



François Villeroy de Galhau

Governor, Banque de France

Speech at Eurofi Gala Dinner

David Wright

Ladies and gentlemen, some silence would be most welcome. Eurofi is as noisy and as active as it always was, which is much appreciated. First of all, let me thank, as Didier has, all our members and all our guests. We are honoured that you are with us.

I have the honour to introduce our speaker this evening, who is the Governor of the Banque de France, François Villeroy de Galhau. He has been the Governor of the Banque de France since November 2015. He has had a very distinguished career, ladies and gentlemen, through many of the offices of state in France, including working in the private sector before becoming the Governor of the Banque de France.

He has been a great supporter of Eurofi ever since he has been the Governor. He has always come to our meetings and always been, if I may say so, among those who have left us with some really interesting thoughts. François today, which of course is a very black day for Europe, we need *L'espérance d'un européen*. The reason I say that is that actually that is the title of a book that the Governor wrote in 2014. So nobody is more apt, I think, on this evening to talk to us than François Villeroy de Galhau. François, the floor is yours.

François Villeroy de Galhau

Thank you, David. *Bonsoir à vous tous, chers amis*, dear friends, *liebe Freunde, cari amici*. It is my pleasure to be the guest speaker of Eurofi tonight in Paris.

It is a somewhat unexpected pleasure, to be fair, because Didier told me yesterday afternoon that Bruno Le Maire, Minister Le Maire, could not come. I convey his regret, and we can understand that his political agenda has been a bit disturbed, to use a euphemism, in recent days. I had to prepare myself with short notice, and Didier gave me two tips. First, be short, and I will be. Second: start with an opening joke. Well, this was yesterday, and today is not a day for jokes, after what has happened all day long in Ukraine. I would like to express – probably on behalf of all of you and on behalf of public authorities, my colleagues, ministers, and central bank governors who are here – our total solidarity with this country that has been invaded, with this people, the Ukrainians who are so dear to us and are so close to us Europeans.

Allow me a personal confidence. I think tonight of Pierre Bérégovoy, former French Finance Minister and Prime Minister in the 1990s – probably some of you have known him. I was with him as a young advisor in Maastricht 30 years ago, and this decisive European minister was proud of his strong personal Ukrainian roots.

You can be certain that we, as public authorities, finance ministers and central bankers, are completely dedicated to doing our duty on the economic and financial front in this grave crisis; our duty to be vigilant on sanctions against Russia as well as on threats on our economies; our duty to take decisions quickly and forcefully; and then our duty

to implement these decisions with perseverance and coherence. For its part, our governing council will evaluate and decide on the most appropriate monetary measures at its next meeting on 9 and 10 March.

Let me add one word. Europe and the Atlantic alliance have thus far demonstrated a great strength: their unity. To be able to decide together and quickly thanks to the European Central Bank (ECB), the Single Supervisory Mechanism (SSM), and the European Commission, is a decisive advantage. It must be a lesson for all of us tonight. We must also show this unity in implementation between public authorities and – yes – private financial institutions. We should not be wrong. This crisis may last and it will have implications for and affect each of your institutions, of your businesses. We will be all the more effective in limiting the economic and financial price if we are all aligned with the superior efficiency of market economies.

As we will face this new and heavy crisis, let me give some light, because it has been a very dark day, and express two reasons for hope and then add one word beyond the crisis. The first reason for hope is an anniversary. Probably most of you know the most French book by Alexandre Dumas, *Les Trois Mousquetaires*, *The Three Musketeers*. Tome number two is *Vingt Ans Après*, *Twenty Years Later*. This anniversary, 20 years later, is the one of the euro. We can be proud of its success. We should not forget it, and many people did not expect it, to say the least. I will

quote a longstanding Conservative Member of the British Parliament who said as early as 1997 about the euro that we are 'heading for disaster'. He is a recidivist, because he repeated in 2011, so 11 years ago: 'The euro simply cannot work.' Well, here we are, 20 years later, and the euro is still alive and kicking.

If I had to sum up this success, I would share with you three simple figures. The first one is 21. We were 11 at the start of the euro. We are 19 today. No member left in the meantime, and we will be 21 after the entry of Croatia and Bulgaria – I say it for my Croatian colleague, Boris, who is here tonight. Can I stress that among the 10 new members there are the three Baltic states, of which we think with special friendship tonight?

The second figure is 1.7%. It is the average inflation over the last 20 years. Obviously, we have an inflationary challenge today, I will come back to it. But 1.7% must be compared with 4.9%: this was the average inflation in the countries of the euro area in the 20 years prior to the euro.

The last figure is perhaps the least well-known, but for me it is probably the most important: 79%. This is the support of public opinion of European citizens for the euro in the last Eurobarometer – even 82% in Germany. It was 68% on average in Europe at the start of the euro. It has been sometimes criticised as a project of the elites; it is however a popular success.

My second reason for hope, while we face this crisis today, is the successful management of the COVID crisis in the last two years. It was a huge shock, the heaviest one we had since last world war: -5.9% of GDP into the European Union in 2020; more than -6% in the euro area. The policy response, at the height of this economic shock, was strong; it was quick; it was efficient. Thanks to that we had a recovery of 5.2% last year and we returned to the pre-crisis level at the end of last year. It is a few months later than the US, but six months earlier than expected a year ago.

Then we have the issue of inflation. It is much higher in the US and you

are all aware of the figures: 7.5% in the US in January, 5.1% in the euro area. If I look at core inflation, without energy and food, the gap is still more significant: 6% in the US, 2.3% in Europe. We will have probably the same level of growth as the US this year, depending on the uncertainties of the Ukrainian crisis, and the inflationary excess is much more limited in Europe.

As I quoted these figures, I cannot resist the temptation to give you the two figures for France, because you happen to be in this country, which is delighted to welcome you. France had 7% growth last year, much higher than the European average of 5%, and 3.3% inflation today, much lower than the euro average; it remains nonetheless a challenge. The path of inflation obviously holds for common vigilance, even in Europe. I want to be extremely clear tonight: rest assured that the ECB will do what is necessary to bring inflation back, firmly and durably, to around 2% within our projection horizon. We have a duty to do it, we have the capacity to do it, and have no doubt we shall do it.

One word beyond the crisis, on the French presidency. Our Europe will have to deal in the next decade with two great transformations: climate transition and digital revolution, which are reflected accordingly in the priorities of the French presidency in the economic and financial services domain. On climate transition, as you probably know, the Banque de France is a leader in greening the financial system, with the Network for Greening the Financial System (NGFS), which we created in Paris. The French Presidency has the ambition to deliver on two key texts: adoption of the Corporate Sustainability Reporting Directive (CSRD) to increase transparency on environmental, social, and governance (ESG) factors – we all know we need this transparency; second, adoption of the European green bond standard, in order to have fewer labels and less suspicion of greenwashing.

For the digital revolution, we have two ambitions on text, and we are almost there. We need a regulation on Markets in Crypto Assets

(MICA), probably still more with the Ukrainian and Russian crisis, and the Digital Operational Resilience Act (DORA).

To fund these two great transformations, digital and ecological, we need – and we discussed it at length at Eurofi in these last two days – a financing union. We need the resources brought by banking union and capital market union. Let us accelerate.

Let me conclude with the imperative I started with for our Europe: unity. Can I quote the American who has been the most popular in Paris, at the end of the 18th century? During the American War of Independence, Benjamin Franklin said: 'We must, indeed, all hang together or, most assuredly, we shall all hang separately.'

I definitely prefer hanging together. Thank you for your attention.