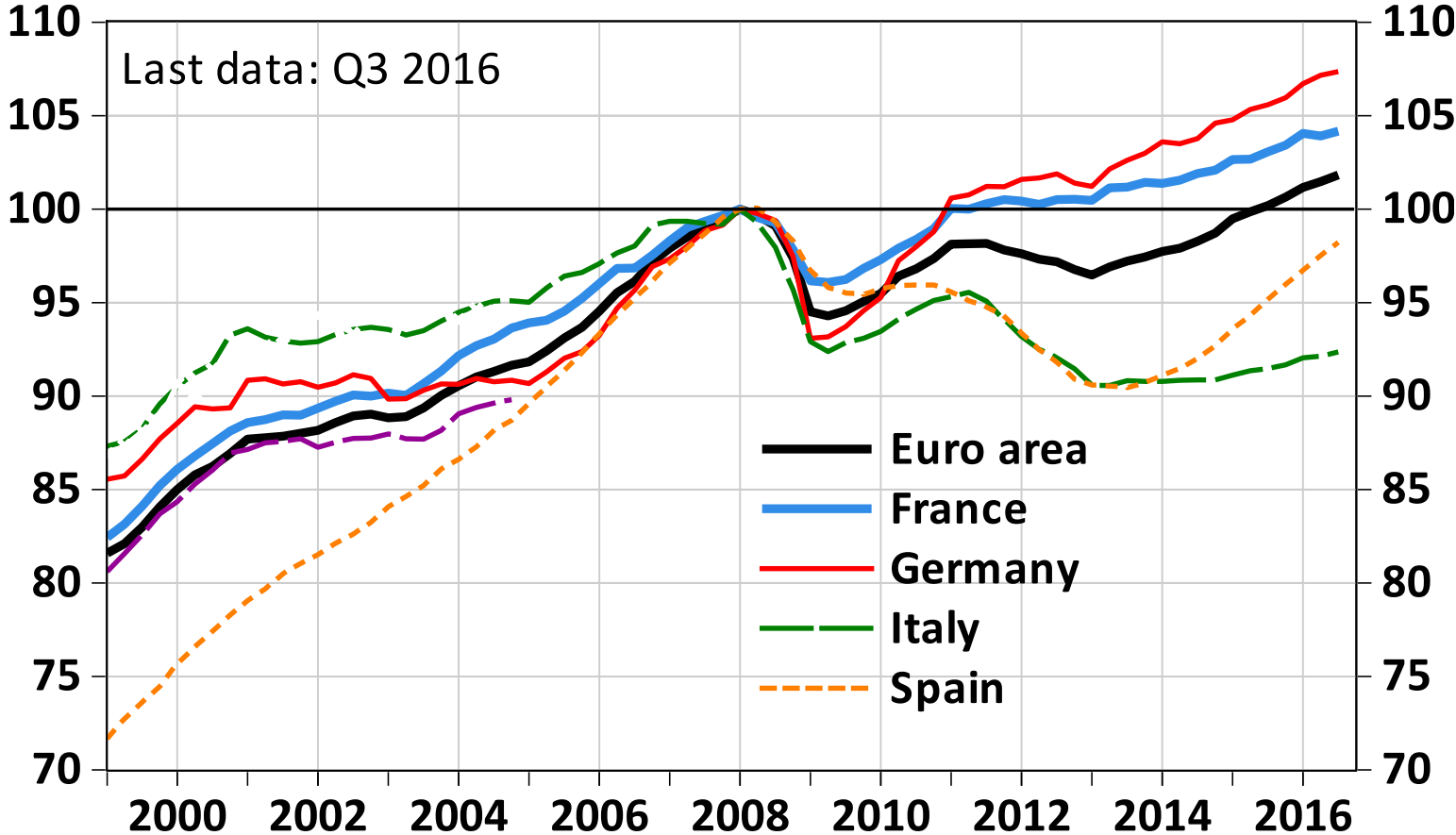# PARIS EUROPLACE
INTERNATIONAL FINANCIAL FORUM

François Villeroy de Galhau
Governor of the Banque de France

Tokyo,
5 December 2016

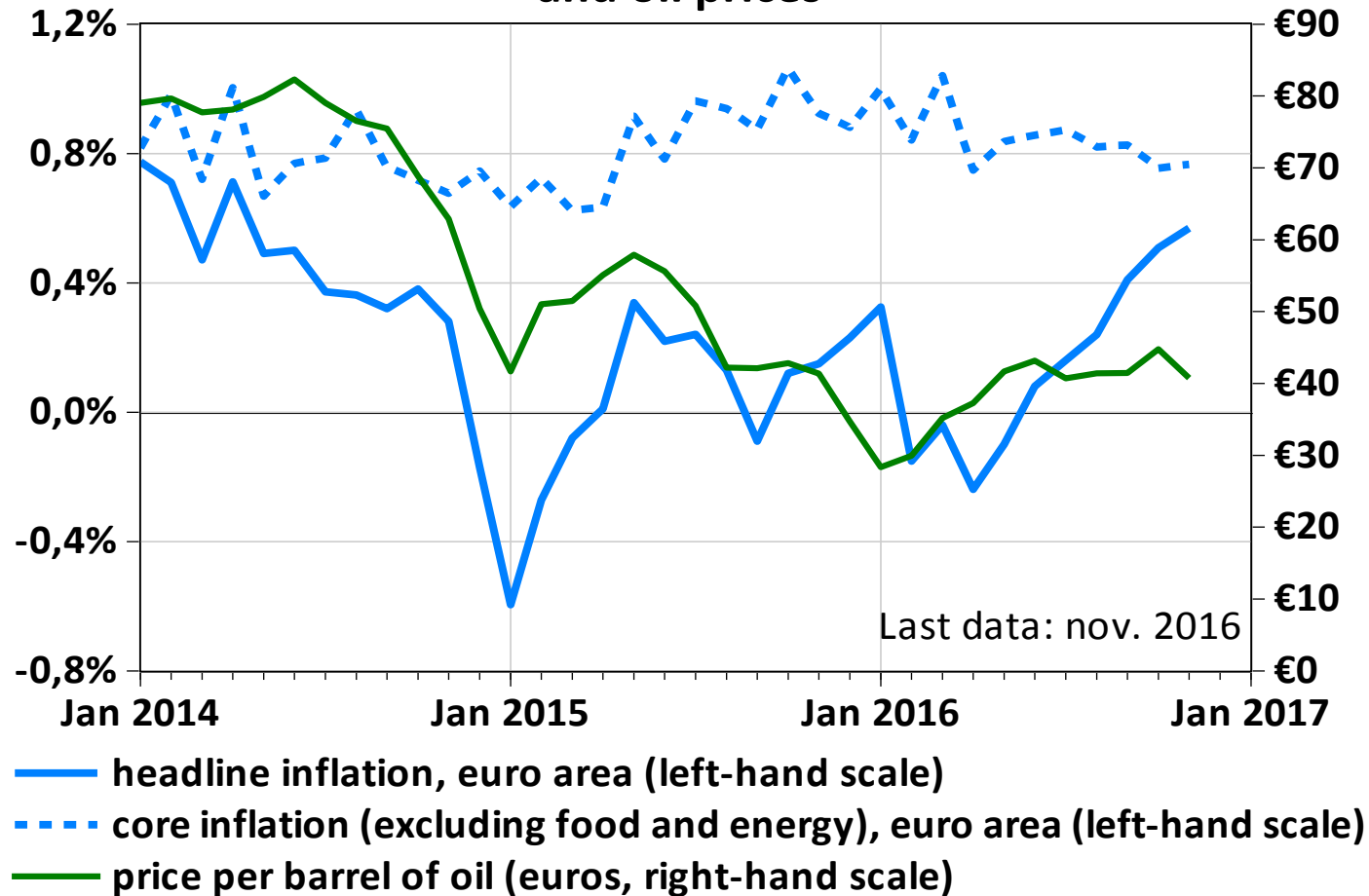# Economic recovery in the euro area

Real GDP (2008Q1 = 100)

Last data: Q3 2016

Legend:
- Euro area
- France
- Germany
- Italy
- Spain

Source: Eurostat

Oil prices exert deflationary pressures

Harmonised index of consumer prices (HICP) in the euro area and oil prices

Last data: nov. 2016

— headline inflation, euro area (left-hand scale)

---- core inflation (excluding food and energy), euro area (left-hand scale)

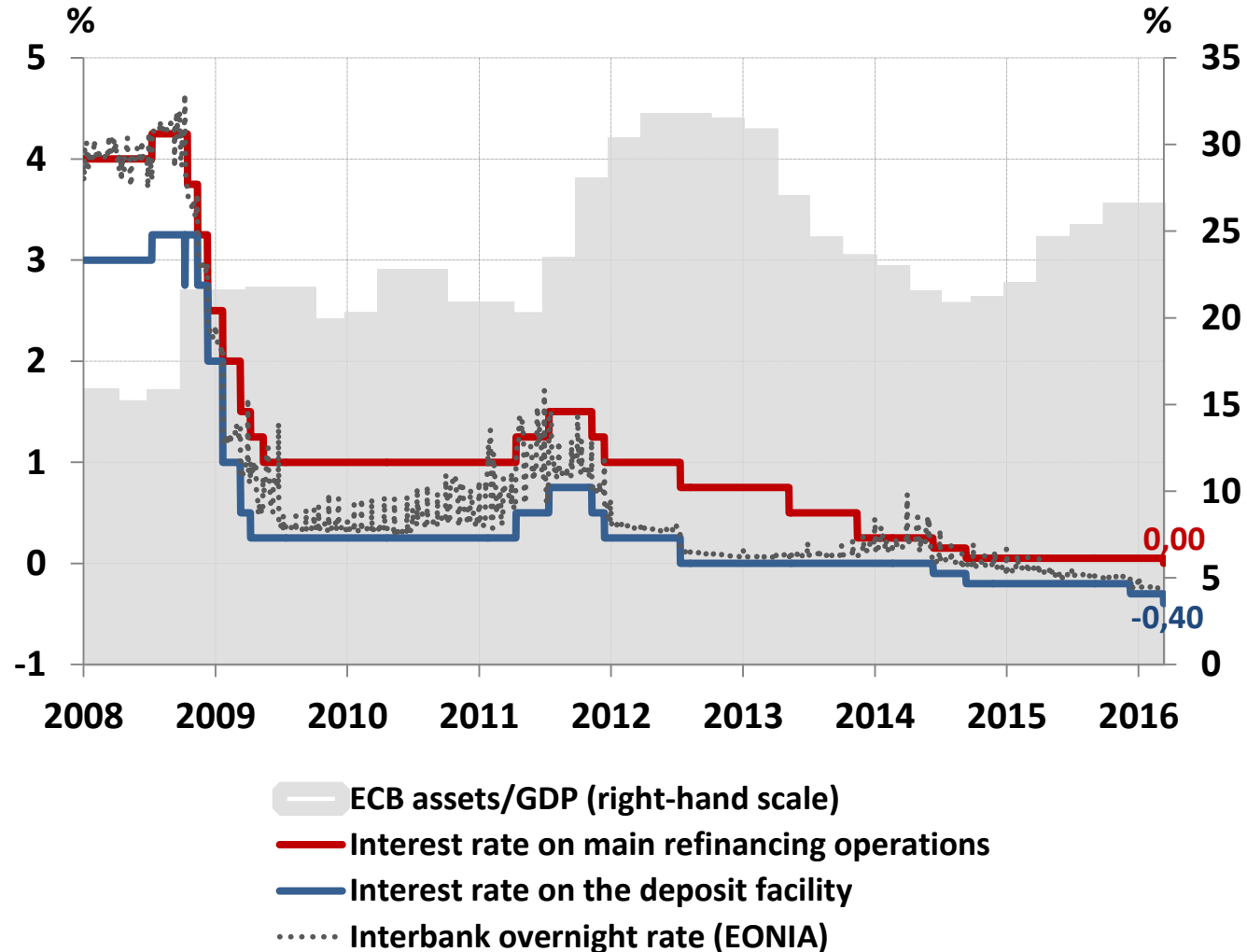— price per barrel of oil (euros, right-hand scale)

Source: Eurostat /Bloomberg

# Accommodative monetary policy stance in the euro area

10 March monetary policy decisions:

- ✓ Cut in **interest rates**;
- ✓ **TLTRO 2**: banks can borrow at favourable rates conditional on their lending to the economy;
- ✓ **Asset purchase programme**: +20 bn EUR per month (total 80 bn) and corporate bonds now eligible;
- ✓ **Forward guidance**: interest rates to remain at present or lower levels well beyond March 2017.


Legend:
- ECB assets/GDP (right-hand scale)
- Interest rate on main refinancing operations
- Interest rate on the deposit facility
- Interbank overnight rate (EONIA)

Values shown: 0,00 ; -0,40

Rebalancing of unit labour costs

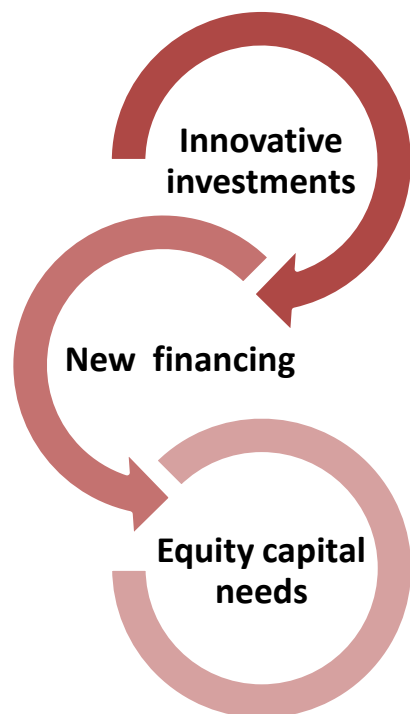## Unit labour costs (ULC) : average annual percentage change
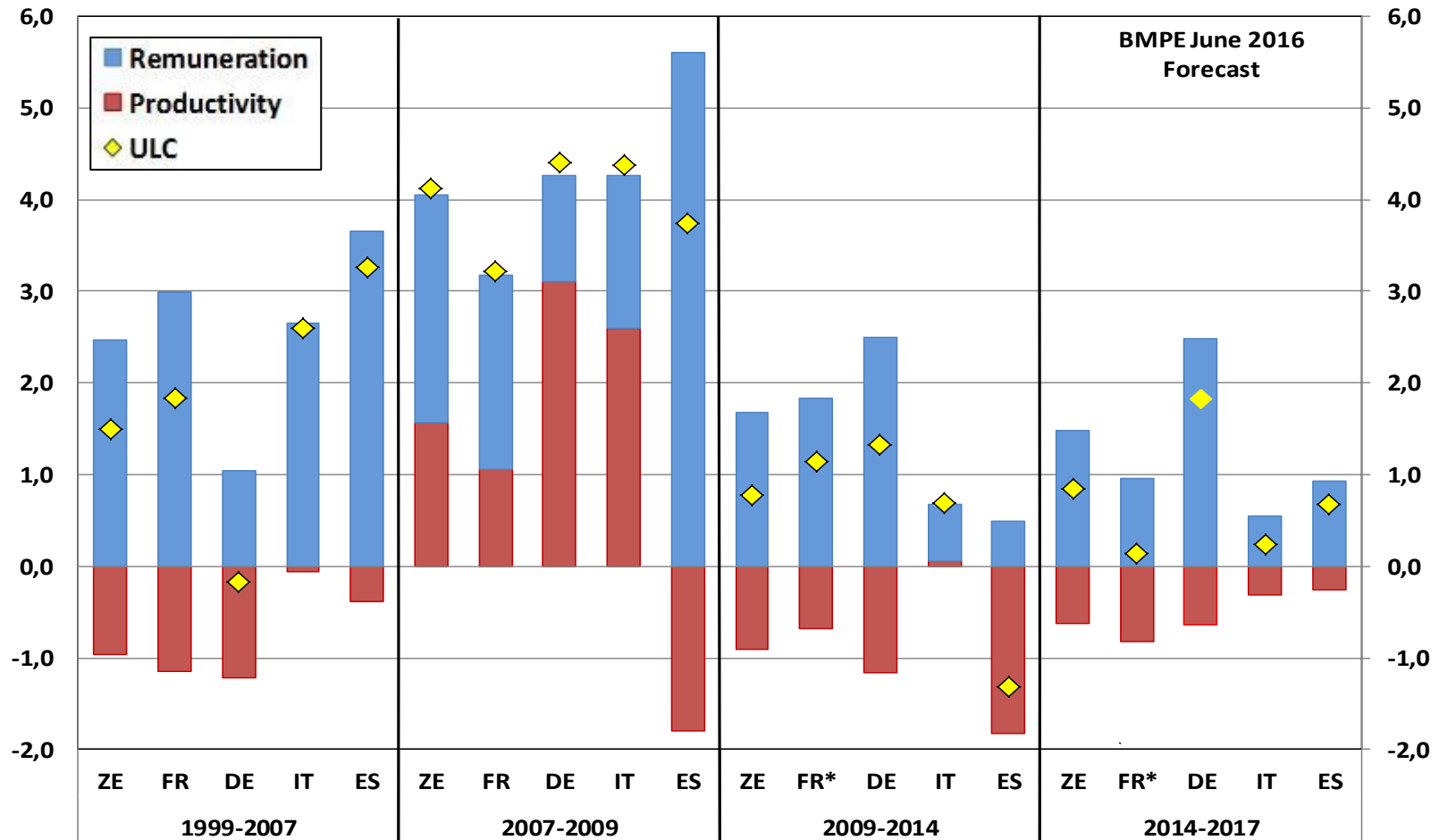
* Series corrected for the CICE (tax credit); Sources: BMPE June 2016 (confidential); Banque de France calculations
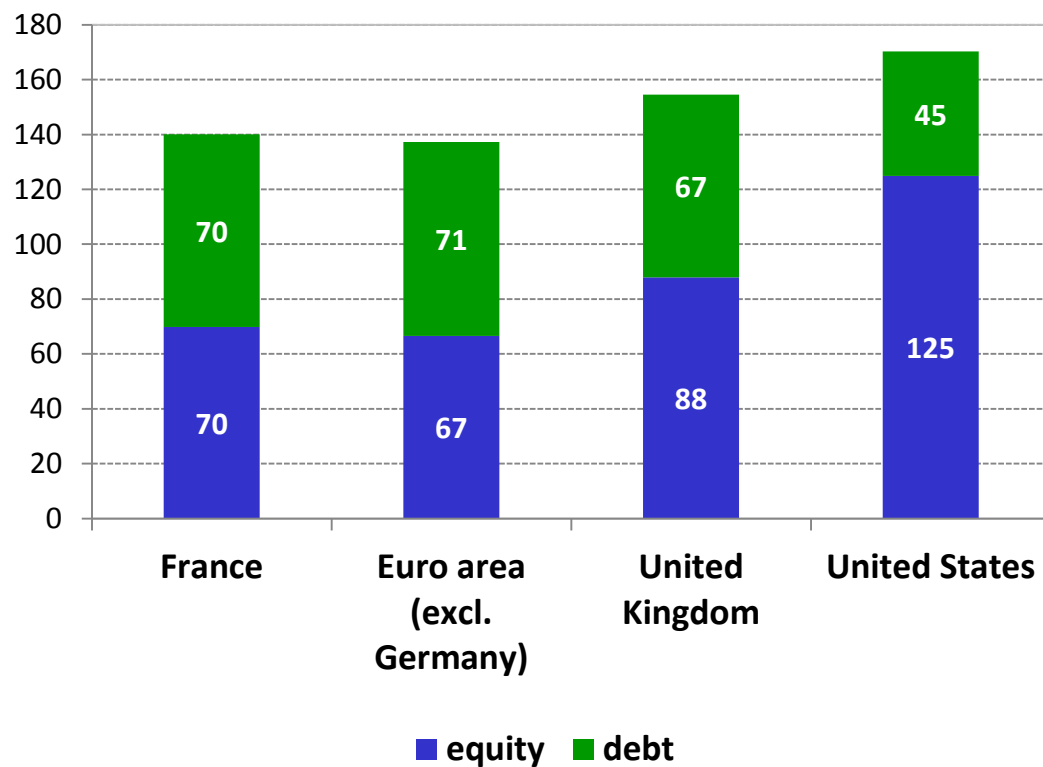
The investment crunch

as a % of GDP

Euro area Investment

Euro area Savings

BANQUE DE FRANCE
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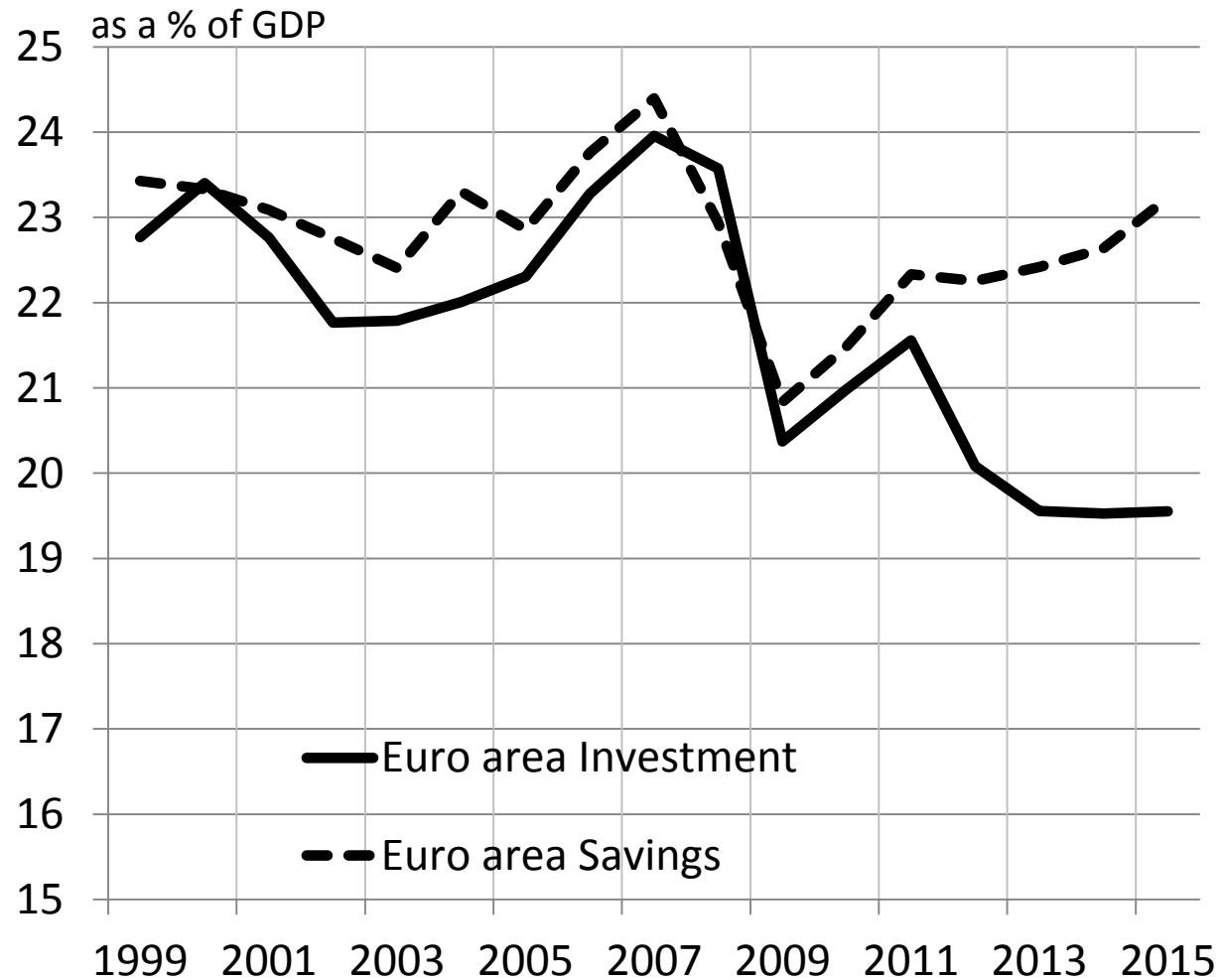
Financial levers: Europe is lagging behind

Innovative investments

New financing

Equity capital needs

NFC liabilities: net equity capital and financial debt
as a % of GDP

	France	Euro area (excl. Germany)	United Kingdom	United States
debt	70	71	67	45
equity	70	67	88	125

■ equity ■ debt

Source: Banque de France; data as of end June 2016

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Three steps towards economic union

A "Financing and Investment Union"

- Capital Markets Union + Juncker Plan + Banking Union
- Better channel abundant European savings (current account surplus of EUR 350 bn / year) towards productive investment across borders

A collective economic strategy

- Combine more structural reforms (France, Italy) and more fiscal support (Germany)
- An institution fostering confidence: the euro area Finance Minister

In the longer term, a European fiscal capacity

- A euro area stabilisation tool: unemployment insurance scheme
- A means to finance certain « European public goods »
- The ability to issue common debt and even raise taxes