



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

March 2011, TAC Newsletter - www.tac-financial.com

Figure of the month: 10.2%, the return made by CAC40 banks, twice that of the other sectors. The most profitable are those employing the most females, who are (of course) less well remunerated!

Greece and Ireland mis-treated by Europeans?

That at least is the feeling of those concerned, quite naturally, but it is also shared by plenty of analysts and a recent article in the French daily *Le Monde* made a point of this. Such opinions rest in particular on the realization that when the loans to these States were negotiated, the risk of their defaulting (calculated at "credit default swap" - CDS - prices) was relatively moderate and thus these States could have borrowed on the markets at rates barely higher than those granted by their European partners.

Let us remind ourselves that the Greek loan was agreed at 5.2% and the Irish at 5.8% while France was borrowing at 3.2% and then 3.5%. Let the reader be the judge.

However, two facts (realized or not) should not pass unnoticed. Firstly, if their risk of default had diminished, it is because the very setting up of the European operation in itself attached an implicit guarantee to the two States' debts. Secondly, and more importantly, thanks to these loans both States can virtually dispense with approaching the markets until 2013. This is huge protection. How much would Greece have to pay today were she standing alone at the moment that Moody has severely lowered her rating? For certain market specialists it would not be below 13%, were she able even to find a lender. Of course everything is always too dear. Greece, which practices a worthy policy, got a reduction while Ireland has sought one with a holier-than-thou feeling of victimization, encouraged by some to believe that she was conned under the pretext of being saved.

This kind of debate is one aspect of a general movement of "indignation", according to which the crisis arose from adventurous, even criminal, conduct on the part of financiers, and from that alone. Incompetent, even cheating leaders pose as victims, and those who showed more circumspection and who, what is more, offer aid to the detriment of their own public finances (that has just been said about France) are labeled executioners or vultures.

Expression of the month: bad bank.

That is how certain Anglo-Saxon analysts describe the ECB, on the grounds that it is holding excessive stocks of outstanding debts from the zone's "fringe" countries. What are the figures? Of an outstanding total for re-financing and bond buying on the markets amounting to 970 billion euros at the end of February, the ECB was holding 98 billion of Greek debt, 94.6 billion of Irish one, 42 billion of Portuguese debt and 64 billion of the Spanish one, meaning that 30% of the portfolio was set off against 25% of the zone's GDP - a somewhat modest "excess". Let us add that until 2013 the possibility of default from Greece and Ireland is minimal and in any case default on Spain's part is very far from certain. This means that the risk of losses on assets is probably lower than what the bank could suffer from a devaluation of currencies held as exchange reserves.

Nuclear: the power of the democracy of opinion in Europe.

Without doubt, Europe is a universe of protection, well-being, liberty and democracy unequalled globally (in the USA, the sole possible comparison, just look at the laborious and finally modest reform of the health sector, the plight of the unemployed, the cost of education, the misery of the retired, etc.). A consequence of this precious attainment is that our continent is the only place in the entire world where what one might call the democracy of opinion carries such weight, and where politicians are subject to the most emotional pressures fed by the focus of the moment (at times even irrational). The unfolding of disasters in Japan has then immediately induced an abrupt about-turn in respect of nuclear energy by the German Chancellor Angela Merkel.'

Should the European Economic Government limit itself to disciplinary aspects?

The competitiveness pact proposed to their partners by Germany and France marks an undisputable step towards an economic government. Is it because this "government" was eagerly urged by France that she, glad to see Germany at last coming round to this concept, is adhering without reluctance to a pact made up solely of "punitive" dispositions with, in starring roles, increases in pension age and wage freezes? In its latest bulletin, the ECB, explaining what in its view should be the key elements of European governance, confines itself to dispositions for improving supervision, firming up the indicators, reducing the derogatory clauses. Clearly, we see that Germany has no wish to pay for "happy-go-luckies", as though Germany were alone in paying! However, should not governance comprise consideration of the future and of growth? There is nothing about Europe's crucial problem, i.e. its poor potential for production and ways of curing this by increasing work opportunities and making investments in the most innovative sectors. Two years ago, Gordon Brown, then President of the G20, proposed that, simultaneously, China should agree to increase consumption by 2 or 3 points of GDP over the coming three years whilst the USA and Europe should agree to make the same increase in investments in key sectors. The suggestion brought on a deluge of criticisms from those whose approach to the problem is, if truth be told, contributing to perpetuate the present position of soft growth.

Optimism on large countries' ratings.

In responding to an American periodical (*The International Economy*) which asked them about the chances of the large advanced countries being downgraded, 29 experts (19 Americans, 3 Germans, 2 British, 1 Canadian, 2 Japanese, 1 Korean and... 1 Frenchman) retorted negatively for the most part (down-grading *won't happen*, or it is *unlikely*). Scores were 28 for Germany, 25 for the USA and Great Britain, 24 for France (Japan had just lost its triple A). Several of these optimists even consider that the agencies would lose all credibility if they chose to downgrade any one of these countries, and that the markets would disregard this. Four of those questioned responded "probable" for France (one even replied "certain" but this was a Japanese who thinks that if his country has been downgraded the same should happen to others). One is not many, and it is noteworthy that all the balloted experts hailing from universities replied negatively, with the four "probables" coming from managers of investment banks or hedge funds.