

European Central Bank

ECB contender warns bank must work harder to keep public onside

Villeroy de Galhau: Better communication needed to keep trust in euro



François Villeroy de Galhau: 'It is vital for Europe to respond to external pressure with strong internal unity' © Magali Delporte/FT

Claire Jones and Victor Mallet in Paris MAY 13, 2019



France's top central banker who is a leading contender to head the European Central Bank has praised Mario Draghi's revamp of the institution but warned that monetary policymakers need to do a better job of taking their message to the public to maintain trust in the single currency.

Setting out his stall as he competes for the eurozone's top banking post, François Villeroy de Galhau, governor of the Banque de France, also said Europeans must overcome the continent's political tensions and present a united front in response to Chinese and US trade threats.

In an interview with the Financial Times, Mr Villeroy de Galhau heaped praise on Mr Draghi's efforts to keep the eurozone together, calling his achievements since 2012, when he pledged to do "whatever it takes" to save the single currency, "impressive".

Mr Draghi has broadened the ECB's range of monetary instruments and implemented banking union, Mr Villeroy de Galhau said, meaning "the euro is today better equipped to deal with a crisis".

His views contrast with those of his German counterpart, Bundesbank president Jens Weidmann, who is also in the race for to head the ECB. Mr Weidmann has frequently attacked Mr Draghi's revamp and was the only member of the governing council to vote against the ECB president's "whatever it takes" pledge.

Mr Villeroy de Galhau, who sits on the ECB's governing council, signalled that if he got the top job he would be unlikely to radically change policy, saying the eurozone was "making progress" in meeting the ECB's inflation target of just under 2 per cent. "Three years ago, the key threat was deflation . . . There should be no doubt that we [the ECB] are, as a team, together committed towards our target."

But, he acknowledged, there was still more to do — especially in communicating with the public.

"We should better explain and discuss with citizens the contribution of monetary policy to their expectations: employment, purchasing power, the limitation of inequalities, or preventing climate change," he said.

"We could do still a better job of listening and explaining, while fiercely maintaining the independence of the ECB: independence is the best way to protect citizens' trust because this is the best safeguard of price stability."

Mr Villeroy de Galhau also said trade policy was the "deciding catalyst" for the strength of any European economic rebound. The global trade war initiated by US president Donald Trump has hit Europe's export-dependent economy hard, with growth falling to a four-year low in late 2018 before rebounding somewhat to 0.4 per cent in the first quarter of this year.

"Unfortunately, recent noises are re-creating geopolitical uncertainty," Mr Villeroy de Galhau said. "It is vital for Europe to respond to external pressure with strong internal unity. Take the new American administration, or China's rise . . . Unity should be our biggest strength."

The Banque de France governor was involved in drawing up the Maastricht treaty, which paved the way for the creation of the euro, and his next job could be as president of the European Central Bank — the eurozone's most important economic official.

A Bloomberg poll of economists this month named him as the favourite to succeed Mario Draghi. But Mr Villeroy de Galhau played down his chances this week in an interview with the FT.

“Such polls don’t make decisions,” he said. “Fortunately we live in democracies, so it will be up to the European Council, with the next European Parliament, to decide in due time.”

Mr Villeroy de Galhau used the interview to issue a warning that Europe’s response to global economic tensions risks being marred by divisions “between north and south and, beyond the eurozone, between east and west”. He stressed that the region’s “three economic treasures — a single currency, a single market and, most importantly, the social market economy” rely on “a successful balance between economic competition and social cohesion”.

Speaking in the Banque de France’s new innovation hub, opened last year, he noted that Europe has “a structural level of unemployment of around 8 to 9 per cent still in many countries, especially for southern European countries, as well as France”.

To counter that, countries should use taxation and pursue growth-friendly policies, he said.

Mr Villeroy de Galhau also has some fresh policy ideas: he has championed a tweak to the ECB’s interest rate regime to alleviate pressure on the region’s banks, which are struggling to make a profit.

In 2014 the ECB took a key interest rate into negative territory and it still charges lenders 0.4 per cent on reserves held at national central banks. Mr Villeroy de Galhau has sought to change this, pushing to copy the Swiss and Japanese by moving to a tiered system under which the ECB would effectively hand some of the levy back to banks.

The idea gained traction when Mr Draghi mentioned it earlier this year but other governing council members are lukewarm. Mr Villeroy de Galhau urged them to wait for more information before making their minds up: “We said in April we would reassess the effects . . . and examine possible mitigation measures if needed. So, let us now work, and then decide.”

Negotiations about the future ECB presidency will start after the European elections this month. The final say on the job, which becomes available in November, will

depend on who secures the presidencies of the EU Commission and Council. Mr Villeroy de Galhau's chances will improve if a German candidate scoops either of the other roles.

In an attempt to alleviate concerns among northern European states that a French ECB president would provide too much support to highly indebted southern countries, he acknowledged the "worry in Germany, which as a central banker I fully understand and share" that monetary policy "should not be overburdened, including in the possible case of the next recession".

He urged politicians to lay the groundwork for pan-European markets in banking and capital.

And Mr Villeroy de Galhau stood by his role in creating the single currency. Some eastern European countries claim that the euro has benefited Germany while France is losing out.

"Seventy five per cent of citizens want to keep the euro as their currency, the highest level ever," he said. "It's our collective responsibility as the governing council to uphold that trust."

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