



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

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Francine Lacqua, presenter :

Now, another great conversation that we have been looking forward to. It is with the Banque de France Governor, François Villeroy de Galhau. He is, of course, on the ECB Governing Council as well.

Sir, thank you so much for joining us. I want to talk about monetary policy and inflation in just a second, but first a quick reaction: what does Donald Trump becoming president mean for European policies?

François Villeroy de Galhau :

It is too early to tell and there are still many uncertainties about the new president's economic policy. There is probably one strong message, here in Davos, from everybody including American businessmen: please avoid protectionist moves, this would be a lose-lose evolution for global growth. But there are also positive elements in what we can guess from the policy package. We will see.

FL. :

So going back to what we heard from the European Central Bank and from Mario Draghi yesterday, there was a lot of talk on inflation, and it is very clear that headline inflation is picking up. Core inflation is actually pretty weak. How long are you ready to look through this divergence?

François Villeroy de Galhau :

In this very uncertain world, Francine, if there is a region where things are going as expected or slightly better, it is the euro area, because growth is firming at 1.7% this year after the same figure last year. Inflation is catching up. Headline inflation is at 1.1% and we look also at underlying inflation, which is a bit weaker – at 0.9% - but it is going according to our expectations. What we decided in December and confirmed yesterday after, I must say, a rather short and easy discussion, is that we would maintain our monetary accommodation - because we are not yet at our target of a 2% inflation over the medium-term - but reduce the volume of our monthly purchases from EUR 80 billion to EUR 60 billion - because there are signs of progress. We are on our "journey" to our inflation target. We are sustaining global growth in Europe, but, obviously, monetary policy cannot be the only game in town. Structural reforms and progress towards an economic union are important.

Tom Keene, presenter:

The tradition of French economics is a tradition of mathematics and precision, you see that at the French Treasury and in other divisions of your study. Within that is your study of productivity. Tell me what you have learned at the Banque de France about French productivity, European productivity and the productivity Donald Trump will face in America.

François Villeroy de Galhau :

French productivity - it is not very well known - is one of the highest worldwide with the German and American ones, notably because we have a skilled labour force. And if I look at other assets, we have a good demography and infrastructure. But like everywhere else productivity is also slowing in Europe and in France, so we have to foster growth through more structural moves. There have been reforms in France, more than what people usually think: pensions' reforms, corporate tax regime, a new labour law. But if we want to increase productivity and growth - and the two go in the same direction - we have to implement further reforms, looking also at the positive examples of some other European countries. If you look at the Nordic countries, for instance, they are very interesting from a productivity and innovation point of view, and they also show social cohesion, a growth which is more inclusive with less inequality. This is an interesting example, not only for France but also for other countries outside Europe.

FL. :

Governor, we will come back to productivity, but I need to pushback a little bit on your optimism on Europe. We have elections which we don't know the outcome of in France and the Netherlands; we have an Italy which is on the brink of being pulled apart by more political chaos. I mean, that must have an impact on stability, on employment and, therefore, on your monetary decisions.

François Villeroy de Galhau :

I didn't use the word "optimism." The word I would use is "confidence". Let's look at the economy. At the ECB, one year ago, we said that the recovery was fragile, then we said that it was steady and now we are clearly saying that it is firming. All signs point to the same direction, and I don't feel that the electoral cycle will change this economic mood. But it is not sufficient. We must increase growth in Europe and in France, through more reforms. We have very positive examples in the euro area of countries which have the euro as a common currency, higher growth and employment rates, and a more inclusive society. They are, for us in Davos, interesting examples.

FL. :

Has the Governing Council started talking about tapering?

François Villeroy de Galhau :

No.

FL. :

Why not if there is confidence?

François Villeroy de Galhau :

No, because - thanks to our monetary policy decisions of last December, confirmed yesterday - we have given predictability and stability to economic players in Europe, for the whole year to come. This is probably, in a very uncertain world, a yardstick of stability and predictability. When it comes to what we will do in the future, after December 2017, you will agree with me that we have time and we have the whole year ahead of us. But, obviously, we are looking at economic conditions. We said yesterday that we will look at inflation figures - and not only the headline ones. We will also look at underlying inflation, in a medium-term perspective, because our 2% objective is a medium-term objective.

TK. :

Governor Villeroy, we created a firestorm at Bloomberg News with a story on HSBC possibly migrating through the Eurostar a lot of employees to Paris. To go to Paris, they have got to want to be in Paris. What does France have to do in the next five years to be - not anglicised or like Germany - but the France we studied in our history books, a vibrant capitalistic France? What do you need to do in the next five years to get those moving vans moving through the tunnel from England to Paris?

François Villeroy de Galhau :

There are two parts in your question, Tom, if I may. The first one is about Brexit. The Prime Minister's speeches of last Tuesday and here in Davos have the merit of bringing some clarity. But all European leaders, the 27, have recalled a very simple principle of consistency: you cannot divide the Single Market. It means that there can be no cherry-picking. Access to the Single Market means implementation of all its rules, and this will be a significant difficulty in negotiating any free-trade agreement. Regarding financial services, the Prime Minister's speeches could mean that the City of London will probably not be able to keep its European passport. Then it is up to us in the euro area, including Paris as a financial marketplace, to be very attractive, with a very business-friendly attitude. I can only say we are mobilised to welcome financial players in Paris, and we have very serious contacts with many of them.

FL. :

What is the biggest risk that the Governing Council sees in the next 12 months, and where does China and the US fit into this?

François Villeroy de Galhau :

We said yesterday that the risks on growth remain mainly on the global picture, outside Europe: the ones you mentioned, or there could be other ones. We spoke this morning in Davos about black swans and, by definition, you don't know in advance what they will be. But in Europe, at least, we know where we are going in terms of monetary policy, and we have a firming recovery. We have to accelerate it.

FL. :

Governor, back to inflation and this is something that we often talk about in the show. Italian inflation, which is a different picture to German inflation. When you look at inflation (at the Governing Council), it is broad-based, it is all the countries together. What happens if German inflation goes up suddenly? How difficult is it to then put monetary policy together?

François Villeroy de Galhau :

Our mandate is clearly about the average inflation in the euro area, and everybody around the table agrees on this mandate. There can be differences. There can be a temporary peak in German inflation, which we are observing today. These differences will probably be slightly reduced in the future, and average German inflation should remain under 2% this year. But, again, we are looking at it from a long-term perspective and it is good for everybody in the euro area, including the German entrepreneurs, to have price stability for the euro area as a whole. It is a sign of economic health, and it will also help the German economy.

TK. :

One final question, from the time of Otmar Issing through to Papademos and others, the ECB has evolved. How is the governing board now? Is it fractious? Is it collegial? Is everyone on the same page? How has that evolved over the last 10 years?

François Villeroy de Galhau :

As you mentioned Otmar Issing, may I remind you of one very simple thing: this objective of 2% average inflation dates back to 2003, and at that time Otmar Issing was the chief economist of the ECB. So we apply the target Otmar Issing proposed to the Governing Council. Today, it is collegial and friendly. But I will not comment more on our decision-making. This is also part of being independent. It is a truly federal system, which works. It is a collective decision, not a one-man decision. And it is a very open and friendly debate.

FL. :

Governor, thank you, what a pleasure.