



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

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**LES ECHOS: Many economists currently have a favourable view of France's economic situation. Do you share this view?**

Francois Villeroy de Galhau: France is seeing a significant recovery which is here to stay. Our projections published on Thursday of this week expect growth to come in at 1.8% this year, followed by between 1.6 and 1.8% in the following three years. By 2020, the unemployment rate should fall below the 9% mark. The other piece of good news is that growth is more balanced than before: within domestic demand, the investment component - notably corporate investment - is taking over from consumption; and the external component should make a less negative contribution.

**So, everything is fine?**

No, because there is still a major drag on growth. At around 1.8%, we are above our so-called potential growth rate, we are therefore coming up against more structural limiters. The signs are converging: French growth remains below that of the euro area, our balance of payments - which reflects our external competitiveness - remains negative, and companies are already experiencing hiring difficulties. In order to increase the speed of the French economy, rather than stepping on the monetary or fiscal accelerator, we now need to boost the power of the engine: reforms, including those underway, are necessary.

**Over and above those already implemented by Emmanuel Macron?**

The labour market reform is a step in the right direction: it decentralises labour negotiations, as is the case with our neighbours. This year, France has also succeeded in bringing its deficit below 3% of GDP for the first time in ten years. The perception of France has changed greatly over the past few months in Europe and in the rest of the world, and this is very positive. Now, the greatest reform remains that

of vocational training and apprenticeships. The fact that companies can't recruit the staff they need while there are almost 3 million unemployed - 600,000 of whom young people- is intolerable, for our social cohesion as well.

**You seem overly optimistic about public finances... France is set to borrow more on financial markets in 2018 than in 2017, around EUR 200 billion, which is a ten-year high...**

You are talking about a symptom. The cause is our level of public spending, i.e. 56% of GDP, compared with 46% as a euro area average, for an equivalent social model. Naturally, specific cuts are always unpopular and therefore difficult; but on public spending, there still hasn't been enough of a shift. In volume terms, it is set to increase by 1% next year (excluding debt service costs and tax credits), i.e. at the same pace as its average since 2010.

**Does the Banque de France have a view on the fiscal measures in the 2018 budget, wealth tax and flat tax on capital income?**

These two measures may boost attractiveness and entrepreneurship. This is indeed a "signal" effect that counts for international investors. Another welcome measure is tax neutrality between the different forms of investment - equity and risk-free savings.

**The Banque de France has often insisted in the past that high labour costs for low wages constitute a handicap. A group of experts has recently advocated the de-indexation of the minimum wage. What is your view on this?**

France has made much headway in this area, including with the CICE. But I am not in a position to comment on the proposal of the independent group of experts.

**In this Thursday's meeting of the ECB Governing Council no further indication was given regarding future monetary tightening...**

Contrary to many doubts that have been expressed over the past few years, our monetary policy has proven both effective and capable of evolving. It is effective: the recovery is underway and euro area inflation is 1.5%. And it is evolving: we have entered a gradual normalisation phase, and we are increasingly confident in our path towards our 2% sustained inflation target. When we decided in October to half the net monthly asset purchases made under our quantitative easing programme, we took a decisive step towards a possible end to these purchases. But we will only start to raise interest rates well after these purchases have ended.

**Are the ECB and the Banque de France worried about the existence of financial bubbles? What is your take on bitcoin?**

For the moment, there is not a general bubble in the euro area, in equity markets or elsewhere, but we are remaining vigilant. As regards bitcoin, it is clearly not a currency, and not even a cryptocurrency. It is purely a speculative asset without any economic foundation, and, historically, we know how bubbles end. Those who invest in it today are doing so at their own risk.

**Doesn't the success of bitcoin reflect the need for an apolitical, state-free currency, made possible by digital technology?**

We mustn't conflate bitcoin and the blockchain technology it uses. Blockchain is an innovation that the Banque de France is testing with interest. Aside from this, illusions of a private "currency" go way back but have never stood the test of time.

**Let us turn to financial issues. An agreement has finally been reached on Basel III banking regulations, after two years of talks. Is it a milestone for European banks?**

The agreement of 7 December has delivered three essential achievements, thanks in particular to the steadfast determination of the French negotiators. The commitment to international regulations, initiated following the 2008 crisis, has been shored up: allowing for unilateral deregulation would have been a huge step backwards. The smooth financing of our economy is fully ensured: French banks will all be able to comply with Basel III through normal allocations of profits to reserves. Lastly, the agreement permanently clarifies the rules of the game: there will not be a Basel IV.

**Now that this framework has been stabilised, and the Banking Union project has made significant strides, will there be an increase in banking sector consolidation?**

Having more pan-European banks would be a welcome development, in order to improve the cross-border circulation of our abundant savings in Europe. It is the banks that make these strategic choices: it is up to them to make headway now that Basel III is providing visibility. As regulators, we could make further progress in order to ensure that there are the fewest possible obstacles between countries, but this mustn't be a prerequisite.

**Are French banks the best-positioned to consolidate the market?**

Not only. When you look at the European banking landscape, there are potentially bigger players in Spain, Italy, Germany, in the Netherlands, etc.

**Are banks over-lending in France?**

Let us first look at the good news: there is no credit rationing in France. Regulatory requirements haven't curbed bank lending, which has risen by over 6% to households and companies alike. Credit is clearly warranted when it is used to finance an investment project. But certain excesses may raise questions for financial

stability. For instance, there has recently been deterioration in the debt-to-equity ratio of large firms, due in particular to expensive acquisitions. The High Council for Financial stability (HCSF), chaired by Bruno Le Maire, is meeting this Friday and will decide whether or not this situation warrants macroprudential measures.

**At the European Council meeting this weekend, the reforms to be implemented in the euro area will be discussed. Emmanuel Macron has made proposals, as has the Commission. What does the ECB want?**

We like to remember the words of Kennedy: "The time to repair the roof is when the sun is shining." It is not enough to merely savour the recovery, but we must take advantage of it to tackle the shortcomings of the euro area. Monetary Union is a success, but Economic Union still remains largely to be built. In this respect, the latest proposals by the Commission are cautious, somewhat overly so. Personally, I advocate four accelerators. First, we need better macroeconomic coordination in Europe: greater stimulus in Germany and the Netherlands, if there are more reforms in France and in Italy. At the microeconomic level, a Financing Union for Investment and Innovation should really be the priority: we would benefit hugely from a better channelling of Europe's EUR 350 billion savings surplus into equity, digitalisation and the energy transition. The third accelerator would be a euro area budget that finances European common goods. In addition to these levers, at the institutional level, I am in favour of a euro area Finance Minister and Parliament.

**How many jobs from London can we expect from Brexit?**

It is too early to give an accurate post-Brexit figure, but Paris is seeing a number of successes, thanks to the strength of its market activities and the arrival of the EBA.

**The reform of the Banque de France caused quite a stir with your trade unions...**

In order to be an efficient public service in the 21st century, the status quo is not an option. The staff of the Banque de France is engaged in an ambitious transformation, aimed at maintaining or strengthening our services while significantly reducing our costs, by around 10% in current euro by 2020. Our headcount will come down by 20%, even though we are continuing to recruit new talent.