR0011008705	OAT€i 1.85% 25 July 2027	23 737 922 800 (1)	1,12183	21 160 000 000	0	
FR0011317783	OAT 2.75% 25 October 2027	40 753 000 000			45 543 600	
Maturity 2028		77 820 546 911				
FR0013238268	OATi 0.10% 1 March 2028	10 162 435 500 (1)	1,04070	9 765 000 000	0	×
FR0000571226	OAT zero coupon 28 March 2028	28 111 411 (3)		46 232 603	–	
FR0013286192	OAT 0.75% 25 May 2028	33 272 000 000			0	×
FR0013341682	OAT 0.75% 25 November 2028	34 358 000 000			0	×
Maturity 2029		80 162 878 091				
FR0013410552	OAT€i 0.10% 1 March 2029	3 794 682 710 (1)	1,01003	3 757 000 000	0	×
FR0000571218	OAT 5.50% 25 April 2029	35 644 880 458			2 592 346 100	
FR0013407236	OAT 0.50% 25 May 2029	29 336 000 000			0	×
FR0000186413	OATi 3.40% 25 July 2029	11 387 314 923 (1)	1,30377	8 734 144 000	0	
Maturity 2030		55 908 573 380				
FR0011883966	OAT 2.50% 25 May 2030	41 642 000 000			0	×
FR0011982776	OAT€i 0.70% 25 July 2030	14 266 573 380 (1)	1,05234	13 557 000 000	0	×
Maturity 2031		45 948 000 000				
FR0012993103	OAT 1.50% 25 May 2031	45 948 000 000			54 500 000	×
Maturity 2032		45 896 042 550				
FR0000188799	OAT€i 3.15% 25 July 2032	13 733 719 950 (1)	1,29747	10 585 000 000	0	
FR0000187635	OAT 5.75% 25 October 2032	32 162 322 600			11 147 357 400	
Maturity in 2033 and beyond		300 944 361 330				
FR0013313582	OAT 1.25% 25 May 2034	23 064 000 000			0	×
FR0010070060	OAT 4.75% 25 April 2035	29 004 000 000			4 781 537 000	
FR0013154044	OAT 1.25% 25 May 2036	31 286 000 000			0	×
FR0013327491	OAT€i 0.10% 25 July 2036	5 329 093 710 (1)	1,03217	5 163 000 000	0	×
FR0010371401	OAT 4.00% 25 October 2038	26 534 000 000			4 738 931 400	
FR0013234333	OAT 1.75% 25 June 2039	19 001 000 000			0	×
FR0010447367	OAT€i 1.80% 25 July 2040	14 358 621 420 (1)	1,20186	11 947 000 000	0	
FR0010773192	OAT 4.50% 25 April 2041	36 152 000 000			6 576 199 000	
FR0011461037	OAT 3.25% 25 May 2045	25 824 000 000			1 409 010 000	×
FR0013209871	OAT€i 0.10% 25 July 2047	9 698 646 200 (1)	1,04737	9 260 000 000	0	×
FR0013257524	OAT 2.00% 25 May 2048	26 409 000 000			752 800 000	×
FR0013404969	OAT 1.50% 25 May 2050	15 722 000 000			79 600 000	×
FR0010171975	OAT 4.00% 25 April 2055	14 926 000 000			7 646 818 000	
FR0010870956	OAT 4.00% 25 April 2060	13 055 000 000			7 418 104 100	
FR0013154028	OAT 1.75% 25 May 2066	10 581 000 000			631 900 000	×

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

(3) Revised on 28 March 2019; not open to subscription

* Like all euro area bonds, the bonds issued after 1 January 2013 have collective action clauses (CACs), which means that they are not fungible with bonds issued prior to this date.

MOST RECENT ECONOMIC INDICATORS

Industrial output, year-on-year	0.7%	Sep. 2019
Household consumption*, year-on-year	0.1%	Aug. 2019
Unemployment rate (ILO)	8.5%	Q2 2019
Consumer prices, year-on-year		
• all items	1.0%	Sep. 2019
• all items excluding tobacco	0.9%	Sep. 2019
Trade balance, fob-fob, sa (€bn)	-€4.6bn	Jul. 2019
" "	-€5.3bn	Jun. 2019
Current account balance, sa (€bn)	€0.2bn	Jul. 2019
" "	-€1.1bn	Jun. 2019
10-year constant maturity rate (TEC10)	-0.25%	30 Sep. 2019
3-month interest rate (Euribor)	-0.41%	25 Sep. 2019
EUR / USD	1.09	27 Sep. 2019
EUR / JPY	118.21	27 Sep. 2019

MONTHLY GOVERNMENT BUDGET POSITION

			end of July level		
	2017	2018	2017	2018	2019
General budget balance	-73.35	-76.91	-55.17	-57.01	-84.76
Revenue	313.59	313.77	181.70	182.11	159.24
Expenditure	386.94	390.69	236.87	239.12	243.99
Balance of special Treasury accounts	5.53	0.82	-28.67	-25.75	-24.99
General budget outturn	-67.67	-76.00	-83.84	-82.76	-109.74

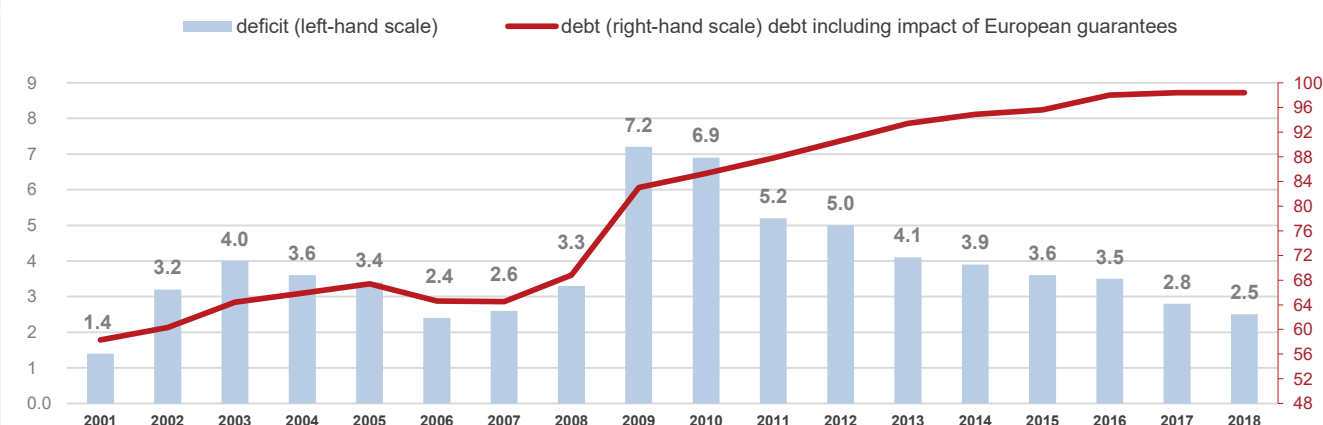
* manufactured products

Sources: Insee, Minefi, Banque de France

Source: Ministry of Public Action and Accounts

PUBLIC FINANCES: DEFICIT AND DEBT

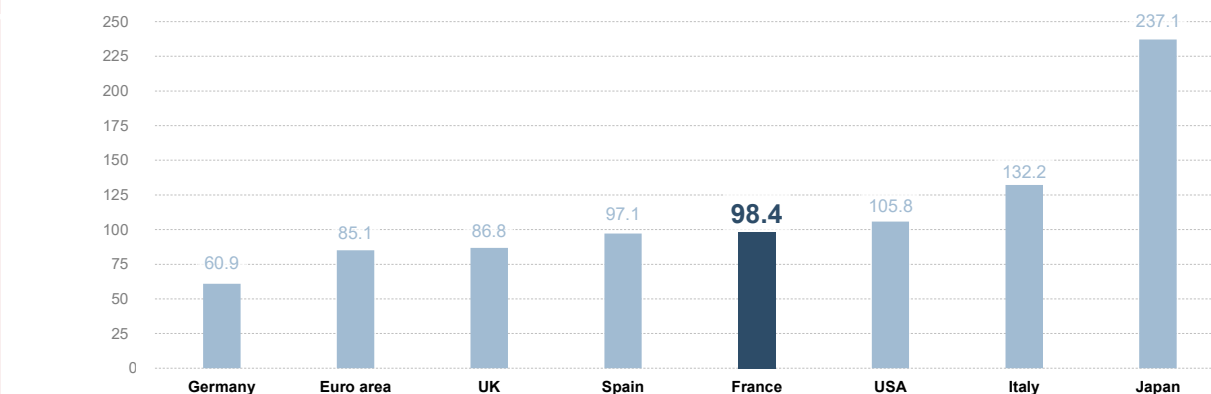
AS % OF GDP




Sources: Insee

GENERAL GOVERNMENT DEBT IN 2018

AS % OF GDP



Sources: Eurostat, FMI, Insee

OCTOBER 2019 

8 Foreign trade by value in August	8 Balance of payments in August	10 Industrial production: August index	15 Consumer prices: September index	15 Net international reserves in September	23 Monthly business survey (goods-producing industries) in October
23 Quarterly business survey (goods-producing industries) in October	25 Industrial producer and import price: September indices	28 Housing starts in September	29 Consumer confidence survey: October survey	30 Quarterly national accounts: final results Q3-2019	30 Household consumption expenditure on goods in September

NOVEMBER 2019 

7 Industrial investments: October survey	8 Foreign trade by value in September	8 Flash estimate of payroll employment: Q3 - 2019	8 Balance of payments in Septembre	8 Industrial production: October index	14 Industrial producer and import price: October indices
15 Net international reserves in October	21 Monthly business survey (goods-producing industries) in November	27 Consumer confidence survey: November survey	29 Quarterly national accounts: final results Q3-2019	29 Consumer prices: November index	29 Industrial producer and import price: October indices
29 Household consumption expenditure on goods in October					

Sources: Insee, Eurostat

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