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Ladies and gentlemen,

It is a great pleasure to be with you again in Tokyo, with my colleague and friend Governor Kuroda. The Paris Europlace international financial forum in Tokyo is now a well-established tradition… even if the topic of your sessions touches upon “new frontiers in finance”. In my remarks today, I will elaborate on the European and French economic outlook, before turning to the future European financial architecture after – and beyond – Brexit.

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I. Causes of and answers to the current European slowdown

The causes of **the European slowdown** initially lay outside the euro area: of these geopolitical uncertainty is undoubtedly the most important; it is mostly man-made, and must be fixed by man. We are witnessing a significant slowdown in global trade due to the escalation of trade disputes. The consequent loss of global growth could reach up to 0.8% next year according to the IMF, mainly due to indirect effects, beyond tariffs: the fall in business confidence and investment, the decrease in productivity. Similarly, the twists and turns of Brexit have created market volatility and weighed on business investment. The effects of the slowdown are very acute in the euro area’s biggest economy, Germany, which is very much exposed to global trade. **Structural trends** are also at play. We observe a downward trend of productivity growth – which is considered by some as “secular”, jumping perhaps too hastily to a very long-term conclusion. Furthermore, the ageing of the population means the labour supply is shrinking and potential growth is falling. Thanks to Japan’s G20 Presidency, the challenges posed by demographics are now on the agenda.

The ECB’s monetary policy has played an important role in supporting the recovery of the euro area: estimates put the cumulated impact on growth at around 2.5 pp and on inflation at between 1 and 1.5 pp for the period 2014-18[i]. In addition, 11 million jobs have been created since 2013. In September, the ECB introduced a further package of measures. Although it has received less attention, the most innovative part of this package is the strengthening of the state-dependent forward guidance on interest rates. Conditional on inflation developments, this will act as an automatic stabilizer through adjustments in the yield curve and financial conditions. In other words: what does matter is not only the **level** of our key short term interest rates, which are currently anticipated by markets, reasonably in my view, as close to bottoming out ; it is also and foremost the **time horizon** of our policy measures

Clearly, monetary policy will be all the more effective if it will no longer be the only game in town. You may not realise it, but the euro area has more policy room than others in non-monetary domains, but under-uses it. It has a lower level of **public debt** (86%) and **public deficit** (-0.5%) [than the US (104% & -5.7%) or Japan (237% & -3.2%) in 2018]. This suggests **fiscal policy** should be fully engaged to respond to any further slowdown. Countries with fiscal space should use it quickly, even more so when they suffer an asymmetric shock like Germany; those with high public debt should make their public finances more growth friendly – this qualitative component is overlooked – and let the automatic stabilizers work freely. And Europe shouldn't be shy to possibly use its borrowing capacity at EU level itself. Furthermore, the euro area has a savings surplus over investment of more than 300 billion euros. A top priority on the European growth agenda should be a Union for Savings and Sustainable Investment by adding a stronger Banking Union and a Capital Markets Union.

In November, the ECB opened a new chapter of its history when Christine Lagarde became its 4th President. This is a good opportunity to initiate, as she announced, a strategic review. I would like to focus on three issues linked to our objectives. First, about the definition of our primary objective of price stability, we have to clarify in particular our various time horizons as well as our commitment to symmetry. Above all, we should better communicate with economic agents – businesses and households. This is crucial to allow them to better adjust their inflation expectations.

Secondly, we need to revisit the second (monetary) pillar in light of financial stability concerns – which are increasing. Monetary and macroprudential policies have traditionally been guided by a separation principle[ii]. But in practice, macroprudential tools have limitations, while over the past years we have considerably extended the monetary toolkit. As a result, it may now sometimes make sense to approach monetary policy decisions in order to deliver the monetary stance called for by our price stability objective while choosing the appropriate combination of instruments that minimize risks to financial stability. Such a soft coordination is more promising than a strict separation.

Lastly, how should we incorporate climate change in our monetary policy analysis? It affects price stability in the long run, and the value of our collateral, notwithstanding the fact that "a high level of protection and improvement of the quality of the environment"[iii] belongs to our secondary objectives in the EU Treaty.

Speaking about financial stability, let me add a few words on **Basel III**. The agreement reached in December 2017 is the finalisation of an unprecedented and fruitful regulatory effort that began in 2009. I strongly reiterate that: it is a fair and reasonable compromise. The US had to accept the permanent recognition of internal models elsewhere, although their banks don't use them; and both Europe and Japan had to accept an increased comparability of these internal models, leading to some increase in their capital requirements. Some people, starting with banks themselves, are now contesting the agreement. I would like to make a clear pledge: the Basel III agreement is intended to apply everywhere in a consistent manner, including of course in the United States. Those anywhere who would recommend not transposing Basel 3 would give in to the temptation to forget, ten years after the Great Financial Crisis; they would take the responsibility of increasing financial stability risks, at a time when these risks are already significant. That said, rest assured that we will insist on a fair and reasonable implementation in Europe, taking into account the specificities of the European banking sector in order to avoid undue impact on capital requirements.

II. The French economy is resilient, with growth expected at 1.3% this year

Despite this darker context, the French economy is resilient, with growth expected at 1.3% this year, three times higher than the German one. This expansion is being sustained by a robust internal demand. Real household income per capita is accelerating sharply (increasing by around 2% in 2019) at its fastest pace since 2007, due to the fiscal stimulus and to a larger extent to the strength of labour income – 1 million jobs have been created over the past four years. Many important reforms have already been adopted. Of course, much remains to be done to tackle structural unemployment, which is still too high.

III. Beyond Brexit, building a new European financial architecture

Brexit is and remains bad news for everybody but above all for the British economy. On our side, we are ready to face any outcome: the financial industry has been prepared. Even with a welcome withdrawal agreement, all aspects of a possible trade agreement and its financial services component will still have to be negotiated in 2020. The uncertainty surrounding Brexit will therefore continue.

Whatever, the UK will continue to participate in international forums where cooperation will be much needed to face our common challenges, including with Japan. In this respect, I would like to stress the strong convergence between France and Japan on numerous international issues, and notably the defense of a multilateral order, taxation, digital regulation and green finance. The excellent cooperation between our respective G7 and G20 Presidencies this year proved it eloquently. I also heartily welcome the cooperation agreement that was signed between Paris Europlace and FinCityTokyo in June.

Now, we have to look **beyond Brexit**. We expect Europe's financial services architecture to move from being monocentric, centred on the City of London, to a more polycentric model. Paris has major assets which it can build on to enhance its central role in this post-Brexit European financial architecture. Firstly, it benefits from a strong financial ecosystem: our capital city is a leader in key activities such as life and non-life insurance and in asset management; it is home to four of the euro area's eight global systemically important banks, and to two of the three European Supervisory Authorities – ESMA and the EBA. Secondly, Paris is bolstering its position as a European leader in digital innovation. Last year, the ACPR has launched a task-force on artificial intelligence. Paris has also been a pioneer in the development of sustainable finance. The creation of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) by the Banque de France in Paris in December 2017 has been a decisive step forward. In 2 years, this coalition of the willing has increased from 8 founding members to more than 50 members from all 5 continents.

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Let me conclude with an unusual quote for a central banker, a sentence from Hayao Miyazaki in one his animated films: “You cannot change fate. However, you can rise to meet it.”[iv] This is exactly the state of mind in which we have to be to face the challenges of our disruptive world. We cannot stop the course of phenomemons such as digital transformation or climate change. But we can roll up our sleeves to tackle them – together and across continents. This is the purpose of such a forum today. Thank you for your attention.

References

[i] Rostagno, M., Altavilla, C., Carboni, G., Lemke, W., Motto, R., Saint-Guilhem, A. and Yiangou, J., “A tale of two decades: The ECB's monetary policy at 20”, 2019, forthcoming.
[ii] Speech by François Villeroy de Galhau, Governor of the Bank of France, at the Conference of the Chair Bank of France/Paris School of Economics, at the Paris School of Economics, Paris, 24 September 2019.
[iii] See article 127 of the TFEU: “Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union”. These objectives include “the sustainable development of Europe“ and “a high level of protection and improvement of the quality of the environment”.

[iv] Princess Mononoke film (1997).