



Interview with François Villeroy de Galhau, Governor of the Banque de France

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Is the euro a currency like no other?

François Villeroy de Galhau:

Yes, the euro is first of all part of a truly historical effort: constructing a Europe of peace. The people who signed the Treaty of Rome 60 years ago had lived through the 1930s and experienced war. In order to emerge from this situation permanently, they believed it essential to be linked by trade and hoped one day to share a common currency. The euro means unity and peace. This force is unfortunately just as necessary in the highly uncertain world of 2017.

What has the euro changed in our daily lives?

François Villeroy de Galhau:

If almost 70% of French citizens are attached to the euro, it is also because our currency has brought three major practical benefits: smaller price rises; lower interest rates on our loans, and an internationally recognised currency.

First benefit: the rise in prices with the euro is less than 2% per year. Hypothetically, if we had to leave the euro and devalue our currency by 20%, the prices of imported goods would rise proportionately. And yet, these goods account for a good quarter of our consumption; from mobile phones to our clothes. The euro therefore protects purchasing power of French citizens, and first and foremost that of the most disadvantaged populations. It also protects the value of their savings: a devaluation of our currency would be a devaluation of our wealth.

Does the euro make it easier for us to borrow?

François Villeroy de Galhau:

This is the second benefit: as the euro is solid, lenders have confidence in it and this allows us to borrow with interest rates that are between 1.5% and 3% lower. For example, for a

household with a mortgage of EUR 150,000, this translates into an annual gain of around EUR 2,000, which is very significant.

But given that house prices have more than doubled over the past 15 years, it's a pretty marginal gain.

François Villeroy de Galhau:

The euro isn't responsible for everything, and especially not for rising property prices! But without the low interest rates resulting from the euro, households would find it much harder to repay their mortgages.

What would a return to the franc mean for our public debt?

François Villeroy de Galhau:

This isn't a scenario that I envisage. But for public debt, the euro has the same advantage for us as taxpayers: low interest rates have led to a gain of between EUR 30 and 60 billion in interest payments per year. Without the euro, in time-, interest on public debt would therefore be that much higher each year. EUR 30 billion is the defence budget; EUR 60 billion is almost the national education budget! Furthermore, on their private debt, households, and companies for their investments, have obtained a similar gain.

Advocates of a return to the franc say that it would put France on the international scene again.

François Villeroy de Galhau:

No, it would unfortunately do quite the opposite. Because the third benefit of the euro is that it is internationally recognised. French citizens realise this when they travel with their euros; SMEs realise this when they can trade more easily with the other 18 countries in the euro area. With the euro, France and its neighbours have built a European sovereignty. This is a great asset to face up to Mr Trump's America or China. Without the euro, France would be on its own against financial market speculation and the rest of the world. Jean Tirole, the French winner of the Nobel Prize in Economics just clearly stated that "France would be inaudible".

Joseph Stiglitz, Nobel Prize in Economics, accuses the euro of stifling growth. Is the euro more of a straitjacket or does it give us more leeway?

François Villeroy de Galhau:

Joseph Stiglitz is American and knows France less well. The euro has in no way curbed growth in our public spending or in our debt: since 1980, our public debt has regrettably risen from 20% to almost 100% of GDP. We are therefore leaving our children a debt burden that has increased five-fold. This is a real challenge for intergenerational solidarity.

Within the euro area, growth rates and unemployment levels vary considerably. Why?

François Villeroy de Galhau:

The euro is a solid foundation, but it cannot do everything. Germany, as well as Spain, the Netherlands and the Nordic countries have carried out, with the same currency as ours, successful reforms. In 2017, euro area growth is expected to reach 1.8%. Growth in France should be 0.5% lower; this difference represents 100,000 fewer job creations per year for our country.

But these reforms are also accused of undermining our social model.

François Villeroy de Galhau:

The European social model fortunately means more public services and fewer inequalities than in the rest of the world. Our neighbours have kept this model while succeeding economically. But this is a matter to be discussed and decided on in our current democratic debate. The Banque de France is independent and naturally does not take sides. The Bank is at the service of all French citizens, with a mission to protect our currency and guarantee price stability.

Is massive youth unemployment still one of Europe' challenges?

François Villeroy de Galhau:

Unemployment is our foremost challenge. The euro area has created 4.5 million jobs since 2013, but we must speed up this process with a better collective strategy: more reforms in some countries and more stimulus in others. In addition, Europe should focus its energy on a number of projects such as defence, the energy transition, and an Erasmus-pro programme for low-skilled young people. There is naturally room for improvement but let's start out from what we have already achieved: our currency, the euro.