



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

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Jean-Pierre Robin – LE FIGARO: The global economy is euphoric, with growth of 3.9% expected for 2018 and 2019 according to the IMF. How solid are those forecasts?

François Villeroy de Galhau: Growth is solid and the global recovery is broad-based across all regions, despite a slight lull in many countries in the first quarter of 2018. But beyond these forecasts for the next two years, the global economy is facing increased risks, as underlined in our discussions.

What are the risks over the medium term?

The biggest one is undeniably protectionism. If we do effectively see measures put in place and an escalation of trade tariffs, then the negative economic fallout will be considerable. The Banque de France and several other international organisations have put together an initial, rough estimate of the impact: if trade tariffs become widespread and increase by 10%, import prices will rise sharply everywhere, leading to a loss of purchasing power. The result would be a drop of at least 2% in global GDP.

And even before any actual measures are put in place, the uncertainty over global trade risks undermining investment. We've seen the same thing happen since the Brexit vote: there are no trade restrictions in place yet, but the uncertainty is already dragging on investment in the United Kingdom. The same thing could happen today in Canada, then in the United States or elsewhere.

Protectionism is the main risk, but not the only one?

Yes, bad things always come in threes, and there are two other risks – both of over-complacency: first regarding debt levels which are still rising rapidly, and second over reforms which, on the contrary, are progressing too slowly. "The time to repair the roof is when the sun is shining": the IMF has reiterated the words of J.F. Kennedy. For many countries, it would be short-sighted not to take advantage of the current positive conditions to cut debt and implement reforms.

Ten years after the 2008 global crisis, which was a debt crisis, how can public and private debt have reached record highs again? Have we learned nothing?

There has definitely been progress over the past decade, first in financial security, with a considerable tightening of the rules governing finance. On that issue, fortunately, the United States is sticking to its

international commitments. In particular – and I've met the new Fed Chairman Jay Powell – it's agreeing to comply fully with the Basel III accords, finalised in December last year, on the reinforcement of bank capital and liquidity ratios. Progress has also been made regarding debt, with a reduction in private sector debt levels in most advanced countries and, in some of them, even a decline in public debt. But overall debt, including that in emerging countries, which was already close to 200% of global GDP in 2007, before the crisis, is now, unfortunately, at over 220% of GDP.

Aren't central banks partly to blame, with their decision to keep interest rates very low?

After the financial crisis, the central banks fulfilled their mandate. They had to combat the risk of deflation, which was still considered a threat only recently at international meetings, and which had such devastating effects in the 1930s. Our responsibility today is to follow a policy of gradual and predictable normalisation, signalling our intentions clearly in advance to allow people to prepare for interest rate rises.

Central banks are doing their part of the job. The other stakeholders now need to do their part to help reduce debt: governments by cutting budget deficits, banks and financial markets by controlling risk and only encouraging sustainable debt.

Where do the real risks lie – with governments, businesses or individuals? What about France?

France is setting an example with the acceleration of its reforms, and has already earned praise. But, like others, we still need to be careful with our debt. The public deficit and debt reduction targets announced by the government for 2022 are necessary and imply a considerable slowdown in public spending. We also need to keep a close eye on private sector debt – that of households and businesses – which is growing by close to 6% per year. That is the job of the *Haut conseil de stabilité financière* (High Council for Financial Stability), chaired by Bruno Le Maire. At the next meeting in June we shall look at whether we need to take additional measures. In December 2017 we already introduced "macroprudential" measures regarding large corporations. Today the rise in debt concerns all private sector borrowers.

What should we worry about most, excessive debt in poor countries, or China and the United States, on which the IMF has sounded the alarm?

The risk for the poorest countries is on the whole limited, but we shouldn't just stand back and let Africa get into excessive debt again. The most decisive challenges are with the two global heavyweights: China needs to transform structurally towards an open market economy; the United States is giving in to the temptation of short-termism, fiscal handouts and protectionism.

Is the US fiscal stimulus package really a threat to the global economy as the IMF fears?

To prevent overheating, the United States is banking on stimulating business investment, on the basis that this will provide a long-term boost to potential growth. A lot of people here have doubts over this, especially as uncertainties over protectionism could affect firms' investment plans.

Could conflicts over trade lead to a currency war?

It is essential that we avoid a trade war, but at the present time there are no signs of a currency war. Exchange rates are relatively stable, we're watching them closely, and all IMF member countries – including the United States and China – have reaffirmed their commitment not to use currencies as a weapon through competitive devaluations.

From France's perspective, what purpose did this weekend's financial meetings serve?

To denounce the risks of protectionism and excessive debt, to try to mitigate them. And, for the longer term, to underline that potential growth has slowed significantly throughout the world. For France, this "cruising speed" for the economy was a little over 2% at the start of the 2000s; today it has fallen well below 1.5% per year. We urgently need to boost that potential if we want to safeguard the long-term financing of our purchasing power, our social model, our energy transition. This means increasing the amount of work – of employment – as well as its quality: providing everyone with more skills and hence more opportunities. There is no greater priority, therefore, than the four reforms announced on professional training, apprenticeships, improving primary and secondary education, and better career orientation at university entrance. It is particularly striking that at these economic meetings we now spend a lot of time talking about technology and education and not just about monetary and fiscal policy.

Isn't it paradoxical that, at 2.1% this year and 2% for 2019, French growth is outstripping its potential?

Our own forecast is a little more cautious at 1.9% for this year; but the French economy is still coming back up to cruising speed after lagging behind in the wake of the crisis. Once it has caught up, however, we'll plateau at this cruising speed. That's why structural reforms are so vital, to secure our wealth and employment.