MINISTÈRE
DE L'ÉCONOMIE,
DES FINANCES
ET DE LA RELANCE

Liberté
Égalité
Fraternité

AGENCE
FRANCE TRÉSOR

2019 Annual Report

AGENCE FRANCE TRÉSOR is tasked with managing the State's debt and cash requirements in the taxpayers' best interest and under optimum conditions of security.

CONTENT

BY ODILE RENAUD-BASSO

France's economy in 2019: resilience in the face of a global slowdown

> The structural reforms achieved in recent years have given France an advantage in the face of increasingly severe headwinds stemming from the health crisis.

Odile Renaud-Basso
Director General of the Treasury and Chairwoman of Agence France Trésor

In 2019, many uncertainties were already weighing on the international environment and contributing to slower growth across all major economies. The risks looming over trade negotiations between China and the United States raised the spectre of potential deglobalisation, at the very time when the downturn in the industrial cycle was becoming obvious. In Europe, the Brexit negotiations also promised to be very tense. These difficulties had undermined the global economy, even before the outbreak of the coronavirus pandemic in the first quarter of 2020 caused a historic drop in growth.

France's economy showed resilience in 2019, even though it was affected by the global slowdown. As the international environment worsened, France enjoyed the benefits of its diversified economy and its reasonable degree of reliance on export demand. France's growth was driven by robust domestic demand, outstripping average growth in the euro area. Lower unemployment favoured household consumption, which was also boosted by favourable fiscal measures.

Business investment also posted strong growth, underpinned by improved profits and continuing easy access to funds.

A fresh round of easing initiated by the European Central Bank in June 2019 helped the European economies to adjust to slower growth. This was part of a much wider easing movement, as the Fed, which had been normalising its monetary policy, changed course and resumed easing in the third quarter. Persistently low interest rates sustained favourable borrowing terms for all economic agents, in both the private and public sectors. On the other hand, financial risks grew, as emerging countries saw rising household and corporate debt and certain market valuations were deemed excessive. As the global situation worsened, the risks of major corrections became more perceptible.

France's perseverance in carrying out structural reforms since 2014 and the intensified pace since 2017 have been a key bulwark against the increasingly severe headwinds caused by the health crisis. Reforms of the labour market, of unemployment insurance and vocational training, and of payroll contributions, along with reforms that reduced red tape for businesses, were all aimed at unleashing the potential for economic growth. These reforms had a direct impact on restoring corporate competitiveness and profits and helped to reduce the unemployment rate.

Continuing fiscal consolidation efforts in 2019, backed up by a set of measures to transform government, enabled France to build up the headroom it is now using to cover the expenditure required to maintain its means of production and its human capital in the current crisis. Our economy's capacity to bounce back has been preserved. The extended maturity of government debt and the very favourable borrowing terms prevailing in recent years have also contributed to the sustainability of France's public finances, underpinning the State's creditworthiness and strong investor confidence.

BY ANTHONY REQUIN

An exceptional year for Agence France Trésor in **2019**

Once again, the State's borrowing terms were exceptional in 2019.

As the borrowing requirement grew, Agence France Trésor was able to obtain outstanding borrowing terms for medium- and long-term issuance of €200 billion, net of buybacks, with an average yield of 0.11%, which was more than 40 basis points lower than the average yield in 2018, even though net issuance was up by €5 billion compared to 2018, setting a new record.

At the end of 2019, markets were expecting yields to rise, in keeping with the announcements of a gradual normalisation of monetary policy on both sides of the Atlantic. These expectations were overturned by the slowdown in global economic growth and a more accommodative tone in the signals from the Fed and the ECB during the year. This triggered an unusual rally in yields in the third quarter and a shift in investor demand to the long and even ultra-long end of the yield curve in the second half of the year.

These developments led to a record-breaking year, with a new low for the 10-year yield of -0.36% at the auction on 5 September 2019. On the same day, the 15-year OAT fetched a negative yield of -0.05%. More than €26 billion of the new 30-year benchmark bond, the OAT 2050, was issued in its inaugural year.

Under these exceptional circumstances, AFT remained true to its issuance principles, meeting investor demand with up to €245 billion in gross issuance at an average maturity of more than 11 years, while buying back €45 billion in short-term securities to smooth out redemptions over the coming years.

AFT used the substantial issue premiums generated by lower yields and negative yields on the whole long end of the yield curve to continue reducing outstanding short-term Treasury securities, thereby mitigating the State's refinancing risk in the future. With short-term securities accounting for only 5.9% of total negotiable debt, which is the smallest share in 20 years, Agence France Trésor has reconstituted its safety cushion so that the State has the financing capacity to withstand a macroeconomic shock on a scale comparable to the one France faced during the Great Financial Crisis of 2008.

The other highlight of 2019 was the Green OAT. Three new tap issues increased the outstanding amount to €20.7 billion, in keeping with the commitment made to investors when the bond was launched in 2017 to maintain liquidity identical to that of the other OATs.

In 2020, we still face many challenges for financing the Government's measures to respond to the health crisis and its economic repercussions. In this particular regard, the financing ecosystem built up around AFT, with key contributions from Primary Dealers, who give advice and support to AFT for its issuance policy, will be more indispensable than ever for the success of the ambitious issuance programme.

> As the borrowing requirement grew, Agence France Trésor was able to obtain outstanding borrowing terms for a record-breaking issuance programme.
>
> **Anthony Requin**
> Chief Executive of Agence France Trésor

At the end of 2019, AFT had 47 staff members with 17 women and 30 men, broken down into 20 contract employees and 27 civil servants. AFT's staff members are notable for the diversity of their educational backgrounds and career paths. They share the same values as those of the Directorate General of the Treasury, namely commitment, loyalty, openness and team spirit. All staff members adhere to strict commitments with regard to professional ethics.

Tasks
and functions

Tasks

Managing the state's cash requirements

Agence France Trésor (AFT) manages the State's cash requirements so that it can meet its financial commitments at all times, whatever the circumstances.

This management role covers the year as a whole, as well as day-to-day developments: forecasts of the receipts and disbursements of the State and Treasury Correspondents are updated constantly; flows into and out of the account are monitored in order to be able to meet any temporary cash requirements.

Managing the state's debt

AFT is tasked with managing debt in the taxpayers' best interest. Its strategy takes a long-term view, while tracking the market closely. This strategy promotes liquidity across the full range of AFT's debt securities, while maintaining full transparency and a commitment to combining innovation and security.

An autonomous, accountable agency with national scope

AFT is an agency with national scope (SCN) that reports to the Ministry for the Economy and Finance and the Director General of the Treasury. AFT has the required visibility and resources to carry out its activities, particularly as regards navigating complex financial markets and maintaining close relations with all financial stakeholders.

The fact that AFT reports to the Directorate General of the Treasury at the French Ministry for the Economy and Finance means that it has access to the full range of information it needs to carry out its strictly defined tasks. It often works closely with the other structures at the Ministry, such as the Budget Directorate and the Public Finances Directorate General.

AFT is staffed by civil servants who are fully conversant with the Government's financial procedures and by market professionals under contract with the Government. Staff members serve in operational functions (cash management, market transactions, risk management and Post-Trade procedures, information technology), and analytical functions (modelling, economics and legal), as well as communication functions.

FINANCING OPERATIONS ON BEHALF OF CADES

Since 1 October 2017, the staff of France's Social Security Debt Repayment Fund (CADES) and AFT staff have joined forces to create a centre of excellence for the issuance of French government securities. As part of this arrangement, CADES has given AFT operational responsibility for its financing activities. AFT acts in the name of and on behalf of CADES, using its own seconded staff.

In 2019, CADES implemented a medium- and long-term financing programme worth €3 billion under excellent terms.

- The first issue of the year took place on 25 January and raised €2.5 billion. It was a tap issue of the 0.125% bond maturing in October 2023, following the first issuance in June 2018 (€1 billion) and a tap issue of €250 million in October 2018, bringing the total outstanding amount up to €3.75 billion.
- On 25 June, another tap issue of €500 million of the 0.5% bond maturing in May 2023 took place. The bond was first issued in January 2015 (€3 billion) and the total outstanding amount now stands at €4.35 billion.

Functions

To perform its State debt and cash management tasks, AFT has a directorate general, a secretariat general and the following units.

1. Cash unit:

- cash forecasts
- relations with the Banque de France as the Treasury's banker
- relations with government authorising officers and accountants
- cash management transactions: loans and deposits, repo transactions in government securities

2. Debt unit:

- auctions, syndicated issues, buybacks
- relations with the primary dealers
- proactive debt management transactions
- promotion of Treasury securities to investors

3. Post trade and risk monitoring unit:

- review and settlement of financial transactions and reporting all data to the Ministry's Budget and Accounting Control Department
- redemption and coupon payments
- monitoring credit, counterparty and settlement risks for all financial transactions
- management of margin calls
- administrative management of the Public Debt Fund

4. Operational research unit:

- transaction analysis
- modelling proposals and verifying their appropriateness, developing requirements for optimal results
- monitoring international working groups

5. Macroeconomic unit:

- assessing how fixed income markets are affected by the macroeconomic and financial climate, fiscal and monetary policies and discussions on structural policies
- talking with French and foreign investors and market stakeholders
- relations with rating agencies

6. Green OAT unit:

- coordinating the interministerial process to select Eligible Green Expenditure for the Green OAT
- tracking the allocation of Green Expenditure and production of the Allocation and Performance Report
- contributing to the promotion and reach of the Green OAT.

7. IT unit:

- administering and operating the information system to provide the information technology tools necessary for AFT's tasks
- leading projects to implement new software and services
- monitoring and applying the information system security policy and maintaining information technology resources under the business continuity plan

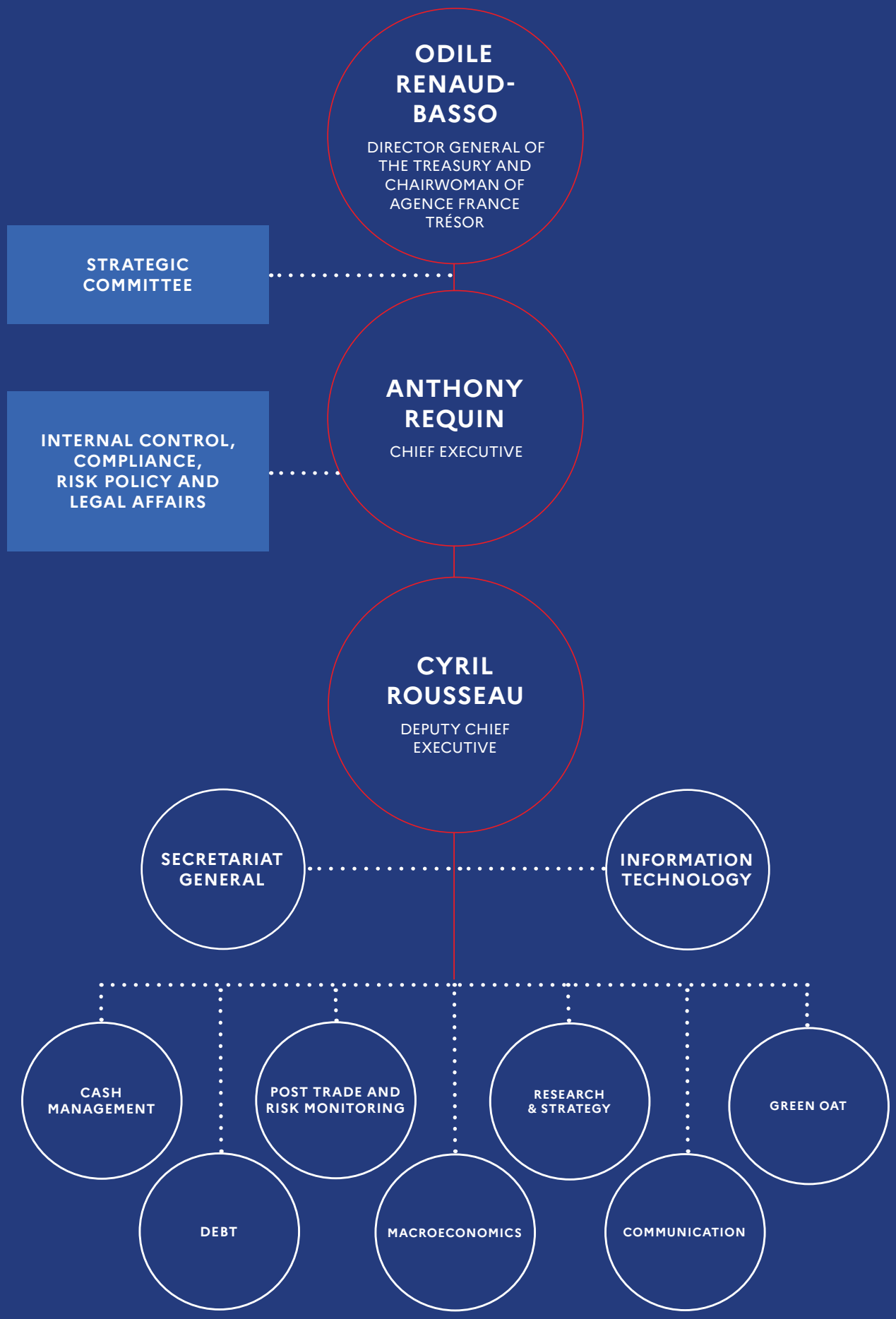
8. Internal control, compliance, risk policy and legal affairs unit:

- internal control of transactions, defining the general business framework and risk mapping for AFT and CADES
- coordination of the AFT Risk Committee's audit, coordination and secretariat functions
- management of legal and compliance risks for AFT and CADES transactions
- management of rules of conduct for AFT staff, definition of AFT confidentiality policy and monitoring their implementationa

9. Communication unit:

- external communication: reporting on AFT's work and assignments and promoting events to the financial community and the media
- internal communication: monitoring and gathering information, creating communication tools
- digital communication: website management and deploying AFT's digital presence

ORGANISATION CHART



Strategic **Committee**

The Strategic Committee assists Agence France Trésor in the performance of its tasks. The Committee, along with the primary dealers, advises AFT on the main facets of the State's issuance policy. The Committee acts in an advisory capacity to help Agence France Trésor apply its issuance policy principles. The Committee members are leading French and international figures whose careers, experience, and in-depth knowledge of how financial markets work provide Agence France Trésor with a broad range of skills and expertise.

More specifically, the Strategic Committee's role is to give its opinion on the principles governing the State's issuance policy and cash management. More generally, its role is to advise on any matter related to AFT's business and on areas for improvement.

The Strategic Committee meets twice a year. The meetings are an opportunity to report on AFT's past activity and to set this activity against economic developments and present the assumptions that will underlie AFT's work in the future.

Members of the Strategic Committee

Chairman

Mr Jacques de LAROSIÈRE
Former Governor of the Banque de France, former Managing Director of the International Monetary Fund, Chairman of Eurofi

Members

Marc-Antoine AUTHEMAN
Chairman of the Board of Directors of Euroclear

Laurence BOONE
Chief Economist at the OECD

Günther BRAÜNIG
Member of the Board of Directors of KfW

Satu HUBER
CEO of Elo Mutual Pension Insurance Company

Assaad J. JABRE
Business consultant, former Vice-President of the International Finance Corporation (World Bank Group)

René KARSENTI
Chairman of the International Capital Market Association (ICMA)

Hongyan LI
CEO and CIO, State Administration of Foreign Exchange (SAFE), Central Bank of China

Chow-Kiat LIM
CEO of Government of Singapore Investment Corporation (GIC)

Dino KOS
Head of Global Regulatory Affairs of CLS

Bertrand de MAZIÈRES
Director General of Finance at the European Investment Bank (EIB)

Working session of the AFT Strategic Committee.
Jacques de Larosière, Chairman of the Strategic Committee,
is seated in the centre on the left side.

Banque de France

All the State's financial flows (expenditure and revenue), along with the Treasury Correspondents' flows, are centralised in real time through a single account held with the Banque de France and managed by AFT. The single account records all of the financial movements executed by more than 5,000 public accountants, who each use one or more transaction accounts.

This structure enables the Banque de France to provide AFT with a centralised, real-time view of the Treasury's single account so that AFT can make medium-term and long-term forecasts of expenditure and financing in order to optimise the State's cash management.

Agence France Trésor also relies on Banque de France staff for the practical organisation of Treasury security auctions and oversight of the settlement process for the securities sold.

Acting as an intermediary between AFT and primary dealers, the Banque de France receives the primary dealers' bids and then compiles an anonymous summary of the orders and presents it to AFT, which uses it to allocate each security.

The Banque de France has developed a computer system to perform this task successfully. It is a dedicated and highly secure remote bidding system for Treasury auctions called TELSAT (Système de Télétransmission des soumissions aux adjudications du Trésor). Primary dealers use the system to submit their bids and AFT uses it to allocate Treasury securities.

The Banque de France provides this service under the terms of separate agreements with AFT and each primary dealer.

Primary dealers

Primary dealers are AFT's close counterparties for all of its market operations.

They advise and assist AFT with its issuance policy and debt management, and more generally, with any matter concerning the smooth operation of markets. The members of the primary dealers' group have changed over time. Their ranks grew from 13 in 1987 to 22 soon after 2000. The latest selection numbered 15. Today's group of primary dealers represents the diversity of institutions active on the French government debt market: major retail banks, specialised institutions and French and foreign institutions.

As of 31 December 2019, the group of primary dealers was made up of 15 institutions from diverse areas of the world, including four French institutions, two German institutions, three British institutions, five North American institutions and one Japanese institution. This diversity underlines the central role and appeal of French Treasury securities on the euro debt market.

It is the primary dealers' responsibility to participate in auctions, place Treasury securities and ensure the liquidity of the secondary market.

AFT deals with them as necessary for them to perform their duties:

- overseeing the proper functioning of primary issues
- ensuring the liquidity of the secondary market in French Treasury securities and upholding their status as one of the euro area's most liquid securities
- promoting the market for Treasury securities
- providing constant and highly pertinent advice to AFT on issuance policy, debt management, promoting the State's creditworthiness, hedging the State's financial risks and the workings of the fixed-income markets

These duties are set out in a charter* that governs the relations between AFT and the primary dealers, who have signed the charter and pledged to comply with it. They also undertake to act ethically and comply with best marketplace practices when carrying out their transactions.

BofA SECURITIES · BARCLAYS · BNP PARIBAS · citi · COMMERZBANK · CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK · Deutsche Bank · Goldman Sachs · HSBC · J.P.Morgan · Morgan Stanley · NATIXIS BEYOND BANKING · NOMURA · NatWest Markets · SOCIETE GENERALE Corporate & Investment Banking

** https://www.aft.gouv.fr/en/primary-dealers-presentation*

2019 league table of primary dealers

Since 1999, Agence France Trésor has published an annual ranking of the most active primary dealers. The assessment of primary dealers' activity considers all of their tasks: bidding at auctions, dealing on the secondary market, qualitative aspects of the relationship between the primary dealers and AFT (operational quality, quality of advice, and the closeness and stability of the relationship with AFT).

General ranking of the 10 best institutions:

1 BNP PARIBAS

2 HSBC

3 EX AEQUO CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK

3 EX AEQUO J.P.Morgan

5 SOCIETE GENERALE Corporate & Investment Banking

6 NatWest Markets

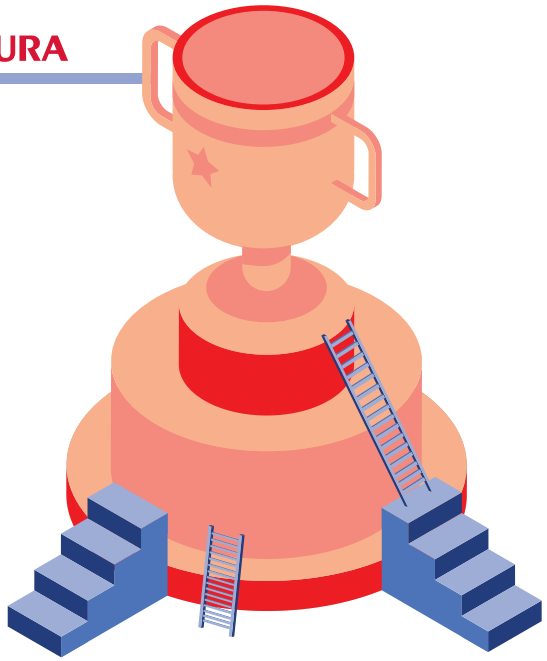
7 Goldman Sachs

8 Deutsche Bank

9 BARCLAYS

10 EX AEQUO citi

10 EX AEQUO NOMURA



Primary market

Ranking of the 10 best institutions for involvement in auctions and buybacks:

1. BNP PARIBAS
2. HSBC
3. CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK
4. J.P.Morgan
5. SOCIETE GENERALE Corporate & Investment Banking
6. Goldman Sachs
7. citi
8. Deutsche Bank
9. BofA SECURITIES
10. Morgan Stanley

Secondary market

Ranking of the 10 best institutions for market-making activity on the secondary market in French Treasury securities:

1. J.P.Morgan
2. BNP PARIBAS
3. HSBC
4. CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK
5. SOCIETE GENERALE Corporate & Investment Banking
6. NatWest Markets
7. NOMURA
8. Deutsche Bank
9. BARCLAYS
10. Morgan Stanley

Ranking of the 10 best institutions for quality of service provided to AFT:

1. CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK
2 EX AEQUO. BNP PARIBAS
2 EX AEQUO. SOCIETE GENERALE Corporate & Investment Banking
4. NATIXIS BEYOND BANKING
5. HSBC
6. BARCLAYS
7. J.P.Morgan
8. NatWest Markets
9. Deutsche Bank
10 EX AEQUO. Goldman Sachs
10 EX AEQUO. BofA SECURITIES

Investor **relations**

Investor relations are a priority

In 2019, as was the case in previous years, AFT prioritised a high standard of investor relations. AFT held regular meetings with investors throughout the year both to maintain and forge long-term relationships. It used these meetings to promote government securities. There were meetings with 157 investors (investment managers, portfolio managers, economists, etc.) both in France and abroad.

These meetings provide an opportunity to outline the State's issuance strategy, the technical strengths of its debt management and to promote a better understanding of France's and Europe's economic situations, economic and fiscal policy and the structural reforms under way. Investors can use these meetings to give their opinion of France and its debt market, thus providing vital feedback for policy-makers. This regular groundwork helps maintain the investors' positive image of our country. The State debt investor base is diversified both in terms of geography and categories.

French investors held 46.4% of French State debt on 31 December 2019 and non-resident investors, including a large share from the euro area, held 53.6%. The investors are central banks, sovereign wealth funds, asset managers, banks, insurance companies and pension funds. This diversity is an important factor for the security of French debt that optimises the State's borrowing costs in all market situations. The French State's unprecedented borrowing terms in 2019, with a weighted average yield of 0.11% on medium- and long-term debt, reflect investor confidence in France's creditworthiness and the technical quality of its debt.

Roadshows in 2019

AFT made 19 trips to 18 countries to promote France's Treasury securities and creditworthiness in 2019: Germany, Canada, China, South Korea, Denmark, United States, Finland, France, Hong Kong, Italy, Japan, Malaysia, Netherlands, United Kingdom, Russia, Singapore, Sweden and Thailand.

MEETINGS WITH **157** INVESTORS FROM 19 COUNTRIES

VISITS TO **18** COUNTRIES AROUND THE WORLD

NON-RESIDENT INVESTORS HOLD **53.6%** OF THE DEBT

96% OF INVESTORS ARE SATISFIED WITH THE FUNCTIONING OF THE FRENCH GOVERNMENT DEBT MARKET

Survey conducted by IEM finance

Agence France Trésor has conducted an investor survey every year since 2002 to assess their opinion of French debt.

IEM Finance conducted the 16th online survey of primary dealers' customers between 9 September and 4 October 2019. The survey considered the quality of business relationships and the services primary dealers render to their customers, along with the customers' assessment of how well the French debt market works. In 2019, 221 investors filled in the questionnaire. The respondents represented most of the major asset managers and insurers, along with many government-funded institutions that trade in French debt.

Investors satisfaction with the functioning of the French government debt market remains very high. The proportion among French investors stood at 100% for the third year in a row, with a further significant increase in the proportion of investors reporting that they are "very satisfied", at 58%, compared to 49% in 2018 and 40% in 2017. Overall investor satisfaction has been stable for three years: 96% reported that they were "very satisfied" or "satisfied" in 2019, compared to 97% in 2018 and 96% in 2017.

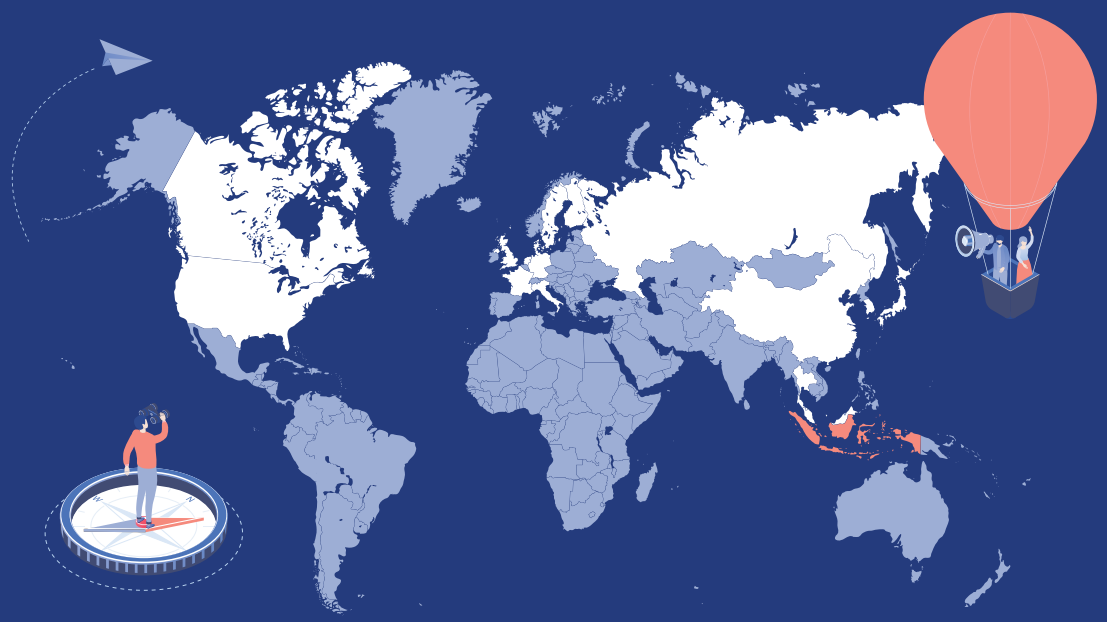
Investors continue to be very appreciative of the liquidity of French government securities, especially BTFs and OATs. For the last 10 years, more than 80% of investors have been "satisfied" or "very satisfied" with the liquidity of these two products.

In addition to the information provided by AFT, the vast majority of investors (90%) continue to report that they are "satisfied" with the information that they receive from French government institutions regarding economic policy and public finances.

The vast majority of investors (95%) were "very satisfied" or "fairly satisfied" with AFT's flexibility in its choice of securities to issue, including auctions of "off-the-run" securities.

The proportion of investors who have already bought the Green OAT 1.75% 25 June 2039 increased by 10 percentage points in 2019, rising from 31% to 40%. Of these investors, 60.7% bought the securities through a syndicate (compared to 72% in 2018) and/or on the secondary market for 79% (compared to 64% in 2018). More than half of these investors (52%) reported that they chose the bond because of its green credentials, which confirms ESG[1] investors' interest in the bond, as well as the technical quality of the Green OAT, which is comparable to that of the other OATs.

[1] *Environmental, Social and Corporate Governance criteria*



FIND OUT MORE:

Online tutorial: who owns French government debt?
https://bit.ly/2ApYyTB

Key

- Countries visited
- Home countries of investors met other than during roadshows

International public debt and cash management working groups

AFT represents France as a member of various public debt and cash management working groups, including the Economic and Financial Committee (EFC) Sub-Committee on EU Sovereign Debt Markets (ESDM), the Working Party on Public Debt Management (WPDM) at the Organisation for Economic Co-operation and Development (OECD), and the IMF's Public Debt Management Forum

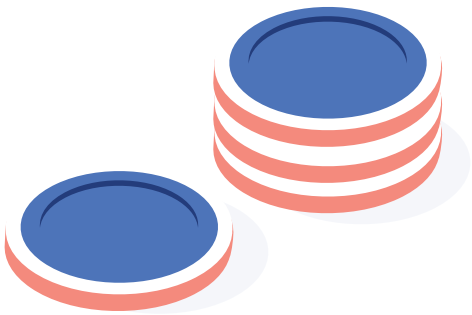
ESDM (European Union)

The EFC Sub-Committee on EU Sovereign Debt Markets is a sub-group of the Economic and Financial Committee of the Council of the European Union.

It is responsible for coordinating issuance policy (timetable and amounts as provided for in the 2012 regulations), preparing common positions for the various Member States on regulatory matters and technical aspects relating to the sovereign debt market. It also ensures that the information disseminated about the different Member States' debt issues is harmonised.

This is the group that developed the collective action clauses (CACs) for euro area sovereign debt in 2012 and that started to revise these legal provisions in 2019 (see box, page 19). The group meets at least three times a year, usually in Brussels.

Website:
http://europa.eu/efc/about-sub-committee/



Working Party on Public Debt Management (OECD)

The OECD Working Party on Public Debt Management (WPDM) provides a forum for sovereign debt managers to meet and discuss their views, experiences and policies. It publishes standardised statistics and reports comparing the management approaches adopted in different countries. The group meets twice a year, usually in Paris.

Website:
http://www.oecd.org/finance/public-debt/

IMF Public Debt Management Forum

The forum meets once every two years, alternating between Washington and an IMF member country. It is attended by all public debt managers, along with representatives from the private sector, international institutions and market regulators. The aim of the forum is to discuss current public debt management issues with regard to developments in the economic and regulatory environment.

Working closely with the World Bank, this group helped to review the Guidelines for Public Debt Management, an initiative undertaken by the G20 in 2013. The 2014 forum was organised jointly with AFT in Paris. In 2019, the forum met in Tokyo.

Website:
https://www.imf.org/en/News/Articles/2019/06/21/pr19232public-debt-management-forum-tackles-new-instruments-and-new-investors-in-sovereign-markets

Government Borrower's Forum

AFT also takes part in the World Bank's Government Borrowers' Forum, which is an annual event that brings together senior civil servants from countries issuing securities on international capital markets and the treasurers of supranational organisations to share their debt management experience and discuss their views on issues of common interest on financial markets. Approximately one hundred senior debt managers from some forty countries attend the forum. The World Bank Treasury provides the secretariat for the forum. A different country hosts the Forum each year. The 2016 Government Borrowers Forum took place on 2, 3 and 4 May at the French Ministry for the Economy and Finance in Paris and was hosted by AFT. The 2019 forum met in Reykjavik.

Website:
https://www.worldbank.org/en/events/2018/10/29/sovereign-debt-management-forum-2018-is-there-life-after-debt

Public Sector Issuer Forum

AFT also takes part in the European Public Sector Issuer Forum. The International Capital Market Association provides the secretariat for the Forum. The aim of the Forum's meetings is to discuss issuers' practices and issues facing the ecosystem that they belong to.

Website:
https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Primary-Markets/primary-market-committees/public-sector-issuer-forum/

COLLECTIVE ACTION CLAUSES

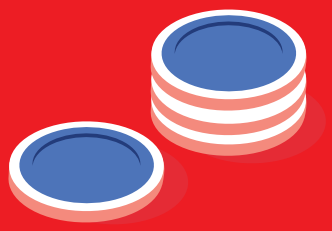
Sovereign bonds have specific characteristics and may include collective action clauses (CACs) aimed at making potential restructuring more orderly and predictable. Several countries have included CACs in loan agreements and bond contracts since the 1990s. These clauses enable a "super majority" of creditors to amend key payment terms in the bond contract, based on a proposal from the issuer, thereby making it possible to overcome the problems caused by recalcitrant individual creditors (holdouts) who oppose restructuring. Holding out may result in major gains for creditors, but it has major negative consequences for the debtor countries, and in the worst cases, it may compromise the restructuring process. In 2011, the EU Member States in the euro area decided to include "double-limb" CACs, with dual aggregation thresholds for the creditors' votes, in sovereign bonds issued in 2013 and thereafter. This move followed the finalisation of a new international standard at the initiative of the ICMA, which was promoted by the G20 and the IMF in 2014. The Eurogroup proposed that the euro area leaders should work towards introducing CACs with a single aggregation threshold for creditors ("single-limb CACs"), as part of the euro area governance reform https://www.consilium.europa.eu/fr/press/press-releases/2018/12/04/eurogroup-report-to-leaders-on-emu-deepening. Consequently, this commitment has been included in the draft of the revised European Stability Mechanism Treaty. As was the case in 2012, the Economic and Financial Committee Sub-Committee on EU Sovereign Debt Markets (ESDM) drafted the single-limb collective action clauses. These CACs are slated to come into force as of 1 January 2022, once the new ESM Treaty has been approved and implemented. They will apply to every bond with over one-year maturity issued by euro area Member States.

MANAGEMENT REPORT

Key figures for 2019

AVERAGE RESIDUAL MATURITY OF DEBT AT 31 DECEMBER 2019

8 YEARS 63 DAYS



NEGOTIABLE DEBT OUTSTANDING AT 31 DECEMBER 2019

€1,823 BILLION

WEIGHTED AVERAGE YIELD OF MEDIUM- AND LONG-TERM FIXED-RATE SECURITIES

0.11%

OUTSTANDING INTEREST-RATE SWAPS AT 31 DECEMBER 2019:

€1 BILLION

NON-RESIDENTS' HOLDINGS OF NEGOTIABLE DEBT SECURITIES AT 31 DECEMBER 2019 AT MARKET VALUE

53.6%

2019 HIGHLIGHTS

18 JANUARY

Creation of the OAT 0.00% 25 February 2022, a new 3-year benchmark bond.

24 JANUARY

The amount of Eligible Green Expenditure in 2019 to be funded by potential issuance of the Green OAT 1.75% 25 June 2039 was announced at €8 billion.

19 FEBRUARY

Syndicated launch of the OAT 1.50% 25 May 2050 with an order book of €31 billion and allocation of €7 billion. The yield at issue of 1.609% was the lowest ever recorded for the syndicated launch of a 30-year OAT.

27 FEBRUARY

Publication of the 2018 league table of primary dealers (SVT).

01 MARCH

Creation of the OAT 0.50% 25 May 2029, a new 10-year benchmark bond.

15 MARCH

Creation of the OAT€i 0.10% 1 March 2029, a new 10-year benchmark bond linked to euro area inflation.

12 APRIL

Creation of the OAT 0.00% 25 March 2025, a new 5/6-year benchmark bond.

16 APRIL

Agence France Trésor's new website in Japanese goes live.

19 JULY

Publication of the second Allocation and Performance Report on green bond expenditure in 2018, in keeping with the transparency commitments made when the bond was launched.

27 SEPTEMBER

AFT announces that the forecast amount of its 2020 financing programme under the terms of the 2020 Budget Bill stands at €205 billion.

27 SEPTEMBRE

Creation of the OAT 0.00% 25 November 2029, a new 5/6-year benchmark bond.

08 OCTOBER

Agence France Trésor's new website in Chinese goes live.

08 NOVEMBER

Findings of the seventeenth survey of primary dealers' customers conducted by IEM Finance: investor satisfaction with the way the French government debt market works remained high, with 100% of French investors and 96% of all investors reporting that they were "very satisfied" or "satisfied" in 2019.

28 NOVEMBER

The independent Green OAT Evaluation Council published the second Green OAT impact evaluation report on the subsidy to the French Waterways Office (Voies navigables de France).

11 DECEMBER

AFT announces its indicative financing programme for 2020.

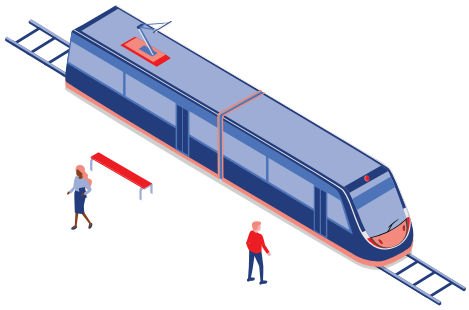
Government cash flows in 2019

IN € BILLION	2019
BORROWING REQUIREMENT	
Redemption of medium- and long-term debt	130.2
of which medium- and long-term debt redemption (par value)	128.9
of which index-linking supplements paid at maturity	1.3
Assumed SNCF Réseau debt redemption	0.0
Redemption of other debts	0.0
Deficit to be financed	92.7
Other cash requirements	-2.4
TOTAL	**220.5**
FUNDING SOURCES	
Medium- and long-term issues net of buybacks	200.0
Funds allocated to the Public Debt Fund to reduce debt	0.0
Net change in outstanding short-term government securities	-6.0
Change in correspondents' deposits	11.5
Change in cash available in the Treasury's account	-5.7
Other net cash sources	20.6
TOTAL	**220.5**

Source: 2019 Budget Review Bill

Partial assumption of SNCF Réseau debt by the State

The State's assumption of €35 billion of the debt of the French railway infrastructure owner and manager (SNCF Réseau) will involve two steps: €25 billion under the 2020 Budget Act and €10 billion in 2022. The purpose of the measure is to provide substantial relief of the financial burden on SNCF Réseau. The legal assumption of this debt by the State became effective on 1 January 2020. The first repayment to SNCF Réseau took place on 16 January 2020, as planned. The last repayment will take place in August 2119.

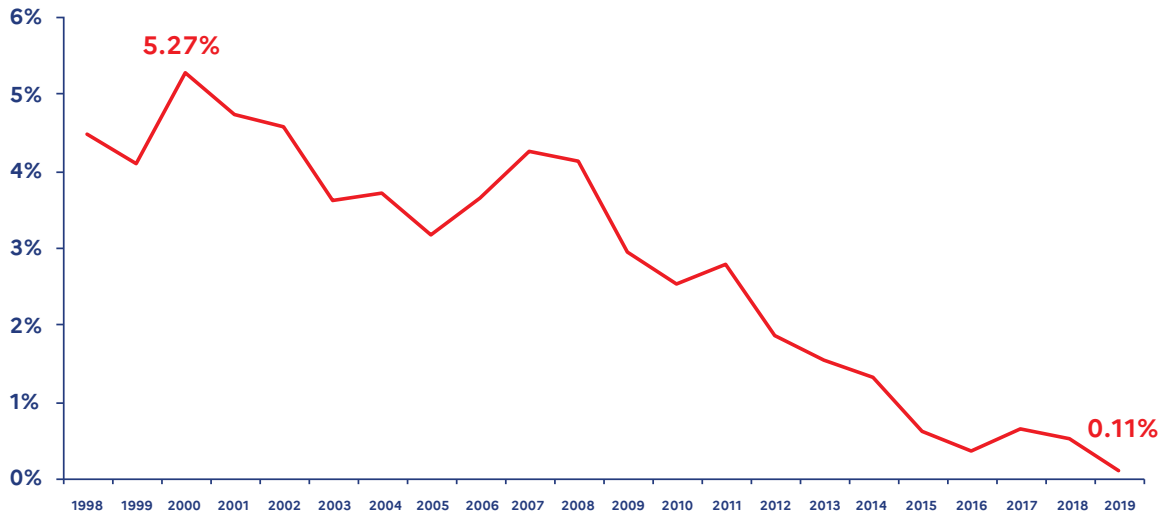


The arrangement relies on matching loans made through the Public Debt Fund (CDP). Two matching loan contracts were signed between SNCF Réseau and the CDP, with financial terms (maturities, interest rates, calculation bases, etc.) that mirror each other exactly. Then, the State took SNCF Réseau's place as the CDP's debtor under the terms of a novation arrangement, thereby relieving SNCF Réseau of the corresponding debt. Under this arrangement, the SNCF is a creditor of the CDP. **The relations between the SNCF and its debtors have not changed. Each repayment made by the SNCF gives rise to a payment from the State to the CDP and then a payment from the CDP to the SNCF.** The SNCF had 400 loan contracts with its creditors, including loans in ten different currencies, hedged by financial derivatives. These were aggregated into 123 synthetic loans assumed by the State. In 2020, the redemption of SNCF Réseau debt assumed by the State amounted to €1.8 billion.

YIELDS

Weighted average yield on medium- and long-term debt issues

Yields from 1998 to 2019
Weighted yield on medium- and long-term debt issues



Source: Agence France Trésor

France continued to enjoy exceptionally low yields on its public debt in 2019.

The gross nominal value of medium- and long-term debt issuance in 2019 stood at €245.6 billion, consisting of €228.3 billion in fixed-rate bonds (OATs) and €17.3 billion in index-linked bonds (OATis, and OAT€is).

The average yield on medium- and long-term debt issuance (excluding index-linked bonds) stood at 0.11% in 2019, compared to 0.53% in 2018 and 0.65% in 2017. The average yield for the period from 1998 to 2008 was 4.15%, followed by 1.75% for the period from 2009 to 2016.

A record-breaking year for Agence France Trésor in 2019

19 FEBRUARY

Record-breaking syndicated launch of the OAT 1.50% 25 May 2050
€7 billion allocated and orders of €31 billion, matching the figures for the previous syndicated launch of a 30-year bond on 16 May 2017.

- The yield at issue of 1.609% was the lowest ever recorded in AFT's history for the syndicated launch of a 30-year OAT.
- Record first-year issuance amount for a 30-year bond, with the outstanding amount reaching €24.3 billion at the end of 2019.

18 JUNE

For the first time in its history, the 10-year French benchmark bond yield dipped below zero on the secondary market in the wake of a widespread fall in euro-area sovereign yields following the accommodative statements made by Mario Draghi at the European Central Bank Forum in Sintra.

15 AND 28 AUGUST

Yields on the OAT 4.0% 2038 and the OAT 1.75% 2036 dipped below zero on the secondary market.

05 SEPTEMBER

The 10-year bond yield sank to the unprecedented level of -0.36% at auction.

The 15-year benchmark bond sank to -0.03%.

31 DECEMBER

The average yield on the State's debt broke records in 2019.
The cost of borrowing for medium- and long-term debt issues remained at a historic low, averaging 0.11% for the year.

Economic and financial environment a downswing at the beginning of the year

The macro-financial environment saw a synchronised slowdown in the global economy resulting from:

...tense trade negotiations between China and the United States

The year 2019 opened with a marked shift in market expectations following the impasse in trade negotiations between China and the United States in the last quarter of 2018 against a background of rising bilateral tensions. The resulting doubts about the scenario calling for normalisation of the global economy, which had been the consensus view pushed by central banks, led to a substantial two-stage market correction, with one step in the autumn and the other right at the beginning of the winter.

Trade talks between China and the United States grew even tenser, as both parties stuck to their positions, and finally peaked in the winter of 2019. It was not until the spring of 2019 that a way forward gradually emerged, partly as a result of the economic and financial risks stemming from the impasse. In the fourth quarter, this led to the conclusion of a "phase one deal" on a partial resolution of the dispute that was nonetheless deemed satisfactory.

...and economic policy challenges, particularly with regard to monetary issues

Growing geopolitical tension between China and the United States and renewed risk aversion on financial markets became a self-sustaining feedback loop that was closely linked to the trade negotiation process. This meant that the economies most vulnerable to the global industrial cycle, especially Japan and Germany, were suddenly faced with the risk of disruption of global production chains, or a "deglobalisation" shock that the negotiations between China and the United States seemed to be inevitably leading towards, regardless of their outcome.
The round of trade talks continued to add fuel to recession fears that emerged right at the beginning of 2019. This put monetary authorities from the advanced economies on the front lines when no fiscal response was expected or announced. Ultimately, the recession fears were unfounded, but a synchronised global slowdown followed. The fears led to a major change in central banks' messaging to prepare the way for a gradual shift to more accommodative monetary policy (see below).

The ECB responded to the risk of prolonged low inflation with a determination to strengthen its accommodative arsenal (key rates and asset and liability management measures).

After following in the Fed's footsteps, with a partial normalisation of its monetary strategy, the European Central Bank found itself dealing with a persistent drop in euro area inflation starting at the end of 2018. After peaking at 2.1%, just over the target rate, inflation fell by 1.4 percentage points in the space of a year, and did not start climbing again until after the change in monetary policy was announced and put into effect.

This meant that the ECB had to make a major course change to counter the risk of sustaining market expectations of persistently weak inflation. The core inflation rate was hovering around an average of 1%, which was significantly lower than the target rate of 2%. The ECB deemed that the risk of the downward trend in the current inflation rate being transmitted to the core inflation rate justified a very sharp course change to avoid being overtaken by events and ultimately deprived of policy options (see below).

France's lesser exposure to the industrial cycle and its recent structural reforms made its economy more resilient in the face of the global slowdown

The economy was sustained by domestic demand, especially household demand

France's economic growth continued to slow down in 2019, following the trend started in the previous year (see Chart 1). As favourable external conditions weakend, domestic factors took over from net exports and stockbuilding to sustain the economy. The positive output gap seen in 2017 and 2018 gradually narrowed so that the 1.2% GDP growth posted was close to the potential growth rate for the French economy. As a result of measures to boost households' purchasing power in the winter and spring of 2019, household consumption was firmer, after slumping in 2018.

At the same time business and household investment continued the strong trend seen in 2018, whereas the contribution from net exports shrank, primarily in response to the concurrent slower growth of world trade. The gloomier outlook for world growth resulted in an acceleration of inventory drawdowns in the spring as export demand in particular weakened.

The early positive impact of the structural reforms introduced in 2017

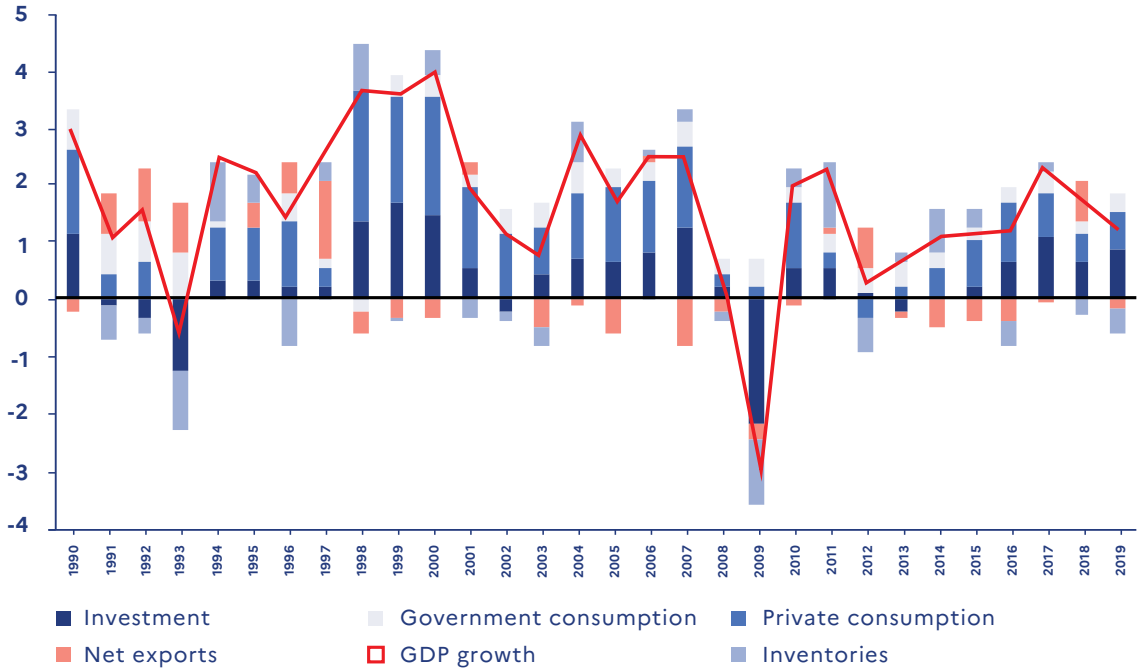
Above and beyond the cyclical changes in 2019, the structural reforms introduced in 2017 continued to produce the effects first observed in 2018. More specifically, businesses continued to post competitiveness gains, as shown by the improvement in operating profits that started in the previous year and stood at nearly 33% in 2019 (see Chart 2). This improvement is probably driving the growth of investment by non-financial firms, as shown in the continuing narrowing of the gap between unit labour costs in France and Germany and between France and the euro area.

Moderate average growth of real wages, which has mirrored productivity gains since 2017 (see Chart 3), contributed to continuing growth of manufacturing jobs, which also started in 2017, in a sector that is particularly open to international competition. At the same time, the unemployment rate of 8.1% matched the level seen before the financial crisis, indicating that wage growth, including wages at the lowest end of the pay scale, undoubtedly contributed to sustaining household demand as well, but did not impede overall productivity gains.

ESTIMATED GDP PER CAPITA GAINS FROM STRUCTURAL REFORMS

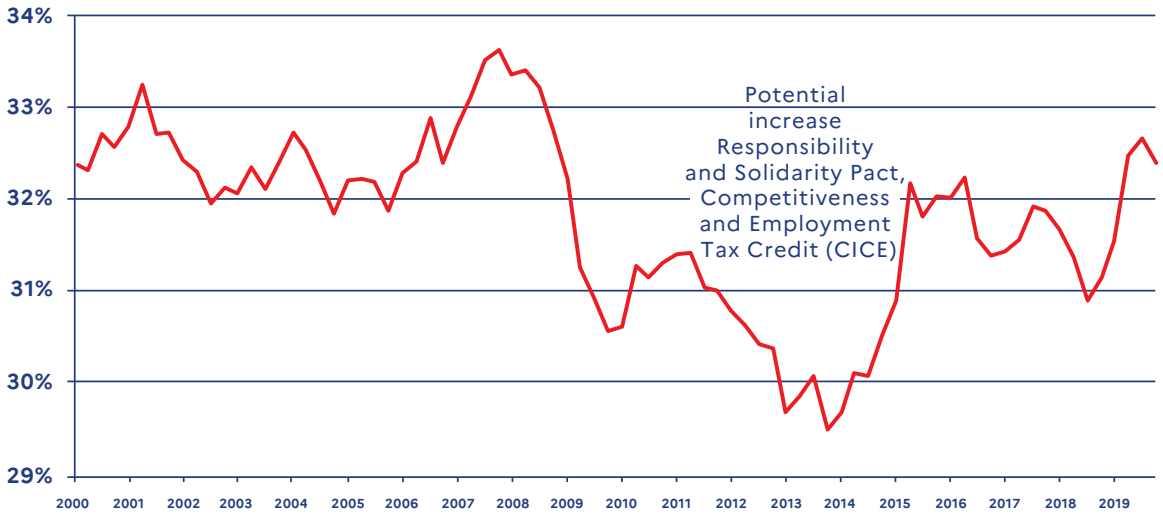
In its analysis of France's economic performance in 2019, the OECD estimates that the structural reforms introduced in 2017 could increase GDP per capita by about 3.2% after ten years.
Slightly less than half of the expected gains should result from labour market reforms introduced in 2017 and 2018, with more flexible job protection, narrower coverage of branch-level wage deals and better targeting of expenditure on lifelong learning. For example, the OECD considers that flexibility in the protection of permanent employment contracts and individual dismissals has improved substantially, falling from 3.5 in 2013 to 2.75 in 2018 on the OECD index scale.
The other half of the GDP per capita gains expected to result from the structural reforms is attributed to tax measures (reducing the tax and social security wedge, cutting capital taxes, improving in-work benefits) and to reform of markets for products and services (reform of bankruptcy legislation, incentives for employee participation schemes). The main benefits of these reforms should be felt at the bottom of the income distribution and two thirds of the benefits should be achieved through employment growth and the remaining third through the expected productivity gains.

1. France: contributions to annual GDP growth



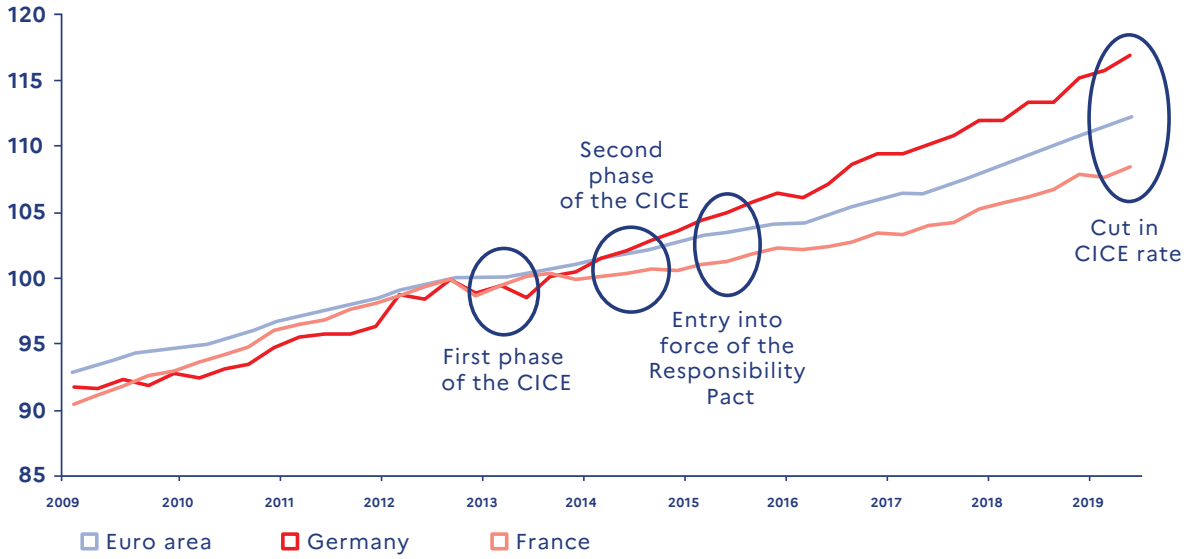
Source: INSEE

2. Profit margin of non-financial corporations



Source: INSEE

3. Labour cost indices (manufacturing, construction and services)



Source: Eurostat

Monetary policy convergence to attenuate the synchronised global slowdown in the absence of fiscal stimulus

The European Central Bank: return to monetary easing

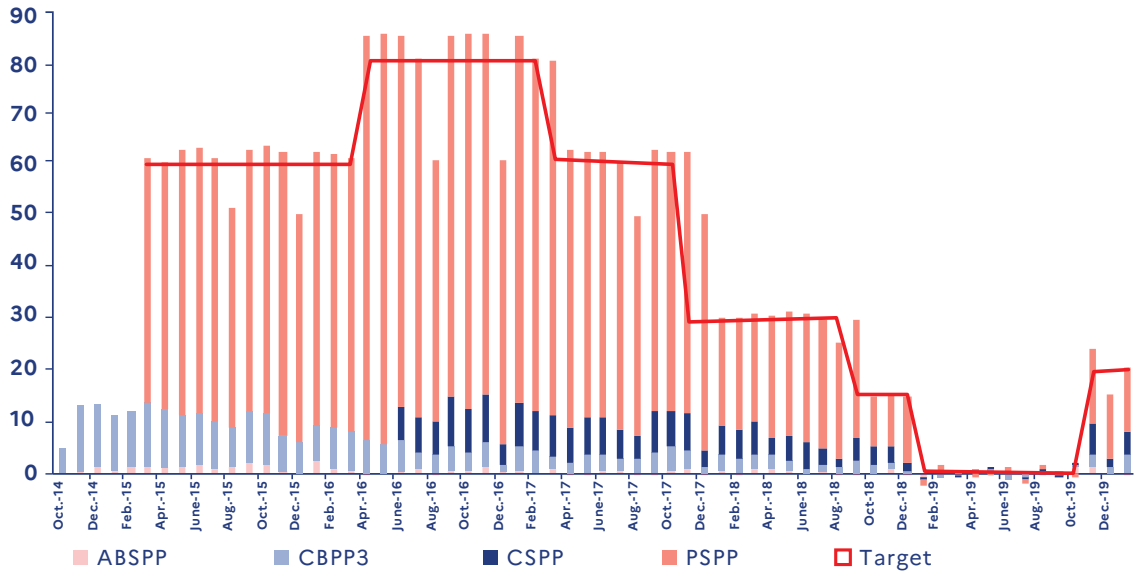
After announcing the launch of a third round of Targeted Longer-Term Refinancing Operations (TLTRO) for the European banking system, the ECB changed its messaging in June 2019. A few days after the June meeting of the Governing Council, Mario Draghi's speech in Sintra hinted at a new series of accommodative measures.
In September 2019, a new package of measures was introduced, including a 10-basis-point cut in the already negative deposit facility rate to -0.50%, backed up by a two-tier system for remunerating banks' reserves, a new Asset Purchase Programme (EAPP 2), with €20 billion in net monthly purchases, and the possibility of further interest rate cuts.

The arrival of the new European Central Bank Governor, Christine Lagarde, in November 2019 opened the way for the launch of a review of the ECB's monetary policy strategy to evaluate, for 2020 as a whole, the effectiveness of the set of instruments that the ECB uses and to redefine price stability.

A STRATEGY REVIEW FOR A COMPREHENSIVE EXAMINATION OF MONETARY POLICY

The current review is the first since 2003. The aim is to start by focusing on the numerical formulation of the price stability objective at the heart of the ECB's mandate, as well as on the approaches and instruments to be used to achieve this objective. The review is also to examine the ECB's other objectives, alongside price stability, which include financial stability, employment and the environment.
The ECB will also seek to assess the effectiveness and possible harmful effects of the monetary policy instruments developed over the decade since the financial crisis. It will also consider a renewal of the traditional economic and monetary analysis underlying monetary policy decision-making, along with communication on decisions to the media and the general public.
Christine Lagarde has taken a determined stance in the debate about the interaction of monetary and fiscal policy, which became a leading issue in public debate in 2019.

ECB Asset Purchase Programme
Net monthly flows, in € billion



Source: ECB

The Federal Reserve (Fed): responding to a worsening economic outlook

The US Federal Reserve made a U-turn at the beginning of 2019. Following a determined effort to continue normalising its monetary policy by gradually letting securities "roll off" its balance sheet and raising its policy rates, the Fed's Open Market Committee and market participants were led to expect rate cuts as early as June in the face of a worsening global economy and weakening inflationary pressure.

And that's what happened; the Fed funds rate was cut twice in the third quarter to ease uncertainty about the outlook for the American economy, resulting in much deeper divisions among Monetary Policy Council members.

In the fourth quarter of 2019, the exacerbation of trade tensions between the United States and China, and its impact on the health of the American manufacturing sector, led to a third cut in the Fed's rates, which stood at 1.75% and 2% at the end of 2019.

As the Fed continued its programmatic reduction in its balance sheet started at the end of 2017, the shortage of central bank liquidity on the interbank market in the autumn of 2019 led the Fed to intervene massively and expand its balance sheet once again to stabilise the Fed funds market after the end of the third quantitative easing programme.

Federal Reserve balance sheet since 2007

Source: Bloomberg

Bank of England (BoE): steering a steady course pending Brexit

The Bank of England has followed political developments in the United Kingdom very closely through the uncertainty about completing Brexit, followed by the election campaign at the end of the year. After starting the year with the primary objective of continuing normalisation of its monetary policy, the Bank of England also changed the tone of its messaging following the general election victory of Boris Johnson, who enacted Brexit at the end of January 2020.

Ultimately, the Bank of England opted for a steady course in 2019, maintaining its key rate at 0.75% and an unchanged level of assets on its balance sheet, with £435 billion in sovereign debt securities and £10 billion in corporate debt securities.

Bank of Japan (BoJ): maintaining ultra-accommodative monetary policy

Similarly, the Bank of Japan opted for a steady course in 2019, continuing its yield curve control policy targeting (i) slightly negative short-term rates and (ii) long-term rates at 0%, against the backdrop of moderate fiscal stimulus.

However, in the third quarter of 2019, BoJ announced a review of economic growth and prices in the country with a view to implementing any further quantitative easing measures needed to achieve the 2% inflation target, while continuing to call for more fiscal stimulus as necessary.

The People's Bank of China (PBoC): aggressive monetary policy stance

In its effort to stabilise China's economy, with no real help on the fiscal front, the People's Bank of China started a round of quantitative easing that mainly took the form of direct injections of liquidity (under its arrangements to support lending) and indirect intervention (lowering banks' required reserve ratio).

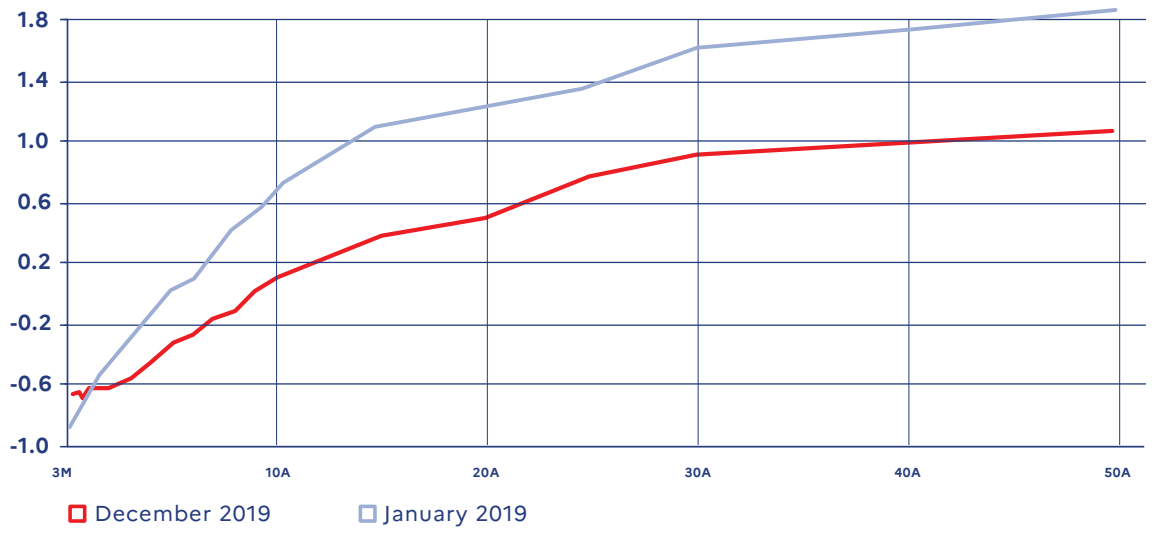
At the same time, it carried out a process to clean up excess loans on public and private enterprises' balance sheets, particularly those made through the "shadow banking" sector. It also continued aggressive management of the exchange rate. The national currency depreciated steadily during the tense trade negotiations with the United States and finally bounced back at the end of 2019.

Persistently low interest rates sustained favourable borrowing terms for all economic agents, in both the private and public sectors.

At the start of the year, the combination of lower long-term rates and rising short-term rates in the United States following the Fed's rate hikes in the last quarter of 2018 led to several episodes of an inverted yield curve. In the euro area, the ECB's TLTRO announcement and stronger forward guidance squeezed sovereign yields. Falling yields were accentuated by developments surrounding the trade negotiations between the United States and China and the weakening of the global economy.

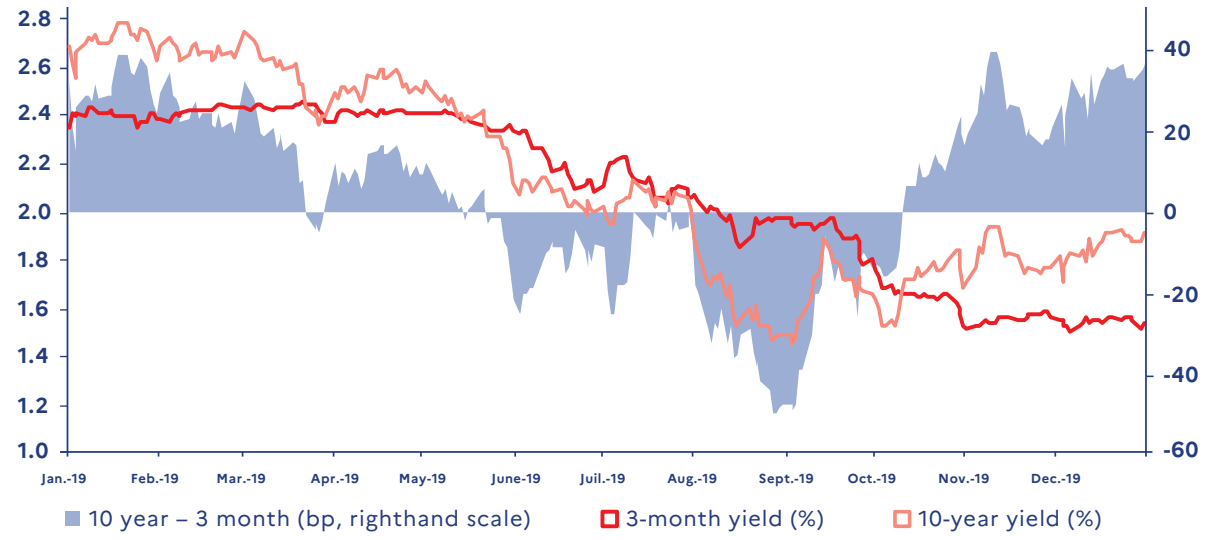
The sudden resurgence of risk aversion in the third quarter of 2019 led to a repeat of the inverted American yield curve. At the end of 2019, the prospect of a phase one trade deal being reached between the Americans and the Chinese triggered an optimistic shift in market sentiment and an overall rise in sovereign yields in both the United States and the euro area.

Sovereign yield curve in France



Source: Bloomberg

3-month and 10-year yields in the United States (%/year)



Source: Bloomberg

In addition to changes in the overall macro-financial situation, France's sovereign bond market, in particular, saw two major developments.

- In the first eight months of the year, uncertainty about global economic growth, the looming Brexit deadline and trade tensions generated risk aversion that benefited the debt issues of core euro area countries. Episodic flight-to-quality movements favoured assets deemed to be safe and highly liquid, such as German and French bonds. Under the circumstances, the market for French debt became very appealing. The spread between French and German yields narrowed to around 15 basis points at this time.
- At the end of the year, the spread between French and German yields remained steady. The spread between 10-year yields hovered around an average of 30 basis points. The last four months of 2019 saw greater appetite for risk, with a big rise in equities. Safe assets, such as sovereign bonds, lost ground to equities markets, which tended to push up sovereign yields in the euro area. The French 10-year yield stood at 0.12% at the end of December, after reaching -0.24% at the end of September and starting at 0.7% at the beginning of 2019.

Equities, foreign exchange and commodities markets mirrored changes in the global economic outlook

Equities markets rose as investors sought returns following the rebound at the beginning of the year

The prevailing risk aversion, particularly at the start of the year, created so much uncertainty that investors shied away from equities markets, even though they offered returns that were much higher than returns on debt instruments (sovereign and corporate bonds, regardless of ratings).

The portfolio reallocation to include more equities explains much of the rise in equities markets around the world, especially in the United States, where the markets hit historic highs in the second quarter of 2019. After that, market indices mirrored trade tensions, but that did not stop a series of record-breaking highs on the American markets, with the S&P 500 topping 3,000 points for the first time in its history.

These performances were boosted by expectations of ever more accommodative monetary policy from the Fed and then by the easing of trade tensions between the United States and China. In the euro area, the ECB's guarantee of very accommodative monetary policy following the measures introduced in September 2019 and applied in November 2019 gave European stock market indices an extra boost.

Stock market indices and annual performance

CAC 40	+27.5%	Euro area banks	+11.7%
DAX	+25.2%	Nikkei	+18.2%
FTSE 100	+12.0%	Shanghai	+23.7%
FTSE MIB (Milan)	+28.2%	Hong Kong	+12.2%
IBEX (Madrid)	+11.7%	Dow Jones	+21.9%
Eurostoxx 50	+25.1%	S&P 500	+28.0%

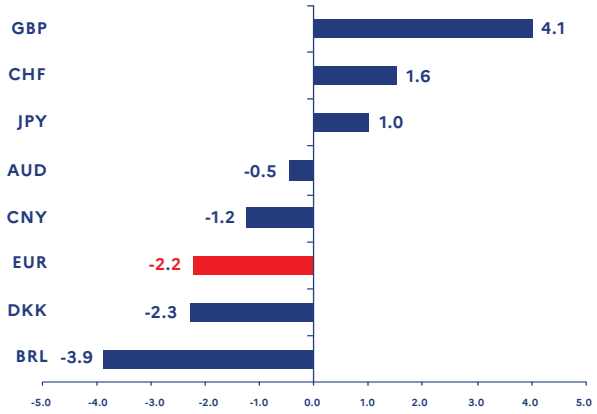
Source: Bloomberg

Foreign exchange markets: pressure on the euro with no rise in the dollar

The depreciation of the euro at the beginning of the year was accentuated in a highly volatile context in June 2019, following the speech by Mario Draghi in Sintra. Forex traders felt that the speech hinted at further accommodative monetary policy measures. The euro, like other currencies, was also boosted by the weakness of the yuan resulting from trade tensions. Even though this effect was short-lived, it helped offset the gloomy euro-area indicators that had led to the euro's depreciation.

Sterling also had a year of significant swings as a politically unstable situation prevailed in the United Kingdom. The delay of the United Kingdom's exit from the European Union and the resignation of Theresa May caused sterling to slip, and the slide accelerated when Boris Johnson came to power, increasing fears of a no-deal Brexit. The instability boosted safe-haven currencies, with the yen and the Swiss franc showing substantial annual gains. Sterling was able to gain significant ground against the leading global currencies at the end of the year, following a general easing of trade, political and geopolitical tensions, especially those surrounding Brexit.

Exchange rates of the leading currencies against the dollar in 2019 (%)

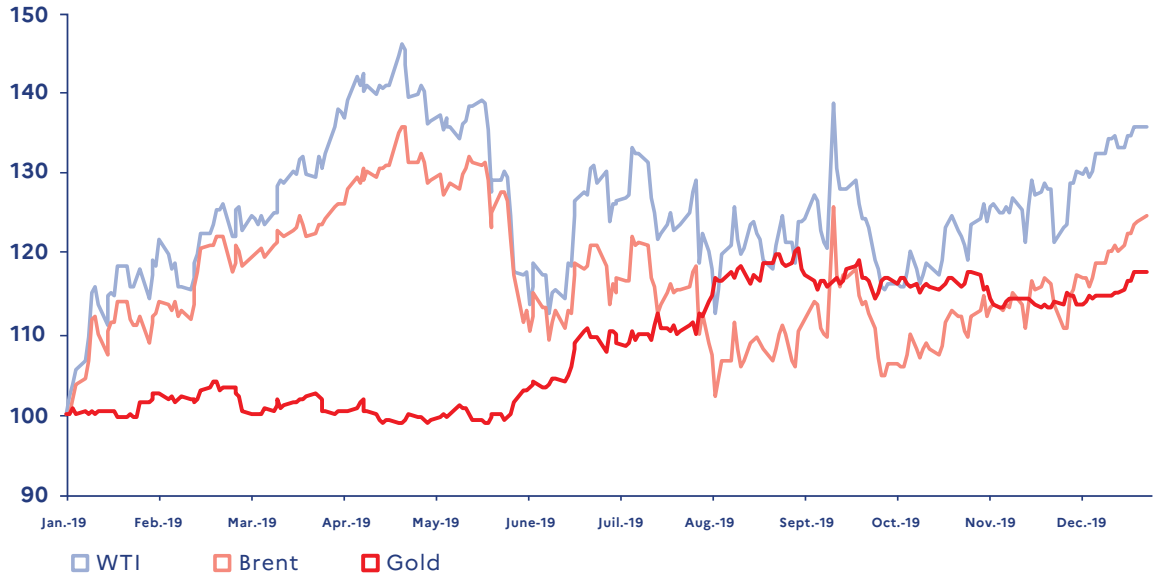


Commodities markets: driven by the global business cycle

Oil prices rose in the first part of 2019, as financial markets bounced back and after OPEC+ agreed to cut output at the end of 2018, and after American sanctions against Venezuela and Iran started to bite. Then, fears about slower global growth triggered by rising trade tensions had a fleeting effect on prices and tension in the Middle East had a significant, but passing, impact on the oil market in September.

The resurgence of fears about a collapse of global oil demand starting in the autumn was quickly offset as 2019 ended with less uncertainty and volatility. This calmer environment favoured a rebound in oil prices. The total annual gain for the West Texas Intermediate price stood at 21.8% to $60.8/bl, while Brent gained 20.0% to $65.8/bl. In the meantime, the gold price gained 18.6% as events favoured defensive assets.

Leading commodity prices over one year (base: Jan. 2019 = 100)



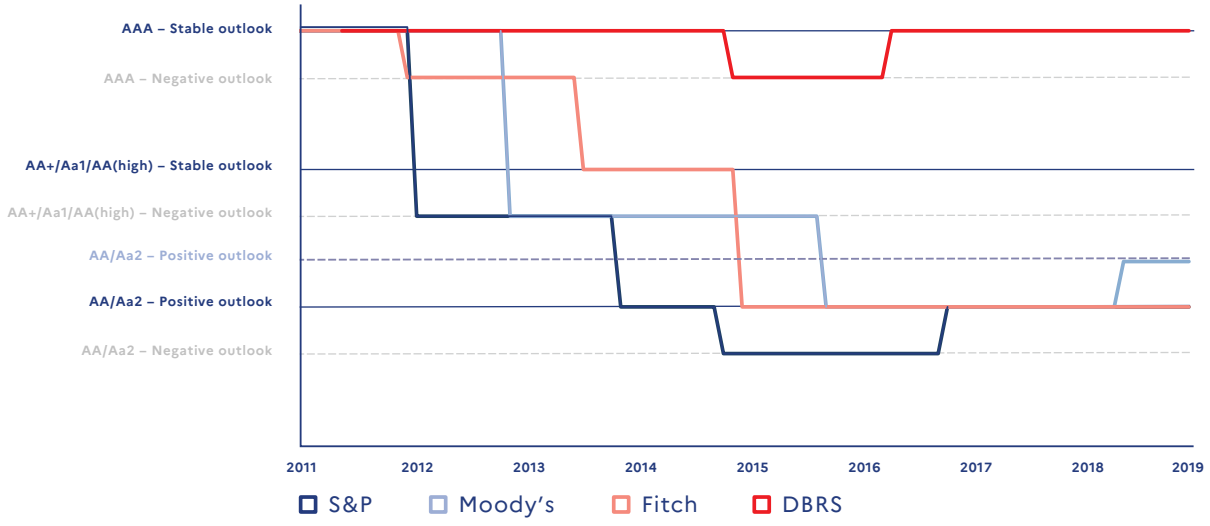
Source: Bloomberg

France's sovereign rating

France's ratings from the four leading agencies were unchanged in 2019, with AA from Fitch and Standard & Poor's, Aa2 from Moody's and AAA from DBRS. **The outlook for France's sovereign rating was given as "stable", except by Moody's, which maintained the "positive" outlook announced in May 2018.**

In 2019, the leading rating agencies stressed that France's economy was resilient, despite the global slowdown. This resilience enabled France to meet its structural challenges to reduce public expenditure and gradually start bending the trajectory of its government debt downwards.

France's sovereign rating since 2011 (S&P, Moody's, Fitch and DBRS)



Sources: Bloomberg, rating agencies, AFT

Rating table as of 31 December 2019*

	LONG TERM	SHORT TERM	OUTLOOK
Moody's	Aa2	/	Positive
Standard & Poor's	AA	A-1+	Stable
Fitch	AA	F1+	Stable
DBRS	AAA	R-1 (high)	Stable

France's sovereign rating updates in 2020

AGENCY	DATE
Moody's	21 February 2020 / 21 August 2020
Standard & Poor's	3 April 2020 / 2 October 2020
Fitch	15 May 2020 / 13 November 2020
DBRS	17 April 2020 / 16 October 2020

** France's sovereign ratings from other agencies were as follows:*
Scope: AA, outlook stable, R&I: AAA, outlook stable, JCR A: AAA, outlook stable, Creditreform: AA, outlook stable

The State's cash **management strategy**

Performance

Ensuring the financial continuity of the State: maintaining a credit balance on the State's single account every day; work on the assumption of SNCF debt; implementation of income tax withholding at source.

The State's single account is closely monitored

The State's cash holdings are centralised in a single account, called the "Treasury Account" that is used to record the balance of all of the transactions executed by more than 5,000 government accountants. At 31 December 2019, there were 5,107 such transaction accounts.

In its capacity as the State's banker, the Banque de France centralises these transactions in real time.

The transactions posted to the State's account correspond to:

- State budget transactions, such as revenue and expenditure
- Treasury correspondents' transactions, meaning the transactions of entities that deposit their funds in the Treasury Account, including local authorities, government-funded institutions and other depositors
- AFT's transactions (redemption of bonds at maturity, interest payments, investments, margin calls, etc.)

AFT ensures that the State's cash position is always adequate to settle the financial transactions posted to the Treasury Account under the most secure conditions. For this purpose, AFT monitors the execution of flows into and out of the Treasury Account with the Banque de France in real time. The average daily volume of these flows came to €19.6 billion in 2019.

TREASURY ACCOUNT CREDITS AND DEBITS IN 2019

AFT: DEBT AND CASH MANAGEMENT TRANSACTIONS

53.5%

STATE'S CENTRAL AND DEVOLVED DEPARTMENTS

25.2%

LOCAL AUTHORITIES AND LOCAL GOVERNMENT-FUNDED INSTITUTIONS

13.4%

NATIONAL GOVERNMENT-FUNDED INSTITUTIONS

7.8%

OTHER

0.1%

Source: Agence France Trésor

Proactive cash management has been adapted to the environment of persistently low yields in the euro area

AFT's management of cash holdings relies on daily forecasts to assess the amounts needed to cover upcoming transactions.

AFT provides proactive management of the State's cash resources to ensure sound stewardship of public monies. Temporary cash surpluses may be invested in interbank market transactions, with due consideration of counterparty risk. These transactions take the form of deposits or repurchase agreements involving government securities.

As the accommodative monetary policy stance persists, abundant cash on the European interbank market means that banks are less attracted to the loans offered by AFT. This environment had already shaped AFT's investments in 2017 and 2018, with a daily average of €8.1 billion invested.

The cash glut continued throughout 2019. This had an impact on AFT's investment activity. The average daily amount invested stood at €10 billion in both the first and second halves of the year. A total of 764 investment transactions were carried out during the year.

INVESTMENT OF SURPLUS CASH IN 2019 BREAKDOWN BY NATURE OF CASH INVESTMENT (EXCLUDING BALANCE ON THE BANQUE DE FRANCE ACCOUNT)

UNSECURED LOANS

97.3%

LOANS TO GOVERNMENT ENTITIES

2.7%

REPO TRANSACTIONS

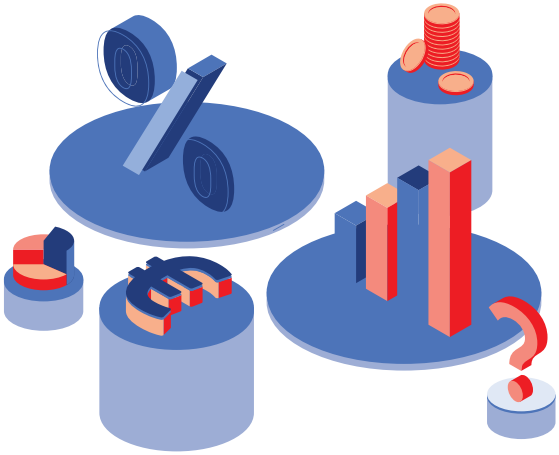
0.1%

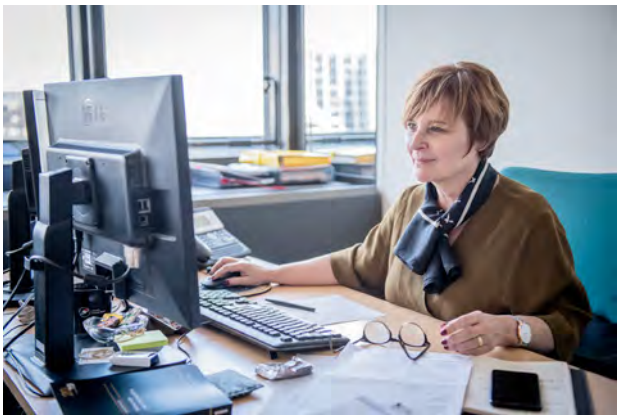
Source: Agence France Trésor

The decrease in outstanding short-term debt reduced exposure to interest rate risk

Low yields meant that auctions of medium-term and long-term debt securities produced issue premiums (see page 94 "Issue premiums and discounts").

AFT adapted its strategy to the circumstances. Additional cash resources from issue premiums made it possible to reduce short-term debt by €19.9 billion from the end of one year to the next, thereby reducing the State's exposure to interest rate risk.





Treasury correspondents' deposits provide a stable source of funding

Entities that are required[1] or authorised to deposit their cash holdings on the Treasury Account are called Treasury correspondents. The amounts deposited on 31 December 2019, excluding "Invest for the Future" accounts, stood at €128.4 billion. These funds are a cash resource for the Government.

Transactions made on Treasury correspondents' accounts have a direct impact on the Treasury Account. AFT oversees daily reporting of advance notifications of cash transactions from Treasury correspondents, which enables it to determine the settlement dates and amounts of transaction flows posted to the Treasury Account as accurately as possible. More specifically, local authorities and government-funded institutions are required to notify AFT of any financial transaction amounting to more than €1 million by 4:00 pm on the previous day. In 2019, the percentages of such transactions notified in advance stood at 98.7% for local authorities and government-funded institutions. These results are slightly better than the performance targets set out in the 2019 Budget Act.

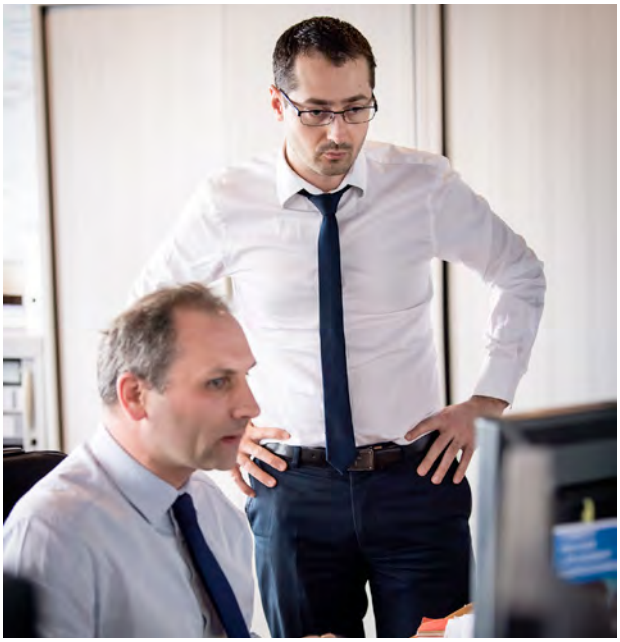
The "super-validation" system allows AFT to delay debits initiated by Treasury correspondents until the following day if the debits are more than €1 million and were not notified the previous day. However, AFT may authorise an immediate debit, despite failure to comply with the notification rules, if the transaction does not entail any risk for the balance on the Treasury Account. In 2019, 270 transactions were "super-validated" which represents only a tiny fraction of total flows and proves that government entities are highly cooperative.

Managing the impact of income tax withholding at source on the cash position

Income tax is a key component of managing the State's cash holdings, given the size of the revenue involved (€71.7 billion in 2019). The collection reform that came into force on 1 January 2019 was a major event for cash management.

Under the old system, the French paid their income tax in instalments or in monthly payments. Withholding at source means that one twelfth of their taxes is collected every month of the year when they receive their income. In addition, 60% of tax reductions and credits are paid each year to the beneficiaries to avoid them having to make cash advances to the State.

The previous pattern of the Treasury account balance, with large ups and downs stemming from income-tax-related receipts and disbursements, required AFT to adapt the arrangements for short-term security (BTFs) issuance. The implementation of withholding at source has resulted in a smoother cash balance scenario with stable and regular flows. The taxes of State civil servants are now directly deducted from their wages and pensions. The new system improves the anticipation and management of the State's cash holdings, thereby resulting in a smoother issuance pattern for short-term securities.



1. Under the terms of the decree on government budget and accounting management of 7 November 2012, most public sector entities are required to deposit their funds with the Treasury. This requirement applies in particular to local authorities, government-funded institutions and hospitals. The decree came into force on 30 June 2014.

The State's debt **management strategy**

Performance

AFT is tasked with raising sufficient funds on the markets to finance the State while keeping the debt burden to taxpayers down to a minimum under optimum conditions of security. AFT bases its financing policy on the consistency and transparency of its issuance and announces the issuance schedule on a yearly basis. It regularly taps every segment of France's debt curve and ensures that the market is as deep and liquid as possible to keep issuance costs to a minimum.

Net medium- and long-term issuance came to €200 billion in 2019

This amount was the result of:

- €245.6 billion of medium- and long-term borrowing, including €17.3 billion of securities linked to French and euro area inflation (OATi and OAT€i)
- less €45.6 billion in buybacks of securities set to be redeemed in 2020 (€30.5 billion) and in 2021 (€15.1 billion)

Borrowing costs in 2019 remained very low, averaging 0.11% for medium- and long-term issues, excluding index-linked securities. This is down significantly from the rates observed in 2018 (see table below).

Regular and transparent auctions still lie at the heart of the state financing strategy

AFT published its indicative financing programme on 20 December 2018, setting the main guidelines for 2019. In accordance with the auction schedule:

- Issuance of long-term OATs, meaning bonds with a residual maturity of more than eight years, took place on the first Thursday of each month
- Issuance of medium-term OATs, with a residual maturity of between two and eight years, and index-linked bonds took place on the third Thursday of the month
- Except in August and December, when only one auction was held

Change in financing conditions

WEIGHTED AVERAGE YIELDS		1998-2008 AVERAGE	2009-2016 AVERAGE	2017	2018	2019	Q1 2019	Q2 2019	Q3 2019	Q4* 2019
Short term	**All BTFs**	**3.15%**	**0.18%**	**-0.62%**	**-0.60%**	**-0.58%**	**-0.54%**	**-0.55%**	**-0.61%**	**-0.61%**
	Of which 3-month BTFs	3.10%	0.14%	-0.63%	-0.60%	-0.57%	-0.54%	-0.54%	-0.58%	-0.62%
Medium and long term	**Fixed-rate issues with maturities of more than one year (excluding index-linked securities)**	**4.15%**	**1.75%**	**0.65%**	**0.53%**	**0.11%**	**0.42%**	**0.15%**	**-0.21%**	**-0.09%**
	of which 10-year issues (excluding index-linked securities)	4.44%	2.31%	0.83%	0.81%	0.23%	0.61%	0.31%	-0.23%	-0.15%

Source: Agence France Trésor

Aft continued its flexible issuance policy to best meet changing market demand

A highlight of 2019 was the Eurosystem's significant adjustment of its asset purchase programme, halting net purchases and maintaining its intervention solely by rolling over maturing securities until it resumed its net purchases in November, but on a smaller scale (€20 billion per month). Investors saw this as favouring a rate increase, but it did not lead to any worsening of the State's financing conditions, which remained very favourable all year long. They were further enhanced by a substantial drop in yields in the spring. AFT also noted a shift in demand towards longer maturities and endeavoured to meet it by increasing the size of its auctions of long-term securities.

AFT also continued its efforts to maintain excellent liquidity for all of its securities. Many different means were used for this purpose.

- As it does every year, AFT consulted systematically with primary dealers before holding the auctions so that the selection of securities to be issued was tailored to meet final investor demand.
- To ensure uniform liquidity in every segment of the yield curve for government bonds, AFT continued to tap "off-the-run" issues in 2019, in addition to tapping benchmark bonds. The aggregate amount of such issuance was €55 billion, or 24.1% of total issuance, excluding index-linked bonds.
- The optional August and December auctions were both held to enhance the regularity with which Treasury bonds are tapped in the course of the year. This meant that AFT held 32 auctions of medium-term and long-term fixed-rate bonds and index-linked bonds in 2018.
- Lastly, AFT bought back €45.6 billion in short-term securities to smooth out debt redemption over several years. This enabled AFT to provide a liquid market for securities maturing in 2020 and 2021.

Five new benchmark fixed-rate OATs were created in accordance with the indicative state financing programme

With negative yields persisting, AFT decided to extend the maturity of its 2-year benchmark bond, as it has done since 2015. The new maturity is set at 25 February 2022. AFT also issued a new 5-year OAT, maturing on 25 March 2025. These two new OATs featured negative or near-zero yields when they were first issued and have zero coupons.

At the long end of the yield curve, AFT created two new 10-year bonds maturing on 25 May 2029 and 25 November 2029. The coupons on the new bonds pay 0.50% and 0% respectively, reflecting the prevailing yields when they were first issued.

AFT also conducted the syndicated launch of new 30-year bond, the OAT 25 May 2050 (see page 46).

Demand for long-term bonds increased in 2019, which led to an increase in average maturity, following a slight decrease in 2018

As yields remained at historic lows, investors continued to buy large amounts of long-dated securities with more attractive yields in 2019.

This meant that the average maturity at issue of medium- and long-term OATs, which reflects final investor demand on the market for Treasury securities, increased in 2019 to 11.1 years. Issues with maturities of more than eight years accounted for more than 55% of the AFT issuance programme, excluding index-linked securities.

The longer average maturity reveals a shift in investors' positions to the long end of the yield curve, as yields fell in 2019. For example, issues with maturities of thirty years or more accounted for 13% of AFT's issuance programme in 2019, compared to 7% in 2018 and 12% in 2017.

AFT confirmed its status as a benchmark issuer in the euro area with the creation of a new 30-year benchmark bond

Issuance at the longest end of the French yield curve (30 years or more) stood at €30.7 billion in 2019, up from €13.4 billion in 2018. These maturities account for 13% of gross medium- and long-term issuance in 2019.

In addition to tap issues of off-the-run securities, AFT created a new 30-year bond, the OAT 1.5% 25 May 2050, issued on 19 February 2019. The new bond fills out the long end of the yield curve and provides investors with the liquidity they want at this maturity.

Gross issuance by Agence France Trésor in 2019 (€ billion)

	JAN.	FEB.	MAR.	APR.	MAY	JUNE	JULY	AUG.	SEP.	OCT.	NOV.	DEC.	2019 TOTAL
2 years	4.1	4.6	2.4	5.4	4	3.0	3.2	0.0	0.0	2.6	0.0	0.0	29.3
3-4 years	1.5	2.1	2.8	1.5	0.0	3.0	4.1	0.0	3.6	0.0	2.4	0.0	20.8
5 years	2.7	3.4	3.9	4.7	5.1	3.0	3.6	0.0	3.9	4.1	7.1	0.0	41.6
6-8 years	1.2	1.1	2.2	0.0	0.0	0.0	0.0	0.0	1.7	2.3	0.0	0.0	8.5
10 years	6.3	9.5	8.0	6.7	4.7	5.9	5	5.2	3.9	7.1	5.2	4.1	71.6
15-20 years	2.4	1.7	3.0	2.1	5.9	2.1	2.1	2.3	3.2	0.0	1.2	0.0	26.0
30-50 years	1.6	7.0	0.9	2.4	0.0	3.3	3.0	0.0	3.0	4.7	3.6	1.1	30.5
i/€i	1.8	1.5	2.1	1.9	1.8	1.1	1.5	0.0	2.2	1.3	1.8	0.0	17.3
GROSS ISSUANCE	**21.5**	**30.8**	**25.2**	**24.7**	**21.5**	**21.4**	**22.7**	**7.5**	**21.6**	**22.1**	**21.3**	**5.2**	**245.6**

Demand for BTFs remained very firm, even though the amounts outstanding decreased for the fifth year in a row

The outstanding amount of short-term securities (BTFs) fell by €6 billion, from €112.9 billion at the end of 2018 to €106.9 billion at the end of 2019, accounting for 5.9% of total negotiable debt. This proportion stood at a level that had not been seen since 1999, after dropping gradually from a peak of 18.6% in 2009 (see chart below).

As a general rule, three benchmark securities (3-month, 6-month and 1-year maturities) were sold at weekly BTF auctions and they encountered strong demand. Minor use was made of the ability to tap off-the-run securities to ensure liquidity for BTFs of all maturities and meet investor demand transmitted by primary dealers.

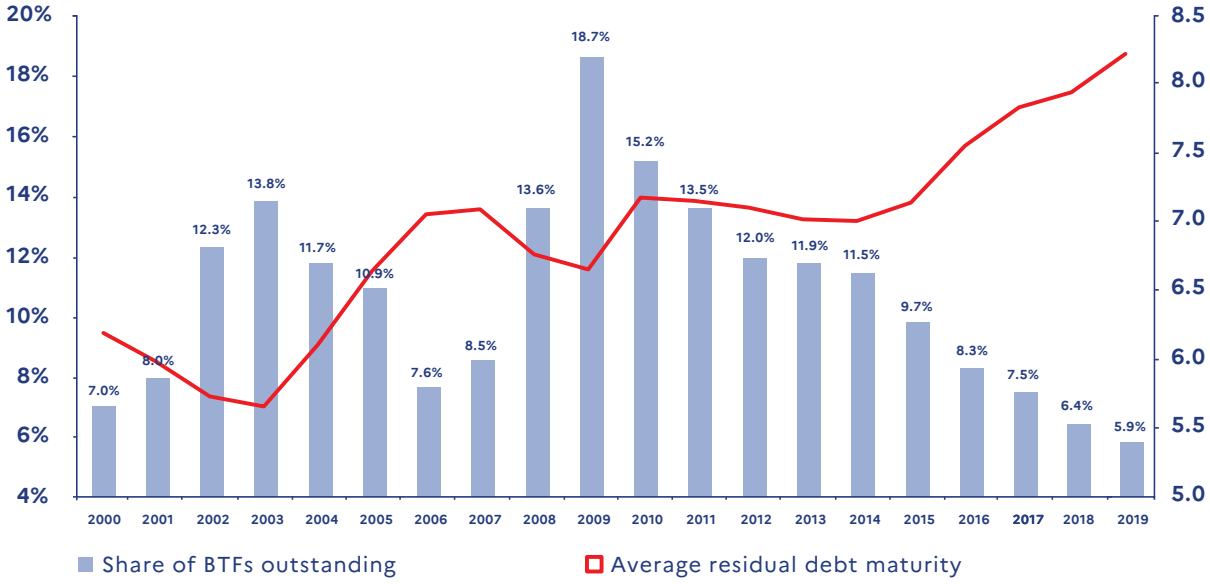
BTF auctions produced an average yield of -0.58% over the year as a whole, within the context of the ECB's negative interest rate policy. These yield conditions were very similar to those seen in 2018 (-0.59%). More specifically, the very strong demand for very creditworthy collateral enabled AFT to auction its BTF securities all through 2019 at yields lower than the ECB deposit facility rate, which fell from -0.40% to -0.50% in October 2019. The yields remained very stable and operating conditions were excellent all year long.

Average residual maturity of French debt sets a new record

The average residual maturity of French sovereign debt stood at 8.2 years at the end of 2019. This represents an increase of 0.25 years over 2018. It was the highest figure recorded since the creation of AFT. This was the result of a slight increase in the average maturity at issue, but it also stemmed from larger buybacks of OATs in 2019, which rose from €30.4 billion in 2018 to €45.6 billion in 2019, but the main cause was a reduction in outstanding BTFs.

Maintaining a long average residual maturity for France's debt means that debt service is more resilient to a potential increase in interest rates.

Share of BTFs in debt outstanding

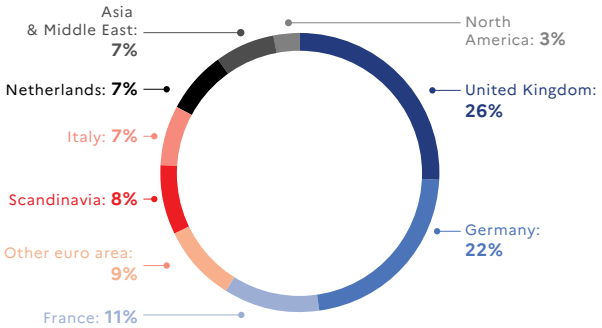


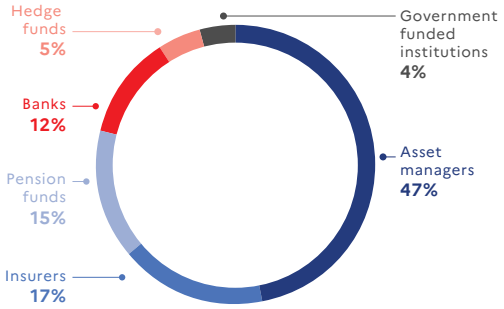
New 30-year benchmark OAT

On 19 February 2019, AFT conducted the syndicated launch of the OAT 1.5% 25 May 2050. When the book-building process was completed, total demand stood at €31 billion, with €7 billion allocated.

The bond was issued with a real yield of 1.609%, which was the lowest real yield at issue ever recorded during similar syndicated launches by AFT.

The allocation reflected the diversity of the investor base for the bond (see charts below). The bond was also tapped at six auctions in 2019, bringing the outstanding amount at the end of the year up to €24 billion.





> BNP PARIBAS
>
> Once again, AFT seized an excellent market opportunity to place its new benchmark bond with 300 international investors. The historically low yield of 1.609% for a 30-year OAT confirms the success of this deal.

> J.P.Morgan
>
> The February 2019 launch of the new OAT 1.50% 25 May 2050 was remarkable in more ways than one: the amount raised (€7 billion) and the order book (€31 billion) both matched the records set by the previous syndicated launch of a 30-year bond in May 2017. The yield (1.609%) was the lowest ever for a 30-year bond. J.P. Morgan was honoured to be selected once again as the lead book runner for this strategic new issue.

> HSBC
>
> For the syndicated €7-billion launch of the new OAT 1.50% 25 May 2050, AFT received orders of €31 billion from 300 final investors, setting a record. This very strong demand is further testimony to international investors' appetite for French debt and confirms AFT's role as a leader on the euro market. HSBC is delighted to have played its part in this major market success."

> SOCIETE GENERALE Corporate & Investment Banking
>
> This issue beat the previous record-setting yield at issue for a 30-year bond set in 2017. More than 300 final investors took part in the launch, with an order book of €31 billion. The allocation, with more than 89% placed outside of France, reflects very geographically diverse demand. The success of this historic deal reinforces France's status as a benchmark issuer for very long-term euro-area debt.

> CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK
>
> AFT successfully and rapidly capitalised on a shift in market sentiment based on new expectations of lower bond yields leading to very strong demand for the long end of the EUR yield curve at the beginning of 2019. This enabled AFT to launch a new bond, the OAT May 2050 with an allocation of €7 billion, setting a new record for the lowest yield on a 30-year bond at 1.609% (1.50% coupon rate) and matching previous records for an order book for a syndicated OAT, with more than €31 billion, and for the largest allocation at a syndicated launch. Crédit Agricole CIB is proud to have been at AFT's side in this remarkable deal.

Green **OAT**

More than €20 billion in outstanding bonds

On 24 January 2017, Agence France Trésor launched its first sovereign green bond, the Green OAT 1.75% 25 June 2039, with an issue amount of €7 billion. Successive tap issues raised this figure to €9.7 billion at the end of 2017, €14.8 billion at the end of 2018, and €20.7 billion in 2019. This means that the €20 billion threshold was reached in less than three years. France now ranks as one of the leading green bond issuers on the world stage, which reflects its role as a driving force for the implementation of the Paris Climate Agreement of December 2015.

Each year, the funds raised by Green OAT issues are used to finance a set of environmentally-positive projects under the State budget to mitigate climate change and to anticipate the associated risks, to preserve biodiversity and to fight pollution. The various ministries select the potentially eligible expenditure in their budgets. Each year, this selection is submitted for validation by an interministerial steering committee working under the aegis of the Prime Minister. The benchmark for this process is the new Greenfin certification which, in 2019, replaced the previous label, TEEC (Energy and Ecological Transition for the Climate) created in 2015.

The second and third Allocation and Performance Reports were published in July 2019 and July 2020 respectively. These reports present the expenditure financed by issuance in 2018 and 2019 (see page 44). The second environmental evaluation report on the Eligible Green Expenditure of the French Waterways Office was published (see page 50). These evaluations contribute to effective steering of public policy and constitute one of the contributions that the Green OAT makes to France's action in favour of the environment.

The funds raised are reported in the accounts in the same way as funds from a conventional OAT and managed in compliance with the general budget rule. On the other hand, the amount issued cannot exceed the amount of Eligible Green Expenditure. Therefore, the amounts appropriated under the State budget constitute a cap on Green OAT issuance in any given year. The allocation reports are used to verify the nominal equivalence between this source of funds and the uses made of it during the budget year.

In 2019, there were three auctions of Green OAT tap issues, one in February raised €1.7 billion, one in May raised €2.5 billion and one in September raised another €1.7 billion. This issuance was a response to strong demand and raised the outstanding amount to more than €20 billion, as mentioned above. This means that the Green OAT now offers a level of liquidity that is comparable to that of other OATs, in keeping with the commitment that AFT made to the market with the inaugural issue in 2017. The Green OAT also contributes to deepening the market for green bonds. It is a liquid, risk-free asset that enables managers in this market segment to diversify their portfolios and potentially acquire higher-risk green investments.

Release of the Green OAT Allocation and Performance Report

An annual report details the allocation of the funds raised by the Green OAT and the performance of the programmes funded. The second Allocation and Performance Report was published in 2019. This report, along with that from the previous year, can be viewed on the Agence France Trésor website. The latest report details all the expenditure funded by issuance in 2019, which totalled €5.9 billion.

Independent third-party audits verified the expenditure and its green credentials. Based on the procedures performed, KPMG was able to provide limited assurance about the allocation of funds, the appropriateness of the Green OAT Framework Document and its proper implementation. In addition, Vigeo Eiris renewed its "reasonable" assurance, its highest rating, about the green credentials of the expenditure funded by issuance in 2019.

Some of the Eligible Green Expenditure from 2018, amounting to €1.2 billion, was not funded by issuance in that year. In accordance with generally applicable best practices and the provisions of the Green OAT Framework Document, this expenditure was carried forward and included in the 2019 Eligible Green Expenditure, but the 2019 issuance funded the bulk of that year's expenditure (€4.6 billion).

The disbursements under the various eligible programmes in 2019 totalled €5.2 billion.
The €4.6 billion allocated from 2019 Green OAT issuance covered 89% of this expenditure.
The €4.6 billion raised in 2019 were divided between the different eligible programmes in proportion to the expenditure volumes they represent. That left a remainder of €0.5 billion that was included in the amount of Eligible Green Expenditure for 2020.

The presentation of the allocation of funds comes with a performance evaluation of the programmes concerned in very general terms. The evaluation is primarily based on data from budget documents, with supplementary environmental data, when it is available, and air quality data in particular. The report also focuses on the various expenditure funded sector by sector, highlighting their relevance to the objectives set out in the Green OAT Framework Document, which are in turn aligned with several of the UN's Sustainable Development Goals.

1. https://www.aft.gouv.fr/files/medias-aft/3_Dette/3.2_OATMLT/3.2.2_OATVerte/Report%20Allocation%20OAT%20Verte%202019.pdf

The Green OAT Evaluation Council conducted an environmental impact study of the French Waterways Office

In addition to the Allocation and Performance Report, expenditure funded by the Green OAT is evaluated for its environmental effects, in accordance with the commitments France made when the Green OAT was first issued. This evaluation work is carried out through successive analyses of different programmes. The objective is to evaluate each expenditure item at least once before the 2039 maturity of the OAT. The impact studies are overseen by an independent Evaluation Council, which defines the methodology and monitors their production.

The Council members are qualified individuals of international standing. The Chairman is Manuel Pulgar-Vidal, Peru's former Minister for the Environment and the WWF Global Climate and Energy Practice Leader. The six other members are: Mats Andersson, Vice Chairman of the Global Challenges Foundation and former CEO of AP4, Sweden's fourth national pension fund, Nathalie Girouard, Head of the Environmental Performance and Information Division of the Environment Directorate at the OECD, Ma Jun, Director of the Center for Finance and Development and Special Adviser to the Governor of the People's Bank of China, Karin Kemper, Senior Director for the Environment and Natural Resources Global Practice at the World Bank, Thomas Sterner, Professor of Environmental Economics at the University of Goteborg, Eric Usher, Head of the Secretariat of the United Nations Environment Programme Finance Initiative. The Council also includes two observers: Sean Kidney, co-founder and CEO of the Climate Bond Initiative and Nicholas Pfaff, Senior Director, Market Practice and Regulatory Policy at the International Capital Markets Association.

The Council held two in-person meetings in Paris in 2019, one in June and one in November. Following the first report, published in 2018, which examined the Energy Transition Tax Credit (CITE), the Council sought to evaluate the environmental impact of the subsidy for public services granted to the French Waterways Office (VNF), which manages Europe's third largest inland waterway network with 6,000 kilometres of navigable waterways. This work resulted in the second Green OAT Environmental Evaluation Report1 published at the end of November 2019. The Council solicited the advice of two independent reviewers, François Combes (IFSTTAR) and André Evette (IRSTEA), to ensure compliance with the highest academic standards.

The report highlights the environmental benefits of the inland waterway network and the way it is managed. The network carries 2% of land freight, which would otherwise be carried by road or rail. Consequently, the research shows that waterway transport prevents the emission of 290 kilotons of CO_2 each year, which is equivalent to 1% of the total annual emissions from freight transport in France.

The report goes deeper than these figures with an innovative analysis of the French Waterways Office's strategy to adapt to climate change and protect biodiversity. It shows that the Office goes above and beyond the applicable regulatory requirements in many ways, by optimising its infrastructure maintenance techniques and stepping up its efforts to protect biodiversity. The methodological contribution of this second part of the report marks an innovation in green bond impact studies.

1. The report, along with the Evaluation Council's opinion can be found on the Agence France Trésor website: https://www.aft.gouv.fr/fr/oat-verte#Avis

More Eligible Green Expenditure in the future

A private member's amendment put forward by Bénédicte Peyrol and taken up by the Government was adopted by Parliament in the 2020 Budget vote. This Amendment calls for the elimination of the "Energy Transition" Earmarked Account (CAS TE) on 1 January 2021. This provision will significantly increase the amount of Eligible Green Expenditure for the Green OAT.

The earmarked account was instituted in 2015 to formally allocate revenue from the electricity consumption tax (TICFE) to the subsidy for energy public service obligations. The original purpose was to ensure that the State repaid its debt to the electricity board (EDF) accumulated with the former contribution to the public electricity service (CSPE). To overcome an inconsistency with European law, the Energy Transition Earmarked Account has been funded by a share of the domestic tax on the consumption of energy products (TICPE) since 2016. Consequently, the link between receipts and expenditure had become more artificial, especially since the revenue from this tax was appropriated to different uses than the Energy Transition Earmarked Account, such as the general budget, regions, départements or the French Agency for Transport Infrastructure Financing. This led the Government Audit Office to question the lawfulness of the earmarked account on several occasions after 2017 and the parliamentary fact-finding mission on the Constitutional Bylaw on Budget Acts raised similar questions in September 2019. It should also be noted that the State's debt towards EDF, which was the original purpose for creating the earmarked account, will be fully paid off in 2020.

The elimination of the Energy Transition Earmarked Account has now been enacted and will significantly widen the scope of Eligible Green Expenditure. Subject to the upcoming decision of the interministerial steering committee, it will be possible to include public subsidies for renewable electric energy sources and biogas in Eligible Green Expenditure in 2021. This support came to €5.4 billion in 2019 and it cannot be funded by the Green OAT at present since it is funded by the appropriation of specific tax revenue through the Energy Transition Earmarked Account.

Such an increase in the amount of Eligible Green Expenditure would mean that AFT could envisage the creation of a second benchmark green bond in 2021, if market conditions permit. The launch of such a bond would assume that the inaugural issuance amount is large enough to ensure a minimum of liquidity before being tapped. This amount is typically €5 billion to €7 billion, depending on the maturity.

Risk **management**

Assessments

A broad control framework

AFT must comply with stringent control criteria. The Agency is legally required to answer parliamentary questions, especially concerning the groundwork for budget acts. AFT is also subject to a number of audits, including by the Government Audit Office (two audits per year for accounting matters and one for the Budget Outturn Report).

These controls also include action by specialised audit firms to validate the quality and probity of accounting information, to issue opinions on the monitoring of prudential measures or to conduct annual internal audits.

Tasks of the AFT Internal Control, Compliance, Risk Policy and Legal Affairs Unit

AFT has an Internal Control, Compliance, Risk Policy and Legal Affairs Unit that is independent from its operating functions. This Unit oversees the internal control system of the Agency, organises audits, manages the risks associated with financial transactions and the selection of counterparties. The Unit coordinates the various control and audit tasks in these areas. It is also responsible for managing legal and compliance risks, ensuring the validity of the Agency's contracts, monitoring regulatory developments, managing the rules of conduct for employees and managing the confidentiality policy.

The scope of this control and risk management function has widened because of the diversity of AFT's transactions, the payment circuits used and the growing number of international counterparties. Together with the line functions, the Unit regularly updates AFT's general activity framework, which sets management, organisation and control standards and which is approved by the Director General of the Treasury. The Unit is also responsible for monitoring AFT's business continuity plan.

Performance indicators

AFT has elected to comply with the applicable obligations stipulated in the Order of 3 November 2014 on the internal control of businesses in the banking sector. In addition, the legislation governing AFT requires it to submit an annual audit report to Parliament on financial risk management and the prudential procedures implemented.

All these measures mean that AFT has permanent mechanisms for assessing and controlling all the risks generated by market and cash transactions.

In recent years, AFT has relied on the expertise of a specialised external audit firm to conduct the audit.

In accordance with the performance indicators put before Parliament when the budget act is being drawn up (see page 95), the audit firm focuses more particularly on the quality of AFT's internal control system by considering five aspects:

- transaction and internal procedures supervision system
- accounting organisation and information processing
- risk and result measurement systems
- risk supervision and management systems
- documentation and reporting systems

The assessment gives ratings ranging from one to four:

- **one:** the existing mechanism satisfactorily covers identified risks generated by AFT's transactions
- **two:** the existing mechanism needs to be extended to cover identified risks
- **three:** the existing mechanism has substantial shortcomings requiring immediate corrective action to cover the identified risks
- **four:** the existing mechanism does not cover the identified risks generated by AFT's transactions

	UNIT	2017 ACTUAL	2018 ACTUAL	2019 APP FORECAST 2019	2019 ACTUAL	2020 APP TARGET 2000
Incidents or violations of the general activity framework	Number of occurrences	0	0	0	0	0
External rating of the internal control function: transaction and internal procedures supervision system	Rating between 1 and 4	2	2	1	-	1
External rating of the internal control function: accounting organisation and information processing	Rating between 1 and 4	1	1	1	-	1
External rating of the internal control function: risk and result measurement system	Rating between 1 and 4	1	1	1	-	1
External rating of the internal control function: risk supervision and management systems	Rating between 1 and 4	1	1	1	-	1
External rating of the internal control function: documentation and reporting systems	Rating between 1 and 4	1	1	1	-	1

**Rating not yet available since the audit was postponed until September 2020 because of the lockdown.*

Sources: external audit firm; Agence France Trésor

A word about our methodology

Number of incidents or violations of the general activity framework.

This qualitative and quantitative sub-indicator tracks different incidents, which are classified under the following three categories:

- violations of powers of signature
- violations of risk limits
- violations of transaction procedures

This sub-indicator is an internal quality measurement of AFT's organisation and compliance with requirements.

A second indicator (see page 95) measures the number of execution incidents occurring in AFT's transactions to ensure rapid detection of problems or incidents that could disrupt the proper execution of debt and cash transactions.

None of the incidents recorded in 2019 had an impact on the financial continuity of the State.

	UNIT	2017 ACTUAL	2018 ACTUAL	2019 APP FORECAST 2019	2019 ACTUAL	2020 APP TARGET 2020
Incidents that decreased the balance at the Banque de France	Number	3	1	0	2	0
Incidents that increased the balance at the Banque de France	Number	9	5	0	12	0
Other incidents that have no impact on the balance at the Banque de France	Number	55	44	0	63	0

The indicator relies on day-to-day recording of execution incidents affecting debt or cash management transactions.

The "Other incidents" item records incidents that have no impact on the balance at the Banque de France. This item mainly records incidents relating to internal and external information systems used to manage transactions. It should be noted that in most cases, the origin of the incidents lies in external bodies and service providers and that AFT has no direct control over their occurrence.

The recording process has improved significantly in recent years with more comprehensive supervision and the use of more refined risk indicators, resulting in steady improvements in the quality of external and internal operations.

Post-trade management and risk monitoring **in 2019**

The post-trade management and transaction risk monitoring function includes managing and monitoring limits, and post-trade settlement of all of the transactions that AFT initiates on capital markets. The Post-Trade and Risk Monitoring Unit's task is to ensure the proper execution of all market trades in order to ensure AFT's fulfilment of its overall mission, which is to manage the State's debt and cash requirements in the taxpayers' best interests and under optimum conditions of security. The Unit monitors and processes trades through the complete cycle from orders to settlement. It manages all of AFT's own trades and trades executed on behalf of others, such as other ministries or other departments of the Directorate General of the Treasury, which have given AFT an executive mandate. The Unit also represents AFT within the securities industry trade association and takes part in European projects and initiatives relating to market infrastructure.

POST-TRADE ACTIVITIES ARE ORGANISED AROUND THE FOUR MAIN TASKS:

1. **Settlement (or back office):**
Post-Trade functions include monitoring and settling financial transactions initiated by the "Cash" and "Debt" units, and reporting all of the information necessary to record them in the accounts to the Budget and Accounting Control Unit (SCBCM) of the Ministry for the Economy and Finance. It also provides post-auction processing for auctions of greenhouse gas emission allowances allocated to France under the European Union exchange system.

2. **Risk management and monitoring:**
The Post-Trade Operations Unit, working with the Internal Control Unit and Senior Management, regularly tracks the main market risks that AFT monitors: credit risk, exposure concentration, commitment risk, settlement risk and counterparty risk. It also monitors compliance with limits on a daily basis. The Unit constantly reviews risk-monitoring techniques to keep pace with changes in the financial environment and AFT's evolving needs.

3. **Management of margin calls:**
all forward trades, derivatives and repurchase agreements are governed by bilateral contracts that establish mechanisms to mitigate AFT's exposure to counterparty risk in the performance of its tasks. The Post-Trade Operations Unit handles the margin calls for all of these transactions to reduce AFT's residual counterparty risk exposure.

4. **Administrative management of the Public Debt Fund (CDP).**

In 2019, the post-trade function handled settlement of more than 850 financing transactions through the national securities depository, Euroclear France, settlement of more than 790 transactions to invest surplus cash on the money market in the form of unsecured deposits and settlement of more than 30 derivatives transactions on behalf of other Ministries or government bodies.

The Post-Trade and Risk Monitoring Unit prepared and completed the first phase of the assumption of €25 billion of the debt of the SNCF by the State, as provided for under the 2020 Budget Act. It arranged the matching loans mechanism with the Public Debt Fund and the aggregation of the different debt contracts signed by the SNCF and the hedging of these contracts using derivatives to create synthetic loans in euros (see box on page 24).

The Unit provided continuing support for primary dealers for the reorganisation of settlement activity following the United Kingdom's triggering of Article 50 of the Treaty on European Union. The Unit also provided surveillance of delivery fails on the secondary market throughout the year to ensure the smooth operation and liquidity of the market.

The Unit supervised carbon quota auctions throughout 2019 under the greenhouse gas emission allowance trading scheme initiated in 2013 under the terms of Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009.

The Unit provided the Financial Markets Authority with all the information required to fulfil its responsibilities towards market participants and activities related to the State's debt whenever it was asked to do so. It also responded throughout the year to requests from auditors, the Government Audit Office and the State accountant, providing them with all of the necessary documents and information about trading activities, procedures and compliance with prudential rules.

Key figures 2019

Financial statements of Agence France Trésor

on the management of negotiable debt securities and cash, hedging the State's financial risks and managing the debts transferred to the State

FOR THE PERIOD ENDING ON 31 DECEMBER 2019

I. Financial statements

Balance sheet items

ASSETS	NOTES	AMOUNTS (IN € MILLION)		
		31/12/2019	31/12/2018	CHANGE
CURRENT ASSETS (EXCLUDING CASH)	**1**			
Prepaid expenses financial debts	**1.2**	**7,995.22**	**9,028.48**	***-1,033.26***
Discounts on OATs		7,995.22	9,028.48	*-1,033.26*
Expense on financial debt		**140.37**	**134.19**	***6.18***
OAT issuance expense		140.37	134.19	*6.18*
Other claims	**1.7**	**0.01**	**0.01**	***0.00***
Margin calls provided for repurchase agreements		-	-	-
Accrued interest		-	-	-
Margin calls provided for forward financial instruments		-	-	-
Accrued interest		0.01	0.01	*0.00*
CASH MANAGEMENT	**2**			
Bank funds		**-14.56**	**-10.25**	***-4.31***
Accrued interest on the State's account with Banque de France		-14.56	-10.25	*-4.31*
Other cash items	**2.2**	**15,300**	**9,900.00**	***5,400.00***
Unsecured loans on the interbank market		15,300	9,900.00	*5,400.00*
Accrued interest		-	-	-
Repurchase agreements		-	-	-
Accrued interest		-	-	-
Investment securities	**2.1**	**4,999.91**	**4,499.81**	***500.10***
Securities purchases		5,000.00	4,500.00	*500.00*
Prepaid interest		-0.09	-0.19	*0.10*
ACCRUALS AND DEFERRED EXPENSES	**3**			
Deferred income – off-balance sheet commitments		**16.00**	**15.91**	***0.08***
Interest payable on interest rate swaps for macro-hedging	3.2	5.39	5.30	*0.08*
Interest payable on interest rate swaps for micro-hedging	3.3	10.61	10.61	-

LIABILITIES	NOTES	AMOUNTS (IN € MILLION)		
		31/12/2019	31/12/2018	CHANGE
FINANCIAL DEBT	1			
Negotiable debt securities		**1,839,366.45**	**1,773,621.03**	***65,745.42***
Treasury Bonds (OATs)	1.1	**1,732,235.71**	**1,660,543.77**	***71,691.93***
Par value		1,689,758.64	1,618,659.73	*71,098.91*
Capitalised interest		-	36.88	*-36.88*
Index-linking supplements		26,131.79	24,823.23	*1,308.56*
Accrued coupons at issue		335.02	282.53	*52.49*
Accrued interest		16,010.25	16,741.41	*-731.16*
Discount Treasury bills (BTFs)	1.3	**107,130.75**	**113,077.26**	***-5,946.51***
Par value		106,933.00	112,900.00	*-5,967.00*
Prepaid interest		197.75	177.26	*20.49*
Other loans	1.6	**1,448.88**	**1,448.91**	***-0.03***
SNCF loans assumed via the CDP		1,407.07	1,407.07	-
Accrued interest		41.81	41.83	*-0.03*
NON-FINANCIAL DEBTS	1			-
Prepaid income on financial debts	1.2	**85,233.19**	**73,127.08**	***12,106.12***
Issue premiums on OATs		85,233.19	73,127.08	*12,106.12*
Other debts	1.7	**97.58**	**121.33**	***-23.75***
Margin calls received on repurchase agreements		-	-	-
Accrued interest		-	-	-
Margin calls received on forward financial instruments		97.36	121.13	*-23.77*
Accrued interest		-	0.02	*-0.02*
Accounts payable		0.22	0.18	*0.04*
CASH MANAGEMENT	2			
Other cash items	2.2	**0.39**	**0.39**	***0.01***
Unsecured loans		-	-	-
Accrued interest		0.39	0.39	*0.01*
Repurchase agreements		-	-	-
Accrued interest		-	-	-
ACCRUALS AND DEFERRED EXPENSES	3			
Payables - off balance sheet liabilities	3.2	**0.79**	**0.71**	***0.08***
Interest payable on interest rate swaps for macro-hedging	3.3	0.79	0.71	*0.08*
Interest payable on interest rate swaps for micro-hedging		-	-	-

Income statement

TABLE OF NET EXPENSES	NOTES	AMOUNTS (IN € MILLION)		
		31/12/2019	31/12/2018	CHANGE
FINANCIAL DEBT				
NEGOTIABLE DEBT SECURITIES				
Interest	4.1	**-35,575.90**	**-36,904.32**	***1,328.42***
Interest expense on OATs		-36,219.26	-37,669.80	*1,450.54*
Net interest expense or net interest income on BTFs		643.37	765.48	*-122.12*
Amortisation of premiums and discounts	4.1	**8,013.66**	**7,283.10**	***730.57***
Amortisation expense for discounts on securities issued		-1,274.00	-1,287.58	*13.57*
Amortisation income from premiums on securities issued		9,287.66	8,570.67	*716.99*
Index-linking of OATs and BTANs	4.1	**-1,788.22**	**-4,440.75**	***2,652.54***
Net index-linking expenses		-1,788.22	-4,440.75	*2,652.54*
Buybacks or swaps		**-1,254.53**	**-539.00**	***-715.53***
Net expense		-1,254.53	-539.00	*-715.53*
Commission and fees related to debt management	4.2	**-11.48**	**-11.85**	***0.37***
Net expense		-11.48	-11.85	*0.37*
Net financial expense on financial debts		**-30,616.46**	**-34,612.83**	***3,996.37***
OTHER FINANCIAL DEBTS				
LOANS AND FORWARD FINANCIAL INSTRUMENTS ASSUMED FOR THIRD PARTIES				
SNCF loans assumed via the CDP		**-79.48**	**-79.39**	***-0.09***
Interest expense on borrowing		**-98.63**	**-98.63**	**-**
Interest expense on forward financial instruments		-	-	-
Interest income on forward financial instruments		19.15	19.24	*-0.09*
Expense related to the revaluation of contracts in foreign currencies		-	-	-
Income related to the revaluation of contracts in foreign currencies		-	-	-
Net financial expense on other financial debts		**-79.48**	**-79.39**	***-0.09***
FORWARD FINANCIAL INSTRUMENTS				
Interest expense on forward financial instruments		-3.74	-3.77	*0.03*
Other net income on forward financial instruments		1.45	0.08	*1.36*
Interest income on forward financial instruments		28.48	28.52	*-0.04*
Net interest income on forward financial instruments		**26.19**	**24.83**	***1.36***
CASH MANAGEMENT				
Interest expense		**-237.38**	**-190.17**	***-47.21***
Net interest expense on bank liquidity	4.3	-198.51	-152.94	*-45.57*
Interest expense on unsecured lending and borrowing on the interbank market		-35.36	-35.10	*-0.26*
Interest expense on unsecured lending and borrowing – other euro area States		-1.02	-	*-1.02*
Interest expense on unsecured lending and borrowing – supranational agencies		-0.24		*-0.24*
Interest expense on margin calls for repurchase agreements		-0.00	-	*-0.00*
Net interest expense on repurchase agreements		-0.18	-	*-0.18*
Interest expense on bond purchases		-2.08	-2.14	*0.06*
Interest income		**0.01**	**-**	***0.01***
Net interest income on bank liquidity	4.3	-	-	-
Interest income on unsecured lending and borrowing on the interbank market		0.01	-	*0.01*
Interest income on unsecured lending and borrowing – other euro area States		-	-	-
Interest income on margin calls for repurchase agreements		0.00	-	*0.00*
Net interest on repurchase agreements		-	-	-
Interest income on bond purchases		-	-	*0.00*
Net financial expense on cash management transactions		**-237.37**	**-190.17**	***-47.20***
NET EXPENSE		**-30,907.12**	**-34,857.56**	***3,950.43***

Off-balance sheet items

COMMITMENTS UNDER THE TERMS OF CLEARLY SPECIFIED AGREEMENTS	NOTES	AMOUNTS (IN € MILLION)	
		31/12/2019	31/12/2018
FORWARD FINANCIAL INSTRUMENTS	**3**		
Interest-rate swaps			
Macro-hedging	3.2	1,000.00	1,000.00
Micro-hedging	3.3	500.00	500.00
Forward currency contracts	**3.4**	**2,440.78**	**701.45**
Oil swaps*	**3.5**	**123.55**	**133.72**
OTHER LIABILITIES			
Credit lines	**2.3**	**6,000.00**	**6,000.00**
SNCF loans assumed via the CDP	**1.6**	**25,000.00**	**-**

** The transactions arising from oil swaps are carried out by the Finance Ministry Accounts Department on behalf of the Armed Forces Fuel Department. They are recorded as off-balance sheet transactions (see Note 3.5).*

II. Notes to the Financial Statements

II.1. Overview

Agence France Trésor was created by the Order of 8 February 2001 as an agency with national scope reporting to the Directorate General of the Treasury. Its task is to manage the State's debt and cash holdings under optimum security conditions and at the lowest long-term cost for taxpayers.

Since 2006, AFT has also been responsible for hedging certain financial risks on behalf of other Ministries or other departments of the Ministry for the Economy and Finance.

Therefore, in addition to managing the Government's debt and cash positions, it also carries out ancillary industrial and commercial transactions.
Budget transactions relating to AFT's management tasks are recorded in two trading accounts:

- budget transactions arising from management of the State's debt and cash holdings are recorded in Trading Account 903 "State Debt and Cash Management", which was opened under the terms of Article 22 of Constitutional Bylaw 2001-692 on Budget Acts of 1 August 2001
- transactions other than those recorded in Trading Account 903 are recorded in Trading Account 910 "Hedging the State's Financial Risks", which was opened under the terms of Article 54 of the 2006 Budget Act 2005-1719 of 30 December 2005

This means that all of the transactions conducted by AFT are recorded in the State's accounts and finalised in the State's general account.

AFT's financial statements are derived directly from the State's general account. They present the balance sheet and income statement items relating to AFT's transactions:

- the balance sheet items from the State's general account for transactions relating to the management of the State's negotiable debt and cash holdings
- the income statement items that show the impact of AFT's transactions on debt service
- along with a summary of off-balance sheet commitments relating to hedging the State's financial risks

However, the financial statements presented here do not include transactions on Treasury correspondents' accounts or transactions relating to non-negotiable debt, even though these transactions are part of Trading Account 903 in budgetary terms.

II.2. Highlights of 2019

AFT continued to enjoy favourable financing terms in 2019. The average yield on its medium-term and long-term issuance stood at 0.11%, compared to 0.53% in 2018. The cost of short-term borrowing remained negative throughout 2019, standing at -0.58% on average, compared to -0.60 in 2018.

Inflation weakened and medium- and long-term yields declined throughout the first part of the year in a lacklustre macroeconomic environment with many sources of uncertainty, such as Brexit difficulties, trade tension between the United States and China and slower growth in China and Germany. These factors caused most central banks to resume an accommodative stance.
In September 2019, the European Central Bank (ECB) announced the resumption of its net asset purchases and cut its deposit facility rate by 10 basis points from -0.40% to -0.50% and maintained the rate for its main refinancing operations at 0.00%.

The syndicated launch of a new bond was carried out in 2019. At the end of February, the inaugural issue of the OAT May 2050 allocated €7 billion, with demand for more than €31 billion.

II.3. Accounting principles and methods

1 - Accounting principles

The key accounting principles underpinning the State accounting standards and used for these financial statements are outlined below.

The **lawfulness** principle states that the accounts comply with the rules and procedures in force.
The probity principle states that the rules and procedures in force have been applied to present a true and fair view of the situation and the materiality of the events recorded.

The **true and fair** view principle states that the information provided is sufficient in all material aspects and gives the reader satisfactory knowledge. This principle means that supplementary information must be provided in the notes to the financial statements when the application of an accounting rule is not adequate to provide a true and fair view.

The **accrual** principle states that expense and income must be attached to an accounting period and must be reported in that period only.

The **going concern** principle states that the State will continue to conduct its activities for the foreseeable future.

The **consistency** principle ensures the continuity of accounting methods and the consistency of accounting information over successive periods. This is necessary for comparing periods.

Changes to accounting policies and methods should only be made if they help give a **truer and fairer** presentation of the financial statements. Any change that has a material impact on the results should be explained in the notes to the financial statements (see the provisions of Standard 14 – "Changes in accounting methods, changes in accounting estimates and adjustments").

The **full disclosure** principle states that the financial statements must be intelligible, material and accurate.

2 - Accounting standards

The accounting standards are set out in the State Accounting Standards Manual (RNCE) that was adopted by the Order of 21 May 2004, and last amended by the Order of 24 July 2018, as amended.

Standards 10 – "Cash items" and 11 – "Financial debts and forward financial instruments" are of particular relevance for AFT's transactions.

The latest amendment to these standards was introduced by the Order of 23 September 2015, published in the Official Journal on
25 September 2015, which implemented the relevant Notices 2015-06 and 2015-07 with immediate effect.

These standards apply to balance sheet items and the expense and income arising from the transactions are covered by Standard 2 "Expense and Standard 4 – "operating income, trading income and financial income".

3 - Recognition and measurement procedures

3.1 - Rules and methods applying to balance sheet items

3.1.1 - Cash management

Assets and liabilities are first recognised at their acquisition cost, excluding ancillary charges. Various ancillary assets and liabilities are attached to each asset and liability item.

Cash position: the cash position refers to all assets that are by nature immediately convertible to cash at their par value. The cash position is recognised in the financial statements for the accounting period in which the corresponding assets are acquired:

- transfers received and automatic credits and debits are recognised when they are posted to the bank account
- transfers sent and in transit are recognised when the transfer order is issued

The cash position may generate positive and/or negative returns, but accrued interest is recognised for the net amount, which may be negative, and attached to the relevant asset.

The cash position in foreign currencies is converted to euros at the end of the accounting period on the basis of the last spot exchange rates of the period. Currency translation adjustments are recognised in the income statement for the period.

Investment securities: these are the financial instruments defined in the Monetary and Financial Code (Articles L.211-1 and L.211-2).
They are recognised during the accounting period when they were acquired and ancillary acquisition costs are recognised as an expense.
At the end of the accounting period, the difference between the inventory value (represented by the market value) and the cost may show unrealised capital gains or losses.
Unrealised capital losses are recognised as impairment of assets and they are not offset against unrealised capital gains.

In the case of securities with prepaid interest, the difference between the purchase price and the par value of the securities corresponds to the financial income recognised in the income statement. Securities may generate positive and/or negative returns, and the net amount of accrued interest, which may be negative or positive, is attached to the relevant asset.

Other cash items: these are securities that can be realised in the very short-term with no risk of a change in value, such as:

- claims arising from repurchase agreements in State securities or equivalents or from unsecured lending and borrowing
- debts arising from reverse repurchase agreements in State securities or equivalents or from unsecured lending and borrowing
- debts arising from the use of overdraft facilities

These claims and debts are recognised when the funds are transferred and for the amount transferred. Claims and debts arising from unsecured lending and borrowing are recognised for the nominal amount deposited. Liabilities arising from lines of credit are recognised for the proportion of the authorised amounts actually drawn. Any drawing on a line of credit will have an impact on the financial commitment received in the off-balance sheet.

3.1.2 - Financial and non-financial debts

3.1.2.1 - Negotiable debt securities

The government's financial debts are recognised in the accounts:

- if they constitute a definite debt
- if they can be measured reliably

Financial debts are recognised in the financial statements for the period in which the securities were issued or the loans were contracted and the corresponding funds were received or taken over on behalf of third parties.

The debts are recognised at their redemption value, which generally corresponds to their par value.

Negotiable government securities include the various instruments listed below.

Capitalisation OATs: the counterpart to the annual interest payments is recognised as part of the financial debt payable at the end of the accounting period.

Index-linked securities (OATi and OAT€i, linked to the index of consumer prices): are recognised at their redemption value, which corresponds to their index-linked par value at the time of issue, at the end of each accounting period and at maturity.

If the par value of an index-linked security is guaranteed to be the redemption value, the liability recognised cannot be less than 100% of the par value.

The index-linking supplement at the time of the issue of index-linked securities is recognised as either a gain corresponding to the portion of the index-linking supplement collected by the State, or as a loss corresponding to the proportion of the index-linking supplement paid by the State. This supplement is recognised in a separate liability account from the par value.

The index-linking supplements calculated over the life of the securities are recognised as financial expenses if the index rises or as financial income if the index falls.

Since the last BTAN was redeemed in July 2017, AFT has issued medium- and long-term securities only in the form of OATs, OATis and OAT€is.

Fixed-rate discount Treasury bills (BTFs): the difference between the issue price and the par value is recognised as a financial expense in the income statement. Securities may generate positive and/or negative yields, and the net amount of accrued interest, which may be negative or positive, is recognised as a liability.

Securities with annual coupons (OATs): accrued interest is recognised in the income statement at the end of the accounting period.

3.1.2.2 - Premiums, discounts, related expenses and accrued interest at the time of issue

Premiums and discounts: new issues of fungible securities are attached to the existing securities and the price of the new tranches is adjusted to suit market conditions. The difference between the issue price and the par value is a premium or a discount that reduces or increases the State's financial expense.

Premiums are recognised as prepaid income under non-financial debt on the liability side of the balance sheet and discounts are recognised as prepaid expenses under current assets on the asset side of the balance sheet.
Premiums and discounts are recognised in the income statement at the end of the accounting period using the actuarial valuation method over the life of the security.
Premiums and discounts that have not been amortised must be recognised in the income statement on the redemption date.
Extraordinary premium and discount payments are recognised for securities buybacks, using the "first-in-first-out" method.

Issuance expense: this expense includes commissions paid to financial intermediaries (underwriting commissions on OAT auctions for retail investors, syndication commissions on syndicated bonds).

They are initially recognised as prepaid expenses on the asset side of the balance sheet.

They are amortised in the income statement using the straight-line method over the life of the relevant issues. Straight-line amortisation is used because it does not produce significantly different values in the income statement from those obtained using the actuarial valuation method.

Accrued interest at issue: if the issue date of a security is different from the coupon date of the tranche, the subscriber pays the interest accruing between the annual coupon payment date and the date of issue. The interest accruing between the coupon payment date and the issue date is paid and recognised as an account payable on the liability side of the balance sheet.

3.1.2.3 - Securities buybacks

When a security buyback occurs, the difference between the buyback value and the par value, which may be index-linked, including the unamortised portion of the premium or discount as of the buyback date, is recognised as financial expense or income in the income statement.

3.1.2.4 - Debts assumed for third parties

Debts assumed for third parties are recorded on the balance sheet as the counterpart to a financial expense equal to the redemption value of the loan, plus, as appropriate, ancillary items, such as accrued interest on the date the debt was assumed.

3.1.2.5 - Borrowings in foreign currencies

Borrowing is recognised at the par value on the date the funds are received using the exchange rate of that day. At the end of the accounting period, the par value of the borrowing is recognised using the exchange rate of that day and currency translation adjustments are recognised as an unrealised gain or loss in the income statement.
Accrued interest in foreign currencies is recognised at the current exchange rate and recorded in the income statement at the end of the accounting period.
Accrued interest at maturity is recognised in the income statement at the exchange rate on the payment date.

3.1.2.6 – Adjustments

No adjustments were made to the starting balance for 2019.

3.1.3 - Forward financial instruments

Forward financial instruments are contracts under which one of the counterparties undertakes vis-à-vis the second to deliver or take delivery of an underlying asset, or to pay or receive a price differential on or before a given expiry date.
The notional amounts of the contracts are not recognised on the balance sheet, regardless of whether they are to be paid at maturity. However, they are reported in a note to the financial statements.
The accounting treatment depends on whether the transaction is classified as a hedging contract.

3.1.3.1 - Hedging transactions

A hedging transaction consists of matching an asset or liability and a hedging instrument to mitigate the risk of an adverse impact on the State's future income or financial flows.

Recognition of a forward financial instrument used in a hedging operation is symmetrical to the hedged asset or liability on the balance sheet and in the income statement.

Realised and unrealised income and expense, along with the cash settlements are recognised in the income statement symmetrically to the recognition of income and expense on the hedged asset or liability.

Changes in the value of hedging instruments are not recognised on the balance sheet, unless partial or full recognition of the changes ensures symmetrical recognition of the hedged asset or liability.

The different hedging strategies are listed below.

Macro-hedging swaps: the State implements this management strategy over the entire life of financial debt to reduce the average interest expense in the long run, in exchange for an average increase in the variability of this expense in the short term.

Forward currency purchases and oil hedging contracts: AFT hedges foreign currencies and oil on behalf of other departments of the Ministry for the Economy and Finance or other Ministries.

These transactions are classified as hedging transactions in the State's general account and the impact of the hedging is recognised symmetrically in the income statement for the hedged asset or liability.

Since AFT does not manage the hedged assets and liabilities, the impact of the forward financial instruments is not recorded in its own financial statements. The notes to the financial statements report only contracts with external counterparties and their market value, along with the transactions conducted during the accounting period and their result.

3.1.3.2 - Transactions that cannot be classified as hedging transactions

When a transaction cannot be shown to be a hedging transaction, it is recognised as an isolated open position. Changes in the value of the relevant forward financial instrument are recognised on the balance sheet as a counterpart to an item under net financial expense in the income statement.

3.1.3.3 – Margin calls paid and/or received on forward financial instruments

Margin calls are made to secure repurchase agreements and forward financial instrument transactions to hedge against counterparty risk.

A margin call is paid or received, depending on whether the value of the instrument rises or falls.

Margin calls are recognised as claims or debts since the State or the counterparty must repay them. They are recognised for the amount corresponding to the change in the value of the instruments, up to a limit set by contract. These sums bear interest.

3.2 - Rules and methods applying to income statement items

3.2.1 - Recognition criterion

3.2.1.1 – Expense

Financial expense is generated by financial debt, forward financial instruments and cash.

In the case of interest recognised as a financial expense, the prorated interest accruing to the third party is recognised.

Losses recorded as financial expense are recognised when they are realised, except in the case of losses on forward financial instruments used for hedging, which are recorded when the income on the hedged liability or asset is recognised, starting on the expiry date of the contract.

For discounts recorded as financial expense, the portion of the discount for the period calculated using the actuarial valuation method is recognised.

3.2.1.2 – Income

Financial income is earned on financial debt, forward financial instruments and cash.
It does not include currency translation gains from transactions other than those related to the State's financing and cash management.

The income from such gains is recognised in the period when it accrues to the State, provided that the income for the period or the income from the transaction can be measured accurately.

For **financial income** in the form of interest: the prorated interest accruing to the State during the period is recognised.

Currency translation gains arising from financial debts and forward financial instruments denominated in foreign currencies:

- are recognised when the gains are realised in the case of financial debt, cash and forward financial instrument transactions that are not classified as hedging transactions,
- gains on forward financial instruments used for hedging are recognised when the expense on the hedged liability or asset is recognised, starting on the expiry date of the contract.

The **amortised portion of premiums** calculated for the period using the actuarial valuation method is recognised.

II.4. Notes

1 - Financial and non-financial debts

1.1 - Change in medium- and long-term negotiable financial debt

At 31 December 2019, financial debt stood at €1,732,235.71 million, compared to €1,660,543.77 million in 2018, marking an increase of €71,691.93 million.

CHANGES IN MEDIUM- AND LONG-TERM NEGOTIABLE DEBT SECURITIES IN 2019: (IN € MILLION)	OATs			TOTAL LONG-TERM SECURITIES
	FIXED-RATE OATs	VARIABLE-RATE OATs	TOTAL	
Long- and medium-term negotiable debt securities at 31 December 2018	1,439,607.50	220,936.28	*1,660,543.77*	*1,660,543.77*
of which par value	1,423,898.58	194,761.14	*1,618,659.73*	*1,618,659.73*
of which index-linking supplement, interest, accrued coupons and similar debt	15,708.91	26,175.13	*41,884.05*	*41,884.05*
CHANGE IN PAR VALUE (1)	**65,595.91**	**5,503.00**	***71,098.91***	***71,098.91***
Increases	228,323.00	17,293.00	*245,616.00*	*245,616.00*
of which auctions	221,323.00	17,293.00	*238,616.00*	*238,616.00*
of which syndicated	7,000.00		*7,000.00*	*7,000.00*
Reductions	162,727.09	11,790.00	*174,517.09*	*174,517.09*
of which redemptions	117,211.09	9,870.00	*127,081.09-*	*127,081.09-*
of which buybacks	45,516.00	1,920.00	*47,436.00*	*47,436.00*
CHANGE IN ACCRUED INTEREST AND SIMILAR DEBT (2)	**-693.35**	**1,286.37**	***593.02***	***593.02***
Increases	15,019.84	3,941.21	*18,961.05*	*18,961.05*
of which index-linking supplement		2,611.50	*2,611.50*	*2,611.50*
of which accrued and capitalised interest	14,693.38	1,321.15	*16,014.53*	*16,014.53*
of which accrued coupons	326.45	8.57	*335.02*	*335.02*
Reductions	15,713.19	2,654.84	*18,368.03*	*18,368.03*
of which index-linking supplement		1,302.94	*1,302.94*	*1,302.94*
of which accrued and capitalised interest	15,439.45	1,343.11	*16,782.57*	*16,782.57*
of which accrued coupons	273.74	8.79	*282.53*	*282.53*
IN LONG- AND MEDIUM-TERM NEGOTIABLE DEBT SECURITIES (1) + (2)	**64,902.56**	**6,789.37**	***71,691.93***	***71,691.93***
Long- and medium-term negotiable debt securities at 31 December 2019	1,504,510.06	227,725.65	*1,732,235.71*	*1,732,235.71*
of which par value	1,489,494.50	200,264.14	*1,689,758.64*	*1,689,758.64*
of which index-linking supplement, interest, accrued coupons and similar debt	15,015.56	27,461.50	*42,477.06*	*42,477.06*

1.2 - PREMIUMS AND DISCOUNTS ON OATs

Premiums are recorded as liabilities on the balance sheet and discounts as assets in the form of prepaid income or expenses to be amortised over the life of the security.

AMORTISATION OF PREMIUMS AND DISCOUNTS ON OATs (IN € MILLION)					
PREMIUMS	ITEMS FROM "PREPAID INCOME"	AT 31 DECEMBER 2018 (1)	ISSUE PREMIUMS (2)	AMORTISATION OF ISSUE PREMIUMS (3)	AT 31 DECEMBER 2019 (1) + (2) - (3)
	Fixed-rate OATs	61,080	19,205	7,598	72,687
	Variable-rate OATs	12,047	2,189	1,690	12,546
	TOTAL PREMIUMS	73,127	21,394	9,288	85,233
DISCOUNTS	ITEMS FROM "PREPAID INCOME"	AT 31 DECEMBER 2018 (1)	ISSUE DISCOUNTS (2)	AMORTISATION EXPENSE FOR DISCOUNTS (3)	AT 31 DECEMBER 2019 (1) + (2) - (3)
	Fixed-rate OATs	8,467	241	1,184	7 524
		561	-	90	472
	TOTAL DISCOUNTS	9,028	241	1,274	7,996

1.3 - Short-term negotiable debt securities

Fixed-rate Treasury bills (BTFs) are the instruments used for short-term borrowing.
At 31 December 2019, BTFs represented debt of €106,933 million, down by more than 6% or €5,967 million compared to 2018.

CHANGE IN THE PAR VALUE OF SHORT-TERM NEGOTIABLE SECURITIES IN 2019 (IN € MILLION)	
SHORT-TERM NEGOTIABLE DEBT SECURITIES AT 31 DECEMBER 2018	112,900.00
Increases	**253,938.00**
of which auctions	253,938.00
Reductions	**259,905.00**
of which buybacks	-
of which redemptions	259,905.00
CHANGE IN THE PAR VALUE	-5,967.00
SHORT-TERM NEGOTIABLE DEBT SECURITIES AT 31 DECEMBER 2019	106,933.00

1.4 - Maturity structure of negotiable debt securities

PAR VALUE OF NEGOTIABLE DEBT SECURITIES AT 31 DECEMBER 2019 (IN € MILLION)		BREAKDOWN BY MATURITY			
		LESS THAN 1 YEAR (IN € MILLION)	1 YEAR TO 2 YEARS (IN € MILLION)	2 YEARS TO 5 YEARS (IN € MILLION)	MORE THAN 5 YEARS (IN € MILLION)
Long- and medium-term negotiable debt securities	**1,689,758.64**	**130,458.00**	**140,318.00**	**440,121.14**	**978,861.51**
Fixed-rate OATs	1,489,494.50	110,248.00	124,952.00	384,301.14	869,993.36
Variable-rate OATs	200,264.14	20,210.00	15,366.00	55,820.00	108,868.14
Fixed-rate BTANs	-	-	-	-	-
Variable-rate BTAN	-	-	-	-	-
Short-term negotiable debt securities BTFs	**106,933.00**	**106,933.00**	**-**	**-**	**-**
BTF	106,933.00	106,933.00	-	-	-
TOTAL NEGOTIABLE DEBT SECURITIES	1,796,691.64	237,391.00	140,318.00	440,121.14	978,861.51

1.5 - Market value of negotiable debt securities

MARKET VALUE OF NEGOTIABLE DEBT SECURITIES AT 31 DECEMBER 2019 (IN € MILLION)			
SECURITIES	**VALUE EXCLUDING ACCRUED INTEREST**	**ACCRUED INTEREST**	**TOTAL VALUE**
OAT	2,029,890	16,345	**2,046,235**
BTF	107,141	-	**107,141**
TOTAL	**2,137,031**	**16,345**	**2,153,376**

1.6 - Debts assumed for third parties

SNCF-SAAD

The 2007 Supplementary Budget Act authorised the assumption of the SNCF's debt in the special debt account (SAAD), through contracts with the Public Debt Fund (Caisse de la Dette Publique). This debt comprised euro-denominated loans (€6,346 million) and foreign-currency loans (€1,515 million) hedged with forward financial instruments.

The debts assumed stood at €1,407.07 million on 31 December 2019, with no change from 2018.

The balance of the outstanding positions at 31 December 2019 corresponds to the debts presented below:

SNCF BORROWINGS AND FORWARD FINANCIAL INSTRUMENTS ASSUMED THROUGH THE PUBLIC DEBT FUND AT 31 DECEMBER 2019 (IN € MILLION)					
BONDS OR FORWARD FINANCIAL INSTRUMENTS	**MATURITY DATES**	**AMOUNTS**	**AMOUNTS BY MATURITY**		**ACCRUED INTEREST**
			LESS THAN 1 YEAR	**1 TO 5 YEARS**	
Borrowings	3 June 2020	500.00	500.00	-	10.50
	11 August 2023	907.07	-	907.07	31.31
TOTAL		**1,407.07**			**41.81**

SNCF Réseau

Article 229 of Budget Act 2019 1479 of 28 December 2019 for 2020 stipulates that:

"I. – The Public Debt Fund shall be authorised to contract any euro-denominated lending or borrowing with SNCF Réseau up to the limit of €25 billion in principal to be reimbursed, including the specified index-linking supplements in the case of borrowing linked to inflation.

II. - The State shall be authorised as of 1 January 2020 to assume the rights and obligations relating to the loans contracted with the Public Debt Fund by SNCF Réseau up to the limit of €25 billion in principal to be reimbursed, including the specified index-linking supplements in the case of borrowing linked to inflation.

III. - The transactions carried out under the provisions of II of this article shall be recorded directly in the SNCF Réseau balance carried forward and shall not give rise to the collection of any taxes or duties of any nature whatsoever."

The assumption of the debt is implemented using technical procedures that are analogous to the ones used in 2007 for the assumption of the SNCF-SAAD debt. These procedures involve contracting matching loans for €25 billion with identical characteristics between the Public Debt Fund and SNCF Réseau. The novation of one of the loan contracts, in accordance with the Order of 30 December 2019 enacting the assumption of the SNCF Réseau debt by the State, substitutes the State for SNCF Réseau as the debtor to the Public Debt Fund. As a result, the State meets the principal and interest payments each year under the terms of the loan contract between it and the Public Debt Fund, and the latter does the same with regard to SNCF Réseau.

The off-balance sheet commitments on 31 December 2019 include the €25 billion debt assumed.

1.7 – Margin calls

The net amount of deposits received as a result of margin calls stood at €97.36 million at 31 December 2019.

2 - Cash management

2.1 - Investment securities

At 31 December 2019, these securities consisted of commercial paper purchased from ACOSS for €5 billion.
In 2019, the State purchased €22.93 billion in interest-bearing commercial paper, including €5 billion contracted in December 2019 and repaid in January 2020.

2.2 - Other cash items

The bulk of these items are short-term investments made to optimise cash management, including €15.3 billion in deposits on the interbank market, which were up by €5.4 billion. These investments consist of very-short-term lending.

2.3 - Cash lines of credit

AFT has lines of credit with primary dealers worth a total of €6 billion that it may use for the purpose of securing the balance on the Treasury's current account with the Banque de France.

3 - Forward financial instruments

3.1 - Market value of forward financial instruments

MARKET VALUE OF FORWARD FINANCIAL INSTRUMENTS (IN € MILLION)		
FORWARD FINANCIAL INSTRUMENTS	**PAR VALUE**	**MARKET VALUE**
Interest-rate swaps		
Macro-hedging	1,000	50
Micro-hedging	500	19
Forward currency contracts	2,441	22
Oil swaps	124	4

3.2 - Proactive debt and cash management (macro-hedging)

Since September 2002, the programme to reduce the average life of debt through interest-rate swaps has been suspended due to market conditions, in particular low long-term interest rates. Consequently, no transactions were conducted in 2019 that increased the portfolio of swaps.

3.3 - Micro-hedging interest-rate swaps

The amounts relate to interest-rate swaps for the assumed SNCF debt.
At 31 December 2019, only the €500-million debt was hedged by means of an interest-rate swap.

3.4 - Foreign exchange hedging

This item relates to forward exchange transactions consisting of purchases or sales of foreign currencies at exchange rates that are fixed from the outset and where the period between the trade date and the settlement date is longer than the usual two days.
AFT conducts such transactions on behalf of others and they do not have any impact on these financial statements.
In 2019, forward purchases of foreign currencies for euros settled for a total value of €681.59 million against a total of USD772.74 million and CHF35 million.

The table below shows the amounts of foreign exchange transactions outstanding at the end of the accounting period:

CLOSING DATES	EUROS PAYABLE TO PRIMARY DEALERS IN EXCHANGE FOR FOREIGN CURRENCY RECEIVABLES (IN €M)	US DOLLARS RECEIVABLE FROM PRIMARY DEALERS AND PAYABLE TO FINAL BENEFICIARIES (IN $M)	CHF RECEIVABLE FROM PRIMARY DEALERS AND PAYABLE TO FINAL BENEFICIARIES (IN CHFM)	SPOT MARKET VALUE IN €M	UNREALISED FOREIGN EXCHANGE GAINS IN €M
31/12/2018	701.45	838.44	35.00	762.96	61.51
31/12/2019	2,440.78	2,831.13	35.00	2,553.19	112.42

3.5 - Oil swaps

Oil swap contracts are recognised as off-balance sheet items by the department requesting the hedge and the financial transfers are carried out by the Finance Ministry Accounts Department. Therefore, they have no impact on these financial statements and are mentioned for informational purposes only.

AFT hedges oil supplies for the Military Fuel Unit (SEA) at the Ministry of Defence.

Since 2012, commodity swaps have been used for hedging, instead of the call options previously used. The swap contracts used as a hedge against oil price fluctuations exchange a fixed price set out in the contract against a variable price corresponding to the average market price over one month.

There were new trades involved underlying purchases totalling €65.6 million in 2019.

4 - Financial expense and income

4.1 - Financial expense on negotiable debt securities

Three elements make up the financial cost of the State's negotiable debt securities: interest payments, amortisation of issue discounts and premiums and index-linking supplements.

a. Interest is prepaid at the time of issue for BTFs, or paid on the annual coupon dates for OATs.

The total interest expense on negotiable securities stood at €35,575.90 million in 2019. It was €1,328.42 million less than in 2018. The variation stems primarily from falling coupon yields on medium- and long-term bonds in recent years. This decrease more than offsets the increase in the debt volume.

b. The issue discount or premium, which is the difference between the issue price and the par value, is the result of the difference in the coupon yield of the bond and the yield demanded at the time of issue. Amortisation of the premium or discount is recognised in the income statement over the life of the bond. The total financial expense (amortisation and coupon payments) corresponds to the yield demanded at the time of issue (see 3.1.2.2 Accounting principles and methods).

Amortisation of premiums and discounts resulted in net financial income of €8,013.66 million in 2019. This marks an increase of €730.57 million compared to the equivalent income in 2018. The increase results in part from the large issue premiums recorded in recent years, which increased the stock of premiums to be amortised.

c. The index-linking income or expense corresponds to the variation in the principal amount to be redeemed, which depends on changes in an index. The two indices used for government bonds are the French Index of Consumer Prices excluding tobacco and the euro area index of consumer prices. NB: Index linking means that the yields at issue of such bonds are lower than those of other bonds. Index-linked yields are "real" yields that do not include the inflation premium of nominal yields.

Net index-linking expense came to €1,788.22 million in 2019, representing a decrease of €2,652.54 million as inflation fell in 2019.

4.2 - Commission and fees related to debt management

This item records syndication commission paid to the primary dealers that are members of syndicates. This commission is amortised over the life of syndicated bonds. This item also includes fees charged by Euroclear, which is the depositary for the securities issued by the State, and communication expenses directly related to debt management.

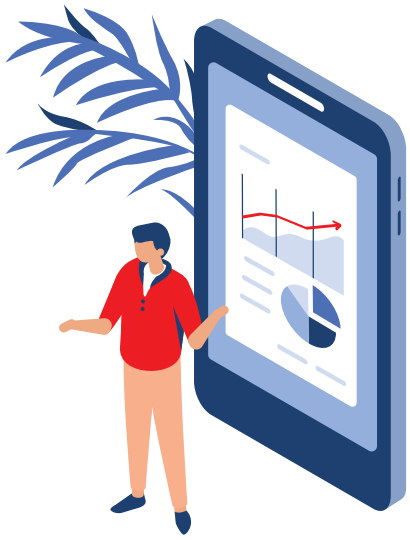
4.3 - Interest income and interest expense on the current account with the Banque de France

The State holds a single account with the Banque de France, which is broken down into different operating accounts. The Banque de France pays the State interest on the daily balance on the current account.

The European Central Bank's Decision (EU) 2019/670 and Guideline (EU) 2019/671 defined the following procedures for the remuneration of general government entities' deposits with national central banks:

- below a jointly defined threshold, the rate of remuneration for overnight deposits is the Euro Overnight Index Average (EONIA), which will be replaced by the Euro short-term rate (€STER) in 2022
- deposits in excess of a jointly defined threshold not exceeding 0.04% of GDP are remunerated at zero per cent on any day in the year. If the deposit facility rate is negative, it will be applied to these deposits
- if the market rate indicated in the 1st item above is lower than the rate applied under the terms of the 2nd item above, all deposits shall be remunerated at the market rate.

Since 1 July 2019, the daily balance on the current account has earned the EONIA up to a threshold of €788 million. The net expense relating to interest on the Banque de France account stood at €198.51 million in 2019.



II.5. Events since closing

The COVID-19 pandemic has affected the economic situation and public finances. More specifically, it has resulted in a revision of the State financing programme for 2020.

AFT is fully primed to carry on its activities during the health crisis and has taken the necessary steps to protect the health of its employees and its other stakeholders. AFT has made a special commitment to implementing the measures and actions deemed to be the most appropriate and necessary for continuing its activities in compliance with the authorities' decisions. The internal control and information system security rules have been applied and maintained throughout the entire crisis. The solutions implemented protect the security of our procedures and the reliability of our operations.

This event occurred after the close of the 2019 financial year and has no direct link to any situation in existence before the close. It has no impact on the financial statements at 31 December 2019.

When the State's 2019 financial statements were published on 7 May 2020, Parliament had passed two Supplementary Budget Acts for 2020, one on 23 March and the second on 25 April 2020. The impact of the health crisis and the measures to support the economy the Government announced in response increased the borrowing requirement by €94.1 billion compared to the Initial Budget Act for 2020. The fiscal deficit has deepened to €185.5 billion, compared to the deficit of €93.1 billion set out in the Initial Budget Act for 2020.

Under the circumstances, the Minister for the Economy and Finance set out the details of the revised financing programme for 2020. Medium- and long-term issuance, net of buybacks, will stand at €245 billion (an increase of €40 billion compared to the Initial Budget Act for 2020) and the issuance of short-term Treasury securities (BTFs) will stand at €64.1 billion (an increase of €54.1 billion compared to the Initial Budget Act for 2020).

Statistical **Report**

Negotiable government debt

Non-resident holdings

In % at year-end	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total securities	**67.8%**	**67.0%**	**64.0%**	**61.9%**	**63.5%**	**63.6%**	**61.9%**	**58.3%**	**54.5%**	**52.3%**	**53.6%**
Medium-and long-term issuance (BTANs & OATs)	66.2%	64.2%	61.8%	60.7%	61.5%	61.6%	60.0%	56.0%	52.1%	50.1%	51.9%
Short-term issuance (BTFs)	75.3%	83.9%	79.6%	72.0%	79.9%	82.1%	82.8%	88.6%	89.8%	89.2%	87.1%

Source: Banque de France

Outstanding interest rate swaps

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
OUTSTANDING DEBT (IN € MILLION)	**1,147,985**	**1,228,971**	**1,312,980**	**1,386,154**	**1,457,220**	**1,527,562**	**1,576,372**	**1,620,597**	**1,686,112**	**1,756,400**	**1,822,805**
Medium-and long-term issuance (BTANs & OATs)	933,865	1,041,833	1,135,184	1,219,554	1,283,377	1,352,277	1,423,699	1,486,672	1,559,639	1,643,500	1,715,872
index-linked securities (1)	147,831	159,433	165,914	173,030	173,660	189,258	190,390	199,528	201,742	219,584	226,396
Short-term issuance (BTFs)	214,120	187,138	177,796	166,600	173,843	175,285	152,673	133,925	126,473	112,900	106,933
OUTSTANDING SWAPS (IN €M)	**20,362**	**15,562**	**12,500**	**10,450**	**6,900**	**5,800**	**5,800**	**1,000**	**1,000**	**1,000**	**1,000**
Maturity (before swaps)	6 years	7 years	7 years	7 years	7 years	6 years	7 years	7 years	7 years	7 years	8 years
	246 days	68 days	57 days	37 days	5 days	363 days	47 days	195 days	296 days	366 days	63 days
Maturity (after swaps)	6 years	7 years	7 years	7 years	7 years	6 years	7 years	7 years	7 years	7 years	8 years
	233 days	60 days	52 days	34 days	2 days	362 days	47 days	195 days	296 days	366 days	63 days

Source: Agence France Trésor, Banque de France

(1) For these securities, the Government's actual commitment on a given date is equal to the par value multiplied by the index-linking coefficient for that date; at end-2019, the index-linking commitment stood at €26.1 billion.

Negotiable government debt data

Negotiable debt outstanding

Par value: **€1,796.7 billion** at end-2019 (up by €65.1 billion compared with end-2018) including:

- €1,715.9 billion medium- and long-term debt (OATs)
- €106.9 billion short-term debt (BTFs)

Renewal of medium- and long-term debt

Renewal in 2019 of **10.8%** of the debt outstanding at end-2018

(**€175 billion** redeemed or bought back out of €1,619 billion outstanding at end-2018)

Average residual maturity

8 years and 63 days at end-2019

Swaps

€1 billion outstanding at end-2019

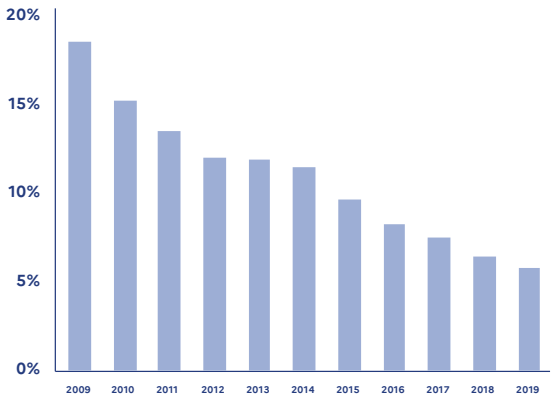
The swaps programme was still suspended.

Non-resident holdings

53.6 % at end-2019

BTFs as a share of outstanding negotiable state debt

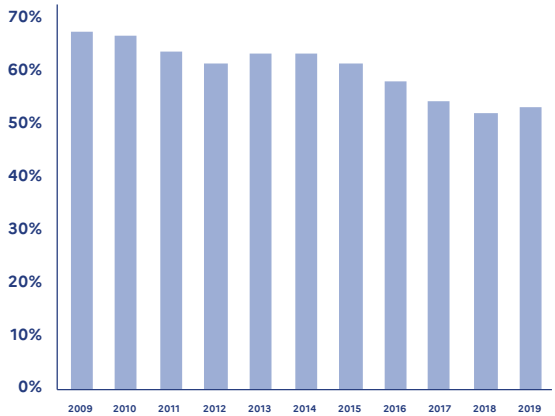
Residual maturity in years and share in % at year-end



Source: Agence France Trésor

Non-resident holdings of negotiable debt securities

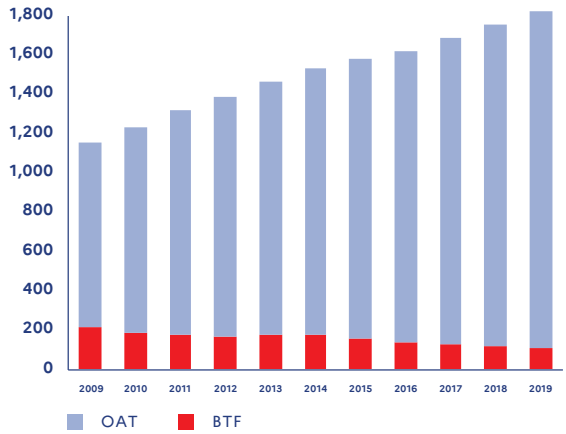
In % at year-end



Source: Banque de France

BTFs and OATs outstanding

Outstanding in € billion at year-end



Source: Agence France Trésor

Medium- and long-term debt

Medium- and long-term debt data

Redemptions in 2019

Fixed-rate securities **€117.2 billion** in redemptions (par value)

Index-linked securities **€11.7 billion + €1.3 billion** in index linking supplements

Issuance in 2019

32 auctions in 2019

1 syndicated issue (inaugural issue of a new 30-year bond, OAT 1.50% 25 May 2050, in February 2019)

Fixed-rate securities **€228.3 billion** (par value)

Index-linked securities **€17.3 billion** (par value)

Average bid-to-cover ratio*: **2.35**

** Bid amount to amount auctioned before non-competitive tenders*

Buybacks in 2019

€45.6 billion (par value)

New bonds issued in 2019

2 NEW FIXED-RATE MEDIUM-TERM OATs	
2 years	OAT 0.00% 25 February 2022
5 years	OAT 0.00% 25 March 2025
3 NEW FIXED-RATE LONG-TERM OATs	
10 years	OAT 0.50% 25 May 2029
10 years	OAT 0.00% 25 November 2029
30 years	OAT 1.50% 25 May 2050
1 NEW INDEX-LINKED BOND	
France	OAT€I 0.10% 1 March 2029

AVERAGE YIELD AT ISSUE OF FIXED-RATE SECURITIES		
	ALL MATURITIES	10-YEAR MATURITIES
2019	**0.11%**	**0.23%**
2018	0.53%	0.81%
2017	0.65%	0.83%
2016	0.37%	0.48%
2015	0.63%	0.93%
2009-2014 average	2.17%	2.84%
1998-2008 average	4.15%	4.44%

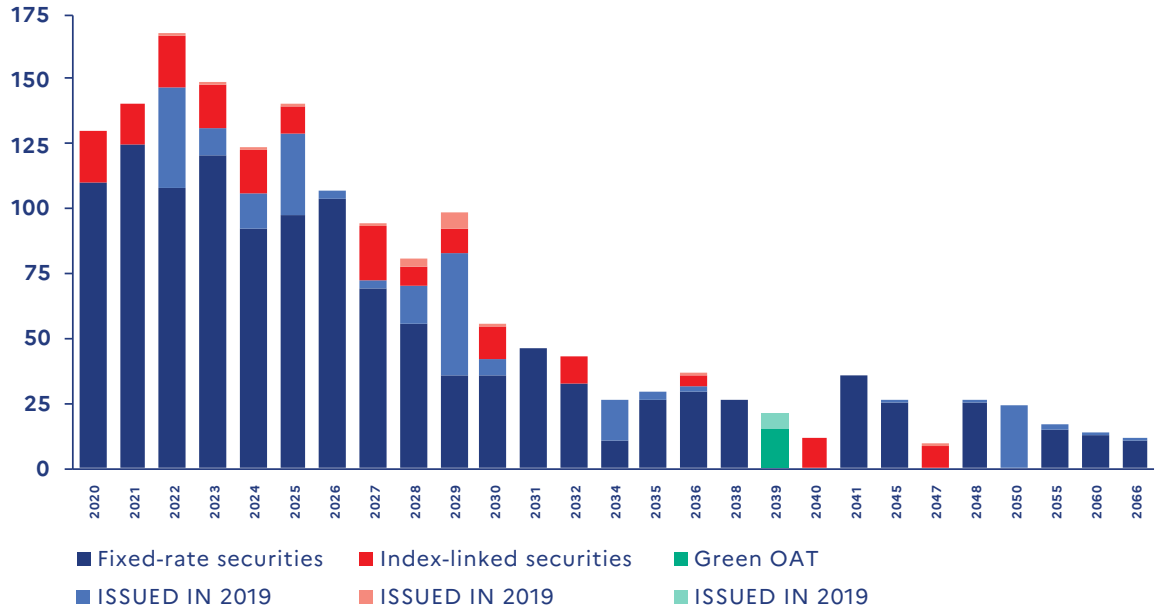
Outstanding amounts and flows of medium- and long-term debt

In € million	PAR VALUE		
	FIXED-RATE SECURITIES	INDEX-LINKED SECURITIES	TOTAL
OUTSTANDING AT END 2018 (1)	1,423,899	194,761	1,618,660
Issuance	228,323	17,293	245,616
auctions	221,323	17,293	238,616
syndicated issues	7,000	–	7,000
Buybacks (2)	45,516	100	45,616
over the counter	45,516	100	45,616
reverse auctions	–	–	–
ISSUANCE NET OF BUYBACKS	**182,807**	**17,193**	**200,000**
Redemptions	117,211	11,690	128,901
NET FLOWS	**65,596**	**5,503**	**71,099**
OUTSTANDING AT END 2019 (1)	**1,489,495**	**200,264**	**1,689,759**

Source: Agence France Trésor
(1) Outstanding par value issued, not including index-linking supplements, unlike the outstanding amounts shown in other tables.
(2) Excluding buybacks of securities maturing during the year, which are recognised as redemptions.

Breakdown of medium and long-term debt as of 31 december 2019

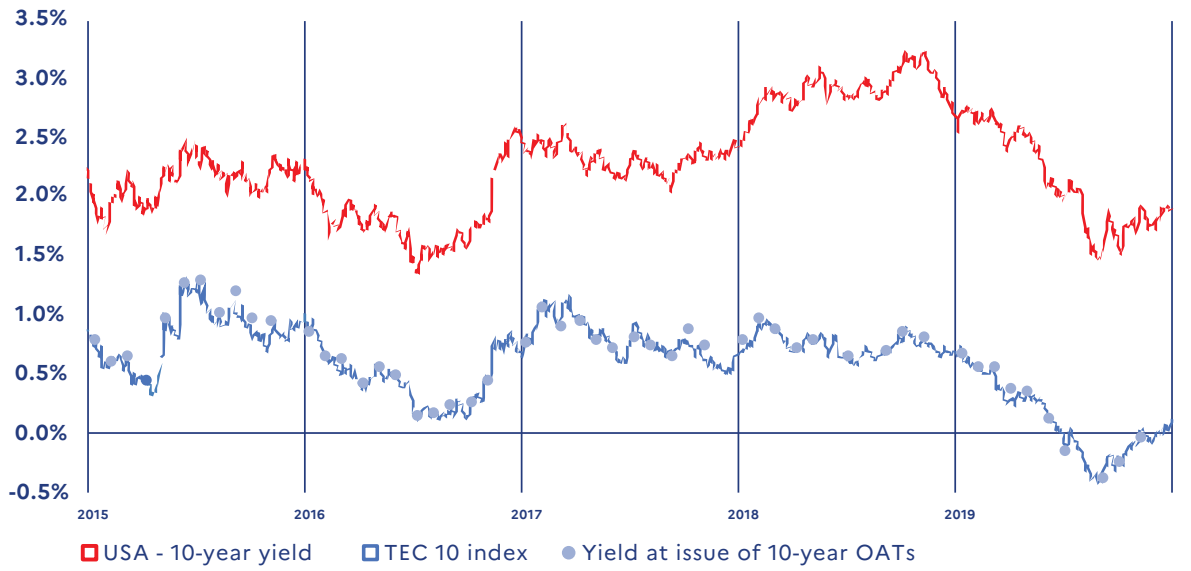
Par value (in € billion)



Source: Agence France Trésor

Long-term yields

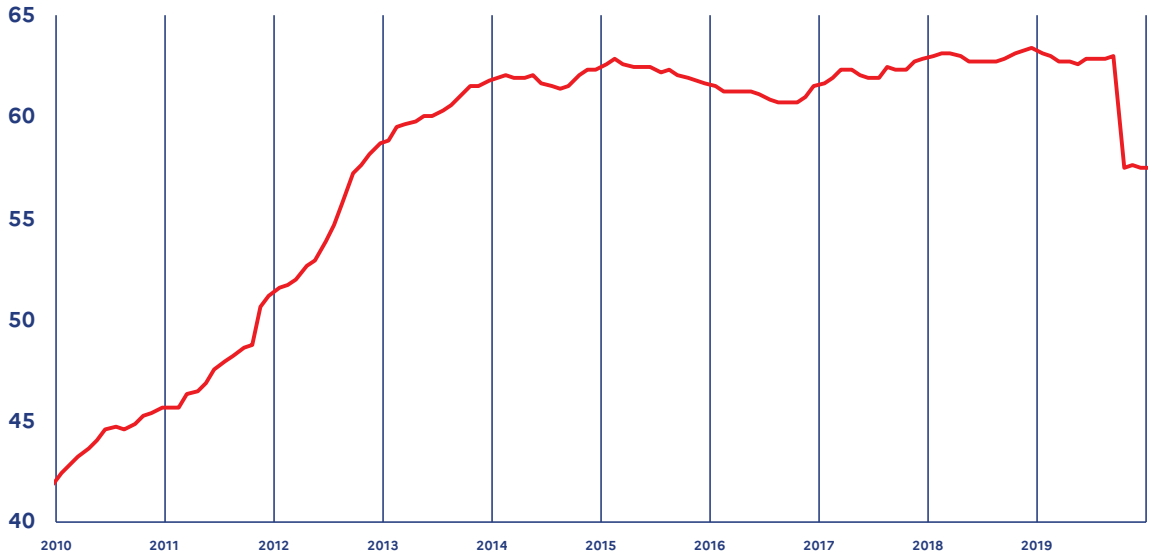
In %



Source: US Treasury, Banque de France, Agence France Trésor

Strips outstanding

(€ billion)



Source: Euroclear

Details of medium- and long-term securities trading in 2019

In € million	OUTSTANDING END-2018	ISSUANCE IN 2019	BUYBACKS 2019	OUTSTANDING AT END-2019
OAT 0.00% 25 February 2020	22,335	–	7,245	15,090
OAT 3.50% 25 April 2020	37,246	–	10,985	26,261
OAT 0.00% 25 May 2020	20,969	–	2,637	18,332
OAT€i 2.25% 25 July 2020	20,310	–	100	20,210
OAT 2.50% 25 October 2020	35,362	–	4,815	30,547
OAT 0.25% 25 November 2020	24,782	–	4,764	20,018
OAT 0.00% 25 February 2021	31,275	–	4,083	27,192
OAT 3.75% 25 April 2021	39,352	–	2,017	37,335
OAT 0.00% 25 May 2021	29,504	–	7,095	22,409
OAT 3.25% 25 October 2021	39,891	–	1,875	38,016
OAT 0.00% 25 May 2022	–	29,253	–	29,253
OAT 0.00% 25 May 2022	27,457	4,209	–	31,666
OAT€i 1.10% 25 July 2022	19,013	840	–	19,853
OAT 2.25% 25 October 2022	32,445	6,137	–	38,582
OAT 0.00% 25 March 2023	29,059	5,428	–	34,487
OAT 1.75% 25 May 2023	36,172	5,048	–	41,220
OATi 2.10% 25 July 2023	16,405	1,643	–	18,048
OAT 0.00% 25 March 2024	20,296	13,772	–	34,068
OAT€i 0.25% 25 July 2024	16,574	1,345	–	17,919
OATi 0.10% 01 March 2025	10,257	251	–	10,508
OAT 0.00% 25 March 2025		27,797	–	27,797
OAT 0.50% 25 May 2025	37,066	1,231	–	38,297
OAT 6.00% 25 October 2025	29,594	1,060	–	30,654
OAT 1.00% 25 November 2025	30,473	2,165	–	32,638
OAT 3.50% 25 April 2026	36,867	1,728	–	38,595
OAT 0.50% 25 May 2026	33,274	2,276	–	35,550
OAT€i 1.85% 25 July 2027	20,821	339	–	21,160
OAT 2.75% 25 October 2027	37,454	3,299	–	40,753
OATi 0.10% 01 March 2028	7,675	3,182	–	10,857
OAT 0.75% 25 May 2028	33,272	2,072	–	35,344
OAT 0.75% 25 November 2028	22,300	12,058	–	34,358
OAT€i 0.10% 01 March 2029	–	5,914	–	5,914
OAT 5.50% 25 April 2029	35,645	2,036	–	37,681
OAT 0.50% 25 May 2029	–	33,281	–	33,281
OATi 3.40% 25 July 2029	8,734	451	–	9,185
OAT 0.00% 25 April 2029	–	12,327	–	12,327
OAT 2.50% 25 May 2030	35,119	6,523	–	41,642
OAT€i 0.70% 25 July 2030	13,000	557	–	13,557
OAT 1.25% 25 May 2034	10,054	15,705	–	25,759
OAT 4.75% 25 April 2035	26,678	2,326	–	29,004
OAT 1.25% 25 May 2036	29,226	2,060	–	31,286
OAT€i 0.10% 25 July 2036	3,916	1,779	–	5,695
OAT 1.75% 25 June 2039	14,793	5,884	–	20,677
OAT 3.25% 25 May 2045	24,908	916	–	25,824
OAT€i 0.10% 25 July 2047	8,468	992	–	9,460
OAT 2.00% 25 May 2048	24,815	1,594	–	26,409
OAT 1.50% 25 May 2050	–	24,265	–	24,265
OAT 4.00% 25 April 2055	14,926	1,657	–	16,583
OAT 4.00% 25 April 2060	13,055	1,085	–	14,140
OAT 1.75% 25 May 2066	10,581	1,131	–	11,712
O/W		**245,616**	**45,616**	
non-index-linked securities		228,323	45,516	
index-linked securities		17,293	100	

Source: Agence France Trésor

Government borrowing

Borrowing requirement

€220.5 billion in 2019 including:

- **€130.2 billion** in redemptions of OATs (including index-linking supplements)
- **€92.7 billion** in deficit financing (excluding future expense)

Funding sources

€200.0 billion in OAT issuance in 2019 (net of buybacks)

+€20.5 billion in other funding sources in 2019 including:

- **€11.5 billion** increase in Treasury Correspondents' deposits (excluding appropriations for the Invest for the Future programme)
- **€20.6 billion** in other funding sources (mainly issue premiums net of discounts)

less:

- **€6.0 billion** from a decrease in BTFs outstanding
- **€5.7 billion** from an increase in the cash position (negative contribution to funding sources)

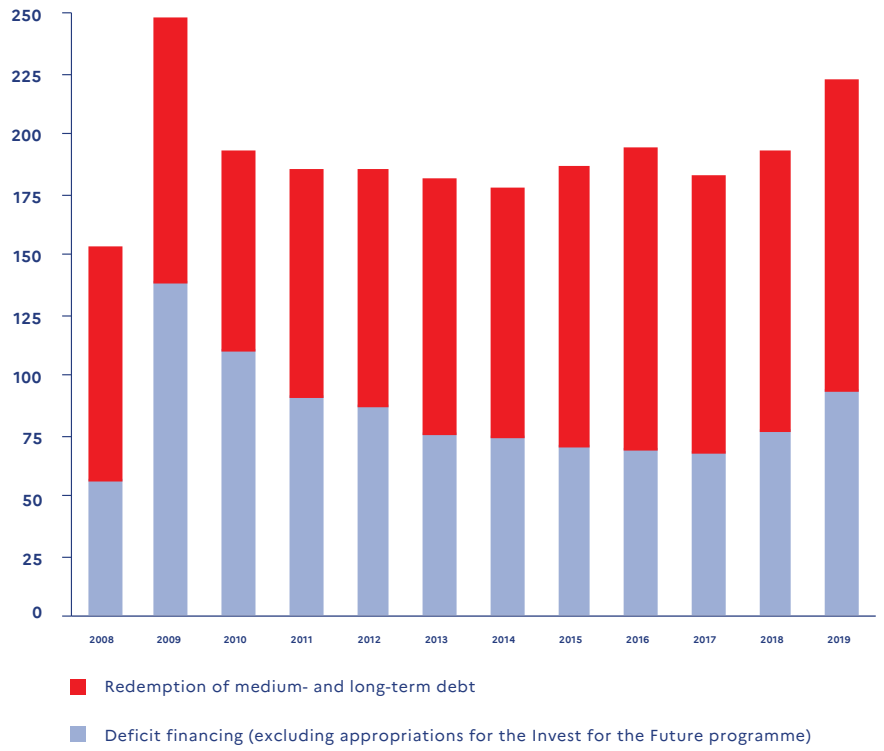
Government cash flows

In € billion	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
BORROWING REQUIREMENT	**246.4**	**196.8**	**185.6**	**187.0**	**185.5**	**179.1**	**189.1**	**194.1**	**183.1**	**192.0**	**220.5**
Redemption of medium- and long-term debt	110.1	82.9	94.9	97.9	106.7	103.8	116.4	124.9	115.2	116.6	130.2
par value	107.7	82.2	93.0	95.3	103.8	103.8	114.1	124.5	112.8	115.9	128.9
index-linking supplements paid at maturity	2.5	0.8	1.8	2.7	2.8	–	2.3	0.4	2.4	0.7	1.3
Redemption of other debts	1.6	4.1	0.6	1.3	6.1	0.2	0.1	–	–	–	–
Deficit to be financed	138.0	110.1	90.7	87.2	74.9	73.6	70.5	69.1	67.7	76.1	92.7
Other cash requirements	-3.4	-0.4	-0.6	0.6	-2.2	1.5	2.0	0.1	0.3	-0.7	-2.4
FUNDING SOURCES	**246.4**	**196.8**	**185.6**	**187.0**	**185.5**	**179.1**	**189.1**	**194.1**	**183.1**	**192.0**	**220.5**
Medium- and long-term issues net of buybacks	165.0	188.0	184.0	178.0	168.8	172.0	187.0	187.0	185.0	195.0	200.0
Funds allocated to the Caisse de la Dette Publique to reduce debt	–	–	–	–	–	1.5	0.8	–	–	–	–
Change in outstanding short-term government securities	75.8	-27.0	-9.3	-11.2	7.2	1.4	-22.6	-18.7	-7.5	-13.6	-6.0
Change in correspondents' deposits	0.8	6.0	13.4	13.4	-4.2	-1.3	6.7	1.6	4.7	9.9	11.5
Change in cash position (1)	-0.5	22.1	-3.9	-2.0	7.9	-1.4	-5.2	4.6	-9.2	-11.1	-5.7
Other net cash sources	5.3	7.7	1.5	8.9	5.7	6.9	22.4	19.7	10.0	11.8	20.6

Sources: Agence France Trésor, DGFiP
(1) Including short-term investment; a plus sign indicates a reduction in the amount outstanding.

GOVERNMENT BORROWING REQUIREMENT

In € billion



Sources: Agence France Trésor, DGFiP

Debt service data

Cash basis accounting

€40.3 billion net cost charged to "cost of government debt service and cash management" programme in 2018, including:

- **€39.1 billion** for negotiable government debt
- **€1.8 billion** decrease compared to the Initial Budget Act (€42.1 billion)
- **€1.3 billion** decrease compared to the 2018 outturn (€41.5 billion euros)

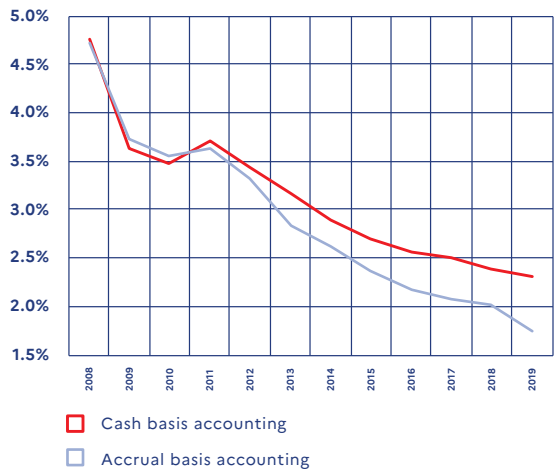
Accrual basis accounting

Net expense of **€29.4 billion** in 2019 for negotiable State debt alone (excluding cash and assumed debt), including:

- **€36.2 billion** accrued interest on OATs
- **€1.8 billion** index-linking expenses
- **-€8.0 billion** issue premiums and discounts (reduction in debt service costs)
- **-€0.6 billion** interest on BTFs

Cost of negotiable debt service (OATs and BTFs)

Implied yield (cost for the year as a % of the outstanding debt at the beginning of the year)



Source: Agence France Trésor

Cost of government debt service and cash management - cash basis accounting

In € million	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
NEGOTIABLE DEBT - NET COST (1)	**36,895**	**39,801**	**45,502**	**45,182**	**43,778**	**42,193**	**41,094**	**40,301**	**40,541**	**40,378**	**38,998**
OATs and BTANs - net interest payments	35,128	36,505	39,924	41,339	41,849	41,118	40,896	41,041	39,087	37,753	36,898
interest paid	37,923	39,330	42,897	43,958	43,735	43,339	42,702	42,195	40,291	38,764	37,978
accrued interest received at issue (-)	2,795	2,825	2,973	2,620	1,887	2,221	1,806	1,154	1,205	1,011	1,080
OATs and BTANs - index-linking expense	84	2,267	3,967	3,638	1,772	932	499	13	2,309	3,348	2,764
BTFs - interest paid	1,682	1,029	1,611	206	158	142	-301	-753	-855	-723	-664
OTHER EXPENSES AND INCOME											
Debt assumed - net expense	504	412	265	231	180	83	81	80	80	79	79
Non-negotiable debt	2	1	1	1	1	0	0	0	0	0	0
Invest for the Future - interest on funds	–	165	408	645	667	688	751	754	750	752	752
cash management - net expense	204	104	66	234	242	181	204	282	297	316	409
Expenses	540	248	365	309	253	205	205	282	297	316	409
Income	336	144	300	75	11	24	1	0	0	0	0
Other	20	20	14	9	17	14	6	30	31	16	18
TOTAL COST OF DEBT AND CASH MANAGEMENT	**37,625**	**40,503**	**46,256**	**46,303**	**44,886**	**43,159**	**42,136**	**41,447**	**41,697**	**41,541**	**40,256**
Interest-rate swaps – net gain	140	386	322	307	208	134	145	145	25	25	26
Income	1,210	800	619	488	290	185	155	155	28	29	30
Expenses	1,070	414	297	181	82	51	10	10	4	4	4

Sources: Agence France Trésor, DGFiP
(1) Excluding fees and commissions; excluding gains/losses on buybacks

Cost of negotiable government debt – accrual basis accounting

In € million	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
NEGOTIABLE DEBT - NET COST (1)	**37,855**	**40,762**	**44,529**	**43,588**	**39,207**	**38,305**	**36,126**	**34,365**	**33,499**	**34,062**	**29,350**
OATs and BTANs - interest and similar expenses	35,831	37,006	38,507	39,411	37,993	37,450	36,135	34,038	31,834	30,387	28,206
accrued interest	35,736	38,176	40,285	41,690	41,016	40,667	40,687	40,222	38,612	37,670	36,219
amortisation of issue discounts (+)	1,457	1,234	1,372	1,491	1,400	1,530	1,621	1,474	1,389	1,288	1,274
amortisation of issue premiums (-)	1,362	2,404	3,149	3,771	4,423	4,747	6,173	7,658	8,166	8,571	9,288
OATs and BTANs - index-linking expense (2)	-338	2,642	4,412	3,618	1,106	648	170	955	2,535	4,441	1,788
BTFs - interest paid	2,362	1,114	1,610	559	109	208	-179	-628	-871	-765	-643

Sources: Agence France Trésor, DGFiP
(1) Excluding fees and commissions; excluding gains/losses on buybacks.
(2) The decrease in prices means that a gain was recorded in 2009 (counted negatively as a reduction in expenses).

Short-term debt

Short-term debt data

BTFs outstanding

Outstanding at end-2019: **€106.9 billion**

€6.0 billion less in 2019

BTF issuance

50 auctions in 2019

€5.1 billion issued per auction on average

Average bid-to-cover ratio* in 2019: **3.16**
** Bid amount to amount auctioned before non-competitive tenders*

European Central Bank (ECB) refinancing rate

End-2018: **0.00%**
End-2019: **0.00%**

Average yield at issue aggregate

	ALL SHORT-TERM MATURITIES	3-MONTH MATURITIES
2019	**-0.58%**	**-0.57%**
2018	-0.60%	-0.60%
2017	-0.62%	-0.63%
2016	-0.53%	-0.54%
2015	-0.19%	-0.19%
2009-2014 average	0.36%	0.31%
1998-2008 average	3.15%	3.10%

Source: Agence France Trésor

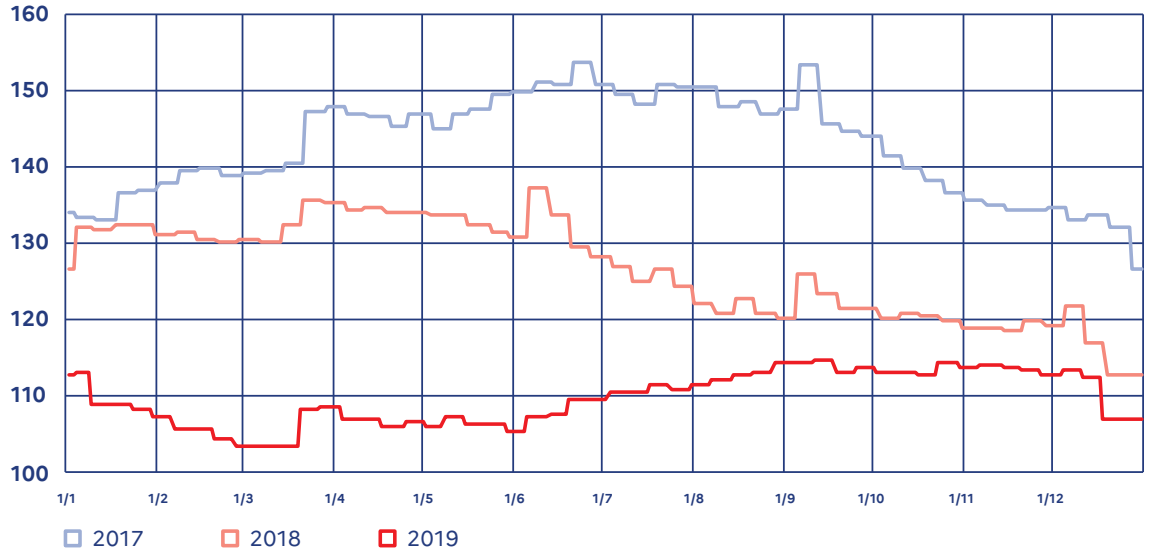
BTFs outstanding and flows

In € million	
OUTSTANDING END-2018	**112,900**
ISSUANCE IN 2019	**253,938**
<2-month BTFs	5,980
3-month BTFs	132,018
4-to-5-month BTFs	797
6-month BTFs	56,200
7-to-11-month BTFs	1,668
12-month BTFs	57,275
REDEMPTIONS IN 2019	**259,905**
<2-month BTFs	5,705
3-month BTFs	139,061
4-to-5-month BTFs	797
6-month BTFs	58,119
7-to-11-month BTFs	823
12-month BTFs	55,400
OUTSTANDING AT END-2019	**106,933**

Source: Agence France Trésor

Profile of BTFs outstanding

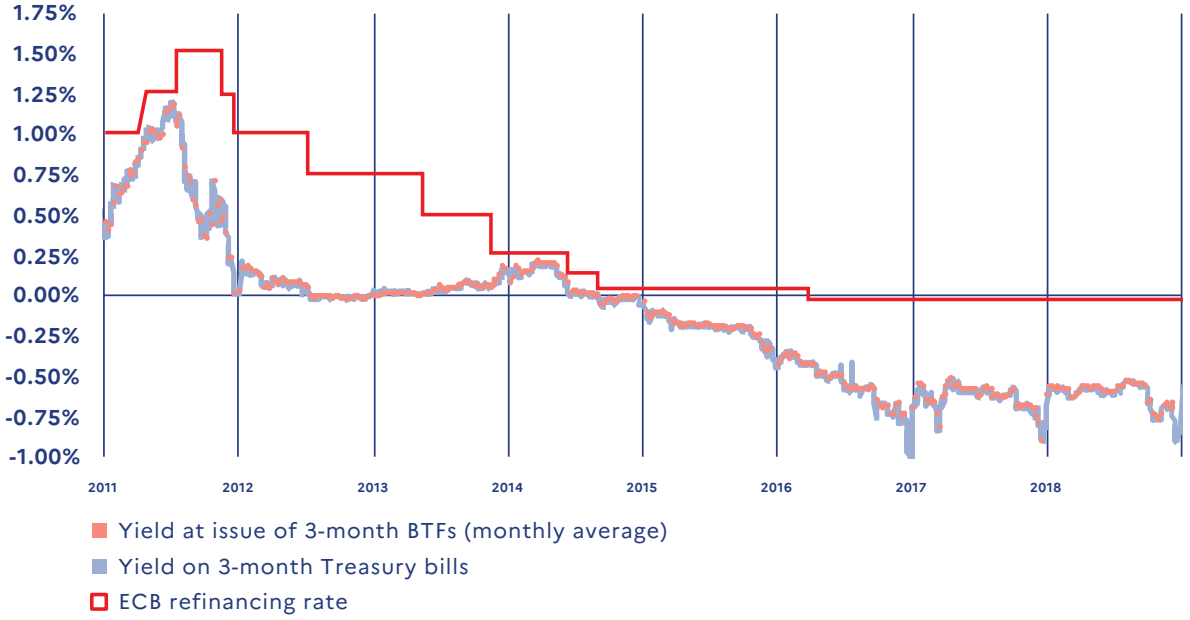
(€ billion)



Source: Agence France Trésor

Yields

In %



Sources: Banque de France, Agence France Trésor

Over-the-counter buybacks of OATs

In € million	
BY MONTH OF BUYBACK	**AMOUNT BOUGHT BACK***
January 2019	1,000
February 2019	3,940
March 2019	15,545
April 2019	2,100
May 2019	4,127
June 2019	3,759
July 2019	–
August 2019	2,870
September 2019	1,904
October 2019	4,000
November 2019	3,829
December 2019	2,542

** Excluding securities maturing in the current year.*

In € million	
BY BOND BOUGHT BACK	**AMOUNT BOUGHT BACK***
OAT 0.00% 25 February 2020	7,245
OAT 3.50% 25 April 2020	10,985
OAT 0.00% 25 May 2020	2,637
OAT€i 2.25% 25 July 2020	100
OAT 2.50% 25 October 2020	4,815
OAT 0.25% 25 November 2020	4,764
OAT 0.00% 25 February 2021	3,933
OAT 3.75% 25 April 2021	2,017
OAT 0.00% 25 May 2021	7,245
OAT 3.25% 25 October 2021	1,875

** Excluding securities maturing in the current year.*

TOTAL BUYBACKS	**45,616**
MATURING 2020	30,546
MATURING 2021	15,070
Fixed-rate securities	45,516
Index-linked securities	100

Breakdown of negotiable government debt at 31 December 2019

Short-term debt

In euros		
CODE	**MATURITY**	**OUTSTANDING (€)**
FR0125375099	BTFs 2 January 2020	4,991,000,000
FR0125848491	BTFs 8 January 2020	5,192,000,000
FR0125692428	BTFs 15 January 2020	5,122,000,000
FR0125848509	BTFs 22 January 2020	5,533,000,000
FR0125375107	BTFs 29 January 2020	4,440,000,000
FR0125848517	BTFs 5 February 2020	5,337,000,000
FR0125692436	BTFs 12 February 2020	4,184,000,000
FR0125848525	BTFs 19 February 2020	5,438,000,000
FR0125375115	BTFs 26 February 2020	4,483,000,000
FR0125848533	BTFs 4 March 2020	5,551,000,000
FR0125692444	BTFs 11 March 2020	4,480,000,000
FR0125533119	BTFs 25 March 2020	5,811,000,000
FR0125848558	BTFs 8 April 2020	4,008,000,000
FR0125533127	BTFs 22 April 2020	4,897,000,000
FR0125848566	BTFs 6 May 2020	3,275,000,000
FR0125533135	BTFs 20 May 2020	4,669,000,000
FR0125533143	BTFs 17 June 2020	4,616,000,000
FR0125692451	BTFs 15 July 2020	5,158,000,000
FR0125692469	BTFs 12 August 2020	5,267,000,000
FR0125692477	BTFs 9 September 2020	4,087,000,000
FR0125848467	BTFs 7 October 2020	5,263,000,000
FR0125848475	BTFs 4 November 2020	5,131,000,000
TOTAL BTFs	**OUTSTANDING**	**106,933,000,000**
	MATURITY (DAYS)	**108**

Medium and long-term debt (maturing 2020-2026)

In euros

CODE	TITLE	OUTSTANDING (€)		COEFF. IND.	PAR VALUE OUTSTANDING (€)	STRIPPED BONDS (€)	CAC*
	MATURING 2020	**136,130,744,900**					
FR0013232485	OAT 0.00% 25 February 2020	15,090,000,000				0	×
FR0010854182	OAT 3.50% 25 April 2020	26,261,000,000				0	
FR0012557957	OAT 0.00% 25 May 2020	18,332,000,000				0	×
FR0010050559	OAT€i 2.25% 25 July 2020	25,882,744,900	(1)	1.28069	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	×
	MATURING 2021	**141,086,952,080**					
FR0013311016	OAT 0.00% 25 February 2021	27,342,000,000				0	×
FR0013140035	OAT€i 0.10% 1 March 2021	7,943,392,080	(1)	1.04988	7,566,000,000	0	×
FR0010192997	OAT 3.75% 25 April 2021	37,335,000,000				0	
FR0013157096	OAT 0.00% 25 May 2021	22,259,000,000				0	×
FR0011347046	OATi 0.10% 25 July 2021	8,191,560,000	(1)	1.05020	7,800,000,000	0	
FR0011059088	OAT 3.25% 25 October 2021	38,016,000,000				0	
	MATURING 2022	**169,769,381,960**					
FR0013398583	OAT 0.00% 25 February 2022	29,253,000,000				0	×
FR0000571044	OAT 8.25% 25 April 2022	1,243,939,990				676,888,400	
FR0011196856	OAT 3.00% 25 April 2022	46,422,000,000				0	
FR0013219177	OAT 0.00% 25 May 2022	31,666,000,000				0	×
FR0010899765	OAT€i 1.10% 25 July 2022	22,602,441,970	(1)	1.13849	19,853,000,000	0	
FR0011337880	OAT 2.25% 25 October 2022	38,582,000,000				0	
	MATURING 2023	**151,848,148,223**					
FR0013283686	OAT 0.00% 25 March 2023	34,487,000,000				0	×
FR0000571085	OAT 8.50% 25 April 2023	10,606,195,903				5,388,665,200	
FR0011486067	OAT 1.75% 25 May 2023	41,220,000,000				0	×
FR0010585901	OATi 2.10% 25 July 2023	20,616,952,320		1.14234	18,048,000,000	0	
FR0010466938	OAT 4.25% 25 October 2023	44,918,000,000	(1)			445,085,000	
	MATURING 2024	**125,007,341,850**					
FR0013344751	OAT 0.00% 25 March 2024	34,068,000,000				0	×
FR0011619436	OAT 2.25% 25 May 2024	34,810,000,000				0	×
FR0011427848	OAT€i 0.25% 25 July 2024	19,104,341,850	(1)	1.06615	17,919,000,000	0	×
FR0011962398	OAT 1.75% 25 November 2024	37,025,000,000				42,000,000	×
	MATURING 2025	**140,327,278,038**					
FR0012558310	OATi 0.10% 1 March 2025	10,941,349,920	(1)	1.04124	10,508,000,000	0	×
FR0013415627	OAT 0.00% 25 March 2025	27,797,000,000				0	×
FR0012517027	OAT 0.50% 25 May 2025	38,297,000,000				0	×
FR0000571150	OAT 6.00% 25 October 2025	30,653,928,118				2,841,964,400	
FR0012938116	OAT 1.00% 25 November 2025	32,638,000,000				0	×
	MATURING 2026	**107,269,000,000**					
FR0010916924	OAT 3.50% 25 April 2026	38,595,000,000				0	
FR0013131877	OAT 0.50% 25 May 2026	35,550,000,000				0	×
FR0013200813	OAT 0.25% 25 November 2026	33,124,000,000				0	×

** 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.*
(1) Par value x indexation coefficients (par value if coefficient is less than 1)

Medium and long-term debt (maturing in 2027 and later)

In euros

CODE	TITLE	OUTSTANDING (€)		COEFF. IND.	PAR VALUE OUTSTANDING (€)	STRIPPED BONDS (€)	CAC*
	MATURING 2027	**95,944,462,000**					
FR0013250560	OAT 1.00% 25 May 2027	31,451,000,000				0	×
FR0011008705	OAT€i 1.85% 25 July 2027	23,740,462,000	(1)	1.12195	21,160,000,000	0	
FR0011317783	OAT 2.75% 25 October 2027	40,753,000,000				53,043,600	
	MATURING 2028	**81,015,962,911**					
FR0013238268	OATi 0.10% 1 March 2028	11,285,851,500	(1)	1.03950	10,857,000,000	0	×
FR0000571226	OAT zero coupon 28 March 2028	28,111,411			46,232,603	--	
FR0013286192	OAT 0.75% 25 May 2028	35,344,000,000				0	×
FR0013341682	OAT 0.75% 25 November 2028	34,358,000,000				0	×
	MATURING 2029	**101,224,385,895**					
FR0013410552	OAT€i 0.10% 1 March 2029	5,973,967,960	(1)	1.01014	5,914,000,000	0	×
FR0000571218	OAT 5.50% 25 April 2029	37,680,880,458				2,500,846,100	
FR0013407236	OAT 0.50% 25 May 2029	33,281,000,000				0	×
FR0000186413	OATi 3.40% 25 July 2029	11,961,537,477	(1)	1.30227	9,185,144,000	0	
FR0013451507	OAT 0.00% 25 November 2029	12,327,000,000				0	×
	MATURING 2030	**55,910,064,650**					
FR0011883966	OAT 2.50% 25 May 2030	41,642,000,000				0	×
FR0011982776	OAT€i 0.70% 25 July 2030	14,268,064,650	(1)	1.05245	13,557,000,000	0	×
	MATURING 2031	**45,948,000,000**					
FR0012993103	OAT 1.50% 25 May 2031	45,948,000,000				53,500,000	×
	MATURING 2032	**45,897,418,600**					
FR0000188799	OAT€i 3.15% 25 July 2032	13,735,096,000	(1)	1.29760	10,585,000,000	0	
FR0000187635	OAT 5.75% 25 October 2032	32,162,322,600				10,942,757,400	
	MATURING 2033 OR LATER	**318,493,169,930**					
FR0013313582	OAT 1.25% 25 May 2034	25,759,000,000				0	×
FR0010070060	OAT 4.75% 25 April 2035	29,004,000,000				4,583,637,000	
FR0013154044	OAT 1.25% 25 May 2036	31,286,000,000				0	×
FR0013327491	OAT€i 0.10% 25 July 2036	5,878,834,600	(1)	1.03228	5,695,000,000	0	×
FR0010371401	OAT 4.00% 25 October 2038	26,534,000,000				4,713,941,400	
FR0013234333	OAT 1.75% 25 June 2039	20,677,000,000				0	×
FR0010447367	OAT€i 1.80% 25 July 2040	14,360,174,530	(1)	1.20199	11,947,000,000	0	
FR0010773192	OAT 4.50% 25 April 2041	36,152,000,000				6,325,599,000	
FR0011461037	OAT 3.25% 25 May 2045	25,824,000,000				1,409,010,000	×
FR0013209871	OAT€i 0.10% 25 July 2047	9,909,160,800	(1)	1.04748	9,460,000,000	0	×
FR0013257524	OAT 2.00% 25 May 2048	26,409,000,000				704,100,000	×
FR0013404969	OAT 1.50% 25 May 2050	24,265,000,000				138,600,000	×
FR0010171975	OAT 4.00% 25 April 2055	16,583,000,000				8,371,118,000	
FR0010870956	OAT 4.00% 25 April 2060	14,140,000,000				7,550,304,100	
FR0013154028	OAT 1.75% 25 May 2066	11,712,000,000				713,600,000	×
TOTAL MEDIUM AND LONG-TERM DEBT	**OUTSTANDING (PRESENT VALUE)**	**1,715,872,311,037**					
	OUTSTANDING (PAR VALUE)	**1,689,758,643,672**					
	STRIPPED BONDS OUTSTANDING (PAR VALUE)	**57,452,659,600**					
	OUTSTANDING STRIPPABLE BONDS (PAR VALUE)	**1,689,712,411,069**					
	MATURITY (DAYS)	**3,162**				**8 YEARS AND 242 DAYS**	

TOTAL DETTE	**OUTSTANDING (PRESENT VALUE)**	**1,822,805,311,037**	
	OUTSTANDING (PAR VALUE)	**1,796,691,643,672**	
	MATURITY (DAYS)	**2,983**	**8 YEARS AND 63 DAYS**

(1) Par value x indexation coefficients (par value if coefficient is less than 1)
(2) Including capitalised interest as at 28 December 2019; not available for subscription

Fact sheets

Issuance **techniques**

The principal method of issuing French government securities since 1985 has been the "bid price system" (called "à la hollandaise" in France). Nowadays, bank syndicates are used only in special circumstances.

Bid price auctions

Participants compete in the auction on an equal footing through a transparent system of open bidding according to a planned issuance programme. The bid price system consists of supplying securities at the bid price or the effective bid rate as opposed to the marginal price or rate. This type of auction is known as an "auction with several prices and sealed prices". The highest bids are served first, followed by lower bids and so on, up to AFT's target amount. Participants pay different prices that are equal to their different bid prices.

Procedures:

- **Auction announcements:** for BTF auctions, AFT announces one business day prior to the auction the upper and lower limits on the amounts it intends to issue of each security designated in the quarterly calendar for BTF issues. For OAT auctions, AFT announces four days prior to auction the securities concerned and an upper and lower limit.
- **The running of auctions:** bids from participants (primary dealers) may be sent to the Banque de France up to the auction cut-off time (10:50 am for auctions of medium- and long-term OATs, 11:50 am for auctions of inflation-indexed securities, 2:50 pm for auctions of BTFs). The Banque de France delivers the bids to AFT withholding the names of the bidders. AFT then determines the amount bid. AFT serves all of the bids over the price limit in OAT auctions or all of the bids under the yield limit in BTF auctions. It may reduce bids at the price limit or yield limit proportionately.
- **Publication of prices:** auction results are immediately announced to the bidders, displayed on the specialised agencies' screens and posted to the AFT website. These disclosures report the quantities requested, the quantities served, the marginal price for each security (or marginal rate for BTFs) and the weighted average rate for the various securities auctioned.

Syndicated issues

Bought deals, which are another issuance technique, are usually conducted by syndication. This is a specific commitment between banks (bidders forming a banking syndicate) and the issuer to buy securities for an agreed price.

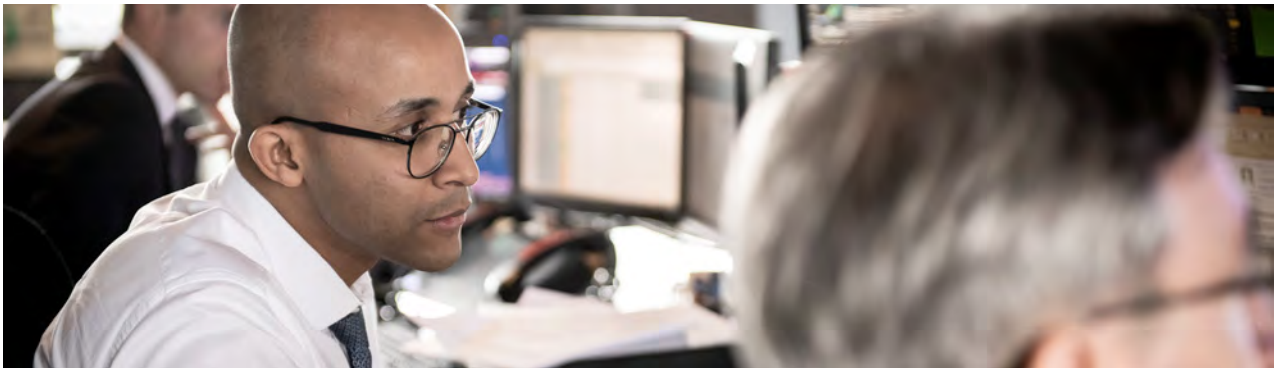
This technique is used to issue innovative securities or securities on less deep market segments, particularly on the long end of the yield curve (more than 15 years).

LIST OF SYNDICATED BOND ISSUES SINCE 2010:

- **19 February 2019:** syndicated issue of the OAT 1.50% 25 May 2050
- **26 June 2018:** syndicated issue of the OAT 2.0% 25 June 2039 (Green OAT)
- **28 March 2018:** syndicated issue of the OAT€i 0.10% 25 July 2036
- **16 May 2017:** syndicated issue of the OAT 1.75% 25 May 2048
- **24 January 2017:** syndicated issue of the OAT 2.00% 25 June 2039 (Green OAT)
- **28 September 2016:** syndicated issue of the OAT€i 0.10% 25 July 2047
- **12 April 2016:** syndicated issue of the OAT 1.25% 25 May 2036 and the OAT 1.75% 25 May 2066
- **11 June 2014:** syndicated issue of the OAT€i 0.70% 25 July 2030
- **26 March 2013:** syndicated issue of the OAT 3.25% 25 May 2045
- **9 February 2011:** syndicated issue of the OAT€i 1.85% 25 July 2027
- **10 March 2010:** syndicated issue of the OAT 4.00% 25 April 2060

Proactive debt management

AFT can intervene on the secondary markets in several ways



Buybacks

AFT can carry out over-the-counter (OTC) buybacks and reverse auctions to pre-finance future issuance programmes and spread the amounts to be issued over time. AFT factors in market conditions when doing so: buying back securities on the market depends on their liquidity and price. AFT publishes a monthly report on the amounts of each security bought back during the month.

In 2019, AFT bought back €45.6 billion in securities maturing in 2020 and 2021.

Securities swaps

The goal is to replace the oldest securities, which are often the least liquid, with securities with stronger market demand. Such swaps are conducted via auctions or syndicated deals by offering newly issued securities in exchange for older securities that are then retired.

The last swap was held on 4 December 2008. It entailed swapping OATs 4% 25 October 2038 for OATs 5.75% 25 October 2032. A total of €1.367 billion in OATs 2038 were issued and €1.129 billion in OATs 2032 were bought back.

Interest-rate swaps

Since 2001, AFT has managed the average residual maturity of debt. This maturity has been fairly long as a natural result of the requirement that each issue be liquid, growing demand from investors for very long maturities and refinancing risk management. When the yield curve is clearly normal, with higher yields on the longer maturities and lower but more volatile yields on the shorter ones, reducing average maturity should help reduce the cost of debt service in the long run, all else being equal. On the other hand, this cost will be more variable.

The aim of reducing the average residual maturity of debt is to strike a balance between lower interest expense and greater variability of this expense. Such a reduction should be implemented gradually over one economic cycle or longer, since interest rates vary according to economic conditions.

The cumulative gains from the interest-rate swaps programme came to €4.0 billion between 2002 and the end of 2019.

At end-2019, this strategy was still suspended. The interest-rate swaps programme may nevertheless be revived if warranted by market conditions.

BTFs

Fixed-rate discount Treasury bills (BTFs) are similar to short-term Treasury bonds. They have an initial maturity of up to one year

Market overview

The maturity of BTFs is expressed in weeks. The most frequently issued maturities are 13, 26 and 52 weeks. Bills with maturities of 20-24 weeks may be issued as half-year bills and bills with maturities of 48-52 weeks may be issued as one-year bills.

BTFs have a par value of €1 and are issued every week by auction according to a quarterly schedule published by AFT in advance. This schedule specifies the maturities of the bills that will be auctioned during the quarter. Unscheduled issuance of certain BTFs with shorter than standard maturities may take place to meet the State's cash requirements. Generally speaking, a quarterly BTF, a half-year BTF and a one-year BTF are normally issued each week.

On 31 December 2019, total outstanding BTFs stood at €106.9 billion.

To ensure the fungibility of new and existing issues, the maturities of new bills are aligned on those of previously issued bills. In 2019, the market featured between 22 and 24 different BTFs at any time.

Auctions

Every Friday at 11am, AFT announces the BTFs that will be auctioned the following Monday.
The announcement includes the amounts to be auctioned with an upper and lower limit for each BTF to ensure that there is sufficient flexibility to meet demand.

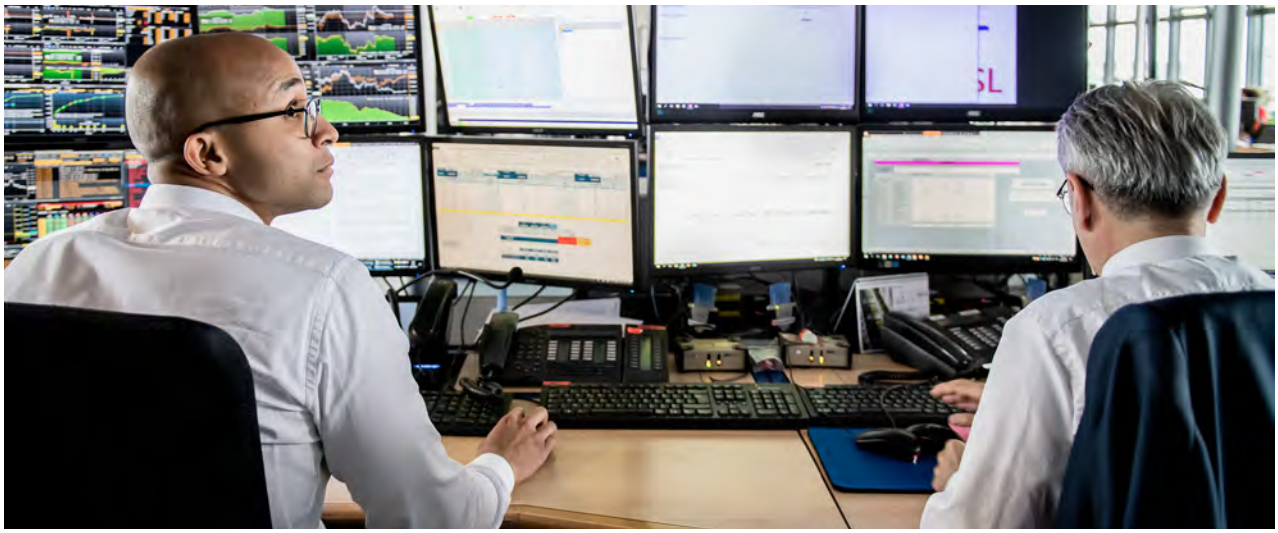
Bids of at least one million euros are expressed as a money-market straight-line yield to three decimal places, with ticks of 0.5 basis points, and as the exact number of days out of 360 (ACT/360). BTFs are discounted Treasury bills. The pro-rated discount is applied to the par value of the bill when the bill is issued. Therefore, no coupon payments are made.

As of Monday 6 October 2014, settlement of BTF auctions has been at T+2 to bring primary market settlement dates into line with secondary market settlement dates.

Trading

BTF purchases on the secondary market are governed by the same rules that govern primary market purchases. Trades are based on a money-market straight-line yield to three decimal places, with ticks of 0.5 basis points, and the exact number of days out of 360 (ACT/360). Since 2 April 2012, the settlement date for BTFs on the secondary market is T+2, instead of T+1 as before.

OATs



OATs are fungible medium- and long-term Treasury bonds with a maturity of 2-50 years.

For the sake of simplicity, as of 1 January 2013, new benchmark medium-term securities (2-year and 5-year maturities), formerly issued as BTANs, have been issued as OATs, as have long-term securities with 8-year maturities or longer in 2018.

OATs are now the only form of medium-term and long-term State borrowing. They were formerly used solely for long-term borrowing between 1985 and 2012. OATs are fungible securities with maturities at issue of 2 to 50 years. They are usually issued by auction. New issues are generally associated with existing issues. This enables the State to issue new bonds at a price in line with the latest market prices but identical in every other way to the initial issue. As a result, the State avoids issuing too many bonds with different characteristics and ensures the liquidity of those already issued.

OATs have a par value of €1. The value of the accrued coupon is calculated on the basis of the exact number of days over the exact number of days (ACT/ACT). The maturity dates and coupon dates of OATs are either the 1st or 25th of the month. OAT trades are settled by national and international central securities depositories.

OAT auctions

On the Friday preceding an auction, AFT announces the bonds to be auctioned on the following Thursday and the upper and lower limits of the total amount to be auctioned. Auctions of long-term OATs (maturities of 8 years or more in 2018) are held on the first Thursday of the month at 10:50 am while auctions of medium-term OATs (maturities of 2-8 years in 2018) are held on the third Thursday of the month at 10:50 am. Bids of at least one million euros are expressed on the basis of price as a percentage of par value net of accrued interest to two decimal places. Since 6 October 2014, OAT auctions have been settled at T+2, i.e. the following Monday.

Index-linked **OATs**

The State issued the first OAT linked to the French consumer price index (OATi) on 15 September 1998. This innovation was followed in October 2001 by the very first issue of an OAT linked to the euro-area consumer price index (OAT€i).

Since then, AFT has issued index-linked securities on a regular and transparent basis, thus creating two real yield curves, one linked to French inflation and the other to euro area inflation. Such securities account for around 10% of AFT's annual issuance programme, net of buybacks.

Since 2004, OATi and OAT€i auctions have been held on a regular basis on the same day as auctions for medium-term OATs, but during a separate session held at 11:50 am. As of 2016, the optional August and December auctions may include issuance of index-linked securities. In this case the auction is held on the first Thursday at 11:50 am. OATi and OAT€i are designed for all types of investors looking to protect the purchasing power of their investments, improve their asset-liability management or diversify their investment portfolio. They are intended for resident or non-resident institutional investors, such as insurance companies, pension and social welfare funds, asset managers and banks, as well as retail investors.

On 31 December 2019, the par value of outstanding OATi issues totalled €56.63 million and OAT€i €163.4 million.

OATi general characteristics

They have a par value of €1 and the real coupon yield is calculated as a fixed percentage of the index-linked principal. It is established at the time of issue and remains fixed to maturity. The coupon is paid annually and calculated as follows: real coupon yield x par value x indexation coefficient. The indexation coefficient is equal to the daily inflation benchmark of the day divided by the basic benchmark. The daily benchmark is calculated by linear interpolation between the consumer price index excluding tobacco (CPI) for the month M-3 and the CPI for the month M-2, and the basic benchmark is the daily benchmark used to calculate changes in the price index. The benchmark index used is the consumer price index, excluding tobacco, for all resident households in France, which is published by INSEE (National Statistics Institute) each month.

AFT calculates and publishes the daily inflation benchmarks and indexation coefficients on its website.

OAT redemption is based on the following formula: par value x indexation coefficient. If the daily inflation index at maturity is lower than the basic benchmark, redemption at par is guaranteed.

OAT€i general characteristics

OAT€i are identical to OATi apart from the benchmark index, which is the Harmonised Index of Consumer Prices (HICP) excluding tobacco for the euro area. This index is published by Eurostat on a monthly basis.

** The dated date for an OAT is the starting date for calculating the first coupon for the said OAT, i.e. the coupon date immediately prior to the first date of issue for the OAT in question. For example, an OAT issued for the first time on 1 April of year Y, with a coupon date of 25 May, will have a dated date of 25 May of year Y-1.*

The OAT market for retail investors

AFT, in partnership with Euronext and the primary dealers, has established a secondary market where retail investors can easily buy and sell OATs, which are bonds issued by the French Republic that are backed by the full faith and credit of the State. Retail investors can purchase fixed-rate OATs with maturities ranging from 2 to 50 years. These bonds have annual coupons and are redeemable at maturity. Retail investors may also buy index-linked OATs.

Anyone can access the OAT market. OATs offer private individuals numerous advantages, including a regular income, protection against inflation, a source of capital to supplement their pension or finance a project in the future, or a means of diversifying their assets.

An organised secondary market

Like any other negotiable security, OATs can be sold on the stock exchange at any time for the market price. The Government took steps to modernise the OAT market in 2005 to ensure that it met retail investors' needs. The retail OAT market is managed by Euronext. It operates under the stock market regulations in force and complies with transparency and disclosure rules. This market provides:

- **liquidity:** OATs are highly liquid. Financial institutions acting as market makers ensure the market, overseen by Euronext, remains liquid
- **acceptance of orders:** orders can be placed through traditional or online financial intermediaries.

Tax treatment of OATs

Article 28 of Act 2017-1837 of 30 December 2017 (2018 Budget Act) has altered the taxation of capital gains and investment income. Since 1 January 2018, capital gains and investment income have automatically been subject to personal income tax at a flat rate of 12.8% under the terms of Article 200 A (1) of the General Tax Code (CGI), in addition to social security contributions at an aggregate rate of 17.2%. Nevertheless, the taxpayer may choose to have these gains and income taxed at the rate corresponding to their personal income tax bracket. This irrevocable choice must be made when declaring aggregate income, in accordance with the provisions of Article 200 A(2) of the General Tax Code.

In respect of investment income, interest on OATs and government bonds received by individuals who are residents of France for tax purposes has been, with some exceptions (see below), liable to a flat-rate tax or progressive income tax in the year following its receipt after being subject, in the year of receipt, to a non-discharging withholding tax ("advance payment") of 12.8% (plus social contributions totalling 17.2% on investment income). This mandatory withholding is applied against the personal income tax liability for the year in which it was made. If the amount withheld is greater than the tax liability, the difference is reimbursed in accordance with the provisions of Article 125 A (V, 1) of the General Tax Code.

STRIPPED **OATs**

Bond stripping separates coupon payments and bond principal redemption payments, thus creating the same number of zero-coupon bonds and a series of coupons. This technique makes it possible to trade the bond principal and interest payments separately.

France was the first European sovereign debt issuer to authorise bond stripping in 1991. It has since become the euro area benchmark for stripped bonds.

On 31 December 2019, outstanding fixed-rate OAT strips totalled €57.45 billion, equivalent to 3.86% of outstanding fixed-rate strippable bonds.

The market

The market for stripped OATs enjoys the same liquidity and security guarantees as the market for other Government securities. Stripping and unstripping are managed by an economic interest group comprising Euroclear France and primary dealers. This group establishes the rules for dealing in bonds of this kind. AFT acts in an advisory capacity.

Primary dealers act as market makers. OAT bonds are listed on the Euronext Paris exchange and traded on the basis of a discount rate expressed as an annual percentage calculated on the basis of 365 or 366 days (ACT/ACT). The price is rounded up to the fourth decimal place as a percentage of the par value.

Fungibility rules

At the end of 2009, AFT introduced new rules for stripping and unstripping trades on fixed-rate OATs in response to market demand. The new rules introduced a new type of bond that makes no distinction between principal and interest: a “fungible zero-coupon bond”.

When stripped, OATs are now divided into a number of these bonds with the same par value (€0.01) but different maturities, modelled on cash flows attached to the original OAT.
All same-maturity bonds are fungible. They may also be unstripped to reconstitute the original bond or a synthetic bond composed of bonds from different OAT issues. Coupons from different OATs are mutually fungible if they have the same maturity.

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

AFT's management of cash flows

All of the State's cash flows (expenditure and receipts), along with those of local and regional authorities and government-funded institutions (known as "Treasury Correspondents"), are centralised in a single account with the Banque de France. Agence France Trésor is responsible for the day-to-day management of this account.

Ensuring the continuity of State finances, in accordance with France's European commitments

Agence France Trésor is responsible for managing the Government's cash holdings. This means ensuring that the Government has the financial resources necessary to meet its commitments at all times, regardless of the circumstances.

Article 123 of the Treaty on the Functioning of the European Union (TFEU) prohibits the Banque de France, which holds the State's account, from granting the State overdrafts. This means that the Treasury Account must show a credit balance at the end of each day.

Cash management that meets the highest international standards

France has gradually introduced a pooling arrangement called "centralisation" to optimise public cash management. This involves channelling most public financial flows through the Treasury Account. Centralisation of public cash holdings is a best practice recommended by international institutions, including the World Bank and the IMF.

In addition to the State, the vast majority of French public sector entities, including local authorities, local and national government-funded institutions and hospitals, are required to deposit their cash holdings with the Treasury. Some entities also deposit some or all of their cash with the Treasury under the terms of agreements. This is the case for the European Union, which deposits some of its funds with the French Treasury. All of the entities that deposit their cash with the Treasury are called "Treasury Correspondents".

The Treasury Correspondents' deposits are a cash resource for the State. They enable the State to limit its reliance on market financing.

Promoting centralisation of public sector cash holdings

Centralisation prevents situations where some entities post a borrowing requirement while others post a cash surplus, thereby reducing the aggregate general government debt. This has a favourable impact on the yields France obtains on the market and reduces the State's reliance on market financing. It provides absolute security for the correspondents' deposits.

Using cash holdings in the taxpayers' best interest

AFT optimises the cost of cash holdings for taxpayers by ensuring that an appropriate cash balance, including a safety cushion, is on hand to meet expected expenditure.

For this purpose, AFT constantly updates its forecasts of cash flows for the next twelve months. At the end of each day, it also forecasts the cash flows for the next day. All day long, AFT monitors expenditure and receipts in real time.

Centralisation of public cash holdings enables AFT to oversee both the State's financial flows and those arising from the financial activities of each Treasury Correspondent. It relies on a dedicated information system that identifies each flow.

The cash management strategy, aimed at ensuring optimum security for the settlement of the State's financial commitments and those of the Treasury correspondents, generally results in a surplus on the Treasury Account. AFT invests this cash on the interbank market every day to reduce the cost of the surplus. These investments may take the form of loans or securities repurchase agreements. AFT offers investments to its counterparties several times a day, depending on market demand.

TO FIND OUT MORE:

Online tutorial: How is the State's cash managed?

https://bit.ly/2T0NaE8 (in French)

Issue
premiums and discounts

Securities issuance gives rise to issue premiums and discounts when there is a difference between the coupon yield and the yield demanded by the market at the time of issue.

Premiums and discounts adjust for the difference between the coupon payments and the market yield at the time of issue over the life of the security.

If the coupon yield is greater than the market yield at the time of issue, the price subscribers pay at the time of issue is greater than the "par" value they will receive when the security is redeemed at maturity. In this case, a cash inflow corresponding to an "issue premium" is recognised. In the opposite case, an "issue discount" occurs and the State receives less than the par value of the security at the time of issue. Issue premiums and discounts affect both new issues and issues of off-the-run securities.

In the case of new issues, the differential between the market yield and the coupon yield is determined by two factors. First of all, the coupon yields of new non-index linked securities are rounded to the nearest quarter of a percentage point (increments of 0.25%). Generally, this means that the coupon yield is different from the market yield. Secondly, the coupon yield is always positive or zero. This means that negative yields at the time of issue result in an issue premium.

The difference in the case of off-the-run issues stems from the fact that the market yield at the time of issue rarely matches the original coupon yield, which was set when the security was created and applies for its entire life. On one hand, yields vary and, on the other, the residual maturity of the off-the-run security is shorter than the original maturity.

The downward trend in yields in recent years means that the State has recorded more issue premiums than issue discounts. A growing segment of the French yield curve for new issues shows negative yields, which automatically generate issue premiums. The yields at issue for off-the-run securities are most often lower than the original coupon yields on average.

The State's financial accounts record the premiums and discounts on the balance sheet. They are shown as receipts or expenditure in the State cash flow statement.

The debt service recognised in budgetary cash-basis accounting shows only the coupon payments made (issue premiums and discounts have no impact). On the other hand, the State's financial accounts and Maastricht accounts amortise issue premiums and discounts over the life the securities in question. This means that the effective financial expense recognised under both accounting systems corresponds to the market yield at the time of issuance, regardless of the amount of the actual coupon payments.

AFT's supervisory duties

Goal: maintain risk management quality standards and minimise incidents.

AFT's internal audit and risk management system must comply with market standards with regard to negotiable debt, cash, derivatives management transactions and trades on behalf of third parties. The system should spot problems and incidents that could disrupt debt and cash transactions as early as possible, mitigate them and assess their impact. The system's scope has also broadened due to the diversity of AFT's transactions, the payment circuits used and the growing number of international counterparties.

Under the terms of the Budget Act and the performance indicators submitted to Parliament, AFT states its goal as "achieving a constant quality of risk management that minimises the occurrence of incidents."

Several sets of indicators have been developed to assess whether or not this goal is achieved.

Quality indicators relating to AFT's audit system

- The first sub-indicator lists the number of incidents or breaches of AFT's internal rules under its general activity framework (authorisations, risk limits, transaction control).
- Five other sub-indicators are assessed by an external auditor (KPMG for 2019) based on a verification of the adequacy of AFT's procedures, given its activities and related risks. The Order of 3 November 2014 relating to internal control in the banking sector has been the benchmark for the provisions applying to AFT since 2015.

Indicators tracking debt and cash transaction execution incidents

- First sub-indicator: the number of incidents that decrease the balance of the Treasury Account with the Banque de France.
- Second sub-indicator: the number of incidents that increase the balance of the Treasury Account with the Banque de France.
- Third sub-indicator: the number of incidents with no impact on the Banque de France account balance arising from information systems used to manage transactions, compliance incidents, or other types of incidents, such as non-compliance with internal operating procedures.

Information system **security policy**

Agence France Trésor's information system is the mainstay of its operational activity. Consequently, it must provide staff with a high level of security with regard to:

- timely availability of information
- data integrity by preventing any deterioration of the data entered in the long term
- the level of confidentiality appropriate to the information handled

Regular audits by the French Government Audit Office or external audit firms necessarily include an audit of the information system. This part of the audit ensures that the system access policies are compliant with the general framework for AFT's operation regarding the segregation of activities and the procedures for granting and rescinding individual access privileges.

Cyber threats create an additional specific need for a more technical audit. These audits are performed by the staff of the Senior Defence and Security Official of the Economy and Finance Ministries (SHFDS) or by the National Information System Security Agency (ANSSI). The purpose of the audits is to verify the hardware and software configuration to ensure that they meet state-of-the-art security standards.

BOND
A bond is a recognition of debt. The State, some public sector entities and major corporations issue bonds. The borrowers, promise to pay annual interest until the bonds mature.

BREAKEVEN INFLATION RATE
The breakeven inflation rate is the difference between the yield of fixed-rate bonds and the yield on index-linked bonds. It represents the market participants' inflation expectations. Other factors besides inflation expectations affect the relative prices of index-linked bonds and fixed-rate bonds, including liquidity or the mismatch between supply and demand of index-linked bonds compared to fixed-rate bonds, since not many issuers offer index-linked bonds. Fixed-rate bond yields also incorporate an inflation risk premium, in contrast to index-linked bonds.

COLLECTION
Occurs when a creditor is paid back the sum borrowed. Collection notice: request for payment of a receivable.

CORPORATE ACTIONS
This term covers all actions carried out during a security's lifetime. For bonds, this mainly concerns coupon payments, i.e. the interest on the securities owned. For equities, this concerns paying dividends or stock splits, for example. Both bonds and equities may be exchanged for another type of security.

COUPON
In the past, a coupon was a piece of paper that would be detached from the security in return for payment of interest accrued, a dividend or during another transaction (to prove that the bearer had traded in the coupon). Now that securities are paperless, the coupon refers to bond interest or share dividends. Coupon payment: payment of interest or dividend.

DEBT
Any sum of money borrowed by an individual or legal entity (debtor) that must be paid back to another individual or legal entity (creditor). Until the debt matures, the debtor will pay the creditor interest (coupon) at an agreed rate every year on an agreed date.

DEBT AMORTISATION
Payment of amounts due when a security reaches maturity.

Synonyms: redemption for the debtor; collection for the creditor.

DELIVERY
Delivery consists of handing over securities to the buyer following a financial transaction or trade.

DEPOSITORY
A financial institution authorised as a bank where bearers deposit their securities. The depository must know at any time who owns what, the status of securities (unrestricted, loaned, borrowed or pledged), and where the securities are held. Since the move to paperless transactions, depositories for securities have been digitised; they are secure and backed up on a regular basis. Handling electronic securities is immeasurably faster, more flexible and cheaper than handling paper securities.

INTEREST RATE
Percentage used to calculate the bond coupon, expressed as a percentage. The interest rate is established when the bond or loan contract is issued. It can be fixed or variable. If excessive, it is deemed "usurious". Interest payment: sum paid annually to a bondholder by the issuer up to maturity.

LEAD BOOK RUNNER
When a syndicated bond is being issued, the banks that prepare the bond, collect orders, allocate the bond based on supply and demand and set the price are known as "lead book runners". There are also "co-lead book runners", who have fewer responsibilities, and other members of the syndicate. They participate in the bond issue, but to a lesser extent.

LEGAL TENDER
Currency is legal tender if it can be used in exchange for goods or services, or to pay taxes and duties in a certain geographic area. The euro is legal tender in 19 European countries and Montenegro.

LIQUIDITY
A financial instrument or market is said to be liquid when buy and sell transactions can be carried out without triggering excessive variations in price.

LOAN
Sum of money lent by a creditor temporarily to a debtor.

Synonyms: borrowings, credit; from the lender's viewpoint: receivable, asset; from the borrower's point of view: debt, liability.

MARKET MAKER
Market makers are spot market operators who supply a price whenever they are contacted, regardless of the market situation.

MATURITY
Redemption date established when a loan agreement is signed.

Synonym: redemption date.

OPTIONS
A call option gives the holder the right to buy an asset at a fixed price at a point in the future up to a certain date. A put option gives the holder the right to sell the same asset under the same conditions. Tradable options are contracts that can be exchanged on regulated markets.

PAR VALUE
Face value of a bond or security. A company's share capital is €X million divided into N shares with a par value of X/N euros. A bond has a par value of N euros: all Treasury securities have a par value of one euro.

Par bonds have a fixed rate of interest in contrast to index-linked bonds.

PRICE
Sum of money equivalent to the market value of a good or service. The price is set by the interplay of supply and demand. Bond prices vary inversely to bond yields.

PRIMARY MARKET
The primary market issues new securities. It is the market for capital increases and bond issues. Compared to the secondary market, which sells "second-hand" securities, the primary market sells only "new" ones.

PRINCIPAL
Value of a bond less the coupon amounts.

RATING
Assessment by agencies specialising in rating the soundness of corporate financial statements and financial instruments issued by an economic agent.

Rating agency: company specialising in corporate credit ratings, i.e. in awarding scores based on the state of the corporate accounts or financial instruments issued.

RISK
Risk is the possibility, which is never zero, of losing all or part of an asset or its equivalent monetary value. Risk is at the very heart of financial activity: evaluating, spreading, assuming, diversifying and hedging risk are all tasks that result in payment for financial transactions. The price of a bond indicates the degree of risk incurred by the buyer. The riskier a particular transaction is, the more the collateral required will increase. Counterparty risk: The risk that the buyer will not pay for what he or she has purchased, that the seller will not deliver what he or she has sold, that the borrower will not repay his or her loan or that the lender will not supply the loan funds promised (and for which he or she has received guarantees). Also called default risk.

SECONDARY MARKET
The secondary market is the market for securities already in circulation (created on the primary market). By ensuring investments remain liquid, the secondary market guarantees the quality of the primary market and the valuation of securities. Primary and secondary markets are therefore highly complementary.

SECURITY
An investment unit, currently stored in electronic format in France.

SETTLEMENT
For financial trades and transactions, settlement consists of a payment by the buyer or subscriber to the seller for the securities acquired and delivery of the securities by the seller.

STRIPPED BONDS
Stripping is a technique that divides a bond into as many securities as there are coupon and redemption payments. The stripped bonds created in this way are sold and listed separately as zero-coupon bonds. There is specific demand for this type of instruments, called strips, on French securities markets.

SWAPS
Interest rate swaps are based on the comparison of a variable and fixed interest rate. At maturity, one of the counterparties must pay the difference in interest to the other without any exchange of principal. They are particularly suitable for hedging long-term risk in business. The market for swaps has seen considerable growth and the banks play a key role in market-making. Corporate treasurers like the flexibility offered that enables them to choose the duration, benchmark variable interest rate and the notional value. A swap between a bank and a company can be settled at any time by calculating the present value of the future fixed-rate flows at the market rate and comparing this to the initial notional value. Swaps are also used on a regular basis to hedge the interest rate risk on variable- or fixed-interest rate assets.

SYNDICATE
Group of banks that organise and oversee a large bond issue. It comprises lead book runners, co-lead book runners and associated members.

SYNDICATED ISSUE
In principle, syndicated issue means that a bank or a syndicate of banks buys all the securities to be placed with the public from the issuer. This is the preferred placement method for corporate issuers. Syndicated issues were favoured by the French Government up until 1985.

TEC
The daily CNO-TEC N index, with a constant maturity of N years (N is between 1 and 30), represents the yield to maturity of a fictitious OAT with a maturity equal to N. The yield to maturity is obtained by extrapolating the annual yields to maturity of the two OATs with maturities closest to N.

TLTRO
Targeted Longer-Term Refinancing Operations

TRADE
A stock market operation involving the exchange of a certain quantity of a given security at a certain price between two parties represented by a financial intermediary (investment company).

Synonyms: transaction, exchange, market.

TRANSACTION
A stock market operation involving the exchange of a certain quantity of a given security at a certain price between two parties represented by a financial intermediary (investment company).

Synonyms: trade, exchange, market.

VARIABLE
An interest rate that is not constant throughout the duration of the loan, but which changes depending on outside factors, such as market rates (Euribor, Eonia) or statistical indices.

VOLATILITY (BOND PRICES)
Bond price volatility stems mainly from the interest-rate risk that affects fixed-rate bonds. The price of a bond varies inversely to the market interest rate. Sensitivity is even greater when the coupon rate and the market interest rate are low.

YIELD CURVE
The yield curve illustrates the relationship between interest rates at different maturities. The curve generally, but not always, slopes upward because of the risk premium (i.e. long-term yields are higher than short-term yields).

ACOSS
Central Social Security Agency

AFT
Agence France Trésor

AFTI
French Association of Securities Professionals

ANSSI
National Information System Security Agency of France

BOE
Bank of England

BTF
Fixed-rate Treasury bill

CAC
Collective action clause

CADES
Social Security Debt Repayment Fund

CDP
Public Debt Fund

CITE
Energy Transition Tax Credit

CPI
Consumer Price Index

DCM
Ministerial Accounts Department

DGFiP
Directorate General of Public Finances

ECB
European Central Bank

EIG
Economic Interest Group

EONIA
Euro OverNight Index Average

ESDM
Economic and Financial Committee (EFC) Sub-Committee on EU Sovereign Debt Markets

GDP
Gross Domestic Product

IMF
International Monetary Fund

INSEE
National Statistics and Economic Research Institute

HICP
Harmonised Index of Consumer Prices

LOLF
Constitutional Bylaw on Budget Acts

OAT
Long-term Treasury bond

OECD
Organisation for Economic Co-operation and Development

OPEC
Organization of the Petroleum Exporting Countries

QE
Quantitative Easing

SCBCM
Ministerial Budget and Accounting Control Unit

SCN
Department with national scope

SEA
Military Fuel Unit

SHDFS
Senior Defence and Security Official of the Economy and Finance Ministries

SVT
Primary dealer

TFEU
Treaty on the Functioning of the European Union

UCITS
Undertaking for collective investment in transferrable securities

WPDM
Working Party on Public Debt Management

Agence France Trésor annual report
Editor-in-Chief: Anthony Requin
Content and design: Agence France Trésor
Photo credits: Célia Bonnin, Gézelin Grée, Alain Salesse – Minefi, Phovoir.fr
English version: Translation Centre of the Economy and Finance Ministries

Agence France Trésor

www.aft.gouv.fr

REUTERS : <TRESOR> BLOOMBERG : TREX<GO>

Contact
Agence France Trésor
139, rue de Bercy - Télédoc 287 - 75572 Paris Cedex 12
Tel.: 01 40 04 15 00 - Fax: 01 40 04 15 93
contact@aft.gouv.fr

Creation: www.bleu-equipage.com - 2020