

Christian Noyer: No one should, nor can, manipulate their currency – interview in *Le Figaro*

Interview with Mr Christian Noyer, Governor of the Bank of France and Chairman of the Board of Directors of the Bank for International Settlements, in *Le Figaro*, Paris, conducted by Ms Isabelle Chaperon, Ms Bertille Bayart and Mr Jean-Pierre Robin on 9 November 2010 and published on 11 November 2010.

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Interview – On the eve of the G20 in Seoul, the Governor of the Banque de France advocates an “orderly and calm” discussion on the international monetary system.

Le Figaro – Last week, the US Federal Reserve pumped USD 600 billion into the economy. This decision has been harshly criticised. How do you view it?

Christian Noyer – We raised this issue last weekend at the Bank for International Settlements in Basel. Fed officials explained this action in the light of their mandate, their goal of reviving the US economy and the risk of deflation. They assured us that they had no deliberate intention to devalue the dollar. And I have no reason not to believe them.

Le Figaro – The Fed seems much more accommodating than the ECB ... Are the economic situations so different?

Christian Noyer – Saying that the Fed is very accommodating and the ECB very stringent does not reflect reality. In Europe, our monetary policy is still marked by the non-standard measures tailored to the structure of our economy. In this respect, we do not think there is any risk of deflation in the euro area, or inflation for that matter. Furthermore, the United States may be substantially below its long-term growth potential, whereas the euro area is relatively close.

Le Figaro – Nonetheless, the dollar is sliding and we seem to be moving away from the close cooperation seen between central banks during the crisis...

Christian Noyer – First, everything does not come down to the dollar. For example, there are emerging countries that, by not being sufficiently flexible in their exchange rate policy, have monetary policies that are inappropriate and create risks to inflation and growth. Moreover, while each central bank is pursuing a policy appropriate to its country's situation, nobody wants to move away from the goal of consistency. We are all committed to ensure a framework for balanced growth, and that commitment remains just as strong. As reiterated at the last meeting of G20 finance ministers and central bank Governors, no one should or can manipulate their currency.

Le Figaro – Is the euro not the real victim of recent foreign exchange developments?

Christian Noyer – The euro is not the only currency that floats against all other currencies. Let's not be so self-centred! The idea that the euro is arguably the adjustment variable for the rest of the world seems strange to me.

Le Figaro – Will the G20 be able to make headway on monetary policy issues given that the climate is, to say the least, tense?

Christian Noyer – The main issue being discussed in the G20 – raised moreover by Nicolas Sarkozy – is how to reduce the large global current account imbalances, which weigh on world growth and generate dangerous capital flows. Monetary policy alone will not provide the solution. Each economic area should move towards a better balance between savings, consumption and investment. And, we would all benefit from reforming the international monetary system, but in a structural, orderly and calm manner, and certainly not in a hurry. It

is a long process to move from a system in which only the currencies of major industrialised countries counted to the multipolar world in which we now live.

Le Figaro – This G20 should also provide the opportunity to validate the new prudential framework (Basel III). Do you find it adequate?

Christian Noyer – We have reached a balanced agreement. It is out of the question to be confronted with a situation where States fly back to the aid of banks. That is why we are enhancing both the quantity and quality of banks' capital requirements. But we have also provided for a very long adjustment period to avoid an artificial reduction in funding. This agreement is universal and is intended to extend to the United States and to all developing countries. This too is a balancing factor.

Le Figaro – Has the project been completed?

Christian Noyer – We have factored in a long observation period for some aspects. This will enable us to make possible further adjustments, for example regarding the liquidity rules that will apply as of 2015. The question of systemic risk is still outstanding and we will deal with it in 2011.

Le Figaro – Are you in favour of more stringent requirements for larger banks, considered to be systemic?

Christian Noyer – This should be an option rather than automatic. Who would have thought that Northern Rock or Bear Stearns could be regarded as systemic? I think that, in the context of each country, a wide variety of instruments is necessary to allow supervisors to ensure that banks increase their loss-absorbing capacity. In particular, the experience of national supervisors should be taken into account. In France, for example, we adjusted, as permitted by Basel II, the ratios required of each institution based on its risk profile. The experiment was conclusive. The amounts that each bank had to raise from the State during the crisis proved consistent with the requirements that we had determined. Other countries that have not had this experience are likely to implement automatic rules.

Le Figaro – In the United States, some believe that European banks, and in particular French institutions, are undercapitalised relative to the size of their balance sheets...

Christian Noyer – The idea that US banks all comply with Basel III and that efforts are only required in Europe is false. Those who believe this are victims of an accounting and prudential optical illusion. Put simply, a balance sheet produced under US GAAP is twice as small as its equivalent using international standards. And capital appears twice as high. This creates confusion.

Le Figaro – Will the United States implement Basel III?

Christian Noyer – We'll be monitoring developments very closely. I have no doubts about the commitment of the US administration and the Fed.