The Banker's Comment - Jean-Pierre Patat

A former central banker looks at the news

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Email : jppatat@taceconomics.com

Figure of the month: 14%, the year-to-date gain for Shanghai's stock market despite a 30% drop since mid-June.

The Greek debt: a secondary problem.

Called for by the Greeks again and again, a public debt relief was recommended, in low key, by the IMF. This institution has just made it a condition of its participation in the next financial support (over 80 billion euros) which should be granted to Greece in exchange for the implementation of the plan adopted by the Euro group on July 13th.

Relieving the Greek debt, erasing it even as some countries recommend, will do nothing to resolve the country's enormous problems. The production sector is weak, governance is worse than mediocre, the social system is inept and there is an open cronyism which hinders growth and wealth creation far more than does debt servicing.

The Greek prime minister declared that in Brussels he had signed a document in which he had no faith. Of course, this is political posturing for the domestic market. Even so, we might well wonder about the realistic character of this plan (a "diktat", a new "Versailles Treaty" some call it) which requires, among other things, that the Greeks make reforms that other countries (our own included) are incapable of making and which – were the plan to be applied – could cause the country to explode. Is it reasonable to ask a country in recession to come up with a primary budget surplus, even one that is lowered to 1% of GDP? There is talk of Greece being managed under supervision, which may be the case.

But we must face up to a reality that is hard to admit, not just for the Greeks but also for Europeans. In spite of its cultural, artistic and social attributes, Greece is closer to emerging countries in many ways, and as such it needs the help of the World Bank and the IMF in establishing a State that works, a solid financial system, a fiscal system worthy of the name, with a land registry and a competent and efficient administration. What is the point of massively increasing VAT when the majority does not pay it and when the Greeks, after the increase, will be even fewer to pay it?

Rather than this absurd plan, it would have been better perhaps to give Greece a "temporary exit" from the zone, as suggested by former French President Giscard d'Estaing, a well-meaning expert who invoked Plato to justify Greece's adhesion to the European common market. An adhesion that was certainly premature, as was its entry to the Eurozone.

China: good communists should invest in the stock market.

That is the advice, not to say the order, of the authorities to Chinese households. A stock market where individual investors are strongly present has advantages, in particular when things go well, making visible "the wealth effect" which can boost consumption. That is what the Chinese government was counting on, worried as they were about the GDP's growth previsions that they viewed as too weak (even though close to 7%). Individual shareholders, though, have a more herd-like and volatile behavior than do institutional investors, who are few and far between in the Chinese equity markets. A few items of bad news, some selling by well-known shareholders and panic ensues. "*Xi dada niu shi*", "the bullish market of Uncle Xi", showed a drop of 30% in under one month.

The drop was stopped by heavy, strongly interventionist measures (prolonged freezing of quotations, the outlawing of sales for the holders of a significant percentage of shares of the same company). This shows, whatever happens, that China is not ready for globalization and it is not tomorrow that it will rival Wall Street in that domain, or that the yuan will rival the dollar.

BRICS: yet another development bank.

The announcement by Russia, China, India, Brazil and South Africa of the creation of the New Development Bank has the advantage of bringing a (small) common denominator to a group of countries that are in reality very different. Following the creation of the Asian Bank for Funding and Infrastructure, this decision will be seen as a new attempt to counteract the West's domination of the large multilateral financial institutions. That much is undeniable. But in banking and financing matters, a reputation is not built in a day. Note that the BRICS Bank is somewhat closed, unlike the Asian Bank which is open to all countries for share holdings. Moreover, the new bank's management is built on a sharing of responsibilities (Shanghai, you can have the head office, India, you can have overall management, Brazil, you can have the presidency of the board, etc.). None of which, we hope, will detract from the institution's efficiency!

Names of the month: Merkel and Schäuble.

The minister so annoyed the Chancellor by his intransigence that she even set him aside. The referendum brought them together and as a duo they played a masterly arrangement. Whilst Schäuble raised tensions and put fear into the Greeks with his notion of a temporary exit from the eurozone, Angela Merkel, playing on the strong desire of some to avoid a "grexit" at any price, got them to swallow a plan whose demands were considerably tougher than those rejected by the Athens referendum, harder even than the new text presented by Alexis Tsipras, one that nobody considered as serious and realistic. The Germans won the hand, but not necessarily Greece and the eurozone.

The Human Development Index: too neglected.

Studies and commissions are multiplying to perfect the complementary indices to the GDP, judged (and rightly so) as inadequate to provide an exact picture of a country's advances - not just in terms of standards of living, but also in terms of well-being and education. Nonetheless, the UN has for some time used a Human Development Index (HDI) that takes into account health (with life expectancy at birth) knowledge (average time in education of adults over 25 years of age and the expected time in education for a school-age child) and wealth (national income by inhabitant). This is all too infrequently referred to. Too limited, some will say. What about respect for the environment and for liberty? However, the education criterion indirectly contains many other aspects. Too unreliable, they say. It is true that France, long classified in the first 5 countries, is now in 17th position. Quite rightly, nothing is ever fixed in the domains that depend on efforts – be they individual, collective, or governmental; something that the GDP, too inert, fails to show up.