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There will be no break-up of the euro area

Christian Noyer, Governor of the Banque de France, explains to the newspaper "*Sud Ouest*" that the collapse of the euro area would be disastrous for all of its members.

Christian Noyer in Bordeaux today. PHOTO ARCHIVES AFP

Christian Noyer, Governor of the Banque de France, will today give a speech at the Legal Service Training College (École nationale de la magistrature) in Bordeaux on financial crisis management. Speaking to "*Sud Ouest*", he gives his assessment on the economic situation and the international monetary system.

"*Sud Ouest*": How is our economy faring?

Christian Noyer. The economy is picking up. The third quarter of 2010 was slightly disappointing, but the fourth was better, with estimated growth of 0.6%. This trend is expected to continue in early 2011, even though a number of factors call for caution: the automobile sector could slow down due to the phasing out of the scrappage scheme, and the fiscal retrenchment measures implemented in some European countries may weigh on demand. But, all in all, growth is there.

Will household consumption, which is the main driver of growth in France, be impacted by higher inflation?

The surge in inflation that we are now observing at the start of year can be ascribed to higher energy and commodity prices. Current price levels appear particularly high when compared to the exceptionally low levels seen at end-2009. This difference will no doubt become less marked in the coming months. Given the unemployment rate and the still low capacity utilisation rate, I think that it is unlikely that the rise in commodity prices could result in second round effects in our economy. Nonetheless, higher prices are temporarily weighing on household purchasing power and we must remain vigilant.

Might the speculative attacks on the some countries' sovereign debt and concerns over the euro's future dampen consumption and investment?
No, there are no grounds for concern. Europe has shown over the past few months that it is capable of rallying together and providing effective and innovative solutions for countries that fall prey to speculative forces.

But it is evident that this is not enough to deter investors from attacking the sovereign debts of some countries…
At present, these attacks are centred on the countries of Southern Europe. Markets tend to tar with the same brush all the countries perceived as the most fragile in the euro area, whereas their situations differ considerably. The sovereign debt dynamics of some non-European G7 countries are more worrying that those of many euro area countries.

Aren't speculators betting on a break-up of the euro area?
By definition, this scenario is totally ruled out: no country is willing to consider this option since it would have an astronomic cost for all euro area countries, the strong and the weak alike.

Won't the fiscal austerity measures imposed on euro area countries that have benefited from EU-IMF loans have exorbitant social costs?
They may be hard to bear. But it would be unrealistic to think that growth and purchasing power can be lastingly sustained if public deficits continue to rise.

France has taken over the presidency of the G-20 group of leading nations. And, on this occasion, Nicolas Sarkozy would like to pave the way towards a reform of the international monetary system that would reduce the dollar's role. Do you see this as a possibility?
The aim is not to reduce the role of the dollar. Even though it has already partially lost its sole reserve currency status, the dollar will continue to play a major role in trade. France is approaching this presidency with an open mind, but there is no doubt that the international monetary system is no longer suited to today's world. Designed in the 1940s and reformed in the 1970s, this system bears the hallmark of an era when international trade played a much smaller role, and when emerging countries such as China, India and Brazil were much less significant players in the global economy. This new configuration must be taken into account. Today, we must hold discussions and debates, measure the magnitude of capital flows that could have very destabilising effects on some countries and strive in a united manner to correct the major imbalances that are dampening world growth.