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THE BANKER'S COMMENT BY JEAN-PIERRE PATAT

A former central banker looks at the news

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Figure of the month: -0.005 %, the negative rate at which France has borrowed over 3 months, reflecting the suspicion towards many borrowers rather than real appetite for our debt.

The debt 'redemption' pact: a suggestion from the German Council of Economic Experts.

This project's initiators hope to harmonise two of the euro zone's basic principles, responsibility and solidarity. Today, these are illustrated by two concepts that do not make good bedfellows: budgetary rigour and the demand for euro bonds. The basic idea is to separate States' public debts into debts which are compatible with the Stability and Growth Pact (below 60% of GDP) and debts which exceed that figure. These latter debts would be transferred to a "Redemption" Fund (payback) for which participating countries would be jointly liable and which would be financed on the markets. The countries would pledge to reimburse the Fund over a 20 year period and accept the cost of loans from the said Fund. Add to this the obligation for the countries concerned to create a specific tax dedicated to the Fund's reimbursement plus access to the Fund that would be subordinate to the adoption of the golden rule. And finally, countries benefitting from FSWF aid are barred from access to the Fund. It is clear that German hands are involved and that we are still far from the possibility of euro bonds that the authors of this project reject categorically. The authors estimate the project at about 2,400 billion euros and it would evidently profit mainly (a logical outcome or an unworthy privilege?) countries whose debt far exceeds the 60% rate – Italy is first of course!

It all seems to be well thought out but a few queries arise. Would the rate at which the Fund would be financed be as advantageous as the project's authors think? Are the countries that are asking for euro bonds and who declare themselves favourable to this project (France among them) truly aware of the constraints attached to it? Might not the exclusion of countries in receipt of FSWF aid, understood by markets, create an explosive situation?

Above all this Fund does not contribute to advances in solving the real problem in the euro zone - the great structural deficiencies of some countries that (perhaps even more than the debt itself) so frighten investors.

European banking supervision headed by the ECB: a remarkable change of mind.

As an obligatory counterpart to the possibility offered to the FSWF to directly assist European banks, this orientation was not evident a little while ago. Let's overlook the principle known as the "Great Wall of China" which suggests that the organisation in charge of monetary policy could not exercise supervision, so as to avoid conflicts of interest. The clear responsibility of central banks in respect of financial stability and preventing systemic risks has laid this principle away as outdated. More seriously, that decision is the recognition, amply supported by the crisis, that central banks have the best competence in that domain; whilst in the euro zone supervision is not exercised in all countries by the central bank – not by far. Beyond getting agreement on the principle, which seems to have been obtained, the actual implementation of this move risks being delicate. What is more, this is all about significantly strengthening the role and authority of the one supranational institution in Europe, but one that is not in essence democratic. All of which makes it more urgent to get significant advances on the road to a federal economic power.

The raising of the Livret A's (savings book) ceiling: a Franco-French question based on a long kept misunderstanding.

There is said to be consideration of doubling the ceiling for Livret A deposits, an investment for cash savings in France called 'for the people', with interest exempt from taxation and with profits destined for financing social housing via the Caisse des Dépôts et Consignations. Let us note first that, because of the existence of a somewhat obsolete 30% liquidity coefficient, the totality of funds received is not used for that purpose.

Above all, though, this product is anything but "for the people". For sure, millions of modest people do own one, but their holding is well below the present ceiling of 15,300 euros. It is the superior classes who, with an account at maximum for each member of the family, are now benefitting fully from this privilege. A privilege that would become somewhat scandalously doubled by the measure under consideration. Scandalously, and in a manner that is wholly unjustified. It is long term savings that need to be favoured, not short term investments, and to double a tax niche seems not to be part of the present logic for reducing deficits.

Word of the month: 'pathetic'!

That's how market operators are said to have described the ECB after the recent lowering of its base rate to three quarters of a point. It must be admitted that in this context those markets were overconfident in the worst possible way. The lowering of the rate? Insufficient! As if the credit problem lay there. Why didn't they reactivate the massive loans to banks over three years? They seem not to know that hundreds of billions of euros of these loans lie in the books of the central bank. And why not restart the public debt bonds repurchasing programme? Why? And why? You can bet your bottom dollar that serious investors who, unfortunately, do not always dictate market movements, are well aware that multiplying these placebos does nothing to solve the root problems!

Rigour, yes, but for the others!

That's just what came out of an investigation with a 'globally positive' result – "the French agree on a need for rigour" is the press headline. However, the devil is in the detail, and this is edifying. First, for 80% of those surveyed and at the top of the willingly accepted measures of rigour, we find ... "increasing taxation on fortunes"; probably those that actually pay this did not figure largely in the survey sample! Then, for almost 50% of respondents, comes "taxes on businesses". Then – for a further nearly 50% - "get those paying income taxes who do not already do so"; we can well imagine those who recommend that. As for actually "increasing income tax", it is acceptable to only 7% of those sampled; whilst "raising VAT or CSG" attracts less than 5%. And they say the French are ready for any sacrifice!

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
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