# ACCURACY *talks* STRAIGHT

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# SUMMARY



# ONE PARTNER, ONE VIEW
## EDITORIAL

René Pigot
Partner, Accuracy

### A NEW GOLDEN AGE OF NUCLEAR POWER!

After being weakened by various events and decisions that shed an unfavourable light on it (Fukushima, Flamanville, Fessenheim), **the nuclear industry is now enjoying something of a resurgence.**

The French president's recent announcement of a programme to build six EPR2 reactors shows his choice to maintain a base of decarbonised electricity production using nuclear energy.

Though it is a subject of much debate, this decision is **born of cold pragmatism:** despite their demonstrated large-scale deployment, renewable energies remain subject to the whims of the weather. Alone they will not be able to substitute dispatchable power generation facilities, when **considering the ambition behind commitments to reduce greenhouse gas emissions by 2050.**

Faced with the electrification of the economy, the decision to maintain nuclear power in the French energy mix alongside renewable energies is not so much an option as a necessity. The guarantor of balance in the French network, RTE, also recognises this: prospective scenarios with no renewal of the nuclear base depend, in terms of supply security, on significant technological and societal advances – a high-stakes gamble to say the least. Beyond these aspects, **nuclear power also constitutes an obvious vector of energy independence for Europeans.** Current affairs cruelly remind us of this, and the situation could almost have led to a change in the German position, if we look at the latest declarations of their government.

In France, initial estimations put construction costs at €52bn, but financing mechanisms are yet to be defined. The only certainty is that **state backing will be essential** to guarantee a competitive final price of electricity, given the scale of the investments and the risks weighing on the project. **Ultimately, the financial engineering for the project will need to be imaginative in order to align the interests of the state, EDF and the consumers.**

# 2 START-UP STORIES
## H2X-ECOSYSTEMS

Romain Proglio
Partner, Accuracy

**Founded in 2018 in Saint Malo,** H2X-Ecosystems provides companies and regional authorities with the opportunity to create complete virtuous ecosystems marrying energy production and decarbonised mobility. These ecosystems enable both the production and the consumption of hydrogen on-site. They are co-built with and for local actors to make the most of their regional resources in order to **create added value, whilst maintaining it at the local level.** In this way, the ecosystems participate in the development of these rural, periurban or urban areas.

A COMPLETE ECOSYSTEM MARRYING DECARBONISED ENERGY PRODUCTION AND MOBILITY

**Renewable and low-carbon hydrogen is produced from water electrolysis** using renewable energy, which has recently become one of the major levers for decarbonisation. H2X-Ecosystems links this production with typical consumers (buses, refuse collectors, etc.) but also and especially with light mobility and delivery services: **self-service cars and last mile delivery**. Indeed, the company has made available a hybrid car operating on both solar power and hydrogen, thanks to which on-grid recharge stations are no longer necessary. **All this comes without noise pollution or greenhouse gases** ($CO_2$, $NO_x$, etc.).

More generally, **H2X-Ecosystems is present throughout the hydrogen value chain, from production to storage to consumption:** electrolyser, high power electro-hydrogen unit, power pack (fuel cells and removable tanks) able to be incorporated in light mobility solutions.

H2X-Ecosystems has signed **a partnership agreement with Enedis Bretagne** for the deployment of its high-power electro-hydrogen unit designed to provide a temporary power source to the grid during construction work or in the event of an incident. This unit makes it possible to **reduce Enedis's $CO_2$ emissions and noise pollution by replacing its fossil fuel units with this technology.**

**In addition, during a period of high pressure on energy prices,** the value offer put forward by H2X-Ecosystems enables a move towards control of energy expenditure and energy autonomy for industrial sites by relying in particular on this electro-hydrogen generator combined with other complementary systems (renewable energies, on-site hydrogen production, etc.).

In his presentation of the France 2030 plan, **French President Emmanuel Macron confirmed the importance of this sector in the future:** *'We are going to invest almost 2 billion euros to develop green hydrogen. This is a battle that we will lead for ecology, for jobs, and for the sovereignty of our country.'*

Relying in particular on nuclear power to perform highly decarbonised electrolysis, **France has a leading role to play. H2X-Ecosystems is participating to the full** by establishing its first production tools in France, **whilst reconciling its development with a virtuous ecological approach** that will generate added value, energy independence and profitability for companies and regions.

# 3 INDUSTRY INSIGHT

## RETAIL BANKING, THE OLD GUARD VERSUS THE NEW

David Chollet
Partner, Accuracy

Nicolas Darbo
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Amaury Pouradier Duteil
Partner, Accuracy

Retail banking is a sector that is set to see **its rate of transformation accelerate** in the next few years. The past 10 years have seen in particular distribution methods evolve towards more digitalisation, without calling into question the physical model, however. In the 10 years to come, in a world where technology will gradually make it possible to serve major needs via platforms, **supply, distribution and technological solutions must all evolve.**

### 1. THE TRANSFORMATIONS AT WORK

It is not worth spending too much time explaining the context in which retail banking has been developing for several years now; suffice it to say that there are **three principal challenges:** ultra-low rates, regulation that has toughened considerably since 2008 and the arrival of new players.

Beyond this context, the sector is experiencing **major technological changes. The first such change regards data.** Open banking designates an underlying trend that is pushing banking IT systems to open up and share client data (identity, transaction history, etc.). A new open banking ecosystem is gradually taking shape, in which multiple actors (banks, payment bodies, technology publishers, etc.) share data and incorporate each other's services in their own interfaces, making it possible to provide new services and to create new tools.

**Another major development** is banking as a service (BaaS). Historically, retail banking was a fixed-cost industry. The opening up of data, the swing to the cloud and the API-sation of banking systems have made closed and vertically integrated production models redundant. Each of the production building blocks of financial services can now be proposed **'as a service'.** This transformation leads to a swing from a fixed-cost economic model to a variable-cost basis. By outsourcing their banking system, digital challengers can launch their businesses with lower costs and shorter time frames.

Finally, the sector cannot entirely avoid the phenomenon of super-apps, which are gradually changing uses by aggregating services for highly diverging needs. This change may slowly make the way clients are served obsolete and probably requires the development of what we might call **'embedded finance'**.

### 2. THE FUTURE OF TRADITIONAL PLAYERS

Traditional banks have generally resisted the prevailing winds mentioned above. Over the past 10 years, their revenues have not collapsed, though their growth has proved to be somewhat moderate.


Traditional players still have a certain number of strengths. First, historical banks have complete product ranges, which of course cover daily banking (account, card, packages, etc.), but also the balance sheet side of things, with credit and savings products. Classifying the IT systems of major banks among their strengths may seem rather unconventional. Nevertheless, **these large systems, though not agile, are often highly robust,** and they have made it possible to shrink the technological gap with neobanks. Finally, traditional players are financially powerful and capable of investing to accelerate a technological plan when necessary.

**Naturally, these players have some weaknesses,** the main one being the customer experience. However, this point does not relate to the gap with neobanks, which has most often been filled; it relates to the gap with purely technological players for example. When considering the trend of convergence of needs, this weakness may represent something of a handicap for the financial sector as a whole. Another weakness relates to these players' low margin for manoeuvre in terms of the reduction of headcount or number of agencies, if the implementation of a massive cost-reduction programme proved necessary.

These players are deploying or will have to deploy different types of strategy. First, there are the financial actions, be they concentrating or restructuring. Concentration aims to dispose of all activities away from the bank's main markets in order to be as large as possible in domestic markets. Restructuring, in Spain in particular but also in France with the business combination between SG and CDN, aims to reduce the break-even point.

Banks should also take other actions. In terms of IT, there will come a time, in the not too distant future, where the lack of agility of historical systems will no longer be compensated by their robustness. Developments will accelerate and the speed of developments will become key.

Finally, **traditional players will have to rethink their distribution models** in the light of digital technology and the convergence of the service of major types of need, which will enable embedded finance. The idea of embedded finance is to incorporate the subscription of financial products directly into the customer's consumption or purchase path. The financial service therefore becomes available contextually and digitally.

## 3. THE FUTURE OF NEOBANKS

Neobanks have developed in successive waves for more than 20 years, and the last wave saw the creation of players developing rapidly and acquiring millions of clients. They are capable of raising colossal funds on the promise of a huge movement of clients towards their model.

**The primary strength of neobanks is their technology.** Having started from scratch in terms of IT, they have been able to rely on BaaS to develop exactly what they need, all with a good level of customer service.

Moreover, these players generally target precise segments; as a result, they have a perfectly adapted offer and customer path, something that is more difficult for generalist banks.

Their weaknesses are often the corollary of their strengths.



Yes, **their limited offer makes it possible to better fulfil certain specific needs**, but in a world where technology is enabling the emergence of multi-service platforms, addressing only some of a customer's financial services needs is not necessarily a good idea. It places neobanks on the periphery of a business line that itself is not best placed in the trend of convergence of needs. But if neobank offers are limited, it is not necessarily by choice.

Developing credit and savings products, areas most often lacking in neobanks, would need them to change size in terms of controls and capital consumption in particular. Finally, the consequence of this limited offer is their **inability to capture the most profitable retail banking customers en masse:** the customer with multiple accounts. This explains their low revenues, which plateau at €20 per client.

TRADITIONAL PLAYERS WILL HAVE TO RETHINK THEIR DISTRIBUTION MODELS

This does not necessarily condemn the future of the neobank. For a start, **it is necessary to distinguish between countries based on the availability of banking services.** In countries with a low level of banking accessibility, neobanks have an open road before them, like Nubank in Brazil (40 million customers). **In countries with a high level of banking accessibility, it is a different story.** The low level of revenues and the trend of convergence of major needs will force neobanks to make choices: they can urgently extend their offer to balance sheet products, like Revolut appears to be doing; they can decide to skip the balance sheet step and **widen their offer directly to other areas,** like Tinkoff is doing in Russia; or they can let themselves be acquired by a traditional player that has an interest in them from a technological perspective – but they should not wait too long to do so.

**The retail-banking sector is more than ever under the influence of major transformations.** These may be internally generated, like those that touch on data and BaaS, or externally generated, like the development of platforms serving major needs, initially driven by consumer desire for simplification. In this context, traditional players must address two major topics: embedded finance, on the one hand, and potentially the swing towards decidedly more agile systems to stay competitive, on the other. As for neobanks, **their offer must be extended to cover balance sheet products urgently, at the risk of losing some agility,** or to cover other needs.

But the finance sector as a whole should probably seek to **simplify the consumption of its services considerably**, faced as it is with non-financial players that have already undertaken this transformation.

# 4 THE CULTURAL CORNER

# DOES THE VALUE OF WORK STILL MEAN SOMETHING?

Sophie Chassat
Philosopher,
partner at Wemean

'*When "the practice of one's profession" cannot be directly linked with the supreme spiritual values of civilisation – and when, conversely, it cannot be experienced subjectively as a simple economic constraint – the individual generally abandons giving it any meaning* ', **wrote Max Weber in 1905 at the end of The Protestant Ethic and the Spirit of Capitalism.**[1] But is this not what we can observe a century later? A world where the value of work seems no longer evident, **as if it were 'endangered'**[2]**...**

Big Quit in the USA, the hashtags **#quitmyjob, #nodreamjob** or **#no_labor,** communities with millions of followers like the group Antiwork on the social network Reddit: the signals of a form of revolt, or even disgust with work, are multiplying. This is not just a change to work (as might be suggested by remote working or the end of salaried employment as the only employment model), but a much more profound questioning movement – like a refusal to work. This is a far cry from Chaplin's claim that the model of work is the model of life itself: '*To work is to live – and I love living!*'[3]

In Max Weber's view, **work established itself as a structuring value of society** when the Reformation was definitively established in Europe and triumphantly exported to the United States. But the sociologist insisted on one thing: **the success of this passion for work can only be explained by the spiritual interest that was linked to it**. It is because a life dedicated to labour was the most certain sign of being one of God's chosen that men gave themselves to it with such zeal. **When the ethical value of work was no longer religious, it became social,** serving as the index of integration in the community and the recognition of individual accomplishment.

**And today?** What is the spiritual value of work tied to when the paradigm of (over)production and limitless growth is wobbling, and when 'helicopter money' has been raining down for long months? Younger generations, who are challenging the evidence of this work value most vehemently, must lead us to elucidate the meaning of work for the 21st century; studies showing that young people are no longer willing to work at any price are multiplying.

The philosopher Simone Weil, who had worked in a factory, believed in a '**civilisation of work'**, in which work would become *'the highest value, through its relationship with man who does it [and not] through its relationship with what is produced.'*[4] Make of man the measure of work: that is perhaps where we must start so that tomorrow **we can link an ethical aspect to work again – the only one to justify its value**. *'The contemporary form of true greatness lies in a civilization founded on the spirituality of work,'*[5] wrote Weil.

1 Max Weber, L'Éthique protestante et l'esprit du capitalisme [The Protestant Ethic and the Spirit of Capitalism], Flammarion "Champs Classiques", 2017. Quote translated from the French: « Dès lors que « l'exercice du métier » ne peut pas être directement mis en relation avec les valeurs spirituelles suprêmes de la civilisation – et que, à l'inverse, il ne peut pas être éprouvé subjectivement comme une simple contrainte économique –, l'individu renonce généralement à lui donner un sens. »

2 Dominique Méda, Le Travail ; Une Valeur en voie de disparition ? [Work; an endangered value?], Flammarion "Champs-Essais", 2010.

3 David Robinson Chaplin: His Life and Art, 2013, Penguin Biography.

4 Translated from the French : « la valeur la plus haute, par son rapport avec l'homme qui l'exécute [et non] par son rapport avec ce qu'il produit. »

5 Simone Weil, L'Enracinement [The need for Roots], Gallimard, 1949.

# 5 THE ACADEMIC INSIGHT

## THE LONG-TERM DISCOUNT RATE

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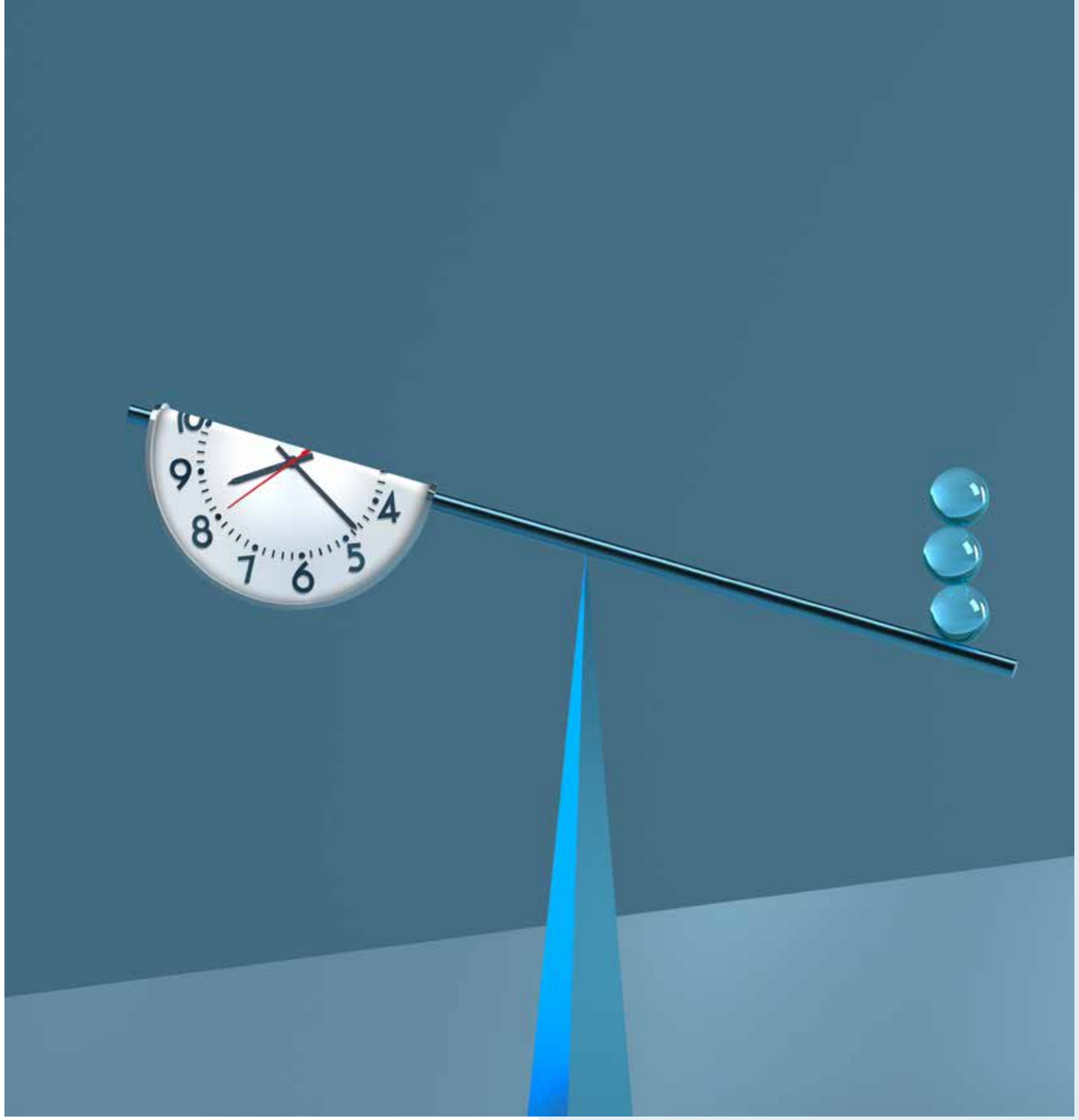
Affiliate professor at ESCP Business School

If since Irving Fisher we know that the value of an asset equals the discounted value of the cash flows that it can generate, we also know that **the discounting process significantly erodes the value of long-term cash flows and reduces the attractiveness of long-term projects.**

THIS RESULT IS THE CONSEQUENCE OF A DUAL PHENOMENON:

- **the passage of time,** which automatically whittles down the present value of all remote cash flows;

- **the shape of the yield-to-maturity curve**, which generally leads to the use of higher discount rates the further in the future the cash flows are due; indeed, we usually observe that the yield curve increases with **the maturity of the cash flow considered.**



THE DISCOUNTING PROCESS SIGNIFICANTLY ERODES THE VALUE OF LONG-TERM CASH FLOWS

For this reason, the majority of companies generally invest in **short-term and medium-term projects** and leave long-term projects to state bodies or bodies close to public authorities.

We will try to explain here the potentially inevitable nature of this observation and under what conditions long-term rates can be less penalising than short-term ones. **This will require us to explain the concept of the 'equilibrium interest rate' as a first step.**



## THE EQUILIBRIUM INTEREST RATE

We are only discussing the risk-free rate here, before taking into account any risk premium. In a context of maximising the inter-temporal well-being of economic agents, **the equilibrium interest rate is the rate that enables an agent to choose between an investment** (i.e. a diminution of his or her immediate well-being resulting from the reduction of his or her consumption at moment 0 in favour of savings authorising the investment) and **a future consumption, the fruit of the investment made.**

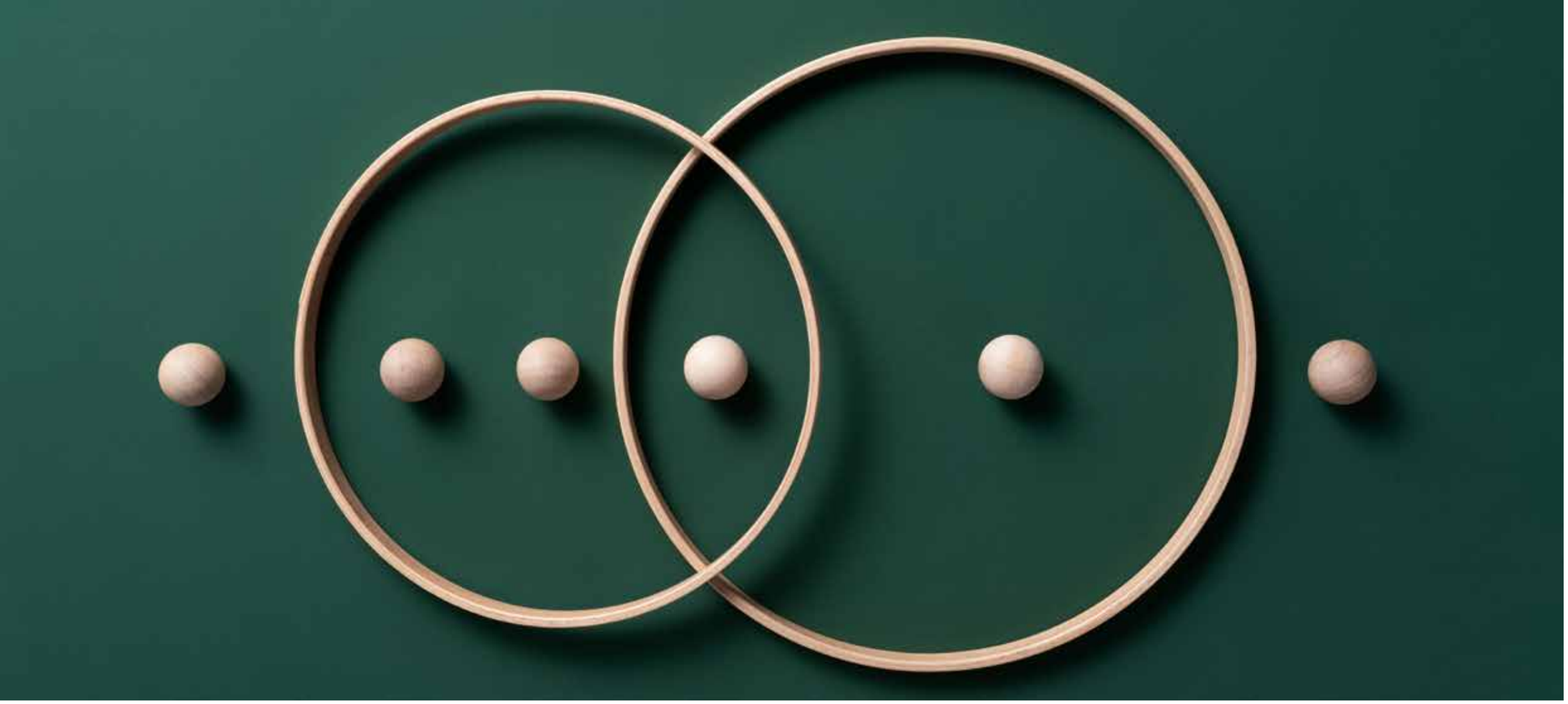
WE CAN EASILY SHOW THAT TWO COMPONENTS DETERMINE THE EQUILIBRIUM INTEREST RATE:

- economic agents' **rate of preference** for the present;

- **a potential wealth effect that is positive** when consumption growth is expected.

The rate of preference for the present (or the impatience rate) is an **individual parameter** whose value can vary considerably from one individual to another. However, from a macroeconomic point of view, this rate is situated in an intergenerational perspective, which leads us to believe that the value of this parameter should be close to zero. **Indeed, no argument can justify prioritising one generation over another.**

The wealth effect results from economic growth, enabling economic agents to increase their consumption over time. The prospect of increased consumption encourages economic agents to **favour the present and to use a discounting factor that is ever higher the further into the future they look.**



In parallel to this potential wealth effect, we also understand that the equilibrium interest rate **depends on the characteristics and choices of the agents.** They may have a strong preference for spreading their consumption over time, or on the contrary, they may not be averse to possible inequality in the inter-temporal distribution of their consumption.

Technically, once the utility function of the consumers is known (or assumed), it is the degree of curvature of this function that will provide us with the consumers' R coefficient of aversion to the risk of inter-temporal imbalance in their consumption.

**If this coefficient equals 1,** this means that the consumer will be ready to reduce his or her consumption by one unit at time 0 in view of benefitting from one additional unit of consumption at time 1. **A coefficient of 2** would mean that the consumer is ready to reduce his or her consumption by two units at time 0. **It is reasonable to think that R lies somewhere between 1 and 2.**

From this perspective, **in 1928 Ramsey proposed a simple and illuminating formula for the equilibrium interest rate.** Using a power function to measure the consumer's perceived utility, he showed that the wealth effect in the formation of the equilibrium interest rate was equal to the product of the nominal period growth rate of the economy and the consumer coefficient of aversion R. **This leads to the following relationship:**

THE EQUILIBRIUM INTEREST RATE DEPENDS ON THE CHARACTERISTICS AND CHOICES OF THE AGENTS.

$$r = \delta + gR$$

where r is the equilibrium interest rate, $\delta$ the impatience rate, g the nominal period growth rate of the economy and R the consumer's coefficient of aversion to the risk of inter-temporal imbalance in his or her consumption.

Assuming a very low value for $\delta$ and a value close to the unit for R, **we see that the nominal growth rate of the economy** constitutes a reference value for the equilibrium interest rate. This equilibrium interest rate, as explained, is **the risk-free rate that must be used to value risk-free assets**; if we consider risky assets, we must of course add a risk premium.

**In the current context, Ramsey's relationship makes it possible to appreciate the extent of the effects of unconventional policies put in place by central banks,** which have given rise to a risk-free rate close to 0% in the financial markets.

## THE LONG-TERM DISCOUNT RATE

Now that we have established the notion of the equilibrium interest rate, we can move on to the question of the structure of discount rates based on their term.

We have just seen that the discount rate is determined by the impatience rate of consumers, their coefficient of aversion R and expectations for the growth rate of the economy. If we consider the impatience rate to be negligible and by assuming that the coefficient of aversion remains unchanged over time, **this gives a very important role to the economic outlook:** the discount rate based on maturity will mainly reflect the expectations of economic agents in terms of the future growth rate.

Therefore, if we expect economic growth at a constant rate g, the yield-to-maturity curve will be flat. If we expect growth acceleration (growth of the growth rate), the rate structure will grow with the maturity. However, if we expect growth to slow down, the structure of the rates will decrease.

We thus perceive **the informative function of the yield-to-maturity curve,** which makes it possible to inform the observer of the expectations of financial market operators with regard to expectations of the growth rate of the economy.

WE ALSO SEE THAT THE PENALISATION OF THE LONG-TERM CASH FLOWS BY THE DISCOUNTING PROCESS IS NOT INEVITABLE.

When the economic outlook is trending downwards, the rate structure should be decreasing. But **we must not necessarily deduce that this form of the yield curve is synonymous with disaster.** It can very easily correspond to a return to normal after a period of over-excitation. For example, coming back to the present, if the growth rate of the economy is particularly high because of catch-up effects, marking a significant gap compared with the sustainable growth rate in the long term, the rate structure should be decreasing and the short-term discount rate higher than the discount rate applicable for a longer time frame.

It is only the action of the central banks, which is particularly noticeable on short maturities, **that is preventing such a statistical observation today.**

# 6 ECONOMIC POINT OF VIEW

## WHEN IMPROVEMENT DOES NOT NECESSARILY RHYME WITH SIMPLIFICATION

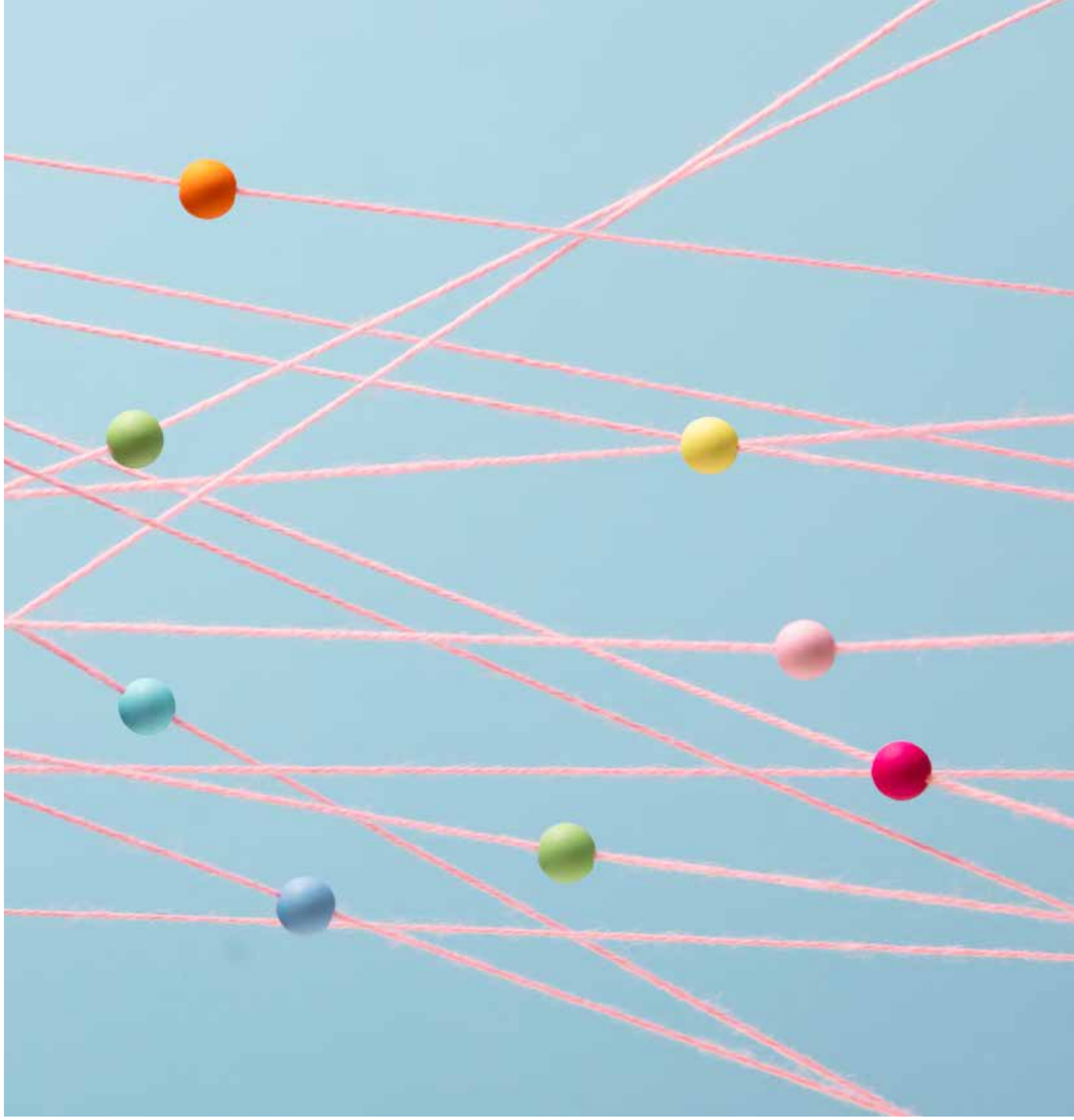
Hervé Goulletquer
Senior Economic Advisor,
Accuracy

Today, though this statement may apply more to developed countries than to developing countries, the economic **landscape appears on the surface more promising.** COVID-19 is on the verge of transforming from epidemic into endemic. Economic recovery is considered likely to last, and the delay to growth accumulated during the COVID-19 crisis has mostly been caught up. Last but not least, prices are accelerating.

**This last phenomenon is quite spectacular,** with a year-on-year change in consumer prices passing in the space of two years (from early 2020 to early 2022) from 1.9% to 7.5% in the United States and from 1.4% to 5.1% in the eurozone. What's more, this acceleration is proving stronger and lasting longer than the idea we had of the consequences on the price profile of opening up an economy previously hindered by public health measures.

Faced with these dynamics on the dual front of health and the real economy, opinions on the initiatives to be taken by central banks have changed. **The capital markets are calling for the rapid normalisation of monetary policies:** stopping the increase in the size of balance sheets and then reducing them, as well as returning the reference rates to levels deemed more normal. This, of course, comes with the creation of both **upward pressure and distortions in the rate curves**, as well as a loss of direction in the equity markets.





At this stage, let's have a quick look back to see how far we may have to go. **During the epidemic crisis, the main Western central banks** (the Fed in the US, the ECB in the eurozone, the Bank of Japan and the Bank of England) **accepted a remarkable increase in the size of their balance sheets.** For these four banks alone, the balance sheet/GDP ratio went from 36% at the beginning of 2020 to 60% at the end of 2021. This is the counterpart to the bonds bought and the liquidity injected in their respective banking systems. At the same time, the reference rates were positioned or maintained as low as possible (based on the economic and financial characteristics of each country or zone): at +0.25% in the US, at -0.50% in the eurozone, at -0.10% in Japan and at +0.10% in the UK. This pair of initiatives served to **ensure the most favourable monetary and financial conditions.** They 'supplemented' the actions taken by the public authorities: often state-backed loans granted to businesses and furlough measures in parallel to significant support to the economy (around 4.5 points of GDP on average for the OECD zone; note, the two types of measure may partly overlap).

**Now, let's try to set out the monetary policy debate**. The net rebound of economic growth in 2021, the widely shared feeling that economic activity will continue following an upward trend, and price developments that are struggling to get back into line all contribute to a situation that justifies the beginning of monetary policy normalisation. It goes without saying that the timing and the rhythm of this normalisation depend on conditions specific to each geography.

HOWEVER, WE MUST BE AWARE OF THE SINGULAR NATURE OF THE CURRENT SITUATION.

The current inflationary dynamics are not primarily the reflection of excessively strong demand stumbling over a supply side already at full capacity.

More so, they reflect – and quite considerably – production and distribution apparatuses that cannot operate at an optimal rhythm because of the disorganisation caused by the epidemic and sometimes by the effects brought about by public policies. The return to normal – and if possible quickly – is a necessity, unless we are willing to accept lasting losses of supply capacity. With this in mind, we must be careful not to speed down the road to monetary neutrality; otherwise, we risk a loss of momentum in economic growth and a sharp decline in financial markets, both of which would lead us away from the desired goal.

THE TIMING AND THE RHYTHM OF THIS NORMALISATION DEPEND ON CONDITIONS SPECIFIC TO EACH GEOGRAPHY.

Another point must be mentioned, even if it is more classic in nature: the acceleration of consumer prices is not without incident on households. It gnaws away at their purchasing power and acts negatively on their confidence, both things that serve to slow down private consumption and therefore economic activity.

THIS IS ANOTHER ELEMENT SUPPORTING THE GRADUAL NORMALISATION OF MONETARY POLICY.

How do the two 'major' central banks (the Fed in the US and the ECB in the eurozone) go about charting their course on this path, marked out on the one hand by the impatience of the capital markets and on the other by the need to take account of the singularity of the moment and the dexterity that this singularity requires when conducting monetary policy?

**All we can do is observe a certain 'crab walk' by the Fed and the ECB.** Let's explain and start with the US central bank.

The key phrase of the communiqué at the end of the recent monetary policy committee of 26 January is without doubt the following: 'With inflation well above 2 percent and a strong labor market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate.' Not surprisingly, the reference rate was raised by 25 percentage points on 16 March, and as **there is no forward guidance**, the rhythm of the monetary normalisation will be data dependent (based on the image of the economy drawn by the most recently published economic indicators). At first, the focus will be on the price profile; then, the importance of the activity profile will grow.

The market, with its perception of growth and inflation, will be quick to anticipate a rapid pace of policy rate increases. The Fed, having approved the start of the movement, is trying to control its tempo. Not the easiest of tasks!

**Let's move on to the ECB.** The market retained two things from the meeting of the Council of Governors on 3 February: risks regarding future inflation developments are on the rise and the possibility of a policy rate increase as early as this year cannot be ruled out.

Of course, the analysis put forward at the time was more balanced, and since then, Christine Lagarde and certain other members of the Council, such as François Villeroy de Galhau, **have been working to moderate market expectations that are doubtlessly considered excessive.**

We can see it clearly. It will all be a question of timing and good pacing in this incipient period of normalisation. **In medio stat virtus[1], as Aristotle reminds us. But how establishing it can be difficult!**

1 Virtue lies in a just middle.



**IMPACT OF THE RUSSIAN INVASION OF UKRAINE:**
NECESSARY DOWNWARD REVISION OF ECONOMIC ASSESSMENT

**- The world outside Russia, especially Europe, will not get through the crisis unscathed.** The continued acceleration of prices and the fall in confidence are the principal reasons for this. Indeed, the price of crude oil has increased by over 30% (+35 dollars per barrel) since the beginning of military operations, and the price of 'European' gas has almost doubled. In the same way, it is impossible to extrapolate the rebound in the PMI indices of many countries in February; they are practically ancient history. **Growth will slow down and inflation will become more intense, with the United States suffering less than the eurozone.**

**- Vigilance (caution) may need to be even greater.** This new shock (the scale of which remains unknown) is rattling an economic system that is still in recovery: the epidemic is being followed by a difficult rebalancing of supply and demand, creating an unusual upward trend in prices compared with the past few decades. **Is the economic system's resistance weaker as a result?**

- In these conditions, **monetary normalisation will be more gradual than anticipated.** Central banks should monitor the increase in energy (and also food) prices and focus more on price dynamics excluding these two components – what we call the 'core'. **The most likely assumption is that this core will experience a slower tempo**, above all because of less well-orientated demand.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