Christian Noyer: Fostering economic growth in Europe

Introduction by Mr Christian Noyer, Governor of the Bank of France and Chairman of the Board of Directors of the Bank for International Settlements, for the Round Table 3: Bank of France Financial Stability Review "Financing the Economy: New Avenues for Growth", at the Paris Europlace International Financial Forum, Paris, 20 April 2015.

* * *

Ladies and gentlemen,

The purpose of this third round table is to launch the latest issue of the Banque de France Financial Stability Review entitled "Financing the economy: new avenues for growth" and which basically discusses the need for more market–based financing. I am thrilled to exchange views over this particularly topical issue today in a country that shifted towards market-financing a long time ago and which has a lot to tell us. In the United States, 80% of debt financing takes place in capital markets whereas this proportion is only 20% in the Eurozone. This new edition of our FSR, just like previous ones, brings together contributions from prominent academics, practitioners and policy-makers from all over the world. I warmly thank all the contributors. I cannot mention all of them but Sheila Bair and Barbara Novick among others are with us today. These contributions are very diverse, or even divergent, in their analysis and proposals. This is precisely how we want it to be. It is clear that we don't necessarily share the views expressed in the articles but we believe in exchanging ideas.

All in all, this new FSR underlines three main aspects with respect to financing the economy:

– The regulatory drivers have and will continue to have an important bearing on market participants' behavior and strategies.

– The transition towards a more balanced financing pattern needs to be supported by public intervention.

– There is still a lot to do in order to drain resources more effectively and ensure a sufficient flow of long-term financing, which is a prerequisite for recovery and growth.

Before we get into the discussion, let me briefly share with you some personal thoughts in this regard.

In my view, the challenges to finance the economy are mainly two-fold:

– On the one hand, some segments of the economy, namely SMEs and infrastructures, rely heavily on bank-financing, due to the existence of high fixed costs and significant information asymmetries. Indeed, banks are better equipped to assess the credit-worthiness of such counterparties or projects. Facing this situation requires to unlock bank lending.

– On the other hand, and that concerns the economy as a whole, it is essential to foster the development of a market financing as a complement to bank financing. Although the process has already started, the speed and extent of the shift differs across countries and sectors.

The development of a more balanced funding structure is a necessarily long process, which requires a strong commitment and support from public intervention. In Europe, a series of initiatives, led by the authorities, are under way to revive the moribund securitization market but also to develop the private placements markets. On securitization, incidentally, allow me to note that it suffered unduly in Europe from the US experience, while having been much less prone to default. More generally, the European Commission's Capital Markets Union project will support the increase in funding flows, the diversification of risks and a better allocation of resources.

This shift towards more market-based financing entails two main implications from a financial stability perspective:

- First, the proliferation of regulation brings uncertainty to market participants. The analysis of the cumulative impact and the interactions between regulations is still in its early days but it must be continued. Vigilance is indeed required to ensure that the implementation of reforms does not result in a reduction of activities that are vital for financing investments and firms. I notably think of the market-making activity which shows signs of decline, partly due to the regulatory costs. This decline needs to be monitored in a financial system where we are promoting market financing and where market making is key for issuers and investors.
- Second, the development of alternative sources of funding, outside the banking system, brings a necessary diversification. Yet the risks associated to disintermediation are clear, notably a limited assessment of risks by investors or less ability to address difficult situations and gaps in supervision. In parallel, re-intermediation by non-banks raises level-playing field questions linked with uneven regulation and supervision across sectors and countries.

To discuss these important issues, we are extremely fortunate to gather an exceptional panel today, with:

- Mrs Sheila Bair, Chair of the Systemic Risk Council, former chair of the Federal Deposit Insurance Corporation (FDIC), who is obviously a prominent regulator. Dear Sheila, your work to build a more robust financial system, that serves the economy, is particularly impressive and your views on how to make it even more resilient are very sharp;
- We also have Mrs Barbara Novick, Vice-chair of Blackrock and the author of impactful articles on asset management and public policy; as well as Mr Alain Papiasse, Deputy Chief Operating Officer (COO) at BNP Paribas, representing the group in North America. Barbara and Alain are two top market practitioners with a comprehensive experience in both asset management and investment banking. So, dear Barbara, dear Alain, I hope you will provide us with “insider” and complementary visions of what it really means to finance the economy.
- And finally let me introduce Mr Thomas Philippon, a distinguished academic from NYU, notably specialized in the evolution of the financial industry. Dear Thomas, your research on the financialization of the economy will provide a unique viewpoint by putting in perspective the links that exist between the financial industry and the economy.

Thank you all for being with us today.

Let me now give the floor to our panelists. I suggest that each speaker delivers a 10-minute presentation before we start the actual discussion between the members of the panel and turn later on to the audience. Mrs Bair will speak first, followed by Mrs Novick, then Professor Philippon and eventually Mr Papiasse. Sheila, would you start?