MODERNIZATION OF THE PUBLIC ACCOUNTING SYSTEMS IN FRANCE

Overview of the approach using the 2016 accounts

Ministère des Finances et des Comptes Publics
Direction générale des finances publiques
In line with best international financial and accounting reporting and transparency practices, the French State prepares accruals based accounts.

The 2016 French Central Government accounts were certified by the Court of Auditors for the eleventh consecutive year. This certification reflects steady improvement in the quality and transparency of financial information contained in the Central Government accounts.

The number of reservations now stands at 4, compared with 5 since the certification of the 2013 accounts, recognizing improvements to the quality of the accounts achieved over the last three years by the authorities.

This document summarises the 2016 highlights and the principal changes during the period. A simplified balance sheet and income statement are also presented at the end of the document.
2016 Highlights

The State continued to keep tight control over expenditure in 2016.

Accordingly, the 2016 budgetary deficit is €69.1 billion compared with €70.5 billion at the end of December 2015, excluding transactions with the IMF, representing an improvement of €3.2 billion on forecasts.

The State reported a €7.4 billion improvement in its accounting loss on 2015 to €75.6 billion.

2016 was marked by the implementation of measures to support businesses, households and energy transition.

The reform of the electricity public service contribution (CSPE) implemented in 2016, led to the creation of the “Energy public service” programme. This funded €2.6 billion of transfers to businesses, mainly tied to price adjustments. In addition, the new “Energy transition” special allocation account, funded by energy taxation revenue of €4.2 billion, recorded expenditure of €4.5 billion in support of renewable energy measures.

Housing benefit financing reforms and the activity benefit (prime d’activité) were implemented in 2016. Family housing benefits (ALF) are now financed by the State budget through the National Housing Assistance Fund (FNAL) and no longer by the Social Security budget. This led to a €4.8 billion increase in transfers to households. In addition, the activity benefit is financed in full by the general budget, whereas until 2015, employment benefits (PPE) were deducted from income tax revenue. Intervention expenses for households therefore increased by €2.5 billion and the suppression of the PPE led to an increase in income tax revenue of €1.9 billion.

The increase in financial assets during 2016 is mainly due to the increase in the value of State investments in controlled and uncontrolled entities.

International Monetary Fund (IMF) quotas were modified to increase the institution’s resources and take account of the changing roles of member countries in its governance structure. France’s quota was therefore increased to €19.4 billion in 2016, up €9 billion on 2015.

The State also contributed to the recapitalisation of Agence Française pour le Développement (AFD), providing a capital contribution of €2.4 billion to finance its growing lending activity. At the same time, AFD repaid in advance early State loans in the same amount.

In addition, the State borrowed 43.8 million Alstom shares, valued at €1.1 billion at the end of 2016, to support the development of the company’s transportation business.

Finally, the State sold its 60% stakes in Aéroports de Lyon and Aéroports de la Côte d'Azur in 2016. This €1.8 billion transfer to the private sector was accompanied by buyer commitments to preserve the State’s interests and promote the economic development of the relevant territories.
Overview of the principal changes in 2016

Change in the State Balance Sheet

The increase in State assets is due to higher fixed assets (+€15,540 million), in turn primarily due to the increase in France’s International Monetary Fund quota (+€9,027 million) (see Financial Assets section below).

This increase is nonetheless offset by a decrease in current assets excluding cash (€5,109 million), mainly impacted by a decrease in receivables (€3,154 million), as well as by a decrease in other assets (€5,491 million) tied to a drop in the level of cash (€5,384 million) following the use of funds earmarked for “investments for the future” (€3,007 million).

State liabilities mainly consist of financial debt of €1,646,760 million, up 2.74% on 2015 and comprised 90% of medium- and long-term negotiable debt (OAT and BTAN bonds).

Liabilities (excluding financial debt) increased €38,975 million. This increase primarily concerns non-financial debt (+€22,381 million), encompassing an increase in prepaid revenues corresponding to additional premiums recognized on OAT and BTAN bond issues in 2016 (+€13,590 million), as well as an increase in accrued expenses due to the implementation of business support measures and particularly the Tax credit for encouraging competiveness and jobs (CICE)(+€5,578 million). The increase in other liability accounts reflects the increase in Treasury bills issued in favour of international organizations (+€10,203 million) following the increase in France’s IMF quota.
Principal changes in fixed assets

<table>
<thead>
<tr>
<th>Fixed asset category</th>
<th>31/12/2015</th>
<th>31/12/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>27,066</td>
<td>28,221</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>463,795</td>
<td>462,054</td>
</tr>
<tr>
<td>Financial assets</td>
<td>323,845</td>
<td>339,970</td>
</tr>
<tr>
<td><strong>Total fixed assets</strong></td>
<td><strong>814,705</strong></td>
<td><strong>830,245</strong></td>
</tr>
</tbody>
</table>

- **Intangible assets**

While the net value of intangible assets is up on 2015 (+€1,156 million) they remain stable as a proportion of fixed assets at 3%. Intangible assets mainly consist of military development expenditure relating to a range of equipment such as the M51 missile, the RAFALE fighter jet, multi-mission frigates and the TIGER and NH90 helicopters.

In addition to military developments expenditure, intangible assets comprise broadcasting frequencies valued at €9,740 million and reflecting discounted future royalties receivable by ARCEP in respect of frequencies awarded to telecommunication operators. These frequencies were revalued upwards in 2016 (+€1,544 million) following the extension of the discounting period from 15 to 20 years and the decrease in the discount rate.

- **Tangible assets**

Tangible assets represent 47% of State assets and have a net value of €462,054 million at the end of 2016.

State assets include land and buildings with a net value of €185,784 million, mainly comprising road infrastructures (67%), non-specific property assets (27%) and buildings specific to the State’s activities (4%) and primarily penitentiary institutions.

**Concession assets** also represent a substantial percentage of State assets with a net value of €202,781 million. They mainly include motorways, hydraulic structures, tunnels and engineering works, as well as rail and airport installations.
The net value of tangible assets decreased in 2016 (€1,740 million):

- tangible assets in progress (+€1,702 million), following expenditure incurred on land and buildings controlled by the State and, to a lesser extent, an increase in work in progress for projects financed by public-private partnerships;
- a decrease in concession assets (€1,596 million), mainly due to revaluations performed during the year (decrease in the revaluation index), particularly for motorway concessions (€2,813 million);
- land and buildings (€2,153 million), following the revaluation of road infrastructures (M€1,108 million) due to a decrease in the index used to value these assets.

### Financial assets

Financial assets mainly comprise investments held by the State in 1,817 entities, including 963 entities not controlled (primarily companies, international institutions such as the International Monetary Fund and national entities such as Caisse des dépôts et consignations (CDC), as well as public healthcare institutions). They also include amounts receivable from these investments as well as loans and advances, particularly to foreign States.

Financial assets have a net value of €339,970 million at 31 December 2016 (compared with €323,845 million one year previously, an increase of €16,125 million) and represent 35% of State assets.

The increase in net financial assets during 2016 is mainly due to the increase in the net value of State investments in controlled and uncontrolled entities (+€14,926 million), which can be explained as follows:

- An increase in France’s IMF quota (+€9,027 million) following the reform of quotas for its 189 member countries. This quota is reflected by a €19,386 investment in the Central Government accounts as of 31 December 2016;
- An increase in the equity value of controlled investments (+€7,511 million) and particularly the investment in Agence Française de développement (AFD). This followed a €2,408 million recapitalization to satisfy Basle III prudential rules and in accordance with the President of the Republic’s decision to assign the AFD new growth objectives, particularly for its lending activity. In addition, the equity method valuation differences of several water agencies increased (+€2,296 million) following a change in accounting method for intervention measures (the allocation criteria for a liability or expense is no longer
tied to the formal documentation of an administrative deed but the recognition of the service performed);

- The borrowing by the State of Alstom shares (+€1,012 million), providing it with 20% of voting rights in this company;
- This marked increase is nonetheless partially offset by an increase in the impairment of non-controlled investments (+€3,397 million). A decrease in the stock market value of certain entities during 2016 led the State to recognize additional impairment of €2,389 million.

The net carrying amount of investment-related receivables is stable year-on-year, despite a significant reduction in the AFD receivable (+€2,408 million) following the recapitalisation of the company and the resulting repayment of loans by AFD (see above).

### Principal changes in current and other assets

<table>
<thead>
<tr>
<th></th>
<th>31/12/2015</th>
<th>31/12/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>29,594</td>
<td>30,088</td>
</tr>
<tr>
<td>Receivables</td>
<td>87,970</td>
<td>84,815</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>11,782</td>
<td>9,334</td>
</tr>
<tr>
<td><strong>Sub-total current assets</strong></td>
<td><strong>129,346</strong></td>
<td><strong>124,237</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>28,632</td>
<td>23,248</td>
</tr>
<tr>
<td>Deferred expenses</td>
<td>327</td>
<td>220</td>
</tr>
<tr>
<td><strong>Sub-total other assets</strong></td>
<td><strong>28,959</strong></td>
<td><strong>23,468</strong></td>
</tr>
<tr>
<td><strong>Total current and other assets</strong></td>
<td><strong>158,306</strong></td>
<td><strong>147,705</strong></td>
</tr>
</tbody>
</table>

### Receivables

Receivables consist of taxpayer receivables (76%), other receivables (20%) and customer receivables (3%).

**Taxpayer receivables**

Taxpayer receivables mainly concern VAT (41%) and income tax and other taxes collected on behalf of the State (28%).

Receivables are impaired based on a classification reflecting their risk level or category. The average impairment rate increased from 30.2% to 33.6% in 2016, mainly due to a change in the impairment valuation method for tax receivables.
The decrease in taxpayer receivables (-€789 million) is mainly attributable to **receivables collected on behalf of third parties** (-€672 million). These mainly consist of accrued income in respect of various tax and duties collected by the State and then paid to other bodies (primarily local authorities and social security bodies). Accrued expenses of an equivalent amount are recorded in non-financial debt.

Receivables collected on behalf of the State mainly consist of income tax, VAT and other tax receivables.

They are stable on 2015, despite a significant increase in impairment of income tax receivables and other State tax receivables of €2,931 million, mainly due to a change in the impairment rate calculation for prior year outstanding amounts. The net value of these receivables fell €957 million year-on-year to €17,965 million at the end of 2016.

**Customer receivables**

Customer receivables, net fell €2,023 million in 2016. This decrease was due to a €1,345 million reduction in accrued income for fixed fees payable by operators for the use of the 700 MHz band frequencies and a decrease in ordinary and special assistance fund receivables, mainly concerning AFITF securities (-€619 million).

**Other receivables**

Other receivables, net (€17,087 million) mainly consist of amounts receivable from intermediary bodies managing “investments for the future” funds of €5,891 million, down €558 million on 2015.

- **Inventories**

Inventories mainly comprise military equipment. The increase on last year (+€493 million) is due to a decrease in impairment recognised at the year end on SIMMAD inventory (Ministry of Defence integrated maintenance structure for aeronautic equipment) (-€341 million).

- **Cash**

The fall in cash at the 2016 year-end is mainly due to the decrease in marketable securities to €4,137 million at the end of 2016 from €8,596 million one year previously. This decrease is attributable to ACOSS treasury bill subscriptions, which recorded a €4,500 million fall in outstandings year-on-year. It was accompanied by a -€700 million reduction in investments on the interbank market due to particularly low market rates (the daily interbank rate for the euro zone - EONIA – is around -0.35%, below that offered by the Bank of France).

- **Prepaid expenses**

Prepaid expenses total €9,334 million at 31 December 2016, a decrease of €2,448 million. They mainly consist of discounts on OAT and BTAN issues in the amount of €9,299 million, down on the end of December 2015 (-€1,001 million).

The decrease is also partly due to the recognition in 2015 of prepaid expenses in respect of France’s participation in the European Union budget of €1,454 million. No similar amount was recognised in 2016.

**Deferred expenses**

Deferred expenses (€220 million) mainly consist of adjustment accounts on foreign-currency denominated loans and forward financial instruments.
**Principal changes in financial debt**

Financial debt is the main component of State liabilities (€1,646,760 million, i.e. 76% of liabilities).

The increase in financial debt in 2016 (+€45,146 million) is significantly less than the increase in 2015 (+€50,534 million). Short-term negotiable debt outstandings account for 8% of total financial debt (over 10% in 2015). The €18,623 million decrease in this heading on 2015 follows issue premiums collected on medium- and long-term debt of €21,247 million used to repay short-term debt.

Medium- and long-term negotiable debt increased €62,153 million in line with the objective of covering annual financing requirements.

As in 2015, State debt securities continued to enjoy strong investor demand in 2016, due to their market liquidity and confidence in the French State’s signature. In this context of continued confidence and strong demand, financing conditions remained extremely favourable for France in 2016: the weighted average rate for medium- and long-term fixed-rate issues fell yet again to 0.37% on average over the year compared with 0.63% on average in 2015.

**Financial debt categories**

<table>
<thead>
<tr>
<th>Subcategory</th>
<th>31/12/2015</th>
<th>Changes</th>
<th>31/12/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long- and medium-term negotiable securities</td>
<td>1,442,122</td>
<td>+ 62,153</td>
<td>1,504,276</td>
</tr>
<tr>
<td>Short-term negotiable securities</td>
<td>152,785</td>
<td>- 18,623</td>
<td>134,161</td>
</tr>
<tr>
<td>Other borrowings</td>
<td>6,707</td>
<td>+ 1,616</td>
<td>8,324</td>
</tr>
<tr>
<td><strong>Total financial debt</strong></td>
<td>1,601,614</td>
<td>+ 45,146</td>
<td>1,646,760</td>
</tr>
</tbody>
</table>

Medium- and long-term negotiable securities

Medium- and long-term negotiable securities comprise fungible Treasury bonds (Obligations Assimilables du Trésor, OAT) and Treasury bills paying annual interest (Bons du Trésor à intérêts annuels, BTAN), with a maturity of between 2 and 50 years. The scheduled maturity of the BTAN (no lines have been issued since 2013 and new medium-term lines are issued as OAT) automatically generates a marked reduction in these outstandings and their share of total financial debt.

Short-term negotiable securities

Short-term negotiable securities comprise fixed-rate Treasury bills (Bons du Trésor à taux fixe, BTF). Bills totalling €324,719 million were issued by tender in 2016 and bills totalling €343,467 million were amortised or repurchased. With regards to financing conditions, BTF rates also reached a historically low level: the weighted average interest rate of issues, which was already negative in 2015 (-0.19%), reached -0.53% in 2016.

Other borrowings

Other borrowings increased on 2015 (+€1,616 million) following the recognition of a debt of €1,147 million in 2016 in respect of Alstom shares borrowed by the State from Bouygues.
Principal changes in liabilities (excluding financial debt)

Total liabilities (excluding financial debt) increased year-on-year (+€38,975 million). The main changes concern prepaid revenue (+€13,075 million) and non-financial debt (+€9,306 million) and to a lesser extent other liabilities (+€7,492 million) and provisions for liabilities and charges (+€6,893 million).

- **Non-financial debt (excluding prepaid revenue)**
  
  Non-financial debt (excluding prepaid revenue) primarily comprises:
  
  o operating debts: €7,753 million, including accrued expenses of €4,439 million (see below);
  
  o intervention debts: €16,790 million, including accrued expenses of €8,724 million (see below);

  \[
  \begin{array}{|c|c|c|}
  \hline
  \text{Liability categories (excl. financial debt)} & 31/12/2015 & 31/12/2016 \\
  \hline
  \text{Non-financial debt (excl. prepaid revenue)} & 136,883 & 146,189 \\
  \text{Prepaid revenue} & 65,615 & 70,699 \\
  \text{Provisions for liabilities and charges} & 135,923 & 142,821 \\
  \text{Other liabilities} & 33,378 & 40,870 \\
  \text{Cash} & 100,772 & 102,338 \\
  \text{Deferred income} & 22,582 & 23,223 \\
  \text{Sub-total other liability accounts} & 156,731 & 166,431 \\
  \text{Total liabilities (excl. financial debt)} & 495,157 & 534,132 \\
  \hline
  \end{array}
  \]

Operating debts

The slight increase in operating debts reflects the payment of employer social security contributions by the State for December 2016 in January 2017. Last year, these contributions were paid at the end of December 2015.

Intervention debts

Transfers to businesses debts primarily consist of amounts owed by the State to EDF (€5,578 million) in respect of the electricity public service compensation deficit accumulated by the Contribution to the Public Electricity Service (CSPE) mechanism. This debt was recorded in State liabilities in 2015 and will be repaid over the period to 2020 through the new “Energy transition” special allocation account.

The increase in intervention debts is due to the increase in accrued expenses for transfers to businesses (see below).
Other non-financial debts

Other non-financial debts mainly consist of tax debts and primarily advance payments of corporate income tax (€44,476 million, down €1,134 million on 2015). These advance payments represent amounts paid by companies in 2016 based on their 2015 tax liability. Non-financial debts also include debts relating to income collected and payable to various beneficiaries (€13,256 million) particularly in respect of local direct taxes and tobacco duty.

The main change in non-financial debts concerns accrued expenses on sovereign revenue (see below).

Accrued expenses

Accrued expenses represent 41% of all non-financial debt, excluding prepaid revenue and primarily consist of corporate income tax (45%) and VAT (30%).

Accrued expenses relating to corporate income tax repayments (€27,527 million) mainly consist of the following measures: the tax credit for encouraging competitiveness and jobs (CICE), the research tax credit (CIR), the carry-back of tax losses and interest-free loans. The increase in these accrued expenses is primarily due to CICE tax repayments (+€5,578 million year-on-year).

VAT accrued expenses (€18,015 million) consist of VAT credits for December, calculated based on repayment requests received from taxpayers as at 31 December 2016 and VAT returns filed in respect of December 2016 showing a VAT credit.

As regards sovereign revenue tax obligations, these accrued expenses do not represent amounts payable in the Central Government budget accounts, as commitment authorisations must equal payment credits. They nonetheless concern expenditure for which the service rendered is linked to fiscal year 2016 and payment will take place after 31 December 2016.

Accrued intervention expenses (€8,724 million) are up €3,366 million on 2015, following an increase in accrued expenses for transfers to households (+€1,119 million) and transfers to businesses (+€2,154 million).

- Prepaid revenue

Prepaid revenue mainly comprises OAT and BTAN issue premiums (€65,594 million). The increase in prepaid revenue (+€13,590 million) is mainly due to additional premiums recognized on 2016 issues of €21,247 million (including €18,408 million for fixed-rate OAT bonds), partially offset by the deferred recognition of premiums of €7,658 million (up €1,485 million on 2015 due to the increase in premiums in recent years).

- Provisions for liabilities and charges

Provisions for liabilities and charges increased €6,893 million in 2016 and mainly comprise:

- provisions for transfers of €86,665 million, up €1,647 million on 2015. These provisions concern intervention measures managed directly by the State or through bodies responsible for paying funds to final recipients. The increase in these provisions is mainly due to an increase in the provision for the Support Fund for loans and high-risk structured finance contracts (+€1,988 million), which was matched by a corresponding decrease in off-balance sheet commitments recognised in 2015. To a lesser extent, the provision movement is attributable to an increase in the provision for the Global fund to fight aids, tuberculosis and malaria (including an increase of +€1,080 million reflecting a greater participation by France following the 2017-2019 planning law);
- **provisions for tax-related litigation and disputes** of €24,059 million, up €2,990 million in 2016. No information is presented here on current litigation and disputes as the State does not wish to provide third parties with details of its assessment of ongoing cases;

- **provisions for restoration** of €18,005 million, up €1,474 million on 2015, following the update of the CEA dismantling provision (+€1,618 million);

- **provisions for staff costs** of €9,225 million, up €277 million on 2015. These provisions include provisions for Temporary invalidity benefits (ATI), Assistance and restructuring plans (PAR) and retraining assistance for Defence Ministry civilian and military personnel.

- **Other liability accounts**

  The increase in **other liability accounts** (+€9,700 million) mainly concerns the increase in other liabilities, which break down as follows:

  ![Graph showing the breakdown of other liability accounts](image)

  This increase is mainly due to an increase of €10,203 million in **Treasury bills issued in favour of international organisations** reflecting the €9,027 million increase in France's IMF quota in euros and the subscription by the IMF of Treasury bills in the amount of €1,515 million.

  The increase in other liability accounts is also due to an increase in short-term funding liabilities (+€1,567 million), which comprise Treasury correspondent deposits and equivalent broken down as follows:

  ![Graph showing the breakdown of other liability accounts](image)

  **State net debt to Social Security bodies** totalled €5,325 million at the end of 2016, up +€1,866 million on 2015, mainly due to a +€1,231 million increase in accrued intervention expenses. This amount includes however a debt of €465 million paid at the end of 2016 but only definitively settled on the first day of 2017. The remaining increase reflects accrued expenses of €694 million in respect of the general regime activity benefit introduced on 1 January 2016.
State net debt to Social Security bodies mainly comprises intervention debt and particularly accrued expenses. These consist of benefits or contribution exemptions, such as adult disability benefits (AAH), housing benefits, active solidarity income (ASH) and apprenticeship contracts. These measures are financed by transfers between the State and the various social security bodies responsible for their implementation, such as ACOSS, CNAVTS, CNAF and CNAMTS for the general regime.

Receiveables and debts recognised at the year-end reflect financing surpluses or deficits recognised with respect to benefits paid during the year or in the course of payment at the year-end. State assets and liabilities vis-à-vis social security bodies are inventoried with 26 social security bodies, managing both the general and special regimes. The general regime is the largest regime, accounting for 82% of State debts and 61% of State receiveables with these bodies.
Change in the State Income Statement

<table>
<thead>
<tr>
<th>2015 net income</th>
<th>Net operating expenses</th>
<th>Net intervention expenses</th>
<th>Net financial expenses</th>
<th>Net sovereign income</th>
<th>2016 net income</th>
</tr>
</thead>
<tbody>
<tr>
<td>-83,050</td>
<td>+954</td>
<td>-18,080</td>
<td>+14,146</td>
<td>+10,128</td>
<td>-75,603</td>
</tr>
</tbody>
</table>

2016 net income is €75,603 million, an improvement of €7,448 million on 2015.

This change is mainly due to an increase in net intervention expenses (+€18,080 million), primarily as a result of higher transfers to households (+€7,222 million). This increase followed the transfer to the State from the Social Security family branch of funding responsibility for family housing benefits (ALF) (+€4,786 million) and the introduction of the activity benefit following the merger of employment benefits (PPE) and the active solidarity income (RSA) (+€2,478 million). The increase in intervention expenses is also due to a rise in transfers to businesses (+€2,602 million) and primarily an increase in support for renewable energies (+€1,176 million). This is reflected by the “Energy transition” special allocation account and the “Energy public service” program, recently introduced by the energy taxation reform of 29 August 2015.

This increase was accompanied by a decrease in net financial expenses in 2016 (-€14,446 million), attributable to a reduction in impairment of investments and related receivables (-€8,012 million). An exceptional charge of €11,412 million was recognized in 2015 due to the decrease in the equity value of SNCF Mobilités (€2,429 million) and SNCF Réseau (€9,733 million) in the Central Government accounts.

Net income for the year also benefits from an improvement in net sovereign revenues (+€10,128 million), tied to an increase in gross tax revenue from registration fees, stamp duty, other contributions and indirect taxes of +€8,180 million, an increase in gross VAT revenue of +€4,865 million and an increase in gross income tax revenue of +€3,056 million.
Principal changes in net operating expenses

State net operating expenses (operating expenses less operating income) totalled €188,203 million in 2016.

- **Net operating expenses, excluding charges net of reversals**

These net operating expenses, excluding charges net of reversals, comprise:

- **Staff costs** of €139,747 million, up €2,053 million on 2015 (+1.5%);

- **Purchases, changes in inventories and external services** of €21,515 million, up €639 million on 2015;

- **Other operating expenses** of €10,954 million, primarily comprising write-offs, out-of-court decisions and clearance of debts and late payment interest;

- **Subsidies for public service expenses** of €28,428 million (up €652 million on 2015), paid by the State to operators providing a public service;

- **Operating income** of €26,017 million, principally consisting of pension contributions of €14,649 million, stable on 2015 and sundry operating income of €5,474 million, down €542 million on 2015.

**Staff costs**

Staff costs mainly comprise remuneration (€72,307 million, i.e. 52% of staff costs) and pension costs (€54,086 million, i.e. 39% of staff costs). The slight increase on 2015 (+1.5%) was due to a rise in the number of pensioners and job creation in priority sectors such as public primary and secondary education, justice and security.
• **Other operating expenses**

*Charges net of reversals* are down on 2015 (€3,615 million). This reflects the decrease in net charges to provisions for charges (€3,195 million) and primarily provisions for the dismantling and clean-up of nuclear installations pursuant to the activities of the French Atomic Energy and Alternative Energy Commission (CEA) (€1,931 million).

**Principal changes in net intervention expenses**

![Net intervention expenses table]

State *net intervention expenses* totalled €155,364 million. They mainly comprise transfer expenses, up €8,581 million on 2015, with charges net of reversals also up €8,716 million.

• **Transfer expenses**

State *transfer expenses* relating to its redistribution activities totalled €155,001 million in 2016 and concern four main categories of beneficiary.

**Local authorities**

Local authorities account for 44% of transfers, primarily through revenue deductions and particularly General operating grants (DGF), the VAT Compensation fund (FCTVA) and other compensation mechanisms. The share of transfers paid to local authorities fell in 2016 (44% in 2016 compared with 48% in 2015), reflecting the contribution of local authorities to improving public finances.

**Households**

*Assistance to households* (29% of transfer expenses) includes, for example, housing benefits (APL, ALS), adult disability benefits (AAH), invalidity pensions, measures in the fight against poverty and to get people back to work (activity premium, back-to-work assistance) and student grants.
Other entities
The financing of other entities (16% of transfer expenses) encompasses contributions to special pension regimes (RATP, SNCF, Miner and Seafarer regimes, etc.), transfers to certain national, European (National Research Agency (ANR), European Space Agency, etc.) and international (UN) organisations, work-access and back-to-work assistance (assisted contracts), foreign country development assistance and grants awarded under “Investments for the Future” programmes.

Businesses
Business assistance measures (10% of transfer expenses) included, first and foremost, energy transition assistance of €4,544 million, the creation of the Energy public service responsible for compensating the cost of social electricity and natural gas prices and price adjustments of €2,504 million and measures to accompany economic change and support employment of €3,105 million.

The increase in transfer expenses (+€8,581 million) was due to:

- an increase in transfers to households (+€7,222 million), primarily due to the transfer to the State from the Social security family branch of funding responsibility for housing benefits and the introduction of the activity benefit following the merger of the PPE and RSA benefits;
- an increase in transfers to businesses (+€2,602 million), mainly due to an increase in support for renewable energies, reflected by the “Energy transition” special allocation account and the “Energy public service” program, recently introduced by the energy taxation reform of 29 August 2015;
- a decrease in transfers to local authorities (+€2,413 million), mainly due to a decrease in General Operating Grants (DGF) in line with the contribution requested of local authorities to improving public finances...
under the “Confidence and responsibility pact”;

- an increase in transfers to other entities (+€1,170 million) mainly due to the funding by the State of legal representatives for vulnerable adults and the integration for the first year of the Development solidarity fund in the Central Government accounts.

- **Charges net of reversals**

**Principal changes in net financial expenses**

<table>
<thead>
<tr>
<th>Net financial expenses</th>
<th>31/12/2015</th>
<th>31/12/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>41,992</td>
<td>41,571</td>
</tr>
<tr>
<td>Other financial expenses</td>
<td>3,455</td>
<td>2,707</td>
</tr>
<tr>
<td>Exchange rate losses on financial transactions</td>
<td>367</td>
<td>146</td>
</tr>
<tr>
<td>Charges net of reversals</td>
<td>5,109</td>
<td>-10,293</td>
</tr>
<tr>
<td>Revenue from financial assets</td>
<td>-9,041</td>
<td>-5,183</td>
</tr>
<tr>
<td>Other interest and financial revenues</td>
<td>-3,325</td>
<td>-8,783</td>
</tr>
<tr>
<td><strong>Net financial expenses</strong></td>
<td>38,557</td>
<td>-14,446</td>
</tr>
<tr>
<td><strong>Net financial expenses</strong></td>
<td>24,111</td>
<td></td>
</tr>
</tbody>
</table>

2016 was marked by an increase in net financial expenses (+€14,446 million, i.e. -37.5%).

- **Debt interest ratio**

The interest expense decreased slightly on 2015 and nearly entirely consists of interest on negotiable debt. It represents an annual charge of 2.5% of the debt (compared with 2.6% in 2015). This decrease was achieved in a context of rising financial debt outstandings (+€45,146 million in 2016) and historically low average rates (2.30% for medium- and long-term outstandings and -0.53% for short-term issues in 2016).

- **Other financial expenses**

Other financial expenses fell €748 million in 2016. This decrease was mainly due to the recognition of exceptional transactions in 2015: €785 million adjustment to the 2014 definitive result on the COFACE public procedures account and clearance of EPFR assets and liabilities in the amount of €510 million following its dissolution in 2015.

**Charges net of reversals**

The decrease in charges net of reversals (-€10,293 million) is primarily due to the decrease in impairment of controlled entities. In 2015, asset
Impairments in the accounts of SNCF Mobilités and SNCF Réseau led the State to increase (€11,412 million) the equity-method valuation difference of these two entities in its accounts, thereby exceptionally increasing financial expenses. The absence of a similar transaction in 2016 was nonetheless offset by an increase in charges net of reversals to impairment of non-controlled investments following the impairment of ENGIE securities (+€2,389 million).

- **Revenue from financial assets**

**Revenue from financial assets** remained stable in 2016 (€8,783 million) and primarily consists of investment income (€5,749 million), including payments from EDF of €1,724 million, Bank of France of €1,310 and ENGIE of €798 million and proceeds from asset disposals (€2,617 million) and particularly the sale of 60% of the share capital of Aéroports de la Côte d’Azur for €1,222 million and of Aéroports de Lyon for €535 million.

- **Other interest and similar revenues**

**Other interest and similar revenue** totalled €6,346 million in 2016, up €3,021 million, notably thanks to the payment of COFACE profits for 2015 and 2016 (+€3,036 million).

**Principal changes in net sovereign revenues**

<table>
<thead>
<tr>
<th>Net sovereign revenue</th>
<th>31/12/2015</th>
<th>31/12/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net tax revenue</td>
<td>291,710</td>
<td>304,644</td>
</tr>
<tr>
<td>Fines, deductions and other penalties</td>
<td>8,728</td>
<td>7,873</td>
</tr>
<tr>
<td>Own resources of the European Union budget</td>
<td>-18,490</td>
<td>-20,442</td>
</tr>
<tr>
<td><strong>Total net sovereign revenue</strong></td>
<td><strong>281,947</strong></td>
<td><strong>292,075</strong></td>
</tr>
</tbody>
</table>

Net sovereign revenue totalled €292,075 million in 2016, up €10,128 million on 2015.

- **Net tax revenues**

Net tax revenues totalled €304,644 million in 2016, up €12,934 million on 2015. All tax revenue categories recorded an increase, except for corporate income tax and other tax-related income.

**Income tax**

Net income tax revenue increased +€2,327 million on 2015 (+3.3%). Gross revenue benefited first and foremost from good revenue levels in 2015. In addition, net revenue was positively impacted by certain tax measures and particularly the increase in tax band ceilings in line with inflation (+0.1%) and the revaluation in the same proportion of thresholds and limits associated with the income tax scale.

**Corporate income tax**

Net corporate income tax revenue is stable on 2015. The €1,052 million increase in gross corporate income tax revenue following an increase in taxable company profits in 2015 was offset by a €855 million increase in tax obligations primarily attributable to the CICE tax credit in the amount of +€571 million.

**Domestic duty on consumption of energy products (TICPE)**

The increase in net TICPE revenue (+€1,870 million) was due to the ramp-up of the carbon component, which entered into effect on 1 April 2015 and the
increase in its amount in 2016 (€22 per metric tonne of CO₂ in 2016 compared with €15.50 in 2015). The introduction of this carbon tax on fuel represents stage two of the Climate Energy Tax (CCE).

**VAT**

Net VAT revenue increased in 2016 (+€2,854 million), boosted by the decrease in the VAT trigger threshold for distance selling (from €100,000 to €35,000) and reduced transfers of VAT revenue to social security bodies in 2016, following the transfer of expenditure from social security bodies to the State.

**Registration fees, stamp duty, other contributions and indirect taxes**

Registration fees, stamp duty, other contributions and indirect taxes increased €7,776 million in 2016 as a result of increased revenue from the Domestic Duty on Consumption of Energy Products (TICFE), a component of the new “Energy Transition,” special account. The reform of the TICFE, renamed CSPE, also widened the TICFE tax base to include consumers of all subscribed power capacities, generating increased tax revenue. The tax rate increased from €19.50 to €22.5 per megawatt-hour.

**Other tax-related income**

The decrease in other tax-related income (-€1,651 million) followed the -€671 million decrease in withholding tax payable by companies on certain profit distributions and the +€145 million increase in tax obligations.

- **Fines, deductions and other penalties**

Revenue from fines, deductions and other penalties decreased €855 million in 2016, due to its exceptionally high level in 2015 following financial penalties issued by the competition authorities against various companies in the cleaning and hygiene products sector.

- **Own resources of the European Union budget**

Own resources of the European Union budget paid over by the State increased €1,952 million in 2016, mainly due to a rise in own resources of the European Union based on gross national income and the level of VAT.
Change in principal State off-balance sheet commitments

State off-balance sheet commitments are presented in the notes to the Central Government accounts but do not impact either the State balance sheet or net income. They consist of contingent liabilities corresponding either to potential obligations of the State to third parties, or certain obligations not necessarily leading to an outflow of resources.

- **State pension commitments and equivalent**

  State pension commitments and equivalent mainly consist of commitments to State civil servants and military personnel (€2,139 billion). They increased €316 billion in 2016 primarily due to a decrease in the discount rate applied to determine their amount (-0.49% in 2016 compared with 0.18% in 2015).
  The commitment calculation method was also changed in 2016, impacting the amount. The PABLO assessment method, based on individual data taken from individual retirement accounts, is the new reference model with effect from 2016, replacing the ARIANE model. This change in method increased pension commitments by €629 billion, compared with the published amount at the end of 2015 (€1,723 billion).

- **Regulated savings accounts**

  Saver protection guarantees provided by the State cover all deposits made by savers in regulated savings accounts (Livret A, Livret bleu, Sustainable development and Épargne Populaire savings accounts). The increase in these guarantees (+€2.7 billion) was mainly due to an increase in Livret A, Livret bleu and Sustainable development savings account deposits (+€3.7 billion).

- **Commitments resulting from the State’s role as economic and social regulator**

  The increase in commitments resulting from the State’s role as economic and social regulator (+€96 billion) mainly reflects the following:

  - a +€75.5 billion increase in social and pension commitments, mainly tied to the change in the discount rate and the new commitment discounting model adopted (see State pension commitments and equivalent);
  - a +€11.6 billion increase in housing benefit commitments. This increase is mainly due to the change in reference discount rates between 2015 and 2016, with an impact of €10.2 billion;
  - a +€5.4 billion increase in disability and dependency benefit commitments. This increase is due to the change in the discount rate.
rate used to calculate the commitment (OAT€ 2024), with an impact of €0.7 billion and the cessation of the automatic switch from the Adult disability benefit (AAH) to the Solidarity benefit for elderly people (ASPA), with an impact of €2.3 billion.

- **Debt guaranteed by the State**

  The increase in debt guaranteed by the State (+€10.2 billion) is mainly attributable to the discounting of guaranteed outstandings of the following entities: DEXIA (+€4.6 billion), UNEDIC (+€3.5 billion) and SGFGAS (Management company for the social home-owning guarantee fund) (+€2.9 billion).

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**2016 Summary Central Government accounts**

### 2016 Simplified State Balance Sheet

<table>
<thead>
<tr>
<th>In € millions</th>
<th>31/12/2016</th>
<th>31/12/2015 restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>28,221</td>
<td>27,086</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>462,054</td>
<td>463,795</td>
</tr>
<tr>
<td>Financial assets</td>
<td>339,970</td>
<td>323,845</td>
</tr>
<tr>
<td>Inventories</td>
<td>30,088</td>
<td>29,594</td>
</tr>
<tr>
<td>Receivables</td>
<td>84,815</td>
<td>87,970</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>9,334</td>
<td>11,782</td>
</tr>
<tr>
<td>Cash assets</td>
<td>23,246</td>
<td>28,632</td>
</tr>
<tr>
<td>Deferred expenses</td>
<td>220</td>
<td>327</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS (I)</strong></td>
<td>977,950</td>
<td>973,011</td>
</tr>
<tr>
<td>Financial debt</td>
<td>1,646,760</td>
<td>1,601,614</td>
</tr>
<tr>
<td>Non-financial debt</td>
<td>224,879</td>
<td>202,498</td>
</tr>
<tr>
<td>Provisions for liabilities and charges</td>
<td>142,821</td>
<td>135,928</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>40,870</td>
<td>33,378</td>
</tr>
<tr>
<td>Cash liabilities</td>
<td>102,338</td>
<td>100,772</td>
</tr>
<tr>
<td>Deferred income</td>
<td>23,223</td>
<td>22,582</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES (excluding net assets/equity) (II)</strong></td>
<td>2,180,892</td>
<td>2,096,771</td>
</tr>
<tr>
<td><strong>NET ASSETS/EQUITY (III = I - II)</strong></td>
<td>(1,202,942)</td>
<td>(1,123,761)</td>
</tr>
</tbody>
</table>

### 2016 Simplified Income Statement

<table>
<thead>
<tr>
<th>In € millions</th>
<th>2016</th>
<th>2015 restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net operating expenses</td>
<td>188,203</td>
<td>189,157</td>
</tr>
<tr>
<td>Net intervention expenses</td>
<td>159,364</td>
<td>137,284</td>
</tr>
<tr>
<td>Net financial expenses</td>
<td>24,111</td>
<td>38,557</td>
</tr>
<tr>
<td><strong>NET EXPENSES (I)</strong></td>
<td>367,678</td>
<td>364,998</td>
</tr>
<tr>
<td>Net tax revenue</td>
<td>304,644</td>
<td>291,710</td>
</tr>
<tr>
<td>Net other sovereign revenue</td>
<td>7,873</td>
<td>8,728</td>
</tr>
<tr>
<td>Own resources of the European Union budget based on gross national revenue and VAT</td>
<td>(20,442)</td>
<td>(19,450)</td>
</tr>
<tr>
<td><strong>NET SOVEREIGN REVENUE (II)</strong></td>
<td>282,075</td>
<td>281,947</td>
</tr>
<tr>
<td><strong>OPERATING SURPLUS/DEFICIT FOR THE PERIOD (III)</strong></td>
<td>(15,603)</td>
<td>(63,050)</td>
</tr>
</tbody>
</table>
Contacts
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Press contact
DGFIP Communication Office
Tel: 01 53 18 86 95

For further information
This document is available at http://www.performance-publique.budget.gouv.fr

The website also contains all other documents relating to the Central Government accounts:

4-page brochure
This 4-page document summarises the key points of the annual accounts.

Presentation report
This Presentation report accompanies the Central Government Accounts, in accordance with the provisions of the Public Finance Organic Law. It provides a financial analysis of and comments on the annual accounts.

Central Government Accounts (CGE)
The Central Government Accounts comprise the balance sheet, income statement, cash flow statement and notes. They are reviewed each year by the Court of Auditors, as part of its certification role.

Report on financial and accounting internal control by the State and its public entities
This Report presents the risk management and accounting quality system implemented by the tax authorities in producing the Central Government Accounts.
Photograph credits:

(From top to bottom)

Unless otherwise stated, all figures presented in this document are in millions of euros.

As the total of rounded figures is not necessary equal to a rounded total, amounts may differ between the financial statements and the analytical tables. For all tables, the amount presented on each line of the breakdown represents the closest rounded value.