



## THE BANKER'S COMMENT - JEAN-PIERRE PATAT

### A former central banker looks at the news

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Figures of the month, little known: average credit rates for businesses > one year and > one million euros : 2,21% in the euro zone and 1,82% in France.

#### Banking reform in France. Phew!

Jokingly nicknamed, by those who expected more, as "mini-volvic", with reference to the Volker reforms in the USA and Vickers (still in the making) in the UK, the French banking reform project is effectively at "minima".

That said, there are a few prohibitions that we shan't complain about: trading derivatives on agricultural commodities, "high frequency" trading, and holdings in hedge fund capital. However, only purely speculative activities are outlawed - those "with no usefulness for clients". What are these additional accursed activities?

The French project replies to this by listing only useful, hence authorised, ones: hedging for customer accounts and for the bank's account; market making activities (whereas the European project is more restrictive in this regard), investment operations, treasury operations. In short, a very wide range which disappoints those who expected greater things. Monetary creation, they wail, feeds speculation. As if one could confine a currency which was created within the establishment which initiated the operation and to the very deposit account that received it!

Oh well, for once we may rejoice that the banking lobby was efficient. Not that nothing should have been done about it, but then we should be looking at a great generalised house-clean, at least on the European scale, not at specific restrictions made to a national banking system. For example, forbidding continuous quoting, outlawing the holding of credit default swaps except for creditors of the State or the institution that the CDS is supposed to protect in case of payment default.

No doubt, French banks had to make it clear to governmental authorities that the system of universal banks, as conducted in France, is not unrelated to the fact that their credit conditions are, for many operations, the lowest in Europe, lowest even in the great industrialised countries (check the figures of the month).

#### Name of the month: Christian Noyer who is attacking London's preponderant role in euro-based financial transactions.

The accusation against London by the Governor of the Bank of France is a large brick in the pond that, for the moment, is causing only ripples, since it is evident that things cannot be decreed. The euro zone's member countries have, even so, a share of responsibility for the British triumph. In response to a constant of the English attitude, not being there whilst still being there (they had done their best to torpedo the Euro Group, then tried to become part of it), they have agreed that the British system of settlements for large payments be linked to the zone's system (TARGET), an instrument essential for interbank currency circulation and for the transmission of monetary policy, and one which would deprive London of a valuable asset if, in all logic, British banks were not linked into it.

#### The Fed's dream.

Making it known that it would maintain its extremely favourable monetary conditions (repurchasing Treasury bonds and policy rates close to zero as long as unemployment rates stay above a specified level), the Fed will cause those who deplore the ECB's supposed indifference to growth to dream. Let's assume that the announcement is unrelated to Bernanke's forthcoming end-of-mandate and its potential renewal... it then sends two messages. First, by fixing the threshold for unemployment at 6.5%, it suggests that the structural unemployment rate in the US is now two points above the level prior to the global crisis, which is a serious problem in a country where protection against this accident in life is very low. Next, it confirms that fiscal policy is inefficient (what is the point of the hundreds of billions of public deficit?) and that growth can mainly come only from monetary policy, hence from private indebtedness... with all the negative consequences the world is experiencing!

#### Lighten the debt for the over-indebted countries? "Evidence" which is in fact a deadly trap.

The agreement on Greece that euro zone leaders reached with the IMF is, to all appearances, a victory for the orthodox set since it carries no mention, and includes no prospect, of a process to write-off the debt in a strict sense. The 40 billion euros decided upon were so agreed thanks to an interest rate reduction on the official loans to Greece, thanks to the lengthening of maturities, and thanks to the transfers of interest income on Greek debt held in their portfolios by the ECB and by euro zone national central banks. Whatever the transmission channels, 20% of these 40 billion euros (France's share in the processes and mechanisms of the euro zone) will be down to France, be it via the tax payer or by an increase in our debt.

The "realists" will believe that we are kidding ourselves and that wiping the slate clean will become necessary one day. Tipping over the card table is not the best way to lower tensions and improve the zone's image (the Argentinian example is somewhat, whatever one might pretend, counter-productive), not to mention the risk of contagion to other countries and the blow, a violent one, to morality.

#### Enthusiasm for European banking supervision.

Rarely has a European agreement been met with enthusiasm such as the one on banking supervision, agreed by the 27 EU Member States on December 13<sup>th</sup>. Anyway, so much the better if those who have always protested against an excess of power for the European Central Bank are applauding a considerable addition to its prerogatives. We may feel that limiting its direct role to 200 large banks is insufficient, but is not national supervision better equipped to deal with smaller banks? It now remains to be seen how this agreement - concluded by 27 but which will for the time being apply only to countries in the euro zone, and which will apply to others later on, but which will never apply to some (Great Britain for example) - will actually function and just how those countries which are not ready to submit to common supervision, but which will certainly try to stay in the game, will be handled.