

N°364
SEPTEMBER
2020

MONTHLY BULLETIN

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

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France Trésor

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A SMALLER BORROWING REQUIREMENT IN 2021 AS THE ECONOMY RECOVERS

The State financing requirement for 2021 stands at €282.3 billion, which is €62.4 billion less than the financing requirement forecast for 2020. The medium- and long-term issuance programme, net of buybacks, will remain unchanged at €260 billion. The scale of this financing programme reflects the size of the shock to France's economy caused by the crisis and the unprecedented efforts under the recovery plan. The fiscal deficit for 2021 will also be smaller, at €152.8 billion (as opposed to the €206 billion deficit forecast for 2020, which is the revised figure compared to the deficit of €225.1 billion forecast in the third Supplementary Budget Act).

This year, despite the crisis, France enjoyed very favourable borrowing terms. At the end of September 2020, France's sovereign bonds had negative yields on maturities up to around 15 years. The financing programme in 2021 should continue to enjoy the same low yields stemming from the accommodative monetary policy stance and, more particularly, from the Eurosystem's various asset purchase programmes.

Under the circumstances, the debt burden scenario for 2021 assumes that short-term yields will be stable and long-term yields will rise slightly. Yields on 3-month and 10-year maturities are projected to stand at -0.40% and 0.70% respectively at the end of 2021. Under these assumptions, the fiscal cost of the debt burden is projected to stand at €37.1 billion in 2021, including €0.7 billion in interest expense on the *SNCF Réseau* debt. As measured in the government's financial accounts and according to the Maastricht rules (reported to the European Commission), the cost of debt service is projected to stand at €25.9 billion in 2020 and €26.4 billion in 2021. These new projections are lower than the ones made one year ago, since inflation and yields were lower than projected in the 2020 Budget Bill.

The Prime Minister presented the €100-billion "France Relance" recovery plan with three facets: ecology, competitiveness and cohesion, which will provide a sustainable boost for the economy. This multi-year plan, running from 2020 to 2023, will be financed by the State budget (80%) and by other general government entities, such as local governments, or agencies, such as the *Caisse des Dépôts et Consignations* (Deposits and Loans Fund). The European Union could contribute up to €40 billion in financing up until 2027 under the Next Generation EU programme.

Most of the effort under the plan will be concentrated on 2021 and 2022 in order to produce rapid effects. The assumptions are as follows: disbursement of €40 billion in 2021 and slightly more than €25 billion in 2022, including approximately €10 billion in European financing in 2021 and €12 billion in 2022. Consequently, the borrowing requirement stemming from the recovery plan can be estimated at approximately €30 billion in 2021 (included in the financing requirement of €282.3 billion mentioned above) and €15 billion in 2022.

For more information about the recovery plan, please visit Agence France Trésor website: <https://www.aft.gouv.fr/en/french-recovery-plan>



¹ NB: cash-based budgetary accounting provides different figures, since it does not count the selling prices of bonds, which include issue premiums resulting from negative yields. These premiums arise when the issuer sells bonds for more than the cost of redeeming them at maturity.

By Andrew Schneider and Steven Weinberg, US economists at BNP Paribas

Fed Chair Powell announced the FOMC's expected switch to a flexible average inflation target (FAIT) at the Jackson Hole symposium. The early formal release of the Fed's longer run policy statement and an asymmetric re-characterization of the employment mandate were dovish surprises.

Though we did not expect the Fed to lift rates within our forecast horizon, we think the FAIT and employment mandate revision raise the bar towards tightening policy even more than we expected. We see the FOMC clarifying its forward guidance next, by announcing an outcome-based liftoff policy at its September meeting.

Flexible average inflation target it is: The FOMC will now "seek to achieve inflation that averages 2 percent over time", and as a result "judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time."

The lack of an explicit averaging window, or degree of overshoot, comprise the flexible aspect of the new target. Indeed, it implies that the Committee will retain a substantial amount of discretion in applying it to policy.

Asymmetric employment mandate: In addition to revising its inflation target, the Fed re-characterized its employment mandate, importantly saying that its policy decisions would no longer be informed by deviations of employment from its maximum level, but rather strictly by shortfalls.

In other words, the Fed has shifted its official strategy to driving employment as high as possible, with realized inflation outcomes, rather than projected ones, informing whether it has reached the maximum level.

Both are significant, historic shifts. Indeed, with the current framework, the Fed most likely would not have begun hiking rates in December 2015, and the hiking cycle would have most likely been shallower as well, if happening at all.

Outcome based forward guidance in September: While the announcement of FAIT was not a surprise to us, the formal release of the revised longer run statement early at the Jackson Hole symposium, along with the dovish changes to the employment mandate, were.

Indeed, our expectation was for Chair Powell to deliver the conclusions of the policy review, leaving the September meeting for the official release of the longer run statement that the Committee would couple with a change to its forward guidance to a dependence on realized inflation outcomes.

The early formal release of the revised longer run statement front runs half of that expectation, suggesting the Committee is indeed lined up to move towards clarifying its forward guidance at the next opportunity, the September meeting.

This looks in line with the FOMC's last two meeting minutes, which showed various participants noting that "it will be important in the coming months for the Committee to provide greater clarity regarding the likely path of the federal funds rate and asset purchases", with "participants generally indicating support for outcome based forward guidance".

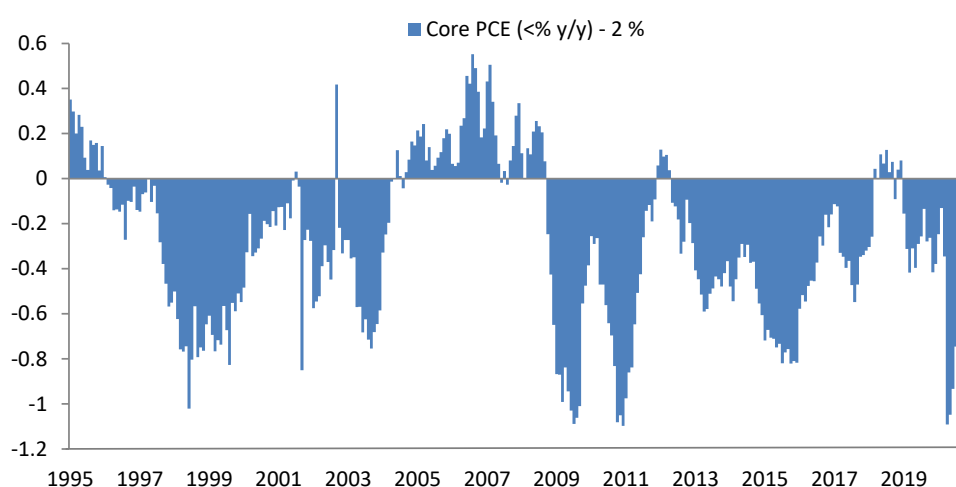
Completing the revised longer run policy statement was seen as "very helpful in providing an overarching framework that would help guide the Committee's future policy actions and communications".

While our baseline view was that the Committee would choose an inflation threshold to be met before considering lifting rates, the dovish changes it made to the employment mandate in its longer run policy statement make us think that incorporating an unemployment rate threshold is a more likely possibility.

Lower for longer, higher bar to tighten: The upshot of the revised longer run statement in our view is that the bar to tighten policy is even higher than we expected before.

The Fed is resolutely committed to a robust labour market, and has codified that it will not be adjusting policy in the same manner as it did coming out of the Great Recession.

Core PCE vs Fed target



Sources: BEA, Macrobond, BNP Paribas

NB : this Agence France Trésor forum offers economists an opportunity to express their personal opinion. Accordingly, the above article strictly reflects the author's view, and should not be construed as expressing the viewpoints of Agence France Trésor or the Ministry of the Economy, Finance and the Recovery. Please note that the views expressed in this article represent the personal views of the research analyst author and do not represent an official view of BNP Paribas. In no event should any view expressed in this report be construed as an endorsement or criticism of any government policy, statement, or initiative on the part of BNP Paribas.

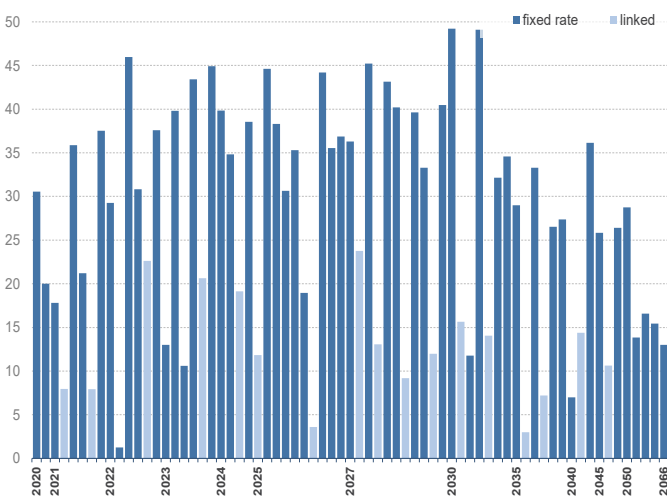
INDICATIVE AUCTION SCHEDULE

		Short-term					Medium-term	Long-term	Index-linked
October 2020	auction date	5	12	19	26	/	15	1	15
	settlement date	7	14	21	28	/	19	5	19
November 2020	auction date	2	9	16	23	30	19	5	19
	settlement date	4	11	18	25	2	23	9	23

Source: Agence France Trésor

MEDIUM- AND LONG-TERM NEGOTIABLE GOVERNMENT DEBT AT 31 AUGUST 2020

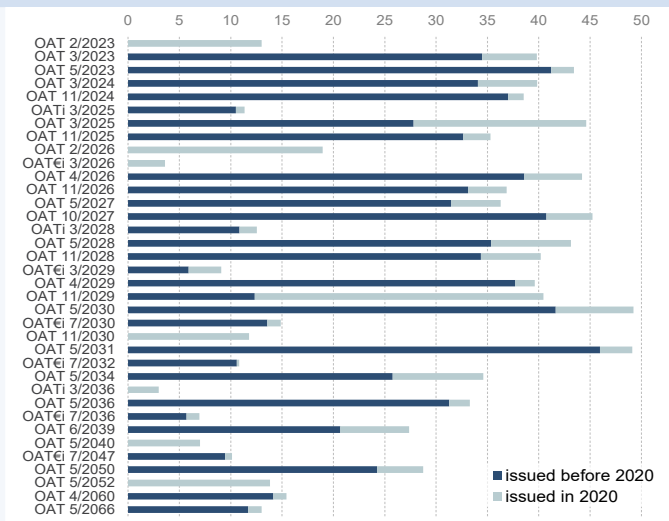
NOMINAL VALUE OF EACH LINE, IN € BILLION



Source: Agence France Trésor

MEDIUM- AND LONG-TERM: SECURITIES ISSUED DURING THE YEAR AND TOTAL ISSUANCE AT 31 AUGUST 2020

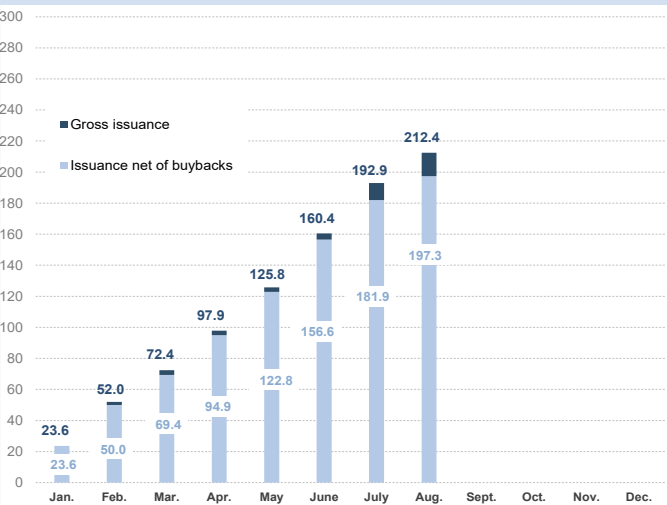
IN € BILLION



Source: Agence France Trésor

ISSUANCE AT 31 AUGUST 2020

IN € BILLION



Source: Agence France Trésor

MEDIUM- AND LONG-TERM: PROVISIONAL MATURITY SCHEDULE AT 31 AUGUST 2020

IN € BILLION

Month	Coupon	Redemption
Sep-20		
Oct-20	10.7	30.5
Nov-20	1.4	20.0
Dec-20		
Jan-21		
Feb-21		17.7
Mar-21	0.0	7.9
Apr-21	11.7	35.9
May-21	7.7	21.2
Jun-21	0.5	
Jul-21	2.4	8.0
Aug-21		

Source: Agence France Trésor

NON-RESIDENT HOLDERS OF NEGOTIABLE GOVERNMENT DEBT IN SECOND QUARTER OF 2020

AS A % OF NEGOTIABLE DEBT OUTSTANDING
EXPRESSED IN MARKET VALUE



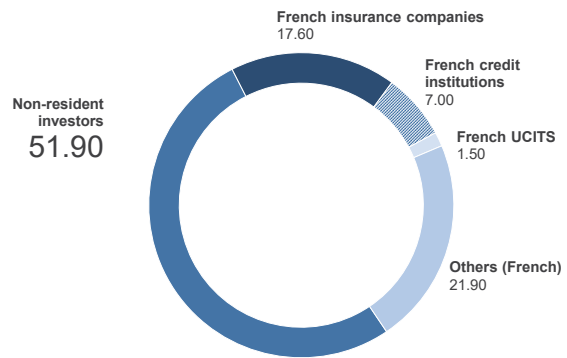
(*) figures quarterly revised

(**) figures annually revised

Source: Banque de France

NEGOTIABLE GOVERNMENT DEBT BY GROUP OF HOLDERS IN SECOND QUARTER OF 2020

STRUCTURE IN % EXPRESSED IN MARKET VALUE



Source: Banque de France

NEGOTIABLE GOVERNMENT DEBT AT 31 AUGUST 2020

IN EUROS

Total medium- and long-term debt	1,828,174,648,328
Total stripping activity	57,303,859,600
Average maturity	8 years and 276 days
Total short-term debt	175,908,000,000
Average maturity	120 days
Total outstanding	2,004,082,648,328
Average maturity	8 years and 6 days

Source: Agence France Trésor

NEGOTIABLE GOVERNMENT DEBT SINCE 2017 AT 31 AUGUST 2020

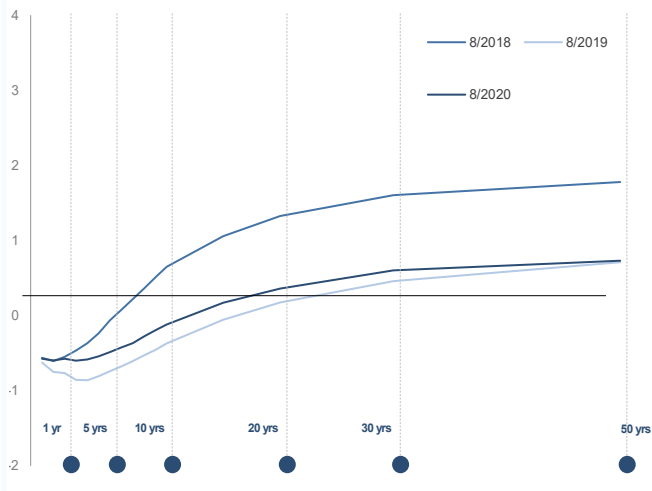
IN € BILLION

	End 2017	End 2018	End 2019	End July 2020	End August 2020
Negotiable government debt outstanding	1,686	1,756	1,823	1,992	2,004
<i>of which index-linked securities</i>	202	220	226	215	217
Medium- and long-term	1,560	1,644	1,716	1,812	1,828
Short-term	126	113	107	180	176
Average maturity of the negotiable debt	7 years	7 years	8 years	8 years	8 years
	296 days	336 days	63 days	15 days	6 days

Source: Agence France Trésor

YIELD CURVE FOR FRENCH GOVERNMENT SECURITIES

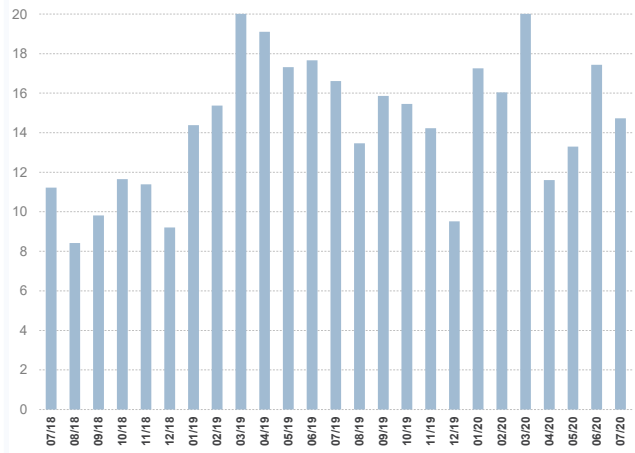
END-OF-MONTH VALUE, %



Source: Bloomberg

AVERAGE DAILY VOLUME OF MEDIUM- AND LONG-TERM TRANSACTIONS

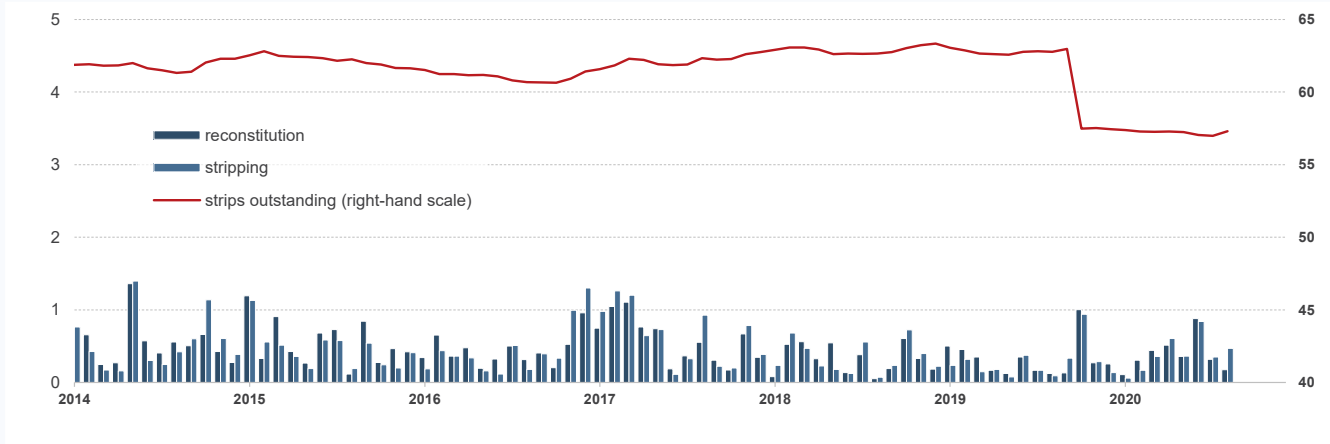
IN € BILLION



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

TOTAL STRIPPING AND RECONSTITUTION

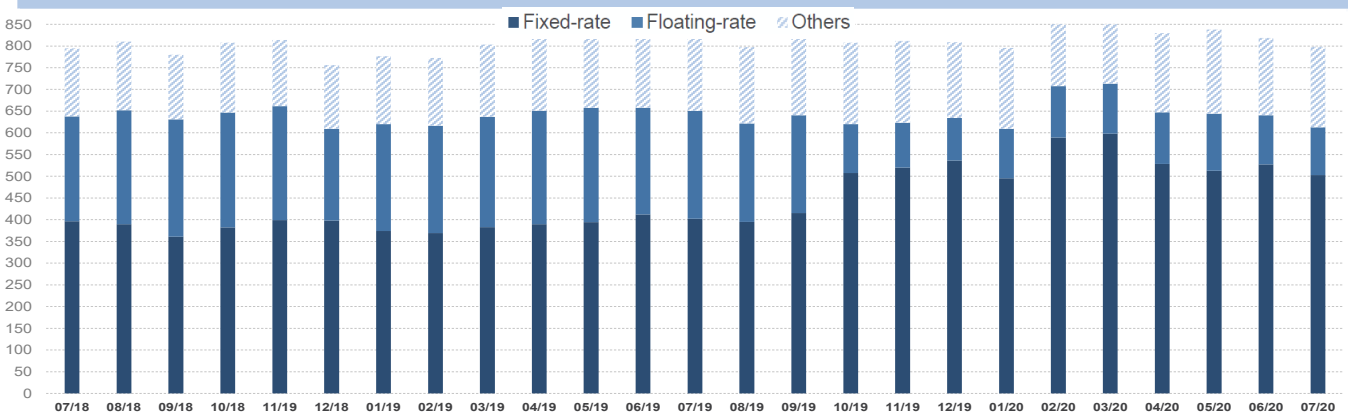
IN € BILLION



Source: Euroclear

PRIMARY DEALERS, REPO OUTSTANDING AT END OF MONTH

IN € BILLION



Source: reporting by primary dealers in government securities

SHORT-TERM DEBT AT 31 AUGUST 2020

ISIN Code	Maturity	Outstanding(€)
FR0126001728	BTF 2 September 2020	7,491,000,000
FR0125692477	BTF 9 September 2020	5,084,000,000
FR0126001736	BTF 16 September 2020	7,810,000,000
FR0126001744	BTF 23 September 2020	10,149,000,000
FR0126001751	BTF 30 September 2020	7,973,000,000
FR0125848467	BTF 7 October 2020	7,313,000,000
FR0126310186	BTF 14 October 2020	7,173,000,000
FR0126001769	BTF 21 October 2020	8,757,000,000
FR0126310194	BTF 28 October 2020	7,134,000,000
FR0125848475	BTF 4 November 2020	5,688,000,000
FR0126310202	BTF 11 November 2020	5,354,000,000
FR0126001777	BTF 18 November 2020	9,626,000,000
FR0126310210	BTF 25 November 2020	2,395,000,000
FR0125848483	BTF 2 December 2020	6,470,000,000
FR0126310236	BTF 16 December 2020	9,557,000,000
FR0126310251	BTF 13 January 2021	8,020,000,000
FR0125848673	BTF 27 January 2021	5,477,000,000
FR0125848681	BTF 24 February 2021	6,755,000,000
FR0125848699	BTF 24 March 2021	8,170,000,000
FR0126001785	BTF 21 April 2021	10,971,000,000
FR0126001793	BTF 19 May 2021	8,329,000,000
FR0126001801	BTF 16 June 2021	9,463,000,000
FR0126310285	BTF 14 July 2021	7,449,000,000
FR0126310293	BTF 11 August 2021	3,300,000,000

MEDIUM- AND LONG-TERM DEBT (MATURING 2020-2023) AT 31 AUGUST 2020

ISIN Code	Bond	Outstanding(€)	Ind. Coeff.	Face value(€)	Stripped(€)	CAC*
Maturity 2020		50,565,000,000				
FR0010949651	OAT 2.50% 25 October 2020	30,547,000,000			0	
FR0012968337	OAT 0.25% 25 November 2020	20,018,000,000			3,000,000	x
Maturity 2021		128,332,434,560				
FR0013311016	OAT 0.00% 25 February 2021	17,812,000,000			0	x
FR0013140035	OAT <i>€i</i> 0.10% 1 March 2021	7,952,698,260 (1)	1.05111	7,566,000,000	0	x
FR0010192997	OAT 3.75% 25 April 2021	35,867,000,000			0	
FR0013157096	OAT 0.00% 25 May 2021	21,222,000,000			0	x
FR0011347046	OAT <i>i</i> 0.10% 25 July 2021	7,937,736,300 (1)	1.05066	7,555,000,000	0	
FR0011059088	OAT 3.25% 25 October 2021	37,541,000,000			0	
Maturity 2022		167,495,984,980				
FR0013398583	OAT 0.00% 25 February 2022	29,253,000,000			0	x
FR0000571044	OAT 8.25% 25 April 2022	1,243,939,990			315,888,400	
FR0011196856	OAT 3.00% 25 April 2022	45,972,000,000			0	
FR0013219177	OAT 0.00% 25 May 2022	30,816,000,000			0	x
FR0010899765	OAT <i>€i</i> 1.10% 25 July 2022	22,629,044,990 (1)	1.13983	19,853,000,000	0	
FR0011337880	OAT 2.25% 25 October 2022	37,582,000,000			0	
Maturity 2023		172,415,172,223				
FR0013479102	OAT 0.00% 25 February 2023	13,016,000,000			0	x
FR0013283686	OAT 0.00% 25 March 2023	39,815,000,000			0	x
FR0000571085	OAT 8.50% 25 April 2023	10,606,195,903			5,374,665,200	
FR0011486067	OAT 1.75% 25 May 2023	43,434,000,000			0	x
FR0010585901	OAT <i>i</i> 2.10% 25 July 2023	20,625,976,320 (1)	1.14284	18,048,000,000	0	
FR0010466938	OAT 4.25% 25 October 2023	44,918,000,000			440,085,000	

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

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

MEDIUM- AND LONG-TERM DEBT (MATURING IN 2024 AND BEYOND) AT 31 AUGUST 2020

ISIN Code	Bond	Outstanding(€)	Ind. Coeff.	Face value(€)	Stripped(€)	CAC*
Maturity 2024		132 311 740 600				
FR0013344751	OAT 0.00% 25 March 2024	39 839 000 000			0	x
FR0011619436	OAT 2.25% 25 May 2024	34 810 000 000			0	x
FR0011427848	OAT€i 0.25% 25 July 2024	19 126 740 600 (1)	1,06740	17 919 000 000	0	x
FR0011962398	OAT 1.75% 25 November 2024	38 536 000 000			42 000 000	x
Maturity 2025		160 704 151 308				
FR0012558310	OATi 0.10% 1 March 2025	11 824 223 190 (1)	1,04169	11 351 000 000	0	x
FR0013415627	OAT 0.00% 25 March 2025	44 618 000 000			0	x
FR0012517027	OAT 0.50% 25 May 2025	38 297 000 000			0	x
FR0000571150	OAT 6.00% 25 October 2025	30 653 928 118			2 812 064 400	
FR0012938116	OAT 1.00% 25 November 2025	35 311 000 000			0	x
Maturity 2026		139 179 067 540				
FR0013508470	OAT 0.00% 25 February 2026	18 953 000 000			0	x
FR0013519253	OAT€i 0.10% 1 March 2026	3 599 067 540 (1)	1,00141	3 594 000 000	0	x
FR0010916924	OAT 3.50% 25 April 2026	44 202 000 000			0	
FR0013131877	OAT 0.50% 25 May 2026	35 550 000 000			0	x
FR0013200813	OAT 0.25% 25 November 2026	36 875 000 000			0	x
Maturity 2027		105 290 181 600				
FR0013250560	OAT 1.00% 25 May 2027	36 296 000 000			0	x
FR0011008705	OAT€i 1.85% 25 July 2027	23 768 181 600 (1)	1,12326	21 160 000 000	0	
FR0011317783	OAT 2.75% 25 October 2027	45 226 000 000			46 943 600	
Maturity 2028		96 410 287 050				
FR0013238268	OATi 0.10% 1 March 2028	13 053 577 920 (1)	1,03996	12 552 000 000	0	x
FR0000571226	OAT zero coupon 28 March 2028	29 709 130 (3)		46 232 603	–	
FR0013286192	OAT 0.75% 25 May 2028	43 135 000 000			0	x
FR0013341682	OAT 0.75% 25 November 2028	40 192 000 000			0	x
Maturity 2029		134 503 314 547				
FR0013410552	OAT€i 0.10% 1 March 2029	9 171 661 080 (1)	1,01132	9 069 000 000	0	x
FR0000571218	OAT 5.50% 25 April 2029	39 618 880 458			2 359 546 100	
FR0013407236	OAT 0.50% 25 May 2029	33 281 000 000			0	x
FR0000186413	OATi 3.40% 25 July 2029	11 966 773 009 (1)	1,30284	9 185 144 000	0	
FR0013451507	OAT 0.00% 25 November 2029	40 465 000 000			0	x
Maturity 2030		76 672 048 160				
FR0011883966	OAT 2.50% 25 May 2030	49 233 000 000			0	x
FR0011982776	OAT€i 0.70% 25 July 2030	15 662 048 160 (1)	1,05369	14 864 000 000	0	x
FR0013516549	OAT 0.00% 25 November 2030	11 777 000 000			0	x
Maturity in 2031 and beyond		464 295 265 760				
FR0012993103	OAT 1.50% 25 May 2031	49 107 000 000			53 900 000	x
FR0000188799	OAT€i 3.15% 25 July 2032	14 051 281 920 (1)	1,29912	10 816 000 000	0	
FR0000187635	OAT 5.75% 25 October 2032	32 162 322 600			10 879 757 400	
FR0013313582	OAT 1.25% 25 May 2034	34 584 000 000			0	x
FR0010070060	OAT 4.75% 25 April 2035	29 004 000 000			4 458 837 000	
FR0013524014	OATi 0.10% 1 March 2036	3 000 000 000 (1)	0,99662	3 000 000 000	0	x
FR0013154044	OAT 1.25% 25 May 2036	33 300 000 000			0	x
FR0013327491	OAT€i 0.10% 25 July 2036	7 198 257 850 (1)	1,03349	6 965 000 000	0	x
FR0010371401	OAT 4.00% 25 October 2038	26 534 000 000			4 704 941 400	
FR0013234333	OAT 1.75% 25 June 2039	27 375 000 000			0	x
FR0013515806	OAT 0.50% 25 May 2040	7 000 000 000			0	x
FR0010447367	OAT€i 1.80% 25 July 2040	14 377 019 800 (1)	1,20340	11 947 000 000	0	
FR0010773192	OAT 4.50% 25 April 2041	36 152 000 000			5 996 299 000	
FR0011461037	OAT 3.25% 25 May 2045	25 824 000 000			1 068 810 000	x
FR0013209871	OAT€i 0.10% 25 July 2047	10 622 383 590 (1)	1,04871	10 129 000 000	0	x
FR0013257524	OAT 2.00% 25 May 2048	26 409 000 000			651 900 000	x
FR0013404969	OAT 1.50% 25 May 2050	28 753 000 000			112 600 000	x
FR0013480613	OAT 0.75% 25 May 2052	13 830 000 000			95 000 000	x
FR0010171975	OAT 4.00% 25 April 2055	16 583 000 000			8 215 518 000	
FR0010870956	OAT 4.00% 25 April 2060	15 432 000 000			8 497 304 100	
FR0013154028	OAT 1.75% 25 May 2066	12 997 000 000			1 174 800 000	x

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

(3) Revised on 28 March 2020, not open to subscription

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

MOST RECENT ECONOMIC INDICATORS

Industrial output, year-on-year	-14.3%	Jul. 2020
Household consumption*, year-on-year	2.6%	Aug. 2020
Unemployment rate (ILO)	7.1%	Q2-2020
Consumer prices, year-on-year		
• all items	0.2%	Aug. 2020
• all items excluding tobacco	-0.1%	Aug. 2020
Trade balance, fob-fob, sa (€bn)	-€7.0bn	Jul. 2020
" "	-€8.1bn	Jun. 2020
Current account balance, sa (€bn)	-€6.2bn	Jul. 2020
" "	-€7.7bn	Jun. 2020
10-year constant maturity rate (TEC10)	-0.28%	29 Sep. 2020
3-month interest rate (Euribor)	-0.49%	29 Sep. 2020
EUR / USD	1.17	29 Sep. 2020
EUR / JPY	123.62	30 Sep. 2020

* manufactured products

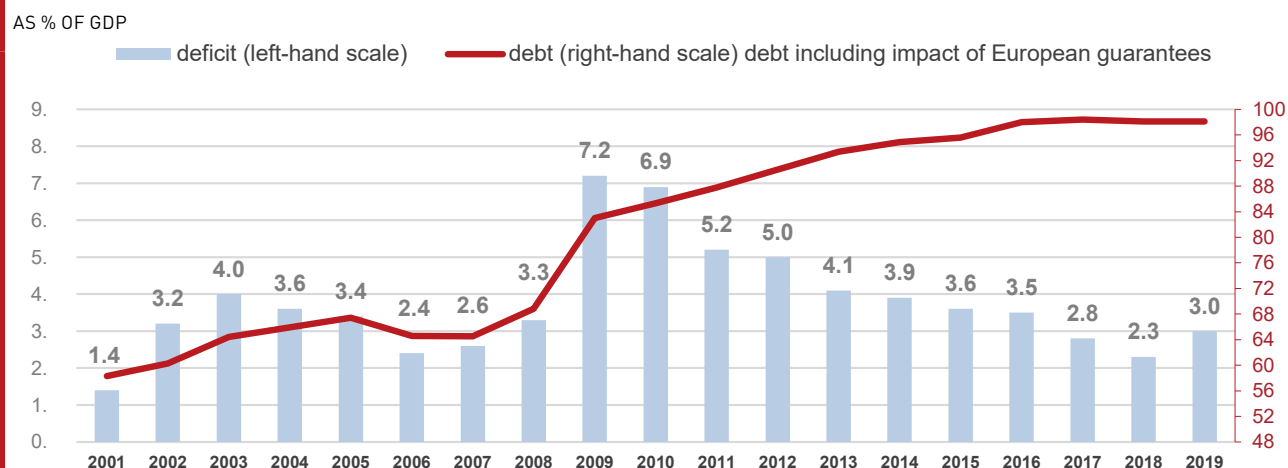
Sources: Insee, Minefi, Banque de France

MONTHLY GOVERNMENT BUDGET POSITION

			end of July level		
	2018	2019	2018	2019	2020
General budget balance	-76.91	-96.91	-57.01	-84.76	-120.05
Revenue	313.79	301.07	182.11	159.24	149.25
Expenditure	390.69	397.98	239.12	243.99	269.30
Balance of special Treasury accounts	0.82	4.06	-25.75	-24.99	-30.99
General budget outturn	-76.00	-92.69	-82.76	-109.74	-151.04

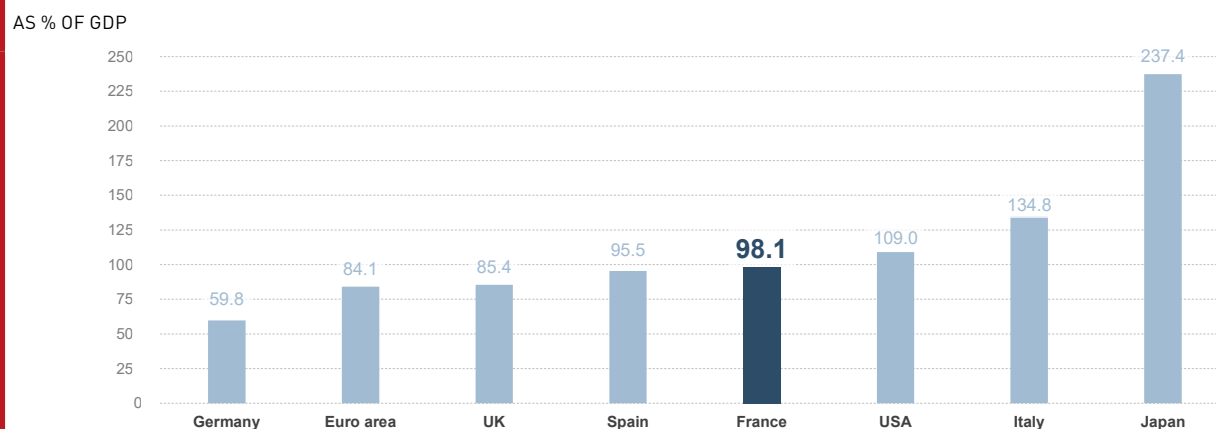
Source: Ministry of Economy, Finance and the Recovery

PUBLIC FINANCES: DEFICIT AND DEBT




Source: Insee


GENERAL GOVERNMENT DEBT IN 2019



Sources: Eurostat, IMF, Insee

OCTOBER 2020 

7 Foreign trade by value in August	7 Balance of payments in August	9 Industrial production: August index	15 Consumer prices: September index	16 Inflation (HICP) : September index	22 Monthly business survey (goods-producing industries) in October
22 Quarterly business survey (goods-producing industries) in October	27 Industrial producer and import price: September indices	27 Job seekers Q3 - 2020 (ILO)	28 Consumer confidence survey: October survey	30 Consumer prices: October index	30 Household consumption expenditure on goods in September

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6 Foreign trade by value in September	6 Balance of payments in September	6 Net international reserves in October	10 Job seekers Q3 2020 (ILO)	10 Industrial producer and import price: September indices	13 Consumer prices: October index
13 Net international reserves in October	18 Inflation (HICP): October index	24 Consumer confidence survey: November survey	27 Industrial producer and import price: October indices	27 Household consumption expenditure on goods in October	27 Quarterly national accounts: final results Q3-2020
27 Consumer prices: November index					

Sources: Insee, Eurostat

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