



## **New Year wishes to the Paris financial centre – Paris, 12 January 2017**

**François Villeroy de Galhau, Governor of the Banque de France**

I would like to welcome you all, our partners throughout the year - public officials, financial and economic players, journalists - to this magnificent Golden Gallery for this happy tradition of extending New Year wishes to the Paris financial centre. I would like to start by extending to you, on behalf of the whole of the Banque de France and the ACPR, our warmest wishes for 2017, for you and your loved ones, as well as for all of your staff. To these personal wishes, I would like to add several collective wishes this evening: first for Europe and its economy, then for our country, and finally for the smooth financing of our economy and for financial institutions.

### **1) For Europe and its economy**

A year ago, I had noted with you that 2016 had begun as the year of volatility, with the turbulences in the financial markets. In fact, 2016 was rather **the year of uncertainty**, with the Brexit victory in June, the American election in November and the Italian referendum in December. However, despite these uncertainties, 2016 was marked by a certain degree of stability in Europe: euro area growth, which was at first fragile at the beginning of the year, strengthened and financial markets proved resilient in the face of the different shocks.

For 2017, of course, none of these uncertainties have been lifted and others will be added to the list: 2017 is an election year in the Netherlands, France, Germany and possibly Italy. Nevertheless, the euro area can count on four points of reference:

- **economic growth**, which promises to be robust; in the Eurosystem, it is expected to stand at 1.7%, as in 2016.
- **the gradual rise in inflation**. This should not be a surprise, for several months the Eurosystem has been repeatedly announcing the crossing of the 1% threshold: at end-December, inflation rose by 1.1% in the euro area. This is partly due to the rebound in energy

prices, but it is also the result of our non-standard monetary policy; we have been able to avoid the deadly danger of deflation that was creeping up on us. On the contrary, there now seems to be concerns about a "return of inflation"; this is very exaggerated ... and we have not yet reached our target of 2%. The other point raised concerns the differences between countries, with the German 1.7%. These differences should gradually diminish over the course of the year, and they are consistent with the underlying economic fundamentals.

- **the monetary policy of the Eurosystem.** I will not dwell on it tonight because we are in a "silent period" ahead of the next Governing Council meeting. But in a world of uncertainty, European monetary policy is a very valuable source of predictability: our decision of 8 December 2016 clarified financing prospects for economic players over the next twelve months.
- **the euro.** Our common currency is strong and recognised throughout the world. Euro area citizens are very largely attached to it, at 70% according to the latest Eurobarometer of the European Commission of December, the highest figure reached since 2008.

This leads me to make **two wishes for 2017**:

- First, at the risk of a bold paradox, that **the euro area in this election year be an area of relative stability**, in the face of American and British uncertainties. We do not yet know how Brexit will unfold, but I note that it has resulted in lowering the official British growth forecast below that of the euro area, to only 1.4% for 2017. We did not want Brexit, but in the negotiations we will move forward with a clear principle - the single market is not to be divided - and with a decisive card to play for the euro area and the Paris financial centre. We must all remain fully mobilised to demonstrate and reinforce the attractiveness of the Paris financial centre; we have received very significant marks of interest from many international companies, with whom we are talking discreetly but seriously.
- Second, that 2017 not be a lost year in Europe for **Economic Union**, which must complete and balance out the success of Monetary Union. The short-term priority is to build a "Financing and Investment Union", to better mobilise the 350 billion of European excess savings. But it would also be desirable to start preparing the options for a better collective economic strategy, which will be submitted to future governments: the White Paper to be published by the European Commission by spring is a good opportunity.

## 2) For our country

2017 is obviously the year of a **great democratic debate** in France. In the economic field, I make the wish that this debate clarifies the assessments, presents the possible solutions, sheds light on the avenues for action. The Banque de France is independent: this essential value is valid for all times, but even more so this year. Our role, therefore, is certainly not to hand out good and bad political points, and we will have, like any major public institution, a duty to exercise restraint. As a

trusted institution, we may just contribute to a serious debate, thanks to the data and studies we publish, and by recalling the facts. In view of the successes of many of our neighbors, which are compatible with the European social model, I have already had the opportunity to say that fiscal credibility and economic reforms are the best way to improve growth and employment in France, and for France to be listened to in Europe. France has carried out more reforms than has been said, but less than many of our neighbors, on all political sides.

The Banque de France also serves the country through the **economic services** that it provides. In 2016, we helped 212,000 families get out of excessive debt and, in line with what we had proposed, the legislator simplified the procedure by reforming the out-of-court phase and by limiting the role of the judge in the debt resolution procedure. These two advances, which will take effect on 1 January 2018, will accelerate the implementation of solutions, with an average gain of 3 months: more than 130,000 families would have benefited from these measures in 2016. In 2016, we also appointed, in each *département*, a VSE correspondent responsible for advising them in their requests for financing or financial assessments; I invite the banks present today to continue their efforts towards VSEs.

Lastly, in 2016, the Banque de France was appointed as the operator of the national strategy for the economic and financial education of the public. In this capacity, we will orchestrate the actions of public services, associations and professionals, to provide French citizens with the maximum amount of resources for understanding the budgetary, economic and financial issues of everyday life. By the end of January, we will take a very concrete step with the opening of the new information portal "mes questions d'argent .fr".

### 3) **For the smooth financing of our economy and for financial institutions**

Overall, 2016 was a good year for the financing of our economy, thanks also to the professionals that you are:

- **the growth of credit** to the economy in France is the strongest of all the major countries of the euro area. For companies, the latest figures at end-November are +4.9%, compared with + 2.2% in the euro area. Credit to households increased too in 2016, by +4.2%, compared with +1.9% in the euro area. And this credit expansion has been accompanied by some of the lowest interest rates in Europe.
- the **strength of French banks and insurance companies** has been confirmed. On the insurance side, the solvency of the French market is largely met, with a Solvency Capital

Requirement ratio (SCR) of 209% for groups and 222% for individual institutions on 1 January 2016, compared to the regulatory minimum of 100%. As regards banks, the major groups show prudential ratios well above the minimum requirements, with in particular an average CET1 solvency ratio ("full CRD4") of 12.7% at end-June 2016, which is more than twice that of 2008 (5.8%). Elsewhere in Europe, in particular in Italy, certain banks still show difficulties: these problems are manageable but urgent action is required. Fortunately, this feeling of urgency seems at last to prevail.

For the smooth financing of our economy, 2017 requires that action be taken in five priority areas:

- **Basel 3.** Thanks to our unwavering mobilisation and that of our European partners, we have already avoided a bad agreement as it stood out last summer. To move things up a gear, it would now be necessary, in the weeks or months to come, to conclude a good agreement. International cooperation in the field of financial regulation must remain a collective asset on both sides of the Atlantic.
- **Complete the banking union,** based on the reform package presented by the European Commission last November - especially on the resolution side. These proposals are generally good ones. The banking union must now lead to more cross-border consolidations within the euro area: larger European banks will be able to better steer savings across national borders towards investment needs.
- **Better steer French savings towards companies and innovation.** For the past year, we have reformed regulated savings in order to avoid excessive benefits and to adjust them to the low rates: with the reduction in the housing savings plan (PEL) rate, the end of the overindexation of the A passbook (Livret A), and calls to moderate life insurance yields. In addition, it is desirable today that the professionals that you are, together with the public authorities, imagine new long-term products: at the price of less liquidity, they would combine capital protection and higher yields of shares. Their success also implies a form of tax neutrality.
- **Successfully complete the digital transformation.** The digital revolution creates many opportunities for financial players, as for consumers: an increasing number of more accessible financial services, more complete customer satisfaction. But it also requires examining ways of adapting business models: diversifying services and adjusting their pricing, on the income side; anticipating changes in employment and skills, in the social dialogue. The Banque de France and the ACPR are mobilised to support innovation: creation of the "FinTech Forum" and a dedicated FinTech unit with the AMF; appointment of a "Chief Digital Officer". The Banque de France is also changing.
- **Pursue efforts to combat money laundering and the financing of terrorism.** Further progress will be made in 2017 with the full implementation of the Urvoas Act of June 2016

(including its anti-money laundering and financing of terrorism component) and the transposition of the 4th European Directive. I urge you to pay close attention to their effective implementation.

With all these prospects, challenges and promises in mind, I renew to each and every one of you my best wishes for 2017. Thank you for your attention.