



OPINION OF THE EUROPEAN CENTRAL BANK
of 21 October 2016
on a modification of the remuneration formula in respect of the French *livret A*
(CON/2016/51)

Introduction and legal basis

On 4 October 2016 the European Central Bank (ECB) received a request from the French Ministry of Economy and Finance for an opinion on a draft regulatory provision (hereinafter the 'draft amendment') amending the remuneration formula in respect of the *livret A*, which is a type of French savings account.

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union and the third and sixth indents of Article 2(1) of Council Decision 98/415/EC¹, as the draft amendment relates to (a) the basic task of the European System of Central Banks (ESCB) of implementing the monetary policy of the Union pursuant to the first indent of Article 127(2) of the Treaty, (b) the Banque de France and (c) the rules applicable to financial institutions insofar as they materially influence the stability of financial institutions and markets. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. Purpose of the draft amendment

- 1.1 The purpose of the draft amendment is to modify the calculation formula for setting the annual nominal remuneration rate of the *livret A*.
- 1.2 The *livret A* is a short-term, i.e. fully liquid, tax-free savings instrument. The total level of savings under the *livret A* and *livret de développement durable* (sustainable growth savings account), which is fairly similar to the *livret A*, currently amounts to approximately 350 billion euro. Credit institutions collect savings under the *livret A*, but approximately 60% of the collected savings are centralised by a special fund of the *Caisse des dépôts et consignations* (CDC, Deposits and Consignments Fund). The bulk of the funds centralised by the CDC is used to finance social housing, with the remainder used to finance small and medium-sized enterprises.
- 1.3 Currently the remuneration rate of the *livret A* is calculated by the Banque de France, in accordance with its standard revision procedure, twice a year on 15 January and 15 July. The Banque de France may depart from this standard revision procedure in the event of steep rises or falls in the inflation rate or in money market rates by initiating, on 15 April or 15 October, a revision of the anticipated remuneration rates applicable as of 1 May or 1 November. Furthermore, in

¹ Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions (OJ L 189, 3.7.1998, p. 42).

situations where the calculation made would lead to a rate that would not allow for the preservation of household purchasing power, and in certain other exceptional circumstances, the Governor of the Banque de France has the right to propose to the minister responsible for economic matters not to apply the new rate. In such cases, the rates are maintained at their previous level and the *Comité de réglementation bancaire et financière* (Banking and Financial Regulatory Board) will consider whether it is appropriate to amend them. The draft amendment does not modify these provisions.

- 1.4 According to the current calculation formula the remuneration rate of the *livret A* corresponds to whichever is the higher of: (a) (i) the monthly average three-month Euribor rate and the monthly average euro overnight index average (EONIA) rate combined and then divided by two, plus (ii) the French inflation rate as measured by the percentage change over the latest available 12 months of *l'Indice INSEE des prix à la consommation de l'ensemble des ménages* (INSEE, National Institute of Statistics and Economic Studies consumer price index), with the sum of (i) and (ii) then divided by two; or (b) the French inflation rate as measured by the percentage change over the latest available 12 months of the same price index plus 0.25%.
- 1.5 Under the new proposed calculation formula the remuneration rate of the *livret A* would be the higher of: (a) the French inflation rate measured as the six-month average of the percentage change in the INSEE consumer price index over the latest available 12 months and the six-month average EONIA rate combined and then divided by two; or (b) the inflation mentioned under (a) increased by 0.25% except in situations where the difference between the money market rate and the inflation rate mentioned under (a) is more than 0.25%.
- 1.6 The main differences between these two calculation methods are as follows: (a) the additional 0.25% remuneration over the relevant inflation rate would not be applied in circumstances where the difference between the money market rate and the inflation rate was more than 0.25%; (b) the money market and inflation rates would be based on six-month averages instead of monthly figures; and (c) the calculation of the money market rate would no longer be based on Euribor rates.
- 1.7 The change in the calculation formula used in respect of the *livret A* would also affect the remuneration rate of other types of French savings accounts that are based on the remuneration rate of the *livret A*, including *comptes spéciaux sur livret du crédit mutuel* (special savings account of Crédit Mutuel), *livret de développement durable* (sustainable growth savings account), *livret d'épargne populaire* (popular savings account), *livrets d'épargne entreprise* (corporate savings account) and *compte d'épargne logement* (housing savings account).

2. General observations

- 2.1 The ECB observes that in setting the remuneration rate of the *livret A*, the French Government has to strike a balance between preserving household purchasing power and providing affordable funding for investments mainly in social housing. Over the past few years, money market rates have decreased significantly and even turned negative. On the other hand, the remuneration rate of the *livret A* has remained positive and well above money market interest rates. It currently stands

- at 0.75%. The reason for the divergence between the money market rates and the remuneration rate of the *livret A* lies in part in the current calculation formula which offers a 0.25% step-up on the 12-month average French inflation rate, as evidenced by the corresponding INSEE consumer price index. This growing divergence raises serious issues as regards the efficiency of monetary policy transmission. Furthermore, the implied liquidity costs for banks collecting savings under the *livret A*, may raise financial stability concerns by potentially impeding banks' intermediation capacity.
- 2.2 The ECB is generally not in favour of the regulation of savings remuneration, as this derogates from the principle of an open market economy with free competition, presents challenges for the efficient transmission of monetary policy and, to a certain extent, for financial stability.
- 2.3 Against this background, the ECB understands that the aim of the draft amendment is to limit any potential excessive divergence between money market interest rates and the fixed remuneration of the *livret A* and thereby to: (a) allow monetary policy to be transmitted more effectively; (b) reduce the costs associated with the collection of such regulated savings for credit institutions and the savings fund operated by the CDC; and (c) render the new formula more stable by smoothing the references used for short-term interest rates and inflation, and thus mitigate the problems related to the volatility of the current formula and the need for the Governor of the Banque de France to request derogations.
- 2.4 The ECB considers that the abovementioned objectives pursued by the French authorities are legitimate. The ECB has no specific comments as regards the best formula to be used for the calculation of the remuneration rate of the *livret A*. However, the ECB regrets that the principle of regulated savings remuneration is maintained in the draft amendment.
- 2.5 Finally, the draft amendment does not introduce any changes to a task that has been historically exercised by the Banque de France and its Governor on behalf of the French Government. However, exercising this government task has the potential to place the Banque de France and its Governor in a position in which there is a conflict of interest between the exercise of this task and the exercise of the Banque de France's central banking tasks. This may in turn potentially have an impact on the Banque de France's independence in pursuing the Eurosystem's objective of maintaining price stability.

This opinion will be published on the ECB's website following its adoption, and in any case no later than six months following its adoption.

Done at Frankfurt am Main, 21 October 2016.

[signed]

The President of the ECB

Mario DRAGHI