



**New Year wishes to the Paris financial centre**  
**François Villeroy de Galhau,**  
**Governor of the Banque de France**  
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I would like to wish you all a very warm welcome to this magnificent Golden Gallery, which has just celebrated its three hundredth anniversary. The Banque de France and the ACPR have also established long-standing ties with the other public authorities and the players involved in the financing of the economy, and this cooperation plays a crucial role in ensuring financial stability and consumer protection. In view of this long-established relationship, I am all the more happy to extend to you our warmest personal wishes, for yourselves, your loved ones, and for all your staff.

First, a word on the economic situation. Although it is less glorious than what was expected a year ago, it is still relatively satisfactory: according to our surveys and despite the slowdown resulting from the yellow vests movement, economic activity in France increased by 1.5% in 2018. We expect the same figure for 2019. However, we face three challenges: uncertainty, impatience and isolationism - which can feed on each other at the dawn of this new year: uncertainties, from Brexit to Chinese growth; the impatience that weighs everywhere on the sustainable reform efforts, and the isolationism embodied by the US protectionist postures. This year will also be the year of the European elections on May 26, which are essential for Europe, and of the French Presidency of the G7, which may be an opportunity for furthering effective solutions at the international level.

Tonight, however, I would like to focus on three wishes for the smooth financing of the economy: for the euro, for financial stability, and finally for inclusive finance.

**1) My first wish is for the euro, which has just celebrated its 20th anniversary.**

The euro is an undeniable success. Average annual inflation has been brought down from 4.9% over the two decades preceding the euro to 1.7% over the past two decades. This has contributed to preserving the purchasing power of European citizens. Financing costs are significantly lower. Our currency is now

supported by 75% of euro area citizens, and 72% of French citizens: it is the highest level ever achieved since 2003.

In 2019, euro area growth - although down – is expected to remain above its potential. In this environment, the normalisation of our monetary policy, which started with the successful termination of our net asset purchases in December, remains desirable. It must be **gradual** – according to the sequencing that we specified - and **pragmatic** - in the implementation timeframe where we must keep our options open in the face of uncertainty. At the same time, we need to finally **strengthen our Economic Union**, particularly if we are to face a downturn. The achievements of the December agreement must resolutely be built upon: regarding the **Banking Union**, a common backstop that would be available rapidly and remain in place for a sufficiently long period is an essential element, even more than the deposit insurance scheme, to ensure that the single resolution mechanism is solid and effective. **The Capital Markets Union**, on which everyone agrees in principle, must finally forge ahead to better channel our EUR 350 billion private savings surplus towards the concrete needs of our economy: digital innovation, the energy transition and SMEs' capital. Finally, the progress achieved on the **public** solidarity mechanisms - preventive intervention of the European Stability Mechanism, fiscal capacity - is a promising prospect but it needs to be translated into action.

## 2) My second wish is for financial stability

I would first like to acknowledge the **soundness of our financial institutions**. In June 2018, the Tier 1 capital ratio of the main French banks stood at 13.5%, i.e. 7.7% higher than in 2008. The liquidity situation has improved, with an average LCR of 127%. The share of non-performing loans has continued to decline to stand at 3.1% in June 2018, i.e. close to the pre-crisis level, compared with a European average of 3.6%. The same holds true for **insurers**. Their capitalisation is good, and their solvency has improved, with

the average coverage ratio of the major insurers rising by 9 percentage points to reach 241%. However, insurers are also sensitive to the risk of prolonged low interest rates, and, together with Bernard Delas, I can only call for further moderation in the rates on life insurance contracts.

As regards financial stability, we must draw all the consequences of a rejection by the British Parliament of the draft Brexit agreement. There is strong political uncertainty in Britain: we can still hope for the best, but we must actively prepare for the worst scenario, that is a "No Deal Brexit". I would like to welcome the efforts that you have made to anticipate these consequences. The Banque de France and the ACPR, in liaison with the European authorities, will by the end of March take all necessary measures in the framework of the draft law "empowering the Government to take steps to prepare for the withdrawal of the United Kingdom from the European Union", which will be re-submitted to the French Senate tomorrow.

Beyond Brexit, each sector faces its own regulatory issues: Basel III and Solvency II. For banks, the key issue of the **CRR/CRD package** is the transposition into European law of the Basel III agreement, which was obtained after much wrangling on 7 December 2017 and properly completed with market risks on Monday in Basel. It will have to take into account European specificities - including those of French banks - while maintaining the principle of maximum harmonisation, which is essential to the deepening of the Banking Union. For insurers, the challenge for this first half of 2019 is to prepare the **2020 Solvency II review**. The ACPR and the Ministry of the Economy and Finance will coordinate an open and comprehensive assessment in order to identify avenues for reform: on equity holdings and long-term investment, on excessive volatility, on simplifications of the prudential framework, including its reporting, etc. However, this supposes a collective involvement of professionals, which I call for tonight, and European convergences, which we will endeavour to achieve.

I would like to come back to a 2018 innovation, which contributes to financial stability: the decision taken in June to introduce a "countercyclical buffer" for banks at the minimum rate of 0.25%. It is not a matter of curbing credit today, but rather of building up reserves that would be available in the event of a reversal of the cycle tomorrow. Fortunately, annual credit growth has remained very dynamic since June - at 5.5% of which 6.1% for SMEs: the French High Council for Financial Stability is therefore ready to raise this "buffer" moderately as soon as necessary.

However, the new risks are technological as well as financial. **Cybersecurity** must be a concern for all public and private players. This will be a priority of the French Presidency of the G7.

### **3) My third and last wish is for inclusive finance**

The yellow vests movement has given rise to unacceptable violence - including against bank and insurance company branches - and strong demands for greater economic and social justice. In this context, I know that I can count on French banks to strictly comply with their commitments made to the President of the Republic on 11 December regarding the **capping of bank charges at EUR 25 a month** for 3.5 million vulnerable customers. These measures apply now - at the latest in February - and they will be controlled throughout the year. The ACPR has made honouring this commitment a priority for its on-site and off-site inspections in 2019. The French Observatory for Banking Inclusion (OIB), which I chair, with the participation of consumer and social integration associations, will monitor the figures and take any necessary action. The OIB will also ensure that banks meet their commitments regarding the diffusion among these vulnerable customers of the "specific offer", and its lower cap on bank charges (EUR 20/month and EUR 200/year).

2019 will also mark **the 30th anniversary of the Neiertz Act**: we welcome the decrease in the flow of newly overindebted persons whose number has finally

returned to its 1989 level, since it stood at 90,000 “first-time applicants” in 2018, against 140,000 five years ago!

A more recent yet very promising development is our mobilisation in favour of **green finance**. In the first quarter of 2019, the ACPR will publish the results of its survey on climate risk management by banks and insurance companies. The Network of central banks and supervisors for Greening the Financial System (NGFS), launched by the Banque de France in early 2018, is a considerable success. It has grown from eight to 24 participants on five continents. Its first report, which will be presented at a conference in Paris on 17 April, will provide new proposals for action.

I would like to end with a few words about the **Banque de France**. Our institution is strongly committed to improving its performance. In 2018, the Banque de France cut back its net operating expenses by 8% compared to 2015, which represents an annual saving of EUR 100 million. And we are innovating in-house: the Lab, the Madre blockchain, or the success of our dematerialised ACPR authorisation procedure, which came into effect in November 2018. In these more turbulent times, our first responsibility is to stay the course both in serving the French economy and in pursuing our transformation. You can count on it: Happy New Year to you all and to our country!