

BANQUE DE FRA

Banque de France and Gold: Past and Future

BY SYLVIE GOULARD, DEPUTY GOVERNOR, BANQUE DE FRANCE

The Banque de France has always been a major player in the gold market. Since its creation in 1800, the Banque de France has held one of the largest gold and silver reserves in the world. The Napoleon (20 franc gold coin) was one of the iconic coins of the 19th and 20th centuries. It was on par with the British Sovereign and the American Eagle.

In the 19th century, Paris was a major gold centre (for incoming gold from Australia, South Africa, the United States, Russia, etc.). It co-operated closely with other central banks and notably with the Bank of England and the London market (see the cartoon from Punch 1860 on page 5).

'LA SOUTERRAINE': THE CONSTRUCTION OF THE VAULT

During the gold standard period, gold balances were mainly settled in Paris, London or New York. The Banque de France kept its gold in vaults located under its head office in Paris. Up until the First World War, the gold reserves were stored in the former wine cellar of the Hôtel de Toulouse. However, following the war and the bombing of Paris, the French authorities realised that this was not a very secure location and decided to build a larger, deeper gold vault.

Between 1924 and 1927, 1,200 workers laboured night and day to construct the famous *Souterraine*. Built 29 metres below the level of the River Seine, this huge underground vault



Napoleon 20 franc gold coin.

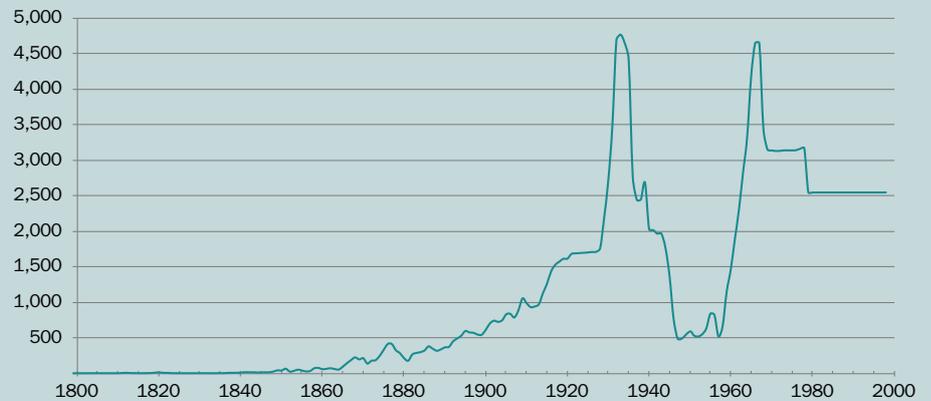
BETWEEN 1924 AND 1927, 1,200 WORKERS LABOURED NIGHT AND DAY TO CONSTRUCT THE FAMOUS SOUTERRAINE.

covers an area of 10,000 square metres (100m x 100m) and is supported by 720 pillars. The Austrian novelist and playwright Stefan Zweig asked the Governor of the Banque de France to grant him the privilege of visiting the *Souterraine*. After his visit, he published a short story in the *Neue Frei Presse* retracing his steps which is described on page 7. It became and still is the deepest and largest gold vault in the world.

The vault was state of the art for its time, with its own autonomous power supply, and was regularly upgraded to incorporate the latest technology. In the 1930s, it was fitted with an air filtering system and an independent oxygen supply. Ten years later, it was awarded the international prize for subterranean architecture.



BANQUE DE FRANCE'S RESERVES (METRIC TONS OF FINE GOLD)



THE 'GOLDEN AGE' OF PARIS BETWEEN THE TWO WARS

In the 1930s, when the UK went off the gold standard and the US dollar was hit by the Great Depression, the French franc remained the only major currency in the world still linked to gold and effectively convertible into gold. This prompted major incoming flows of gold into France. The Banque de France's gold reserves reached their highest ever level, at 5,000 tonnes.

After the Second World War and the introduction of the Bretton Woods system, the centre of gravity for gold shifted to Fort Knox and to the dollar, which was deemed to be "as good as gold".

As the French franc gradually recovered some of its lost splendour, the Banque de France's gold reserves began to increase again, returning almost to their 1932 level in the 1960s. Today, Banque de France is the fifth-largest holder of gold, with 2,436 tonnes as of September 2018.

After 1971 when President Richard Nixon decided to end the dollar's convertibility, gold lost its monetary role. Then came a slow decline and, by the time of the 2008 financial crisis, gold had become an ordinary metal commodity. The financial crisis acted as a wake-up call for gold – investors lost confidence in financial assets and wanted real, physical assets. This proved to be an opportunity for gold and for the Banque de France.

1940's

the vault was awarded the international prize for subterranean architecture.



MUTUAL ACCOMMODATION.

Madame La Banque and the Old Lady of Threadneedle Street.

ACTIVE GOLD CUSTODY POLICY

Since 2009, the Banque de France has been engaged in an ambitious programme to upgrade the quality of its gold reserves. The target is to ensure that all its bars comply with LBMA standards so that they can be traded on an international market.

In order to implement this upgrading strategy effectively, the Banque de France controls all stages of the process, from transportation to melting and/or refining, through to verification at the refinery.

This close monitoring is crucial in order to understand all the steps involved and analyse any weight gaps that might trigger accounting adjustments. The Banque de France has gained in efficiency over time. Initially, it only carried out the 'melting' process, but since 2014, the policy has evolved to include the 'refining' of all the materials to 999.9 fineness.

**5th
largest**

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As well as upgrading its stock, the Banque de France is taking various other steps to ensure it meets LBMA criteria. All large bars are weighed on electronic scales which allow the Banque to check that the weight meets the LBMA standards for accounting purposes. The renovation of the historical vaults housing the gold reserves has nearly been completed: the floor will be able to support heavy forklift trucks, and intermediary shelves have been inserted between the existing shelves to ensure the gold is only stacked five bars high, making handling easier. Other storage facilities will be available soon: either strong rooms for storing bare bars on shelves or large vaults to store sealed pallets, facilitate handling, transportation and auditing. By the end of the year, a new IT system will be in place to improve our ability to respond to market operation needs and other custody services.

GOLD SERVICES FOR RESERVE MANAGERS

Since the 2008 financial crisis, there has been renewed interest in gold from reserve managers. Indeed, gold confirmed its status as a safe haven and also emerged as a very good asset for diversification, given its low correlation to other asset classes.

Building on its long experience in managing its gold reserves, in 2012, the Banque de France began to extend its range of gold services to reserve managers. In addition to offering custody of physical gold in its vault in Paris, the Banque de France can buy and sell gold on the spot markets for its institutional customers, using its execution expertise. It can also offer gold swaps either for the purpose of using gold as collateral for deposits, which has been happening more and more since the Basel III framework recognised gold as eligible collateral, or for the purpose of raising foreign currency cash against gold. Finally, foreign central banks can engage in gold lease transactions with the Banque de France as principal, in order to increase the return on their gold holdings without increasing their counterparty risk. Demand for gold deposits for maturities from one week to one year picked up when interest rates went below zero for a number of reserve currencies, thereby prompting central banks to look for alternative sources of return.

THE TARGET IS TO ENSURE THAT ALL ITS BARS COMPLY WITH LBMA STANDARDS SO THAT THEY CAN BE TRADED ON AN INTERNATIONAL MARKET.

While these gold investment services have until now only been offered from London, it recently became possible for the Banque de France to offer them also from Paris, thanks to a partnership with a large commercial bank that is active in the gold market. As a result, with the improvements in the Banque de France's vaults, and the innovations in its service offering, Paris could gradually re-emerge as a key marketplace for gold.

To perpetuate traditional activities while being a key player of the eurosystem illustrates the ambitions of the Banque de France.



Sylvie Goulard, Second Deputy Governor of the Banque de France.

Born in 1964, Sylvie Goulard holds a law degree from the University of Aix-en-Provence (1984). She then graduated from the Institut d'études politiques in Paris (1986) and the Ecole nationale d'administration (1989). Upon leaving the ENA, she worked at the Ministry of Foreign Affairs (Legal Affairs Directorate, then

the Centre for Analysis and Forecasting) and at the Conseil d'Etat. She has been an associate researcher at Sciences Po's Centre de recherches internationales (CERI). Between 2001 and 2004 she was political adviser to the President of the European Commission, Romano Prodi. From 2004 to 2006, she taught at Sciences Po Paris, in the framework of the joint degree course with the London School of Economics and the College of Europe in Bruges.

From 2009, she devoted herself to her mandate as MEP. As a member of the Alliance of Liberals and Democrats for Europe (ALDE) group, she sat on the Parliamentary Committee on Economic and Monetary Affairs (ECON) where she served as coordinator/spokesperson for the ALDE group.

She was rapporteur or co-rapporteur for various legislative texts notably on:

- European financial supervision (creation of the systemic risk committee and of supervisory authorities for the banking and insurance sectors and for financial markets);
- reform of the stability and growth pact/euro area governance ("6 pack", "2 pack");
- banking union (creation of the Single Supervisory Mechanism; creation of the Single Resolution Board; bank structural reforms; deposit guarantee fund);
- solvency rules for insurers;
- the Common Consolidated Corporate Tax Base

She was also rapporteur for two own-initiative non-legislative reports on eurobonds and the role of the EU in global finance, and a member of temporary commissions on the financial crisis and tax matters (following LuxLeaks and the Panama Papers). From 2010 to 2017, she chaired the European Parliament Intergroup against Extreme Poverty.

She served as Minister of the Armed Forces (May-June 2017) in the first government of Édouard Philippe.

Sylvie Goulard is the author of *L'Europe pour les Nuls* (2007), *De la démocratie en Europe* (2012), co-written with Mario Monti, *Europe, amour ou chambre à part?* (2013), *Goodbye Europe* (2016).

A Visit to the Banque de France Vaults

The Austrian novelist and playwright Stefan Zweig asked the Governor of the Banque de France to grant him the privilege of visiting the Souterraine. After his visit, he published a short story in the *Neue Frei Presse* retracing his steps and transforming what could have been an ordinary visit to a central bank vault into an adventure akin to Jason's quest for the Golden Fleece:

A hall as big as a church or a theatre, the ceiling supported by hundreds of short, sturdy cement columns, a forest of stone columns reminiscent of the mosque in Cordoba or the temple in Madras carved into the rock; only, whereas those shimmer dark and mysterious, this hall is filled with light and is therefore seven times as mysterious in its perfect emptiness...

The technologically most up-to-date, most remarkable and currently most important building in Paris is, strange as it may seem, entirely invisible from the outside. Every day, thousands, nay tens of thousands of people walk past it without a glance: they walk along the narrow Rue Montpensier or along the Rue des Petits Champs and do not notice anything other next to the old, imposing building of the Banque de France, the erstwhile Hôtel de La Vrillière, than a large empty, square, flat area, fenced in by boards, apparently just a building site awaiting workmen and their orders. In reality, the building has long been completed. Only this remarkable construction, this armoured casemate, this fortress is not raised up as elsewhere with steeply climbing walls on its ground beams but is invisibly buried six storeys deep below the ground.

Beneath this innocently empty, sandy site in the middle of Paris lies pressed within steel and cement the mightiest goldmine of our modern world; down here, the famous underground vaults of the Banque de France stretch out undreamt-of and mysterious with today seventy and soon perhaps eighty billion, that is to say, with seventy or eighty thousand million francs-worth of minted or unminted gold, a physically unimaginable quantity, and in any case a hoard the like of which has been seen by neither Caesar nor Croesus, Cortés nor Napoleon, nor any of this world's emperors and dynasties nor any mortal since the beginning of time. Here in this mysterious place is the geometrical point about which the whole of the economic universe turns in agitated circulation. Here the magical metal from which all of the world's troubles springs sleeps its dangerously motionless and at once magnetic sleep.

