



**Interview of François Villeroy de Galhau
Governor of the Banque de France**

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Given this recent weak economic data in Eurozone, can we expect a normalization of monetary policy in the near term?

First, one word about the present economic situation in Europe. Clearly, there is a slowdown but it is not a recession. The key question is whether this slowdown is temporary, due mainly to geopolitical uncertainties with a possible rebound this year. This remains the most plausible scenario. If the downturn happened to be more durable, then we would adapt. In this context, I still believe that the gradual normalization of monetary policy is desirable. We have been very clear about the sequencing, but we are flexible about the calendar and pragmatic about the intensity of the instruments at our disposal.

The end of negative rates could be the next step of this normalization?

About negative interest rates, I often stress their usefulness but also their limits. Negative interest rates are difficult to accept for households and SME's and so impossible to pass on to them in practice. And thus, if maintained for too long, they could weigh negatively on the profitability of financial intermediation with possible adverse consequences for the smooth transmission of monetary policy. Hence, if we had to use negative rates for a longer period than expected we should study pragmatically how to mitigate their possible adverse effects on the bank transmission of our monetary policy.

Do you think that the recent news about a possible delay of Brexit or a new vote in British Parliament are good news because they decrease uncertainty?

What is to be hoped for regarding Brexit is a deal -- the sooner, the better. A no-deal Brexit would be bad news for everybody but first and foremost for the British economy. If ever a further delay is needed for a deal, political leaders will decide. But beyond a delay, the key solution is a deal.

When the economy slows, the fiscal situation of countries tends worsen. What is your advice for a country like Portugal that still has a debt-GDP ratio around 120 %? Should we relax our fiscal consolidation efforts and let the automatic stabilizers to work?

It's not up to me as a central banker to give advice to national governments. What I can stress is that the recovery in Portugal in the last five years is quite impressive: on growth, on the reduction of unemployment, on the reduction of fiscal deficit. This is the result of courageous adjustments and reforms. It is also an encouraging sign for the rest of Europe: reforms do work.