

ECB's Noyer Says Inflation Expectations Well Anchored So Far

By David Tweed and Jana Randow - Bloomberg.com

European Central Bank Governing Council member Christian Noyer comments on global imbalances, euro-area inflation and the region's crisis-response mechanisms.

Noyer, who heads the Bank of France, made the remarks in an interview with Bloomberg Television in Paris today.

On euro-area inflation: "So far, inflation expectations have remained fairly well anchored, but we know that there are risks with having a number of months with an excessive inflation rate due to the cost of commodities and energy. Some question marks start to arise that some pressure for second-round effects develops, some pass-through is being seen. So we need to reaffirm very strongly that we will never let that happen."

On where second-round effects may appear:

"Non-financial corporations and enterprises in core countries are doing rather well. Growth is strong. Export-led demand is quite important. So there can be pressure developing there. On the periphery, it's less the strength of the economy than the persistence of indexation mechanisms. We should get rid of these indexation mechanisms as soon as possible."

On ECB bond purchases:

"The ECB has been up to its responsibility. Our only goal was to ensure the best possible transmission mechanism."

On global imbalances:

"We all agree now that global imbalances are a real risk and that it was part of the explanation of the crisis. So that has to be corrected. We agree that the only way to unwind them over time is in a fashion that doesn't disrupt economic growth is to correct in an orderly way our economic policies."

On the risk of global imbalances hampering growth:

"Yes, there is a real risk. It's clear that there can be sudden corrections in the savings ratios of deficit countries which would damp global demand. So the only way to not only maintain but even improve global output and global wealth is to correct that in a coordinated fashion, trying to increase the savings and balance of various economic agents in deficit countries and decrease the savings ratio in surplus countries."

On the danger of protectionist pressures:

"It's always a risk, of course. We don't see that too much at the moment. But if pressure mounts, if there are sudden shifts in financing flows, there can be a risk that protectionist pressures come up again. We have to be very vigilant about that."

On China:

"All G-20 countries have to play a role. This is why the G-20 is the key of the process. All major economies have to play a role. China is of course one of the major countries, one of the major surpluses. It basically needs to increase its internal demand, so a bigger share of global demand. There is full agreement in principle in the country but that means performing structural reforms that may take time."

On regulation:

"The first priority is to put in motion the implementation of what has been decided last year, essentially Basel III and the capital requirements. We have several years to implement fully but we need to have

as soon as possible the legislation enabling and clarifying that this is done globally."

On Europe's crisis mechanism:

"Flexibility -- I personally would be in favor of maximum capacity of the future fund to intervene not only in financing the member states, which is the basis task it has to do, but also, in case of need, to intervene on secondary markets. We are clearly in the ECB in favor of maximum flexibility and enough strength to embrace markets. We assure everybody that in case of need, even if we hope that there will be no need in the future, the necessary determinant will be there."

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