



## THE BANKER'S COMMENT - JEAN-PIERRE PATAT

### A former central banker looks at the news

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Figure of the month: 200 billion dollars, estimated market value of the Chinese internet group Alibaba: greater than Amazon or eBay.

#### No, the ECB did not usurp from politicians during the crisis.

That, though, is the doubtful claim put forward by a major daily in a full page given over to the role of the Frankfurt institution during the crisis years. It was of course full of anonymous quotes from "real connoisseurs". Well no! Both sides did their jobs and on the whole they did them well.

The ECB laid stress on an aspect of its statutes giving it responsibility to look after financial stability and it showed an imagination and daring that many of its detractors would have thought it incapable of, but without deviating from its central bank role: freeing up an interbank market paralysed by the mutual suspicion that had seized all banks; the repurchasing of weak State debt bonds; and massive long term (3 years) refinancing of banks (LTRO). These measures were all described as "non-conventional". Moreover, let us not overlook Draghi's declaration regarding his determination not to let the euro sink, efficient certainly, but well within the limits of a central bank's role.

On their side, State and euro zone policy makers also reacted well, avoiding mistakes made in the 1930s. At the national level, various measures were taken to avoid the failure of some banks and to protect depositors and savers. At the euro zone level where decisions must be made by 17 members (some tend to forget this), the European Financial Stability Mechanism, the Banking Union, plus the decision to entrust banking supervision to the ECB are political measures for which we should, in all honesty, give credit to the States' political authorities; even though for certain dossiers (the Banking Union), ECB lobbying was not entirely absent.

For some time now of course, with the crisis over but with still soft growth, some are tempted to throw responsibility for this poor performance onto the shoulders of the central bank; the more so as there is no longer the engine of the crisis years, the Franco-German couple that so exasperated everyone but which were not altogether inefficient.

In these times of euro scepticism when demagogues of all colours are accusing the European leadership of all that goes wrong, it is to be deplored that voices that claim to have authority are joining in this game; probably for the simple reason that the truth behind the facts is harder to sell than is this fiction.

#### Word of the month: demography.

No, you won't see it in the media. It is I who is introducing it, off my own bat. European growth figures for the first quarter are disappointing. Everyone proffers an explanation: the climate is favourable for some, unfavourable for others - and of course that strong euro (French version)! To harp on again about production factors (men and machines), I suggest that like Japan, which is held back by its demography more than by a so-called deflation, Europe is lacking in workforce. There are weighty counter examples of course: Germany, but productivity and an exceptional know-how in some export sectors are hiding the problem for now. In France, it is the opposite, but is the country not being held back by other factors too? The basic problems that could be alleviated by massive investments in research and development still need to be addressed.

#### Bitcoin: anything rather than using a bank.

That's the conclusion one might be tempted to draw after the liquidation of the Mtbox site which closed suddenly last February. The closure caused a meltdown of the "exchange rate", which was worth 1200 dollars (versus only 13 at the beginning of its life). This recent liquidation of the site, resulting in the disappearance of some hundreds of thousands of accounts, appears not to have disturbed the fans of the system - more gifted it seems in computer technology than in finance, since this "elimination of a lame duck" is said to clean things up. After all, the banking system arose at the cost of such upsets ... except that it is possible that the bitcoin lame ducks are many and that one day it will be necessary to clear up the ambiguity and admit that not all currencies are valuable if they lack the essential prop, which at last resort is the lender.

#### The G7 is pumping the savings of the very poorest.

The external accounts situation of the G7 countries, in principal the world's richest, has not improved. Globally, their current payments deficit for 2013 came to almost 300 billion dollars. Inside this group of countries, predators of world savings, things are beginning to change a little. The American deficit is going down (yes!), 2.3% of the US GDP versus almost 3% four years ago. The British balance which was improving a few years back is highly negative at 3.8% of GDP. The Japanese excess, still considerable four years ago at 2% of GDP, is down to 0.7%. The German excess tops all (7% of GDP). The big surprise however, even though it does not concern vast amounts, is the now positive contribution of Italy (0.9%), whereas a few years ago Italy had a deficit of 3.1% of GDP. Unchanged, though, is France's deficit which remains close to 2%. But it is not our fault; it's because of the euro! With this continual complaint, similar to that of an addict angry at not getting his dose, we should wonder why the two countries that saw their currency depreciate massively - Britain and Japan - are seeing their external accounts degrading in spectacular fashion whilst Italy, with the same euro as us, has rebuilt its external accounts.

#### Fed and ECB, two different work styles.

Over a period of two years the Fed balance increased by 30% to 4 billion dollars, while that of the ECB decreased by 25% to 2.2 billion euros. This stems less from "laxism" on the part of the two institutions than it does from their different modus operandi. Ninety percent of the Fed's balance is made up of debt bond purchases, these purchases having been, since the crisis, almost the sole way by which it supplied central money to the banking system all the while bringing down long term interest rates. Seventy percent of ECB assets are made up of refinancing to banks, resulting either from current tenders, from securities repurchasing agreements or from "non-conventional" operations (Long Term Refinancing Operations); barely 10% are from debt bond purchases. The Fed is "intrusive" whereas the ECB responds to bank needs. As long as the cost of its refinancing is above zero %, any central monies that were supplied free of charge (and this would be the case for new debt bond purchase by the ECB) would be used primarily to reduce their debt to the central bank and would have little effect on the size of the balance.