

## **Christian Noyer: Interview in *Handelsblatt* – “A government bond buying programme can only be implemented if the majority of bonds continue to be held by private investors”**

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 *Handelsblatt*, conducted by Mr Thomas Hanke and Mr Daniel Schafer, published 13 January 2015.

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*The Governor of the Banque de France discusses the impact of the forthcoming Greek elections on the ECB’s government bond buying programme, the terrorist attacks and the overly slow rate of reforms in France.*

*This interview with Christian Noyer, member of the Governing Council of the ECB, took place two days after the terrorist attack on the newspaper Charlie Hebdo.*

***Mr Noyer, the French people’s reactions to the terrorist attacks have impressed all of us Europeans. What could be the political and economic consequences of this new threat?***

***Christian Noyer***

This was clearly seen as an attack on freedom. The strong reactions remind all of us, European citizens, that we have a long-term project for Europe based on common values. These common values are much more important than the difficulties we sometimes have to agree on regarding the proper technical way to achieve this or that. Of course at the Banque de France we are all the more impressed by the reactions and the demonstrations since we suffered a loss ourselves ...

***... Bernard Maris, the economist and journalist, was one of your board members.***

***C.N.***

Yes, it was a horrible shock for us. Bernard Maris was a man of culture and tolerance, a free spirit and he was murdered because of his ideas. It is a huge loss for all of us.

***Do you see any economic consequences from these attacks?***

***C.N.***

I do not think they will have significant economic consequences.

***Before the attacks everybody was looking towards Greece. Could the elections of the 25th trigger a new round of crises in the euro area?***

***C.N.***

In my view the risks of a crisis for the euro area are much lower than a few years ago. Greece has clearly taken a path of reforms and restoration of its competitiveness. It is in the interest of Greece to continue following that path and to benefit from an accelerated improvement in their recovery. The second point is that we have built many significant defences against the risk of crisis and destabilisation in Europe.

***What is the scope for a more lenient policy in Greece or even for debt restructuring?***

***C.N.***

We all know that the debt level of Greece is very high. The programme of the Troika foresaw a decrease in the debt ratio in the years to come. But it is really for the governments to see whether these assumptions remain likely. Any debt restructuring is always very costly in terms of confidence. It is really something that you want to only use as a last resort instrument and do so in the friendliest possible way with lenders. We could wonder whether

the repayment schedule is appropriate, but this is really a matter for negotiations between the lenders and the borrowers.

***Given that debt levels are above 170 per cent GDP, isn't debt restructuring inevitable?***

**C.N.**

It very much depends on the assumptions on Greek growth in the future, which in turn will be dependent on the pace of Greek reforms and the growth in the euro area as a whole.

***Is it even possible for the ECB to decide on further monetary policy easing with a possible bond purchase programme just a few days before the Greek election?***

**C.N.**

Nothing has been decided yet at the ECB but we will have to take these uncertainties into account. But the Greek bond market is extremely small and so the question maybe difficult in theory but in practice it doesn't really apply.

***Just to make it clear, the negotiations with Greece won't block the ECB, will they?***

**C.N.**

No, they won't. The problem of Greece is rather minor compared to the question of whether or not and when to step in with action on further market segments in our unconventional monetary policy.

***So that means Greece would not even need to be included in the government bond buying programme?***

**C.N.**

Don't jump the gun! The first question for the Governing Council is: should we decide to launch it? My personal reading is that if we were to decide to have a government bond buying programme, we should have a cap in terms of the percentage of what we would be buying, so that most of the financing will continue to rely on the private market.

***That would mean a relative limit of outstanding debt of each country?***

**C.N.**

Yes, in my view, such a programme can be launched only if a majority of the debt were to continue to be held by private investors.

***So it should not be an absolute figure like 500bn?***

**C.N.**

Personally I do not put too much trust in the absolute figures regarding caps. For me there is only one objective: to maintain price stability. That means we both need to have the credible prospect of returning to our objective of close to but lower than 2 per cent inflation, and we must ensure that expectations are not disanchored. If, thanks to the fall in the oil price, inflation, which was already very low, were to remain too low for too long, we would need to act to continue to ensure the credibility of our goal.

***There doesn't seem to be a consensual view in the Governing Council?***

**C.N.**

On all new measures, there has always been a lot of prior discussion, after which we have always managed to make a decision. The debate is not only about whether we should do it at all but also about when we should do it. Some believe that should have started buying bonds months ago, others think that we should do it maybe later or that we should do it straightaway. There are not two opposing camps; it is much more complex than that. And many of us have held certain views but have changed their minds over time, wondering whether quantitative easing was the only way to maintain price stability. Whatever we do, it

must be a common Eurosystem programme, in which all national central banks take part, with clear rules and coordinated by the Governing Council. No one should be excluded, no one should be allowed to purchase more than others.

***We have had negative inflation figures last week. Isn't that an argument to start now?***

**C.N.**

This is not about negative inflation figures at a point in time, but rather about the risk of having either negative or very low inflation for a too long period of time. Expectations could then change, resulting in less consumption and less investment. The credibility of the ability of the ECB to keep price stability must not be jeopardised.

***Should the ECB limit its purchases to highly-rated bonds?***

**C.N.**

It is too early to answer your question. But if we were to step in, we would have to be very attentive not to disturb the way the market values the various risks and spreads. One way to avoid this would be not to buy too many bonds in the same market segment.

***Has the French government done enough to reduce the fiscal deficit and to improve the conditions for growth?***

**C.N.**

Social contributions must be reduced, which is currently being achieved through the Social Responsibility Pact. The "Macron Act", which allows working on Sundays, for example, is certainly a positive step. However we have not done enough on the labour market, and I hope that the other reforms will see the light. We need a more flexible minimum wage and more room for negotiated arrangements in firms and branches, like in Germany. Public finances will only be sustainable and credible if the reduction in the structural deficit continues, in particular through a downsizing of the public sector. Structural reforms must gain momentum in order to support growth. Interest rates will eventually rise and the governments that have not implemented the necessary reforms will find themselves in a difficult situation.

***Your second term as Governor is coming to the end. What were the highlights?***

**C.N.**

Naturally, the financial crisis. The most important event has been the creation of the Banking Union. It is the most significant step since towards a united Europe and is exactly in the spirit of how the founding fathers of Europe wanted the EU to evolve since the introduction of the euro. The role of the Governor of the BdF like that of the President of the Bundesbank will increasingly be that of an important player on the European field, and much less at the national level.

***In Germany, we tend to believe that the role of national central banks is shrinking.***

**C.N.**

At the Banque de France, some of my colleagues thought that one day the ECB could replace us. I told them that it would not happen as we are in a federal system with a relatively small centre. Within the Governing Council we take common decisions but most of the work is done by the national central banks. But from now on we will have to work differently, for example, instead of looking for the best payment system for France, we must look for the best payment system for the euro area as a whole. In this respect, our best partner has mostly been the Bundesbank.

***But the relationship seems to have become more distant?***

**C.N.**

No, certainly not. The Bundesbank remains our number one partner. We may start with different approaches on some of the issues in the Governing Council but in the vast majority of cases we have the same responses. It is with the Bundesbank that we have developed most of the projects for the euro area, with which we organise conferences, and with which we cooperate in the international field. This cooperation is beneficial for both of us.

***Is it sad to leave at a time when central banks have become such important players?***

**C.N.**

It is not good that we are seen as the only game in town. We cannot replace governments, simply because they are not seen to be acting quickly enough. We have created in the euro area many new institutions and new rules. They must now be used. It is up to the parliaments and governments to decide the reforms to be made, but they have to take their responsibilities.

***Mr Noyer, thank you for this interview.***