Hearing of François Villeroy de Galhau,

Governor of the Banque de France,

before the Finance Committees of the National Assembly

Paris, 26 March 2025

Mr President, Mr Rapporteur-General, ladies and gentlemen,

Thank you for inviting me to attend here today. As you know, the Banque de France is at your service to provide you with guidance in these highly uncertain economic times. There is no doubt that we are experiencing a historic upheaval and our response needs to be equal to the task. My remarks will therefore focus on two essential strengths for France and for Europe. First, we need to be *lucid*: this is a dangerous moment but France has a number of assets (I). Second, we must be *determined*: it is high time we took back control of our destiny, and that of our economy (II).

I. Lucidity in the face of American unpredictability

The international economic environment is now dominated by American unpredictability. Mr Trump's decisions and about-turns are destabilising the global multilateral system. These u-turns increase long-term risks, such as financial risks – think about crypto-assets or non-bank intermediation – and climate risks. In the short term, they are already harming the United States, as borne out by the deterioration in the Federal Reserve's growth forecast (down 0.4 pp on the December forecast to 1.7%) and inflation forecast (2.7% after 2.5%)[i] for 2025. This is the result of a strategy being deployed by the Trump administration that can best be described as 'lose-lose': it appears to represent the global economy as a zero-sum game in which one's gains necessarily result one's loss. This is a serious misconception: the exchange of ideas, talents, goods and services is mutually beneficial. Protectionism always harms first and foremost the countries that initiate it, beginning with their own consumers, who have to pay more for their purchases.

Unpredictability and trade tensions may also prove costly for Europe, but to a lesser extent. A 25 pp increase in US tariffs in the second quarter of 2025 would have a limited inflationary impact but could reduce euro area GDP by around 0.3% on a full-year basis. They would have less impact on the French economy, as French exports of goods are less exposed to the United States than those of the European Union. According to our projections and before this potential impact, French growth is slow but will remain positive in 2025 at 0.7%, and inflation should be contained at 1.3% on a harmonised index basis.[ii] Therefore, we continue to forecast an exit from inflation without a recession, with a gradual recovery in employee purchasing power. The average per capita wage already rose faster than inflation in 2024.

Faced with this more dangerous environment, there are two more positive aspects. The first is national: our economy – alongside its obvious problems – retains some serious, but frequently less visible advantages. First, the labour market, which is the only enduring bulwark of our prosperity: there have never been as many French people in work as there are today (30.6 million). This is also true in terms of hours worked. Even though we need to do better – and I'll come back to this – a net 2.2 million jobs have been created in our country over the last ten years. Second, the strength of our 4.5 million businesses, from VSEs and SMEs to large companies operating at the international level, and including 400,000 businesses created in 2024 – 30% more than were created 10 years ago. Lastly, we have abundant household financial savings of EUR 6,300 billion, thanks to a savings ratio that is among the highest in Europe (18%).

The second advantage is our membership of the European Union. In this harsher world, it is the appropriate level to meet challenges to sovereignty. Overall, our single market is as sizeable as that of the United States, even if it is less attractive. We have gained our monetary sovereignty thanks to the euro, which enjoys historically high support from 81% of European citizens and 76% of French people.[iii] Moreover, thanks to the Eurosystem's almost certain victory over inflation, we have been able to significantly lower interest rates, and we still have room for pragmatic cuts.

II. Determination: taking back control of our economic destiny

We also need to be determined. Waiting passively and sitting on our laurels would be a sure path to disaster. There is only one way in which the negative impact of the American u-turn can become a driving force for France and Europe: if we now decide to regain control over our economic and fiscal destiny.

We also need to be determined. Waiting passively and sitting on our laurels would be a sure path to disaster. There is only one way in which the negative impact of the American u-turn can become a driving force for France and Europe: if we now decide to regain control over our economic and fiscal destiny. If I may use a car metaphor– it involves a brake and an accelerator.

To regain control of our public finances, we must first put a break on public spending. The deeper France is indebted, the more it depends on the rest of the world. Our public debt has risen from 30% to 110% of GDP in 40 years: our interest payments on this debt are already higher than our defence budget, and they will soon be higher than the education budget. The cause of this French illness has long been well known: our public spending is growing faster than our income. In total, and with the same European social model – to which I'm firmly committed – our country spends over 9 percentage points of GDP more than its neighbours, representing an 'efficiency gap' totalling EUR 260 billion. First, the deficit must be kept at 5.4% this year, and that is still achievable. After that, the road to recovery will be difficult but possible. It is based on a 'triple equivalence' in terms of quantified objectives. Stabilising our public debt at long last is equivalent to achieving a primary balance – excluding debt interest payments – and thus reducing our total deficit to 3% in 2029. It is also equivalent to stabilising our total public expenditure in volume terms over the period 2025-29, at a constant level of tax levies. In this respect, I stated last autumn that targeted and fair tax increases needed to be considered. They were introduced in the 2025 budget and the priority now is enhanced spending efficiency. This effort to stabilise expenditure in volume terms is not therefore a sudden and indiscriminate reversal; it needs to be shared by all public administrations: first and foremost by central government, whose budget has been declining for two years (-0.4% per year); but also by including welfare and local expenditure, which together represent 64% of our total expenditure and continue to rise by 2% a year in volume. A legitimate defence spending effort cannot and must not be a return to a "whatever it takes" approach. This is an additional reason to aim for overall stabilisation of expenditure now, without any further delay.

As well as putting a brake on our public spending, we must aim to accelerate our economic growth. Two levers can be combined with the aim of boosting our potential growth rate from the current figure of around 1% to 1.5% by 2030.

The first lever that needs to be activated is *French*: we have to work in a more collective manner. Despite clear progress in this respect, we need to increase employment among our young people – particularly the least skilled – and seniors. We have an employment rate gap of more than 15 percentage points with Germany for both of these categories.

We also need to work better: our productivity can improve, notably thanks to massive, positive dissemination of artificial intelligence.

The second lever is *European*. The Letta and Draghi reports in 2024, as well as the Commission's 'Competitiveness Compass' of last February, present remarkably similar assessments concerning such necessary reforms without any fiscal cost. They can be summarised into three imperatives (3 'i's), or if you prefer, size multiplied by muscle multiplied by speed. First, we need to *integrate the single market more* – size – by removing internal barriers in several areas such as services and energy. We also need to *invest better*, giving priority to the most promising breakthrough innovations. And in order to do that – financial muscle: the Investment and Savings Union action plan unveiled on 19 March by the Commission is welcome, provided we accelerate a few key projects such as the development of venture capital and centralised supervision. Finally, we need to *innovate faster*. Europe needs simplification: less bureaucracy, fewer procedures and shorter deadlines. But let us be clear in response to temptations voiced from across the Atlantic: simplification is not deregulation. On the contrary, it means regulating more effectively: reaffirming objectives and fewer regulations, but implementing them more effectively and more efficiently. In this regard, I would like to stress the importance of the work of the National Assembly on the draft law on economic simplification.

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Let me conclude by returning to this historical challenge. We are an old and a great country that has overcome a number of serious crises throughout its history. The past gives us an idea of what it takes to bounce back: to elevate public debate and action, we must first extend the timeframe beyond current obsessions. We also need to broaden the scope and get beyond French-style quarrelling. Now more than ever, the Banque de France is at the disposition of France's elected representatives to help them carry out their onerous responsibilities in the national interest. In the wake of America’s renouncement, this could be the European and French moment, if and only if we want it to be.

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[i] Federal Reserve Board. Summary of Economic Projections – March 2025. Federal Open Market Committee (FOMC). 19 March 2025.
[ii] Banque de France. Macroeconomic interim projections. March 2025
[iii] European Commission, Eurobarometer, November 2024.