BANQUE DE FRANCE

EUROSYSTÈME

Le Monde : "This crisis could incite Europe to take back control of its economic destiny"

Interview of the Governor of the Banque de France to « Le Monde » on 9 April 2025.

Do Donald Trump's tariff announcements signal the end of globalisation?

Whatever happens, we are seeing a historic shift in policy. The international order and alliances are being upended; mutually beneficial trade ties and global growth are under attack, and this is increasing economic uncertainty everywhere. The protectionist measures also signify America's abandonment of its leadership and, no doubt, a return to economic isolationism. It is an unprecedented destruction of value on the part of a democratically elected leader. The global economy will suffer, everyone will lose out, but the biggest loser will be the United States.

Why?

All analyses appear to converge: the tariffs will increase the cost of goods imports in the United States, causing inflation to rise again, and will reduce US growth by about one percentage point of GDP, according to an average of economists' forecast. The New York Stock Exchange has already dropped sharply. It is unclear whether this will trigger a recession in the United States, but the mere fact that the possibility is being mentioned would have been unimaginable three months ago. It is rare to see a US government score such a huge own goal.

Is Europe also at risk of a recession?

We estimate, with a great deal of uncertainty, that in 2025, the direct impact of this trade war could be a loss of around 0.25 percentage point in euro area growth, with a smaller effect on France. The shock is not negligible, but it shouldn't be a recession. Given the current volatility, however, we need to be careful not to revise our forecasts too quickly: we will publish our new economic projections in June.

Are we witnessing the start of a major financial crisis?

We are closely monitoring the markets. Even after yesterday's relative calm spell, the slump has been particularly strong in equity markets, reflecting the worsening of the growth outlook. Conversely, bonds are benefiting from the flight to security. Central banks cannot treat the economic causes of these sharp corrections, but they do stand ready, collectively, to ensure the financial system functions smoothly.

Does the stock market slump pose a threat to French banks?

No. The immediate fall in stock prices in no way reduces banks' capital or liquidity. French banks are strong: remember their resilience in March 2023 during the US and Swiss banking crises, and their excellent results in European stress tests.

Could this crisis revive inflation?

There will likely be an inflationary shock in the United States, because they levying a tax on their imports. But for Europe, inflation should remain at around 2%. There are several reasons for this. First, the disinflationary trend is stronger in Europe than it is in the United States. In March, inflation fell to 2.2% and, excluding energy and food, it declined significantly to 2.4%. Second, the slowdown in growth also means less demand, and so less pressure on prices. The marked drop in commodity prices is an illustration of this. Finally, we need to add in the euro's appreciation, which is probably the biggest surprise in the markets' reaction. This should help to keep inflation in check.

Do the tariff hikes herald the end of dollar's hegemony?

The dollar plays a central role and, like its predecessors, this US administration seems very attached to its currency's supremacy. Yet the measures actually run counter to this. It's one of the contradictions in the Trump administration's economic platform, and it may provide an opportunity to develop the euro's international role.

Globalisation has been accused of contributing to environmental destruction or to Europe's de-industrialisation. Could stopping this trend actually be positive?

Global trade has, above all, been an unprecedented source of enrichment, including for countries in the [Global] South. Admittedly, there need be to more rules – on the environment, on health, or on labour rights. However, the response we're seeing now is the absolute worst. Not only will this protectionism create less wealth, and even destroy some of it, it is also being accompanied by a disappearance of rules, by deregulation in the field of climate or social responsibility. The only positive thing about this crisis is that it could prompt Europe and France to take back control of their economic destiny. The annual letter we are sending to the President of the Republic and the presidents of both houses of parliament today is a resolute call to shake off our paralysis and act, with a general mobilisation.

In what way?

Our main advantage is our monetary sovereignty, the euro, which has been patiently built up over 30 years. Remember, before the euro, movements in the dollar or in US monetary policy used to cause huge shifts in exchange rates between European currencies. Today, the European Central Bank (ECB) is completely autonomous: we have been able to lower our interest rates significantly, from 4% to 2.5%, while the US Federal Reserve is at 4.25% and the Bank of England at 4.5%. There is still room to lower rates, and we need to decide on this with agile pragmatism: pragmatism, by basing ourselves on economic data, and agile, because we must act as quickly, as and when justified. The changes since 2 April tend to support the case for another rate cut. We also need to develop a digital euro, to preserve our technological independence in payments.

If growth slows, can France allow itself to have a bigger-than-expected public deficit?

The second area of mobilisation consists in taking back our fiscal sovereignty. This means better managing our public spending, reducing our deficit to 5.4% of GDP in 2025, based on current economic forecasts, and, above all, towards 3% in 2029. This is the level that will finally allow us to stabilise our debt. After we have achieved 2025's targeted fiscal measures, the bulk of the adjustment must come from public spending. We cannot continue to have the highest level of spending in Europe, and even the world, and allow it to rise faster than inflation. While the state has started making an effort, social and local government spending has continued to increase by more than 2% per year in volume terms. Our collective objective must be to stabilise the total volume of spending: this means sharing the burden fairly, across by all public administrations, including the social and local ones.

With the upcoming crisis, wouldn't it be better to stimulate the economy by increasing public spending?

A fiscal stimulus plan would not generate more growth today. Its positive Keynesian effect would be offset by the concern that the additional debt would cause. This would lead households to over-save. We therefore need to adhere strictly to the planned level of spending, and there can be no question of another "whatever it takes" approach. If weaker growth did lead ultimately to lower fiscal revenues, the deficit could be allowed to rise temporarily slightly above target: this would be through the action of the "automatic stabilisers". But the target today must remain set at 5.4%.

How can spending be stabilised? By cutting certain public services?

No! It's not about making brutal and blind cuts. I firmly believe in the European social model. However, in France, it costs us 9 percentage points of GDP more than it does our neighbours, or an extra EUR 260 billion per year. We have to look pragmatically at each individual policy and see where we can improve efficiency. Countries like Portugal or Italy, or Germany, which is often cited as an example, have all managed to restore their finances.

Should France go back on the 2023 pension reform?

Let's talk about a third area of mobilisation: today, potential growth has fallen to close to 1% per year in France. By 2030, we can get it back up to 1.5%, which would change a lot in terms of employment and people's purchasing power. The first key to prosperity is our work, and it is entirely in our hands: collectively increasing the amount people work could generate an additional 0.2-0.3 percentage point of growth per year. Over the past ten years, France has already created more than 2 million jobs. However, there is still a jobs gap for young people and seniors. For young people, this raises the issue of apprenticeships and professional training. For seniors, the issue is notably pension reforms. Talks are underway with social partners on this, which is good: it’s not just a question of financial solidity, but also one of economic strength. Businesses also need to make an effort to employ seniors.

Who will take up the economic leadership position that the United States is currently losing?

As long as Europeans are united, they have no reason to feel inferior to the American economy. The European single market is just as large, in terms of mass, as the American market. However, it is less attractive because it is too fragmented. It is also less innovative, notably because it is not sufficiently financed with equity: that is the role of the Savings and Investments Union. It is also slower, notably due to the accumulation of regulations. We know the roadmap thanks to the two excellent reports by [former ECB President] Mario Draghi and [former Italian prime minister] Enrico Letta. Now we need to act together. It is urgent that we launch a general mobilisation.