

# 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.*

Email: [jppatat@taceconomics.com](mailto:jppatat@taceconomics.com)

## Will the ECB stop nursing the markets?

This question might well be asked in view of the spectacular jump in German ten-year bond yields - 0.07% 18<sup>th</sup> April, 0.36% 30<sup>th</sup> April, above 1% end of May and 0.80% 16<sup>th</sup> June. All this while the ECB, with its introduction of quantitative easing, has undertaken to make monthly purchases of EUR 60 billion of government bonds from all the euro zone States in order to keep rates at a low level.

If investors rushed to buy Bund issues, it was not to get derisory rates, it was to get the capital gains resulting from the continuing decline in these bonds' rates. At 0.07% some market "gurus" let it be known that a threshold had been reached that would start a powerful selling movement; this allowed some nice profits, the only losers being those who came last into the market.

"Markets' participants need to get used to more volatility", the ECB president declared on this occasion, leaving stock market analysts at a loss, scandalized even. Let us admit that since the famous summer 2012 "We will do what it takes", supposed to have saved the euro zone, we have become used to seeing ECB actions as an all-risks insurance guarantee.

Mario Draghi was right of course to let it be understood that the central bank would not do anything to go against the trend. Possibly, though, it is somewhat late to give markets the idea that seeking financial stability, as well as implying getting involved in the case of a disaster (something central banks have done quite well since 2007) also includes involvement where there is a chance of a bubble - something they have never yet done and, it seems, are not ready to do, if we can judge by the contamination resulting from might be called the "Greenspan effect".

The two biggest central banks in the world have started a race to see which will most generously feed the markets and which will keep rates the closest to zero, with complete uncertainty as to the how and the when of a reversal of that policy, a policy whose effects might well be devastating on molly-coddled markets.

## Name of the month: Alexis Tsipras.

Caught between his electors, his "left" wing (there is a left in his own party), the tax avoidance of the most notorious taxable mass in the country (the great ship-owners whose profits are of course off-shored), and the unreasonable exigencies of the IMF on pensions and electricity prices that are so ravaging for the middle and modest classes, the Greek Prime Minister is playing acrobatics, with a script seen as blackmail by some. He has only one ally (if not an ally at least a listener, but one with some weight); not France, from which he hoped at least for understanding and which has been careful not to go down that road, but rather... Angela Merkel! She is showing the surprising "plasticity" and realism of a chancellor who is going against her national public opinion and her central bank, and who has moreover put her intransigent Finance Minister to one side. And yet there are still some who would call her a "shop keeper"!

## Central bankers are no longer what they were.

Ben Bernanke, prestigious professor, un-attackable, is joining a hedge fund. As did Alan Greenspan who, before presiding over the Fed, had already worked in an investment bank, and the governor of the European Central Bank, Mario Draghi - both former collaborators of Goldman Sachs. And soon, perhaps, will follow a governor of the Banque de France from within the ranks of the bank (a first after a long line of inspectors of finance and Treasury directors). "Great", some will say. In a world that, whatever we say, remains one of financial and market globalisation, what could be better than insiders at these positions of decision? Above and beyond a regrettable attraction for astronomic salaries, this new trend does not seem the best guarantee for preventing government independence from slipping into dependence vis-à-vis the markets.



## Figure of the month

1.5 billion euros; the « modest » sum owed by Greece to the IMF as of June 30<sup>th</sup> and supposed to trigger the payment default unless honoured.

## Don't banks and financial start-ups play in the same field?

"They need to move, and fast" abruptly declared the president of the French Start-ups Federation which have been multiplying recently, when he spoke of the big banks, to which, in his own view, he offers direct competition. One wonders if he knows just what banks are. He seems to regard them as similar to these start-ups, only bigger and more hide-bound with rules.

A glass wall separates, and always will, true banks from these start-ups. The bank has a capacity for monetary creation which, in providing credit to its client, simply credits the deposit account held at the bank. This is a power which needs to be subject to very tight regulations with serious requirements for assets that guarantee the security of the depositors and the quality of the credits distributed. A power that one of these start-ups might claim, but only within the very restricted circle of customers who might accept to be paid in debts from the start-up. Such a start-up might then effectively compete with the banks, but by becoming a bank itself. That is to say, in submitting to this oh so heavy regulation.

## Strengthening the euro zone. Can it be done?

In any case, that is the will of the Commission and the ECB. Two reminders:

- "The problem is the number". This statement by Otmar Issing, a former board member, illustrates the fact that criteria for entry imagined in 1996 for a zone foreseen for 5 or 6 countries no longer suit for the admission of countries that are quite distant from the standard of living and the banking practices of the small group initially expected.

- The Stability and Growth Pact, so often criticized (in his day, a Commission president had even described it as idiotic) can play the part of a federal budget. It still exists and is an unavoidable "strengthening" instrument, on condition it is fully respected, especially in spirit. One can usefully complement it by adding a reasonable criterion of balance or imbalance of current payments.