



JEAN-PIERRE PATAT'S MONTHLY CHRONICLE

A former central banker looks at the news

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Figure of the month: 35% and 23%. The depreciation of the rouble over 6 months vis-à-vis the dollar and the euro.

Guilty, the banks?

Guilty, of course, of having stuffed their assets with investments as convoluted as they were risky (but traditional operations did offer such low returns!); guilty of feeling the widespread and irrational mistrust to the extent that they are no longer ready to make loans to each other; guilty of wanting to continue giving their managers indecent salaries and bonuses.

Guilty, too, for failing to provide credit? Several banks, the French ones in any case, are subject to unreasonable market pressures in respect of their own funds, even though they hold tier one funds nudging 8% (the requisite norm is 4%). They are also obliged to accept capital inputs from the State which will not forever be able to satisfy the whims of investors guided by assessment agencies bent on regaining a lost credibility. On the other hand, most big businesses have made a rain check on investment projects, while certain sectors (e.g. the car industry) and many medium and small companies are encountering serious cash flow problems. Fewer good risks, more poor ones - that is the classic situation during times of slump. Add to this the fear of being unable to refinance themselves correctly, leading to the exercise of extreme prudence to say the very least. The credit Mediator seems to be doing a good job, but he cannot take the place of a fully functional interbank market whilst he remains highly dependent on the central bank. Yet, funding needs only to be available for things to improve greatly in certain sectors - in housing, for example, where prices are falling and households can (in France especially) benefit from favourable tax regimes that lower their level of debt. The more so as the rates for any (rare) agreed loans are at last beginning to dip after nearly two years of continuous hikes.

Debt: schizophrenic governments.

Having entered a race involving tens, even hundreds of billions of dollars or euros, governments would love it if lenders would be so naïve as to be unsuspecting of certain risks. The almost scandalized reactions to the widening of spreads to the detriment of some countries are revealing (whereas it is the earlier situation that was not normal). Some, then, are calling for unified European loans (for the euro zone at least). It is understandable that those who are presently benefiting from favourable rates, thanks to their correct policies, do not welcome a formula that would result in their paying for a rate reduction that less virtuous countries would profit from. So, they make envious remarks about the Fed's affirmations that it is ready to purchase public loans at the moment of issue - using what is called "the non-conventional weapons" of central banks or "monetization of the debt" (a term that in any case is wrong because the debt is "monetized" the moment commercial banks acquire part of it). The ECB's statutes do not permit this gadget which renders the interbank market unmanageable and turns the central bank into a governmental agency. You would have to believe that investors are stupid to imagine that they would not be dumbstruck when confronted by such practices, already used in Japan with such poor outcomes.

Towards a commercial and monetary war?

Obama accuses the Chinese of manipulating their currency's exchange rates; a somewhat astonishing frontal attack when one considers the extent to which, in the USA-China pairing, the former is perhaps the more dependent (China has the world in which to sell its products, but the States have few sources to finance their deficit). Everywhere, touches of protectionism are appearing; "buy American", "consume Spanish", what a shame!

Help for banks: the French government's bargains.

The French government refuses to take shares in the capital of banks that it is part funding. One might perhaps debate the advisability of participating in funding when there is no question of having a decisive voice in boardrooms. In any case, the Minister is congratulating herself on having already earned 1.2 billion euros in interest from these operations. One must hope that Madam the Minister took into account the cost of lending monies which can only be ... borrowed! However, we may be pretty sure of the opposite!

External trade: Not as bad as first thought, but still some way to go.

Alright, over 60 billion euros as trade deficit in 2008, i.e. 5 billion more than in 2007. However, the energy deficit exploded (+ 14 billion), which means that the evolution of other sectors is less bad than in previous years. We make an exception of the motorcar industry, now in deficit, but only as a result of outsourcing by national constructors. No reason to boast, though, nor should we think that we are on the road to recovery. Only 7 of 18 sectors still show a profit margin. The competitiveness of the manufacturing sector as measured by wage unit costs, which had improved by 20% between 1987 and 1999 (at the time of the "strong" franc), has since dropped by 15%. Over this recent period, German wage unit costs increased by an annual 0.3% and ours by 2%; due not to salaries as such, but rather to productivity.

Expression of the month: the French model.

"The French model, formerly challenged, regains its colours". That is the gloating headline of an article in a daily newspaper which even so does not hesitate to use the most liberal of methods when it comes to sanitizing its own accounts. Naturally, believers in State control seize upon the good news. It would nevertheless beat all if, with over 25% of jobs in the non-trading sector and with public expenditure making up almost 50% of GDP, we did not enjoy a few softeners to the crisis (it would beat all, but this is not guaranteed, let us await the figures before claiming victory). In any case, the snag is that the brakes, useful in any fall, will also slow any upward movement, and because periods of growth are, for all that, more frequent and longer than those of recession ..! For proof of that, look at our relative performance in the OECD over the last 30 years.