THE BANKER'S COMMENT - JEAN-PIERRE PATAT

A former central banker looks at the news
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Figure of the month: 70%. Proportion of GDP represented by the shadow financial sector in China - said to have doubled in 5 years

The Bundesbank and the ECB, realities and held beliefs.

The German members of the ECB Board of Governors have, over several years, aroused controversies for central banks. Following the former Bundesbank President, Alex Weber, who felt sure to be named as successor to Jean-Claude Trichet and who destroyed his chances by his outbursts and indiscretions, it was the turn of the German member of the directorate Jürgen Stark, who resigned to protest against the unconventional measures taken by the institution. And now it is the new President of the Bundesbank, Alex Wiedmann, who is piling on criticisms. Such behaviour is surprising since, as far as the French are concerned, the euro is the mark and the ECB is the Bundesbank.

But - the euro is not the mark; it is a global currency which cannot be manipulated like a regional one, whereas the mark was the pivot of a beginning of a European monetary union (the EMS) and was managed by the Bundesbank in a notoriously uncooperative way.

Nor is the ECB the Bundesbank for the simple reason that there are 23 members on the Board of Governors, of which the Germans number only two. The myth of German dominance came about before the crisis, when the ECB could do no more than stick to its mandate which privileged price stability, and when decisions were consensual for the most part.

But things have changed. German bitterness is nourished by the conviction, fully justified, that their country made an enormous concession in creating the euro and the ECB, and that between them these two things have absorbed what was their national pride: a prestigious currency and a powerful, dominating central bank. It is as if the French, wholly convinced that the Germans are the profiteers and manipulators of the euro zone, had agreed to mutualise their nuclear force capability.

The misunderstanding is, it appears, as strong on the French side as it is on the Germans'; they had secured an agreement that the ECB mandate would be close to that of the Bundesbank, and thought they had so locked in the institution. The crisis and its unavoidable impact on central banks' missions - henceforth guarantors of financial stability, as much perhaps even more than for price stability - have turned things around and marginalise them. Hence their efforts, praiseworthy but with no future, to show that they remain the guarantors of "the true faith".

Quantitative Easing: controversial results.

The Fed claims, with supporting data, that its unconventional measures (public debt bond purchases above 80 billion dollars monthly) have had a noticeable effect on the American economy's pick-up. This claim is not shared by economists of the American Enterprise Institute. According to them, the low interest rate policy of the central bank has not encouraged credit demand from households and businesses, rather it has encouraged the build-up of massive inventories by petroleum companies. This has served to maintain a demand for oil that otherwise would have seen a strong diminution. Thus, economists calculate, the price of a barrel has stayed close to 100 dollars, whereas the market's natural situation could have brought it down to around 50 dollars! We could have seen the opposite of what happened in the 1980s. At that time the very high interest rates pushed petroleum firms to draw massively on their inventories to operate, thus amplifying the barrel's price lowering.

BRICs: Development is out of step.

The BRICs are said to have become a handicap for global growth whereas they had supported it quite recently. Several explanations have been delivered by economists who, it must be admitted, had trouble seeing this blow coming. The weakness of the middle classes, basis of the second stage of the take-off, is often put forward. Other explanations that set out to be more reassuring concern the short term. For them the breakdown in BRICs' growth is due to ... the remarks made by Ben Bernanke which caused interest rates to rise. More seriously, in those countries, a production sector that is often ultra-performant has developed in complete isolation from what is the cement in an advanced industrial society: administration, collective equipment, transport infrastructure, education and health; all of which have stayed at the level of under-developed countries, whilst the production sector has rivalled that of developed countries. These latter, with a more gentle and spread out take-off, never experienced a hiatus of such a size. This is a situation that penalises the middle classes (not as inexistent as all that) who are deprived of what should normally meet at least half of their expectations. It is noticeable that over the last 5 years the BRICs' MSCI Equity index has fallen 13% versus 5% for developing countries' indices and a hike of 17% on the New York stock market indices.

Names of the month: Ben Bernanke and Mario Draghi.

Two central bankers who stand out from their predecessors, but while this is earning Draghi the ovation of the markets, it is not so for Bernanke. He is sincere where his predecessor was somewhat foxy; clear where Alan Greenspan was incomprehensible; conscious of his global responsibilities whereas Greenspan set the financial planet aflame. Bernanke has managed nevertheless to bewilder the markets for whom his predecessor could do no wrong.

Floundering the French way.

Having raised the ceiling for the Livret A bank savings scheme to fund social housing (but this is less in need of money than it is of political will and land), a measure which benefits the richest households, our authorities are realising that what is happening are withdrawals from banks' current accounts, with the banks using this as an excuse for saying they have insufficient resources to offer credits. The authorities appear to believe in this story (in the current climate it is more advantageous to finance loan credits at 0.5% on the monetary market than on Livret deposits at 2%). So now they want, without admitting it in so many words, to put the brake on Livret A deposits.

Each month, Jean-Pierre Patat, Honorary Director-General of the Banque de France and a TAC advisor, offers his own point of view, on the economic and financial news, with total editorial freedom. Email : jppatat@tac-financial.com