



## THE BANKER'S COMMENT - JEAN-PIERRE PATAT A former central banker looks at the news

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Figure of the month: 0%, German budget balance as % of GDP projected for 2014. Much less is required for France.

### ECB: What bad luck, having a central bank that will not understand.

That is more or less the litany pouring from the media and from economists. Following the verbal attacks on the strong euro, which the Germans received with biting irony and the other Europeans with polite silence, it is now the turn of the European Central Bank to become the target. A minister reproaches it for being "remarkably inactive, doing nothing about the unemployed, about growth, or about the European population". No less! In a substantial dossier on the subject of the euro's problems, furnished by a daily newspaper, one journalist offers the solution - an elementary one of course! The austerity policies should have been accompanied by massive purchases of debt bonds from fragile States. This would have brought down interest rates as well as the strength of the euro. His readers are given to understand that one would have to be very stupid or staggeringly incompetent not to realise this.

Of course, these recommendations are accompanied by allusions to political collusion between the other central banks; ambiguity on those banks' activities is kept up, deliberately or not, so as to better point the finger at the apathy of the leaders of the Frankfurt institution. "The ECB", writes another journalist "refuses to play the part of last-resort lender, something done by the Fed, the Bank of England and the Bank of Japan". However, it is obvious that no central bank would play this role of last-resort lender should it mean buying sovereign bonds on the primary market.

But, they will say, with a base rate of 0.75%, the ECB still has a margin for lowering its rates. With demand for credit completely flat, though, and an offer that is not all that active, it is far better to keep the reserve available so as to be able to act when it becomes really operative.

Market analysts, apparently fully schizophrenic, regret that the ECB did not lower its Refi rate at the last board meeting, admitting though that at this moment in time this would have no effect on growth; but, they think, it might have an effect on the profits generated by market operations.

### Name of the month: Artur Baptista da Silva.

He presented himself as an expert in the United Nations, as a former advisor at the World Bank, as a professor of economy in an American university and, for several months, he held the Portuguese media and public enthralled with his conferences and televised appearances in which he attacked the policy of austerity conducted in that country and more generally in Europe. He was not what he pretended to be; what is more he was a small confidence trickster who has now disappeared. The tricked media believe that his success reflects the distress of a suffering population. It's only a small step from that to the conclusion that he was correct!!! Populism, the "any old thing", also exists in economics.

### The Bundesbank, the grumpy old man of the euro zone?

In giving France lessons on economic policy and budgetary rigour, the president of the Bundesbank (who in his youth was an intern at the Banque de France!) contributes to reinforcing the criticisms aimed at his country by the so-called "countries of the south" (ours above all). Criticisms that are however inconsistent. No-one seems to realise that in accepting the single currency Germany was obliged to abandon the very symbol of her power, the deutschmark (as if France had had to abandon nuclear weapons, or agree to see her "cultural singularity" diluted in a European action). Should we be surprised then that having loaned out her credit card Germany worries about the behaviour of those who have not used it wisely? Germany non-cooperative? What about those countries which, through their poor economic policy, set fire to the euro zone, implicating everyone?

### Of BRICS and braci!

The fertile imagination of a market man who created the acronym BRICS suffices not for the creation of a homogeneous ensemble. Little is comparable between a Russia living off oil revenues, the still strongly agricultural India and Brazil, and an industrial exporting power such as China. Nor does the acronym suffice to make these countries locomotives with crushing and constant power. Slowdown is generalised in all these countries; China is confronted by demographic ageing, with future consequences that are potential heavy. Almost all are confronted by massive corruption problems, some by dramatic insecurity and a major sanitary risk (with a quarter of young girls HIV-positive in South Africa). What should we make of all that? That forecasts using one rule to draw trends are worthless. Of course these countries will continue growing at a faster pace that will those of Europe and the USA. Of course China's GDP has overtaken Japan's and will one day surpass that of the USA, while that of Brazil will overtake France's. We could be tempted to say "so what?". Isn't that quite natural given the tremendous lag in terms of per capita wealth (the Chinese have barely one tenth of that of the French)? After all, that's what counts. Perhaps the BRICS and others will some day reach the living standard of individuals in advanced countries, but when?

### A euro zone soon to number 18.

The probable entry of Latvia into the euro zone will, in our opinion, suggest a few questions: 1) the "little countries" whose representatives on the ECB's Board of Governors have more difficulty than other members in freeing themselves of national considerations (perhaps understandably) will now possess one quarter of the votes on that board. The principle of one man/ one woman/ one vote gives them a disproportionate weight, and the introduction of a system of vote by rotation will only partially address this problem. 2) Latvia fulfills all the admission criteria (prices, interest rates, deficit, public debt, exchange rates), but what about competitiveness for a country with an external deficit of nearly 3 points of GDP? We accept that Latvia's GDP is only 0.2% of the zone's, but the example of Cyprus demonstrates that the nuisance value is not proportional to GDP. What about the banking system? It was already evaluated at the country's entry into the EU, but the examples of Cyprus, Ireland and even Spain show that the investigations were not particularly strict. 3) Finally, with personal wealth barely equal to half that of the euro zone average, how will Latvia live with a strong currency in the absence of the transfers which, in a national State, solve that kind of problem?