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THE BANKER'S COMMENT - JEAN-PIERRE PATAT

A former central banker looks at the news

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Figures of the month: 1, 22 and 133: The indices estimating corruption for Denmark, France and Russia.

Luckily, the ECB is not the Fed.

Once more, comparisons between the Fed and the ECB are filling columns in the economics press.

Let's skip the litanies on the statutes which, at the Fed, are said to privilege growth as much as mastering inflation whilst at the ECB inflation is said to be the sole target. Litanies often forwarded by analysts who have not even taken the trouble to read the texts they are writing or talking about. Right now, debate focuses on the two central banks' *forward guidance* abilities; the clarity and previsibility aspects are said to be almost complete for the Fed but less clear for the ECB. Recent suggestions from Mario Draghi hint at a change of behaviour at the Frankfurt institution. The question, though, is to know if such transparency is the alpha and omega of central banking.

Certainly not, if that consists of validating the anticipations of those in the markets who have adopted positions matching these anticipations. This is a drift that is hard to avoid, and one which the predecessor of Ben Bernanke fell into at the end of the last century. For our part, we think that the art of the central banker does not exclude surprising, or even disappointing the markets.

Another topic at the moment is the publication of central bank minutes, which reflect the deliberations of the Executive Board. This is something done by the Fed but not the ECB. Would such a publication serve useful? No! Apart from feeding the numerous poor quality publications that flood the markets. On the contrary, on the ECB's part, we see the risk of weakening the position of those who sit on the Board of Governors and who, according to the statutes, are independent experts - not representatives of their own country nor of their own central bank, even though they are seen as such by their own public. This is dissimilar from Federal Open Market Committee (FOMC) members'; they are presidents of local Feds, not of States or even of groupings of States, but rather of jurisdictions with abstract boundaries.

Let us note, by the way, the upset in markets with the recently released minutes of the FOMC, which showed disagreements between its members in respect of the protraction or not of security purchases.

Borrowings by the European Stability Mechanism (ESM) are not eurobonds.

The ESM has floated its first borrowing at a rate that was certainly flattering in a more relaxed context where long term debt rates for different countries have come closer together. Some see an indication of what would happen with an issue of eurobonds. Eurobonds! The dream of many and which has just been strongly defended, by the way, by the good doctor Soros – he who tried to strangle the idea at birth and is preoccupied with the euro's health and distils his wise counsel to Saint Jean Bouche d'or types who view him as an expert.

The ESM issues though have no relationship with what would be a eurobond issue. This, in the eyes of the markets, would reflect the risks attached to the debts of the various countries in the zone, and eurobond issue rates could well approach not the average rate but rather those of the worst rated countries. The ESM issue is that of a specific body, the beginning of a European Treasury, and not a coagulation of debts more or less well rated.

Should the ECB take a new LTRO?

That's what the markets think they understood from Mario Draghi's recent suggestions. This Long Term Refinancing Operation was originally intended to offer a guarantee of liquidity to banks experiencing difficulties finding refinancing on the interbank market, which is not the case anymore. It is hard to know how a new operation of this kind could help enliven economic activity by stimulating credit distribution, as the ECB president suggested. The banks have no need to hold liquid reserves in advance to provide credits (a causality that we still find in a few Anglo-Saxon economy textbooks). If the demand for credit is there, and if the dossiers are good, banks will give credits, knowing full well that they will have no trouble refinancing, even at the central bank, if needed. Right now the demand for credit is very weak and banks are hesitant because they fear that their clients will become insolvent, a situation that no LTRO can remedy. In such conditions, is it appropriate for the ECB to increase yet again a balance sheet wherein there already features an outstanding LTRO debt above 1,500 billion euros?

Name of the month: Janet Yellen.

One cannot fail to rejoice at the nomination of Janet Yellen to succeed Ben Bernanke as Fed chairman. Apart from her personal qualities and abilities it must be said that the other candidate, Larry Summer, who was Barak Obama's choice, lacked the profile. Not because he suppressed the Glass Steagle Act, a suppression which was in no way responsible for the sub-primes crisis and the Lehman Brothers failure, but – let us dare say it – because of his personality. We have seen many types at the head of central banks; although the majority were competent and upright, we have also seen those who are incapable, invisible, megalomaniacs, or even corrupt. But never arrogant and brutal; for that job Summer would not do.

The Chinese Yuan, a global currency? Still some way to go.

The truly spectacular development of operations conducted in Yuan, in particular the issue of bonds, in no way announces, even in the medium term, a global currency role for the Chinese tender. Still less is it a serious competitor for the dollar. Its non-convertibility is not the issue because control of exchange rates can be dropped at the stroke of a pen. On the other hand, there is one thing that cannot be improvised, a financial market which is large, deep and safe - an ideal placement for central bank reserves. In that respect, the large fiscal deficits of the US over these last years, as they create some additional hundreds of billions of dollars in outstanding debts in treasuries and bonds, have seriously consolidated the dollar's role.

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