



## JEAN-PIERRE PATAT'S MONTHLY CHRONICLE

### A former central banker looks at the news

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**Figure of the month: 71**, the number of known tax havens globally, of which 8 are in the euro zone. It is true that 7 of these are "cooperative".

#### **Africa and the crisis. Bravo the IMF's Managing Director.**

At last somebody, Dominique Strauss-Kahn, has said what needed saying! Whereas in the realm of developed countries, he said indignantly, "hundreds of billions of dollars are being found for the revival" (and quite a few irresponsible economists, listened to even so, are saying this is not enough), "I cannot admit to our being unable to mobilize a few hundred million for the low income countries". The reality is quite edifying. The added aid promised to poor countries after the G8 summit of 2005 has not materialized. The USA, which respect only one third of their engagements to provide development aid at 0.7% of their GDP (i.e. 90 billion dollars) are devoting over 800 billion dollars for their re-launch. France does somewhat better, but still lacks five little billions (apparently unlocatable!) to reach the 0.7% level. The World Fund for AIDS, tuberculosis and malaria is set to see inputs from various countries diminish from 2.88 billion in 2008 to 2.84 in 2009 and above all to 1.9 billion in 2010. Yet, the eradication of these diseases is not, as far as we know, expected to happen in the immediate future. In short, the slogan is "let us save the rich", the rest will wait.

Africa is far from being spared by the crisis. The IMF estimates that the activity drop in the continent will be one half less than in the rest of the world. Nevertheless, the price fall in raw materials, the collapse of the stock-markets in those countries (South Africa, Nigeria, Ghana, and Kenya) which had relied on the development of this type of financing, plus the tremendous slowdown -perhaps even the stopping- of investments from other countries will have heavy consequences, together with an explosion in budgetary deficit. African countries will therefore need increased external aid, evaluated by the IMF at 26 billion dollars. Will the rich countries agree to leave them a few crumbs from what they are lending to their own banks and car industries? In the past, alas, the IMF has seen that aid evolves in step with the income of the donor countries.

#### **European supervision. The hot air temptation.**

During this crisis, many experts have justifiably noted the superiority of the banking supervision operated by central banks compared to that exercised by other institutions. However, the British FSC model retains supporters for the reason (somewhat lightweight in a world where financial stability has become a priority for central banks) that the former type of supervision raises conflicts of interest. We shall therefore follow closely the conclusions of the Commission entrusted to a previous governor of the Bank of France for consideration of this problem in Europe. It would appear that the suggestions are based on a compromise, somewhat political, preserving the prerogatives of the Commission, the ECB, the national Central Banks, the finance ministries and the independent control bodies. That makes for a lot of people, with the risks of creating powerless committees.

#### **Word of the month: Leadership.**

"The United States are ready to assume their world leadership" to overcome this crisis said President Obama, incidentally recognizing that his country had a part, but only a part (who are the others?) of the responsibility for what has happened. Since he also brusquely repulsed a Chinese suggestion that ways could be considered of creating an international currency linked to no one nation, we might well have a few worries: on the expression, since those are words straight from the unilateralism of his predecessor; on the tenets also, since this assumed leadership could well be viewed as an attempt to take back control of all the heads of State (in particular European ones) who have strayed, in their fanciful wishes to reform the world of finance.

#### **Forecasts of disaster. But all we really know is that we know nothing.**

A setback of nearly 2% for 2009 in the French GDP according to the French statistical institute (INSEE), and from 3 to 5% in Germany according to forecasting bodies. Lesson one - the European "social model", barely less developed in Germany than in France, is limiting damage only slightly. On the other hand, the growth model based on consumption could bear up better than the one based on exports; there is a hard base in household demand that limits the downturn, whereas international trade is the first adjustment variable in crises of this magnitude. But the main lesson is that we know nothing. By definition, these forecasts cannot take into account a turnaround or a severe worsening, and these forecasting bodies might well save themselves the trouble of applying their models in circumstances as unforeseeable as are those of the present. The ECB's President says that a modest pick-up could come about in 2010 if confidence is restored. In stating the obvious, this sums up the situation quite well; above all, this is happening inside heads.

#### **Again, Eastern and Central European countries. Should they quickly join the euro zone?**

That is the solution counselled by some to tackle the consequences (risk of failures by banks, by States even) of deteriorating situations in many of these countries, so as to provide them with the "euro shield". Putting aside consequences for the credibility of admission criteria and of the euro, this cure could prove worse than the illness because most of these countries could not bear the constraints of a strong currency. Entering with an undervalued exchange rate of their own money would not address their productivity problems and they would soon be overtaken by the ravages of an ill-matched currency, whilst no federal budgetary mechanism could soften the shock. Conversely, it could be feasible and useful to construct and make known a strict timeframe for future membership.

#### **Excessive deficit procedures: the Commission's message.**

In the last chronicle, I criticised the seemingly schizophrenic behaviour of the European Commission, which pleaded for a strong re-launch whilst starting procedures for excessive deficits. Perhaps I was wrong. Let us consider the French deficit which is around a hundred billion. There are three components in it: the effect of automatic stabilizers (outcome of the recession) for 25 billion; the re-launch plan for roughly the same amount; then the rest - those 50 billion, those 2.5% of GDP approximately which we have been dragging for ages, this deficit base arising almost completely from maintenance costs. Obviously, it is this part of the deficit that the procedure is, and quite rightly, concerned with.