



JEAN-PIERRE PATAT'S MONTHLY CHRONICLE

A former central banker looks at the news

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Figure of the month: a -2% variation over one year in the total outstanding banking credits for business investments inside the euro zone, versus +20% one year back.

"Stress tests" not all that stressful.

That's the opinion of Joseph Stiglitz in relation to the actions which American banks have been obliged to take. We share that opinion. Unlike "value at risk", until recently the system most used to anticipate risks (with the weakness of being based on past records), the "stress test" sets out to evaluate the consequences of an unprecedented situation, i.e. a rush of depositors, a default rate nudging 30% - never seen before. But therein lays the interest of the exercise, because we know that henceforth anything is possible. Even though the hypotheses introduced in the tests carried out don't exactly paint a rosy picture, they are quite distant from the extreme scenario presented in the above examples.

But there is more: several US banks have negotiated modifications to the results they obtained and viewed as not sufficiently satisfactory. It should be said that the intention of the exercise is actually to reassure people, even if it means publishing over-optimistic results. By the way, the Treasury Secretary, from whom one might expect a greater degree of reserve, hastily expressed joy at the "good results"; his comment, not exactly objective, seems to have a political aim.

In these conditions, the European banks, summoned rather awkwardly by the IMF to adopt this kind of exercise (for which they have been preparing themselves for several weeks without waiting for orders from whomever) are facing a trap. Either they get on with real stress tests, and their outcomes will risk being less favourable than the American ones, or they work with "consensual" hypotheses and the results will lack credibility. To avoid this, the Europeans have declared that test results will remain unpublished. That makes sense, but common sense does not necessarily go hand in hand with the demands of communication. And in any case, it will be very difficult to prevent leaks. It would be ridiculous if the results put European banks in a worse picture than establishments across the Atlantic which based their tests on friendly hypotheses, hypotheses for which they have, what is more, manipulated the outcomes.

This is an example of a measure based on approximation and it threatens to become the norm when the G 20 outcomes become reality.

The UK floored: many can barely hide their delight.

Many economists, journalists, politicians even, are not hiding their sadistic pleasure as they watch the debacle of the British economy. However, they are forgetting the country's situation at the end of the 70s when growth was nil, with galloping inflation, national wealth lower than that of Italy, and help from the IMF, who had created for the UK the category of un-developing countries. It is clear that the results from subsequent actions by the Thatcher, Major and Blair governments were not always for the best: dis-industrialisation, increases in inequality and poverty, failing public services, but ultimately financial euphoria. Those governments had given back hope and dynamism to the country, an energy that seems not to have been too badly mauled by the crisis.

Word of the month: Zombie.

That is what one of our politicians called the current President of the European Commission. We are well aware of the fondness of our elites for passing strong judgements on foreign leaders. Mister Barroso suffers three handicaps; although he is backed by virtually all the European left wing parties, he is looked upon as liberal, a supreme insult as far as we French are concerned. Next, deliberately or not, he has been marginalised while the Presidency of the European Council was held by a man who leaves precious little space for others. Last, and above all he leads an unmanageable Commission because the system grants one Commissioner per country, whereas a dozen members only would allow for more efficient management. The Lisbon Treaty had envisioned a reduction of numbers. Unfortunately, so as to get the Irish to vote yes, the Union is backing away from that wise move.

Raw materials, currencies: signals difficult to interpret.

Prices for the main raw materials have seen a clear boost over several weeks. The most spectacular is for oil, which a few weeks ago stood at 40 dollars and is now close to 70. Should we see there a sign that a revival for the world economy is nigh? It is possible that we have plumbed the depths, as demonstrated by the evolution in maritime freight. Nevertheless, one still cannot discern any change in demand that could justify such a rapid climb in the prices for raw materials. If truth be told, the deluge of dollars poured by budgets and in particular by central banks is certainly fertilizing certain domains. Right now, the economy seems not to be benefitting, but speculation is doing well out of it. Certain goods are becoming safe investments, mainly vis-a-vis the dollar weakened by a budget slide which appears to be unlimited, and for end results that are yet to be seen. At \$1.40, the euro's strength again begins to give cause for concern. But not to worry, no one currency is truly attractive and the European one will soon be overtaken by the continent's detestable economic plight.

Uncertainties over. Chinese growth, but the "G2" could change.

Experts' advice varies regarding Chinese growth during 2009, with forecasts ranging from 2% to 8% or more. Pessimists point out a great dependence on exports, while the more optimistic stress the importance of a re-launch plan which seems to be well balanced, with a flexible monetary policy, an ambitious infrastructure programme, and expansion for social protection. Another favourable factor for the optimists lies in the fact that in China neither households nor financial institutions face a problem of debt. Whatever the results actually seen, one thing looks certain: of course the Chinese economy, at present single tracked, should remain based strongly on exports (the strengthening of the yuan versus the dollar, which has reached 25% since the end of 2006, has now stopped) but it should also meet a growing interior demand. More expenditure on infrastructure and more consumption mean less money saved and perhaps fewer dollars invested in US treasury bonds. That might convince those across the pond that one will not get out of the mess by reverting to past behaviours.

GDP growth in 2009: Don't trust averages.

Never will the contrast between the real trend and the annual evolution of the GDP be greater than in 2009: for the GDP it is practically all up - such is the weight in the average annual calculation of the last quarter's figures for the previous year and the first quarter of the present one with, successively, -1.5 and -1.2. Even with some subsequent quarters giving positive returns (entirely possible), a contraction of at least 2.5% will be inevitable.