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THE BANKER'S COMMENT - JEAN-PIERRE PATAT

A former central banker looks at the news

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Figure of the month: 1.3%, the yuan's drop in March against the dollar, following an increase of over 3% during the preceding two months.

Emerging versus advanced countries: the responsibility of the worlds' central banks.

The latest G20 meeting saw opposition between the emerging countries (who regard themselves as penalised by capital flight seen since the Fed's announcement of its gradual exit from quantitative easing) and the industrialised countries who indicated the absence of structural reforms and the weaknesses of administrations and public services in the emerging countries.

At first sight one might be tempted to say that the industrialised countries are correct. Quantitative easing could not become eternal. Clearly the movements of capital that the emerging countries are suffering from appear out of proportion when one considers the Fed's prudence and the extreme progressiveness that it has shown in this respect. Rather, though, it is the markets' participants that should be pointed at- they who again showed a traditional myopic behaviour. What is more, it is not to be denied that the brake on growth in emerging countries is essentially due to the fact that their infrastructure equipment and socio-administrative structures are not following the swell in the manufacturing sector, not to mention the crazy economic policies in some cases (Argentina).

As in Greek theatre, though, no-one is wholly wrong and no-one wholly right. The major central banks, the Fed but also the ECB, carry global responsibilities; their activity inevitably bears consequences that go beyond national boundaries. In the 1990s the Bank of Japan was in the hot seat. It was possible to borrow the yen at virtually zero percent and invest it into higher yielding currencies, movements for which the dollar itself was paying the price.

Today, and against what is generally accepted, one might even wonder if the Fed's responsibility was not in programming a return to normality but rather to have over-played its answer to the crisis by inundating banks with liquidity.

However, when we see ourselves anxiously scrutinising price indices in Europe and regretting low inflation, when analysts, pointing to the very slight effect of "abenomics" on Japanese growth, inferring "good news" from accelerating price hikes, one tells oneself that these worries about excessive global liquidity are perhaps merely the grumbles of an old central banker whose clock has stopped, even if he has kept the healthy reflex of fearing the worst.

Direct investments in France: the mirage.

The UNCTAD (United Nations Conference on Trade and Development) announcement of a 77% fall in direct foreign investments in France had the effect of a bombshell. That politicians should brandish this figure is understandable, but serious analysts? The more so since Germany's figure (+375 %!!) might well cause one to question the very basis of these data. A notice from CEPII, a French research center, clears this up, and brings to mind a Bank of France study on this topic that was ignored at the time of its publication because it was too troublesome for lazy habits. The figures for direct investments incorporate, and for massive amounts, movements of funds between a single group's subsidiaries of different nationalities; treasury movements, intra-group loans, or fiscal optimisation lie behind such fund moving. We see, too (and this needs questioning) that tax havens are very well placed in the classification of countries that receive direct investments! The Bank of France has sorted the wheat from the chaff and assesses investments in equity capital (the real investments) at 15 billion euros annually on average over several years – i.e. far less than the tens of billions trumpeted at each appearance of UNCTAD's figures. A modest figure, and in decline over the long term (it was just over 20 billion ten years ago), one which shows that the "attractiveness" of site France is, unfortunately (but should we be surprised?), weak.

The European Central Bank: return of the prosecutors.

The praises heaped over the last two years on the ECB and its president, in contrast with the permanent criticisms addressed to Jean-Claude Trichet during his mandate, could not last forever. Now the prosecutors are back! Critics multiply in the context of an illusory danger of deflation and of a permanent error of interpretation regarding the institution's obligations concerning inflation. From Martin Wolf (the prestigious writer for the Financial Times who nevertheless has difficulties understanding just what the euro zone is) to George Soros (who some twenty years ago pocketed a million dollars by making the pound fall, and who tried violently but vainly to get the franc to fall so as to torpedo the euro zone project). A euro zone whose health today preoccupies this always active speculator, a man who repaints his facade with the populist anti-globalisation which he distils in conferences and advice that the naive religiously echo. His latest prediction? 25 years of Japanese style deflation for the euro zone unless the ECB changes its policies.

Name of the month: bitcoin.

The unforeseen closure of a management platform for this electronic currency induced panic. The bitcoin arouses the enthusiasm of those who see in it a means of escaping the rapacity of banks. There are two conditions if a currency is to truly play the role of money. First, trust; the extravagant swings of the "exchange" rates for the bitcoin versus the dollar or the euro testify to a trust that is somewhat fluctuating. Second, the power to get out of it. I can create my own currency by signing papers attesting that I will pay the expenditure of those who hold the papers. The problem will arise when somebody wants to use this paper to settle a transaction outside of the circle, one necessarily confined to those who benefit from my generosity. It is the difference between a gambling club with an exchange of chips and a modern economy.

Italy: a return of illusions?

The new head of the Italian government announces a recovery plan of some 90 billion euros, with sizeable reductions in taxes benefitting households. Three remarks. Among funding sources for this plan, they talk of "margins of manoeuvre" offered by a deficit of "only" 2.6% of GDP. This confirms that the Latins see the figure of 3% not as a top limit but rather as a cruising speed. Second, to aim recovery on consumer spending rather than exports is not the best choice for euro zone countries. Finally, they intend to use savings obtained by the decline in long term rates, forgetting perhaps that the very fact of announcing this admirable plan risks sending them up again.

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 views, with total editorial freedom. Email: jppatat@tac-financial.com