



Interview of François Villeroy de Galhau

Governor of the Banque de France

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CNBC : Speaking exclusively with CNBC, Bank of France Governor François Villeroy de Galhau said, “The ECB is on the right path for gradual normalisation.”

François Villeroy de Galhau : What is striking today is that we see something like a welcome alignment of stars, if I may say, against an economic background of robust recovery, robust expansion in the Eurozone, and gradual progress on inflation. We see a convergence between market expectations and our own views within the governing council, and let me stress that there is at present very little debate among us in the governing council. So we will decide on the end of the APP; it will come, the net asset purchases will come to an end when progress on what we call the sustained adjustment in the path of inflation – SAPI if I use an acronym – when this progress will be judged sufficient.

Would you say that you're waiting for the next key data point, the next staff projections which are coming in June?

I will not give any precise timetable, but we obviously look at the economic situation. We have an economic forecast for this year for the Eurozone of 2.4%, so robust expansion, and it's a bit difficult to measure precisely the output gap and where we are with the slack, but let me say that the global picture is that we are closing the gap in the Eurozone, which has two important consequences. The first one is on inflation, that we expect the Phillips curve to be at work gradually in the two coming years. We expect an inflation of 1.7% in 2020 fostered by the increase in wages. And the second consequence is that our economic challenge in the Eurozone, clearly, is no longer cyclical, it is structural and this refers to a strong need of reform, be it in each country, so national reforms or be it at the European level, and this is also one of our key messages.

Another key message today as well by Mario Draghi was that the euro, the strength of the euro is something you are watching carefully. In your view, how much is it dampening the inflation outlook?

What we said last week and what Mario Draghi repeated is that we see the risks on this economic forecast more due to global factors, and let me mention two of them. First, U.S. trade policy and we are all aware that an escalation in protectionist threats would be a real problem for not only European growth but still more U.S. and global growth. And second, we look at the exchange rate, but to be precise, we have no exchange rate target, but we monitor the possible consequences of the exchange rate on the inflation outlook and this is a very important element for us.

The market is anticipating an interest rate hike somewhere in the second half of 2019. Would say that the market is reading the ECB's mind correctly?

I wouldn't be so precise. I spoke of a welcome alignment of stars, but we shouldn't be pre-committed on some timing. It will depend on the evolution of inflation, but the present data, also the future data, I spoke about this SAPI, so the path towards inflation.