

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 ECONOMICS advisor, offers his own point of view, on the economic and financial views, with total editorial freedom.

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Awaiting the next financial crisis.

Will it happen? The sole question is to know when. In any case, there are plenty of reasons for worrying. Our first observation is that a major change is occurring at the big central banks. The activation of their role as last-resort lenders was, not so long ago, the result of uncertainty and deep silence. Since then, in the mind of the markets, it has become fail-safe comprehensive insurance. The unprecedented pouring of liquidities into the financial planet by the Fed and now by the ECB has had little effect on credit distribution and hence on economic activity, supporting the conviction that these institutions will be ever ready to fly to the aid of an establishment or of a segment of the market; to a great extent this is feeding stock exchanges that have become totally unaware of the very serious geopolitical dangers that shake the planet.

The most astute combinations which had fermented the 2008 crisis have re-appeared, heightened by the huge move to high frequency trading, little used in 2007. The derivatives market is reaching ten times the global GDP. The spectacular flattening, never before seen, of interest rates is having loads of perverse effects. Who would believe objectively that the Italian 10-year risk is worth no more than 1.5%? Or that it is normal that investors actually pay to lend in the short term to the French State - right now the one country in the euro zone that is making the worst job of managing public finances? How can banks be incited to grant loans to economic agents at derisory rates that barely cover the costs of the dossier and its management?

Finally, the leadership of the two greatest central banks in the world, banks whose responsibility is enormous, seems to have given way to drifting with the currents. The Fed, well mindful that interest rates must go up someday, is terrified by an awareness that it is holding a bomb of devastating power, since an even modest increase in absolute terms will have ravaging effects in view of the present close-to-zero levels. As for the ECB, a coalition of Latin countries has taken control; to the applause of the markets it strives to reach the total of bond purchases that it has assigned itself as an objective, confusing the creation of liquidities with wealth creation.

Word of the month: investments.

It's the government's new bee in the bonnet, a welcome bee of course when we see the lag that has occurred in creating capital, including and above all in the areas most important for the future (there are half as many robots in French factories as in Italian ones). Yet, we French cannot manage to drop an in-country vision of demand. While it is good to develop investment, it is reproachable to hope that the main support to growth will continue to arise from household consumption while neglecting exports - about which we hear very little. In all euro zone countries, without exception, the export part of the GDP is higher, sometimes highly significantly so, than it is in France. This shows that this "model", so often criticised in France, is not absurd.

Is the West's primacy at the IMF able to mix in the soup with the emerging countries?

China says that 3.85% of voting rights is insufficient. It is not alone with such a claim. But in determining the quotas upon which voting rights depend, monetary and financial criteria count as much as does the economy. A forthcoming reform could lift China's weight to 6%, if it is approved by all. Europe, always kind-hearted, has already given up voting rights at the level of 2%. The United States have given up on nothing, arguing Republican opposition in Congress to refuse the reform and, in any case, they will succeed in seeing that the new share-out keeps their right of veto, that is to say a voting rights figure superior to the minority blocking ones. That is perhaps the most shocking point.



Figures of the month

21.3% and 1.17%, the increase in the Eurostock and Dow Jones indexes since the start of 2015.

Is China changing the shape of international finance?

Each item of news concerning China, each initiative in that country, are viewed as planetary events challenging US predominance. The same is happening with the announcement of the creation of a multilateral development bank (the Asiatic Infrastructure Investment Bank - AIIB). Let it be said firstly that this initiative is not an attempt to compete with the IMF (which remains the essential global financial institution) but, rather, with the World Bank and, more locally, with the Asian Development Bank which is dominated by the USA and Japan. Over and above the question of the place of two institutions of that kind in the region, we might ask ourselves if the new establishment might not bring about competition in methods. The ADB's intervention criteria have to respect lots of constraints - environmental, societal and geographic. This has a strong slowing effect on procedures and can even lead to project abandonment. Will the new bank adopt measures that are, shall we say, more expeditious? Were this the case, we would be far from a planetary ambition and it is to be hoped that the tens of countries that rushed to participate in the AIIB's capital in an aim to pleasing an up-coming power and without the slightest knowledge concerning the governance of the future institution, might not sanction such a direction.

Emerging countries: India's example.

While several emerging countries which had astonished the media have since suffered serious setbacks (the most spectacular being seen in Brazil with its present growth breakdown), India has the ambition of setting up a development project which, contrary to what its name "Make in India" could lead us to believe, is not limited to factories and productivity, but would make a simultaneous attack on all that slows recovery and access to a situation of a true "fully developed" country: transport infrastructure, teaching, health, an efficient and non-corrupt public administration, housing, security, even a start to social security is being considered. It's a programme that is more than just ambitious, it is titanic, one that will meet many stumbling blocks in a country with 1.3 billion inhabitants where the relative comfort and high level of education and competence of an urban minority is in stark contrast to a population that is poverty stricken and full of societal beliefs and prejudices. However, the endeavour should certainly be encouraged and supported.