The Banker's Comment - Jean-Pierre Patat

A former central banker looks at the news

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Each month, Jean-Pierre Patat, Honorary Director-General of the Banque de France and a TAC advisor, offers his own point of view, on the economic and financial views, with total editorial freedom.

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Figure of the month: 1.17 dollar per Euro

1.17 was the exchange rate when the Eurozone was created, reverted to on January 16 but which it already reached in November 2005 and June 2010.

Will Greece get the euro pitching and heaving again?

Several elements lead us to reconsider the impact of the possibility of a so-called "revolutionary" party gaining power Greece. First of all, the euro zone has some serious "fire door" institutions: the European Financial Stability Mechanism, the Banking Union and the Central European Bank's supervision of the major banks. What is more, any debt restructuring, which the party in question put in its manifesto, would have little effect on private investors because almost all the Greek debt is now held by international institutions.

Even so, we see that the markets plummeted. Not though, let it be said, as an immediate reaction to the announcement of anticipated elections in Greece; rather it resulted from the revelation in a German weekly of the fact that the Berlin government could be contemplating Greece's exit from the zone. The reaction is surprising since, even if the supposed German reasoning could be interpreted as a clumsy attempt to influence Greek voters, an exit by that country from the monetary union would penalise only Greece itself. And, let's be clear about this, if it were possible it would relieve everyone!

In truth, the markets' reactions seem to me to be an example of the dreadful practices which occur there, one that technology has increasingly worsened. Certain "in-the-know" investors sounded an alarm about Greece, dragging in others whose herd-like spirit often serves as a compass; this provoked a considerable fall in asset prices, allowing profiteers to make some nice killings the next day. Since then though, all has gone back into place and nobody talks any more about the Greek risk. Such practices would however have been far more difficult to set up, or would in any case have had far less impact, if the "fixing" had not been replaced by continuous quotation. This remark is obviously a sad archaism, but the author accepts responsibility.

Quantitative easing in the euro zone: schizophrenia all around.

The writer may well be charged as a trouble-maker, but even so!

Everyone is sure that the quantitative easing measures taken by the ECB (repurchasing public bonds) would be ineffective for solving the real problem, a lack of credit demand; but everyone would be upset if the Central bank were not to use them. Everybody wonders if the Germans can be brought to this option whereas, over some years, innumerable measures taken by the ECB did not have Bundesbank approval, and quantitative easing actions would be approved by a large majority of ECB board members.

The depths are plumbed when there is talk, so as not to upset the Germans too much, of the ECB's purchasing only the bonds of the well-noted States, the sole result of which would be to lower even more the German and French long term rates whose already extravagant levels represent next to nothing and which pose real problems to savings and insurance entities.

Deflation-phobia is marking time.

Although price increase levels have dropped yet again and are close to zero in many countries, alerts regarding deflation have become less virulent.

First there is an awareness that we are no longer in the thirties when disastrous Fed action brought about a massive diminution of activity and, in consequence, of prices too; second, that in the present circumstances low inflation is good for purchasing power and in no way is it the sort that causes wait-to-buy behaviour. There is even, though it is still timid, an admission that lamentations about the weight of the debt (which could become crushing through low inflation) are no more than regrets about not seeing creditors get swindled, as they have been in the past.

Name of the month: Swiss franc.

The Swiss National Bank's policy on the currency markets contradicted the notion that a central bank could not alone have a long-term influence on its currency's rates. What was impossible for global currencies like the euro or the dollar, even for the yen, was seen to be possible for a currency with a fairly limited market. The sudden ending of that act (fixing the top rate at 1.20 Swiss francs for one euro) had outcomes that were probably unanticipated by the Helvetian central bank, with the Swiss franc's value increasing to one euro, a declining stock exchange and panic among the large exporting businesses. Can it be undone? Much would have to be accomplished no doubt. Exchange policy is not an exact science.

France: costly demagogy on the interest rate for the Livret-A savings book.

Bearing in mind the ECB interest rate close to zero and inflation that is tending that way, the Bank of France suggested lowering the rate on the livret-A (a popular tax-free saving account) to 0.75% (presently 1%). Let it be noted that the first calculations at the central bank led to a rate even lower than 0.75%. The government has overlooked this mode of "automatic" calculation, set up incidentally by an earlier government to stop the political controversies and temptations which polluted decisions in this matter. The French would not, it was argued, understand a rate below 1%. Great! To govern is not to maintain ignorance and prejudice; especially as this "gift", which will profit savers who are not as poor as all that, increases the cost of financing destined to build social housing.