

Christian Noyer: European financial markets – opportunities for growth and value creation

Speech by Mr Christian Noyer, Governor of the Bank of France, at the First French-Indian Financial Forum, Paris EUROPLACE, Mumbai, 16 May 2007.

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Ladies and Gentlemen,

In the absence of Mr Mestrallet, Chairman of Paris EUROPLACE and CEO of Suez Group, who cannot be with us today because of last minute commitments that require his presence in France, I have the great pleasure of welcoming you to our first French-Indian Financial Forum in Mumbai.

India's rapid economic growth in recent years makes it an attractive investment destination for international investors. And the economic revival in Europe also offers interesting opportunities to Indian investors and issuers wishing to diversify their investment strategy. That's why Paris EUROPLACE believes that we all have a common interest in attending this forum today to discuss business opportunities between European and Indian Financial Markets.

I would like to express my warm thanks to my friend Dr. Rakesh MOHAN, Deputy Governor of the Reserve Bank of India, for being with us today. We are also very honoured to welcome Mr Ashok WADHWA, Chairman, Capital Markets Committee of FICCI, the partner of Paris EUROPLACE in the organization of this forum, Mr Ravi NARAIN, Managing Director and CEO of the National Stock Exchange of India Ltd and Mr Peter KURIAN, Chairman of the Association of Mutual Funds in India, as well as all the other distinguished representatives of the Indian and French financial communities.

As you may know, Paris EUROPLACE brings together the whole range of market participants – issuers, investors and intermediaries – in order to contribute to the development of European capital markets and promote the Paris financial center.

The financial industry in India, as in Europe, is expanding significantly. And we have already seen in the past few years the flourishing of partnerships between French and Indian financial institutions: such as in the asset management industry, the joint venture between Sundaram and BNP Paribas Asset Management, or the SGAM and SBI Mutual Funds partnership; in insurance services, the Bharti and Axa Life Insurance partnership, and the joint venture between SBI Life and Cardiff; and in online brokerage: current developments involving Cortal Consors and Geojit.

It is for this reason that it was decided by Paris EUROPLACE to focus our program on the development of opportunities and potential new partnerships between Mumbai and Paris, as well as to review how the expertise of the Paris financial marketplace can be used and leveraged.

Let me highlight the following questions:

- Why has the European financial market become a major pillar of international finance?
- And what are the key advantages offered by the Paris financial market place?

1. First, why has the European financial market become a major pillar of international finance to compare favourably with the other large markets of the world?

Today, Europe consists of 27 countries representing a market of around 500 million consumers: the largest domestic market in the world in terms of purchasing power.

The acceleration of the integration of European financial markets has radically transformed the international financial environment. All activities are concerned.

Regarding bond markets, European debt instruments issued in euro on international markets are now quite comparable to those denominated in dollars. If we take into consideration bonds issued on external markets by "non euro area resident" companies, foreign governments and multilateral institutions, we can observe that in 2006, total issues of international bonds and notes in euro represented an outstanding of an equivalent of 1,200 billion (USD) against 1,000 billion (USD) in dollars.

This fact shows that the euro market has grown considerably since the beginning of the 2000s and today constitutes for corporates and governments a vast, safe and liquid source of funds, wider than that of the US dollar.

While the US dollar remains dominant as an international reserve currency (65% of international official reserves against 24% for the euro), bond markets have become bipolar with the euro playing a leading role.

European equity markets have constantly developed since the 80s although they remain smaller than those of the United States.

In terms of ratios of market capitalisation to the GDP of the countries, euro area equity markets represented 55 % in 2005, while those of the United States amounted to 105 % and Japan to 85 %.

However, the euro area equity market has been growing progressively at an average rate of 10% per year, since 1999. The share of equities in European investment funds has increased by 3 points since 2002 and amounted to 27% in 2006, while the proportion remained stable in the United States at 45%.

As regards asset management, we observe that since the launch of the euro in 1999, Europe has caught up the United States in terms of the world-wide distribution of investment fund assets. The United States and Europe hold the largest market shares in the world, at 50% and 33% respectively.

2. In this context, what are the key advantages offered by the Paris financial center as a market and a services provider ?

The recent launch of the euro has given a big boost to our financial center and leveraged our structural strengths: concentration of headquarters of big companies, innovative entrepreneurial development in fund management (fixed-income and sophisticated guarantee funds) and strong knowledge of mathematical finance, that is the base for French leadership in derivatives and risk-based models. Innovation and expertise had and still have for the future a very positive impact on both the bond and equity markets. Consequently French investment banks are very well ranked in European activities.

Paris has taken a major position in the recent developments of the euro-denominated bond market:

The French government bond market is today the most liquid in the world after the US treasury market, with an outstanding of € 900 billion, and has a strong innovative strategy: let's mention the launch of a range of index-linked products to European and French inflation, or the introduction of a 50-year OAT bond, which represents the new frontier of the euro fixed-income market.

The French corporate bond market is the largest in Europe, with an outstanding of €250 bn, compared to €180 bn in London and €85 bn in Frankfurt.

Most recently, we have seen strong growth of structured and synthetic products. The new legislation concerning the French covered bond market boosts this market compartment, which represents today an outstanding of €160bn.

On the equity side, Euronext has been ahead of London and Frankfurt in terms of transactions since 2006. **The new alliance between NYSE and Euronext creates the world's largest exchange in terms of market capitalisation (€25 trillion), the world's largest liquidity pool, with a daily average trading volume of €78 billion, & the world's premier listings venue, with the presence of 80 of the top 100 companies listed world-wide, etc.**

This alliance marks a new era in the global consolidation of financial markets, with its stocks traded continuously for 13 hours a day on two continents and offering corporate issuers and international investors the opportunity to deal in two of the world's major currencies, the US dollar and the euro.

French banks today have a leading position in equity derivatives markets, with more than 25% of the worldwide market. New opportunities have arisen in this sector, with the development of the Asian instruments, which are still at an early stage, as well as products related to environmental and sustainable development issues. The French expertise in these markets is based on a strong education in mathematics and finance that leads to excellence in financial fields and a large pool of academic talent. In this chain of services, French banks are able to propose an end-to-end secured service based also on their leadership in post-trade and securities services.

These market-driven services are reinforced by a strong and innovative “buyside” coming from the good position of the French asset management industry. Quality of services in the asset management industry is another key opportunity for international investors. Assets under management have tripled over the past ten years and consequently the French asset managers have built up a strong and global network and position Five of the largest French firms now rank among the top 25 asset management companies in the world, operating worldwide including in new fast-growing markets in Asia. The assets managed by their foreign subsidiaries are estimated to be worth more than €1 trillion, adding to the €2.5 trillion euro managed out of Paris.

Finally, with regard to the regulatory aspects, and to meet international requirements, France believes that regulation is a major competitive driver. First because trust, investor protection and market robustness are essential and, second, because the regulatory process and better regulation principles are worked out to accompany financial innovation in accordance with prudential principles. Our regulators are taking driving initiatives to harmonise the European regulatory framework and facilitate the integration of the European financial market in order to increase its critical mass and therefore its efficiency even for non-European investors and issuers. That is why also the French market is continually being upgraded to the highest standards of ethics and corporate governance so that French companies comply with best international practices.

Ladies and Gentlemen,

As we can see, globalization and structural changes are driving all of us to conduct business in a different way and offer new and major opportunities, especially through the development of cross-border activities.

In this context, Paris EUROPLACE is a key player at the European and global level and the Paris financial center currently offers the best opportunities and environment to invest in Europe.

Let me conclude by mentioning that Paris EUROPLACE is today launching a financial services cluster dedicated to financial innovation and the development of new value added projects between academic research and industrial companies with the participation of market professionals, universities and research centers.

This new project could be another opportunity to develop new added value projects and partnerships between Paris and Mumbai, in both financial research and new business opportunities, as we know that the Mumbai financial centre aims to become a world financial cluster. The Paris financial marketplace today offers to initiate closer cooperation and develop joint programs with the Mumbai financial center.

Thank you very much for your attention.