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It is a pleasure to be with you again in Tokyo, with my colleague and friend Governor Kuroda. This 22nd edition of the annual International Financial Forum is focused on the disruptive world that Europe is facing. But beyond disruption, the world is also increasingly uncertain, with tensions coming from protectionism, rising oil prices, a controversial policy-mix in the United States, and equity market valuations that remain volatile; but also, within Europe itself, the Italian fiscal policy and Brexit. So in my remarks today, allow me to elaborate on these two dimensions: the challenges and opportunities for Europe, but also the global questions that we have to address collectively.

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1. Our European challenges and opportunities

Let me first speak about the **gradual normalisation of our monetary policy**. The broad-based expansion of the euro area economy is continuing, although at a more moderate pace. Despite a slowdown in the first half of the year, GDP growth is still expected above potential in 2018, even if the output gap is closed. 9.2 million jobs have been created since 2013 and the unemployment rate has fallen from 12.1% to 8.1%. Recent soft and hard data on economic activity have been somewhat weaker (EA GDP growth for the 3rd quarter was released at 0.2% qoq, due also to exceptional factors in Germany), although less so in France (French GDP for the 3rd quarter was up 0.4% qoq). But our outlook for inflation is firmer. There are increasing signs that the labour market is tightening and nominal wage growth is picking up: the Phillips curve is back to work, albeit a bit later than expected. At the Governing Council of the ECB, we are thus confident in the sustained adjustment in inflation back to our objective. But our policy normalisation is still based on what I like to call a **"quartet"** of non-standard instruments:

- The monetary policy rhythm in recent years has been largely set by our net asset purchase instrument. But net purchases will very probably end in December. The end of our net asset purchases will not, however, mean the end of our monetary stimulus, far from it, because the three other instruments in the "quartet" will take up the beat;
- Our second instrument is the stock of purchased assets which we will reinvest in full for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation;
- Our third instrument is policy interest rates. This is a conventional instrument used in unconventional ways. In our most recent forward guidance we have said that we will maintain our policy interest rates at current levels – including our negative deposit facility rate – until at least through the summer of 2019;

- Our fourth instrument is the provision of liquidity and credit to banks. The second series of TLTROs are still outstanding, as is FRFA. Such operations could be considered again – possibly with different terms – if warranted.

So our quartet will shortly become a trio but the tune will remain strong. The score, however, will change over time and we should continue to play in a harmonious way. In sequence: in my view, we should reduce the rate of reinvestment only after the first increase in interest rates. And so, we are not obliged to rush, as early as at our December meeting, to set out the precise length of our reinvestment period. We should also play the trio in synergy, I would even say in symphony. Like any orchestra, we need to be able to adapt the normalisation of our monetary policy tempo (allegro or andante) and intensity, according to economic data. In short, we are very clear about our objective – normalisation following non-standard policies – and about our sequence, but we should remain very pragmatic along our path.

Another and somewhat related challenge – as monetary policy cannot be the only game in town – is **the continuation of structural reforms** in countries where they are needed. In this regard, France is on the right path. I stress this as a fully independent central banker: the French government has displayed a strong commitment to reforms aiming to boost employment, productivity and resilience. I could quote, among others: the "Macron Ordonnances" of 2017 which have increased flexibility in the labour market; tax reforms, which have reduced or shifted the tax wedge on labour and capital; or the recent law "Avenir Professionnel", adopted in the summer of 2018, which has simplified apprenticeship and improved the professional training system. All these reforms will hopefully be enhanced by further progress on public finances; but France is now in a stronger position than before.

Third challenge: **Brexit**. It is bad news first and foremost for the United Kingdom, but also for Europe, and we hope that the draft agreement the negotiating teams have reached last Tuesday can be finalised. However the European financial system will inevitably be restructured. Instead of a single City for the continent, we expect an integrated polycentric network of financial centres, with specialisations based on areas of expertise. This is an opportunity to improve the circulation of the abundant savings in the euro area – a surplus of over EUR 400bn – towards equity financing and innovation.

Paris is well qualified to become the market hub of this new euro area network. It hosts one of the most developed capital markets in continental Europe, four global banks, the first insurance and asset management industry, a leading bond market, the largest commercial paper market with NEU-CP and the largest private equity investor in continental Europe. In addition, French financial authorities, including the Banque de France, are working together to facilitate the dissemination of sound and safe financial innovations and fostering the

scaling up of sustainable finance. Green finance in particular is one of our priorities, and this is the reason why, at the One Planet Summit last December, the Banque de France launched the Network for Greening the Financial System (NGFS), together with central banks and supervisors from all over the world. Moreover, a number of international banks have decided to transfer the bulk of their market activities to Paris, and Japanese financial institutions will always be welcome in Paris.

2. Beyond Europe, our collective questions

Let me turn to the global questions that we have to address together, starting with Japan and France. I guess our views are very close here. There are increasing tensions in the global environment, starting with **protectionism**. Beyond the direct trade policy shock resulting from a rise in import tariffs, two factors at least may amplify the decline in global GDP: a decline in investment demand caused by firms' falling business confidence due to uncertainty, and a rise in the financing cost of capital due to an increase in actual or perceived borrower risk. According to Banque de France model estimates, the negative impact on GDP of higher import tariffs is 2 to 3 times larger when we account for these indirect channels. And this increase in uncertainty can produce front-loaded negative effects, even before the effective implementation of protectionist measures. That said, protectionism is first and foremost a negative supply-shock with stagflationary effects. As such, the adverse effects of protectionism cannot and should not be accommodated by monetary policy.

In spite of protectionist threats, the global economy continues to expand strongly, at 3.7% this year. In our latest IMF meetings, we have often used the nice French word "plateau" to describe global growth. But this "plateau" is not even: the strong acceleration in the United States, even if it is temporary and fragile, is offset by a moderation elsewhere. In short, the challenge is that we are moving from synchronised growth to **economic divergence**. Consequently, countries might be suffering from the ongoing rise in US interest rates.

I do think however that the euro area – like Japan – can determine its own monetary course. The "transatlantic gap", be it on long-term or on policy rates, is the widest since 2009. But if I turn to emerging countries, they seem to be arranged along a continuum, with some exhibiting total independence at one end to those with exchange rates pegged to the US dollar at the other. For example, putting some temporary restrictions on cross-border movement of capital could give some but not complete independence of monetary policy.

But how do we reconcile **independence** and **co-operation**? In my view, we can and should act to enhance co-operation between public authorities, based on at least two elements:

- Ruling out any currency war, as we clearly stated at the meeting of the International Monetary and Financial Committee in Bali last month. I quote the unanimous communiqué: "[We] will not target our exchange rates for competitive purposes". Trade multilateralism is at risk, but financial and monetary multilateralism still stands fast.
- Second, as the G20 Eminent Persons Group (EPG), led by Tharman Shanmugaratnam, rightly stressed in its recent report, we need to put in place a reliable Global Financial Safety Net (GFSN) before the next crisis and co-ordinate its different layers. This should include an "IMF standing liquidity facility". The GFSN is the best insurance we can get against the risks created by economic divergence and it comes at a limited cost. I know that Governor Kuroda is very committed to this issue too.

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Let me conclude by quoting a Japanese proverb: "A frog in a well knows nothing of the great ocean" ["I no naka no kaeru taikai-o shirazu"]. In these uncertain times, the temptation is to look inwards, but that would be exactly the wrong thing to do. Unlike the frog, we must strive to know the wide world outside and continue to work together with our partners to address all the challenges we are faced with. Be assured this is true for France and for Europe, and in this respect I know that we can count on Japan as a reliable partner. Thank you for your attention.