



“The Brussels agreement is sound”

Interview of Christian Noyer

Le Télégramme - 15 December 2011

Does the Brussels agreement protect the euro area over the long term?

I believe it is a sound agreement. It includes rules of governance that had been missing up until now. Of course, we had the Stability and Growth Pact, but it was of an inadequate legal standard, and it was not complied with as it should have been. Setting up clear rules of governance that are sound in substance and that will be integrated into the constitutions and organic laws of Member States is a good solution that should provide us with lasting protection.

What would be the consequences of France losing its triple-A rating?

I do not know what rating agencies will do. What I see is that these agencies have managed, through their criticisms, to weaken the positive sentiment that prevailed on markets after the Brussels summit. In addition, downgrading France’s credit rating does not seem justified when considering economic fundamentals. Otherwise agencies should start by downgrading the United Kingdom which has larger deficits, the same level of debt, more inflation and a lower growth rate than us as well as slumping credit.

What is the legitimacy of these rating agencies?

Agencies have become totally incomprehensible and irrational. They make threats, even though Member States have taken strong and positive decisions. Rating agencies behave as if nothing had happened. It may seem that agencies are no longer a useful guide for investors.

Would you say that their judgments are based on political criteria?

Indeed, in the arguments they develop, there are more political arguments than economic ones.

Credit agencies have downgraded the ratings of three large French banks. Are our banks undercapitalised?

No, they are very well capitalised, in particular compared to their European and US counterparts. The importance of this downgrade should not be overstated especially since rating agencies have recently downgraded most large banks in developed countries. There is no doubt that the capital buffers of our banks are largely adequate in relation to levels in the global banking system. It is true that we are asking them to enhance their soundness in order to meet the new regulatory requirements that have been agreed at the European and global level. Banks are doing this through their own resources and needless to say without State aid. That is why I have no concerns about the French banking system.

Should banks' customers, companies and individuals, fear a credit crunch?

No, and the figures bear it out. French banks' lending activities remain very robust: up 8% for mortgage lending, up 5.6% for corporate lending and up 5.1% for lending to SMEs. It is precisely their retail banking business that makes them sound and profitable.

Is France condemned to undergo a period of prolonged austerity?

France must be extremely rigorous in the management of its public finances. A balanced budget must rapidly be restored, which presupposes in particular a structural reduction in government spending. Like many other countries, we have been living above our means for too many years. We need to stop accumulating debt. Growth will return if confidence does. And to reinstate confidence, we must guarantee that our public finances will be consolidated.