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France central bank chief says Robin Hood tax is 'enormous risk'

By Hugh Carnegy and Michael Stothard in Paris

Europe's planned financial transaction tax poses "an enormous risk" to the countries involved and could threaten financial stability, the governor of France's central bank has said.

In the latest attack on the plan by the European Commission for a "Robin Hood" tax across 11 eurozone countries, aimed at raising €35bn, Christian Noyer said: "The commission's draft is a non-starter and needs to be entirely revised."

Successive French governments have been among those pushing hardest for a Europe-wide FTT but the current socialist administration of President François Hollande has also sought in recent months to water down Brussels' proposals, under pressure from the financial sector.

"I do not believe it was ever the intention of the French government to do something that would trigger the destruction of entire sections of the French financial industry, trigger a massive offshoring of jobs and so damage the economy as a whole," Mr Noyer told the Financial Times in an interview.

He said the commission's proposals posed "an enormous risk in terms of the reduction of output in the FTT jurisdiction; increased cost of capital for governments and corporates; a significant relocation of trading activities and decreased liquidity in the markets".

Mr Noyer, a member of the governing council of the European Central Bank, added: "The most important concern for the central banks [is] the risk of the total drying up of repo markets. That means the transmission of our monetary policy would be seriously impaired and the risk in terms of financial stability would not be negligible."

The eurozone FTT – also known as the Tobin tax after US economist James Tobin, who first proposed the idea – was originally due to take effect next year but has been delayed by wrangling over its form and scope.

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Mr Noyer said the focus for the FTT should be on a levy similar to that already in place in France, with "one or two other segments" that could be included "without detrimental effects".

France levies a duty of 0.2 per cent on purchases of equities of big public companies – a rate below that of a similar "stamp duty" in place in the UK.

The government has indicated it wants to limit the scope of the eurozone FTT to covering equities, some bonds and a narrow range of derivatives. But it faces strong pressure from within socialist ranks not to give in to pressure from the banks.

Last month the commission's proposals hit a new obstacle when the top legal adviser to EU finance ministers concluded that they exceeded national jurisdiction, infringed EU treaties and discriminated against non-participating states by seeking to cover trades executed in centres such as London, New York or Singapore.

A key concern of Mr Noyer and other French banking leaders is that the planned broad scope of the tax would lead to an exodus of financial sector business from Paris, hitting its efforts to compete against London and other centres and ultimately weakening the local lending market. Paris Europlace, a lobbying group for the French financial sector, has said 30,000 jobs could be at risk.

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