

Conseil d'Analyse Economique franco-allemand (CEPII, Paris, 12 Janvier 2009)
„Crise et restructuration de la finance mondiale : points de vue franco-allemands“

L'Allemagne et la France face à la crise: Aspects économiques

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Outline

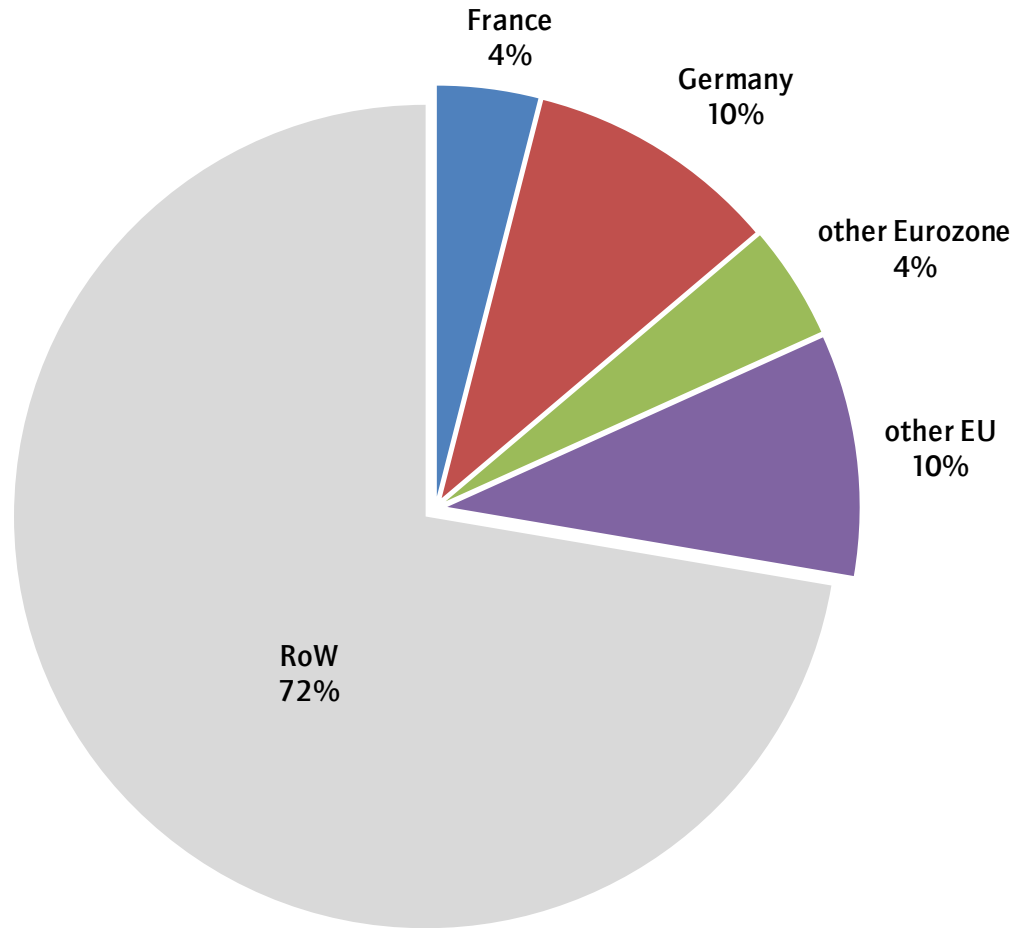
- Damage done and repair work (so far)
- Financial industry as producing unit
 - Financial losses and domestic income
 - Banking sector's business model after the crisis
- Banking sector as financial intermediary
 - Lending capacity
 - Money multiplier
 - Equity ratios
 - Risk premiums and credit cost
 - Interbank market turbulence
- Coping with the crisis and fighting recession

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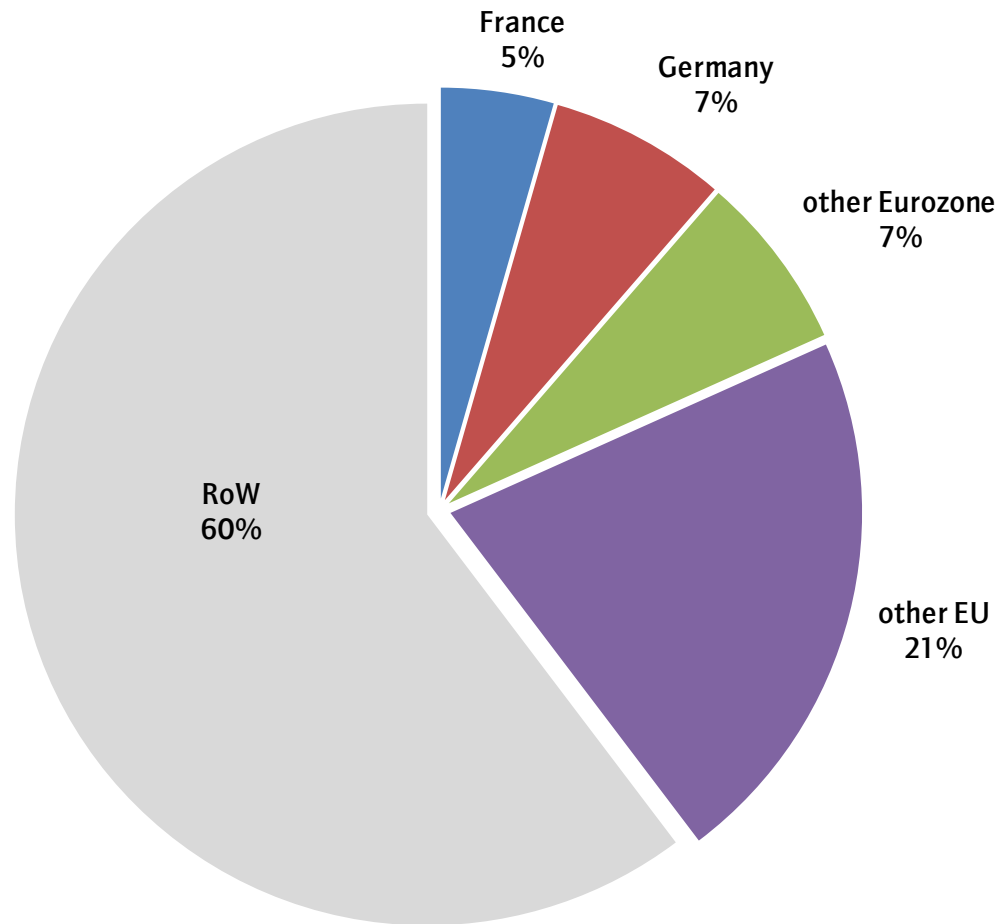
Global write-offs and losses: 732 bn US-Dollar

Source: Bloomberg; period from beginning of 2007 to end-2008



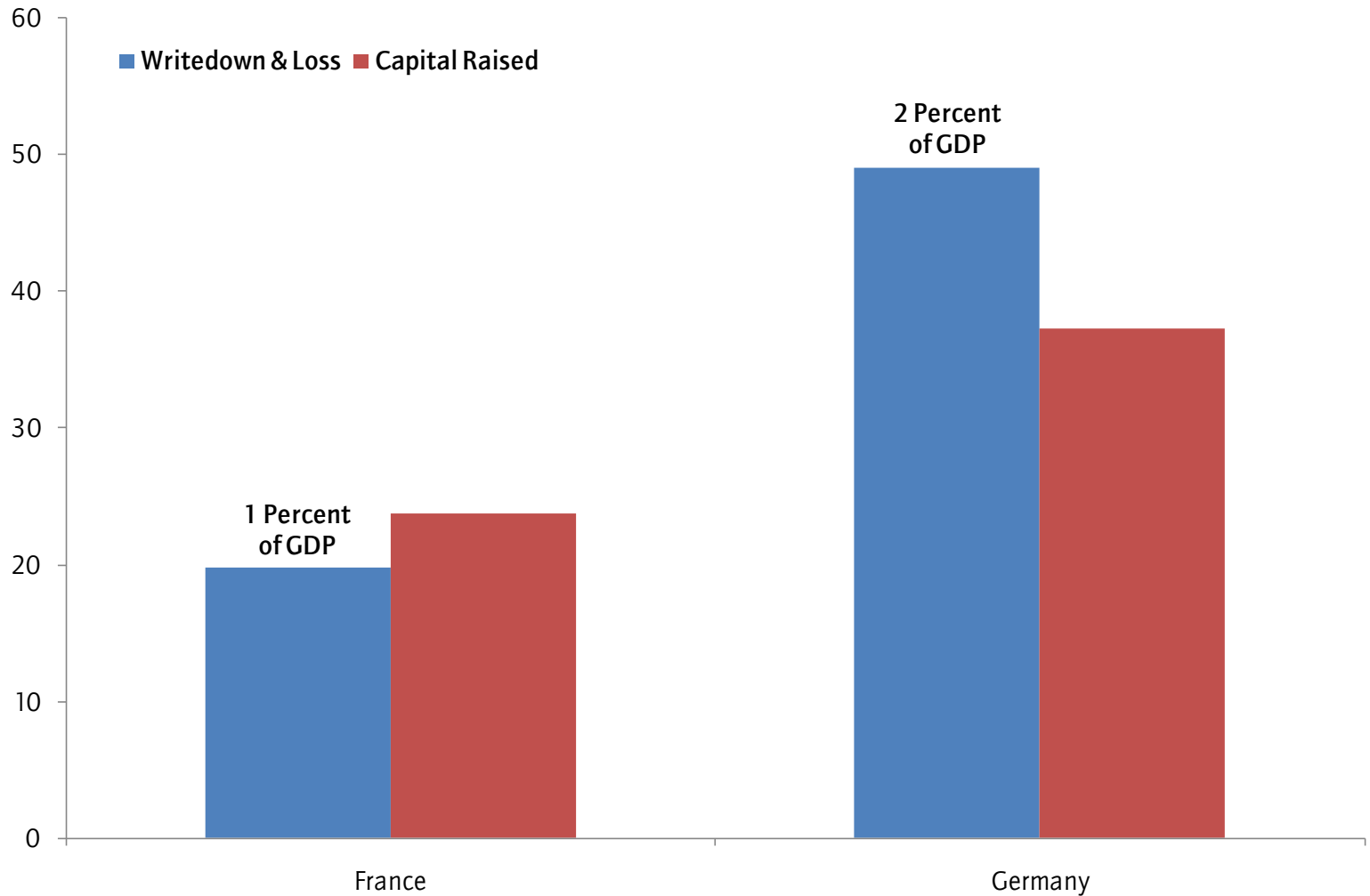
Capital raised world-wide: 789 bn US-Dollar

Source: Bloomberg; period from mid-2007 to end-2008



Write-offs and capital raised in France, Germany

Bn Euro; Source: Bloomberg



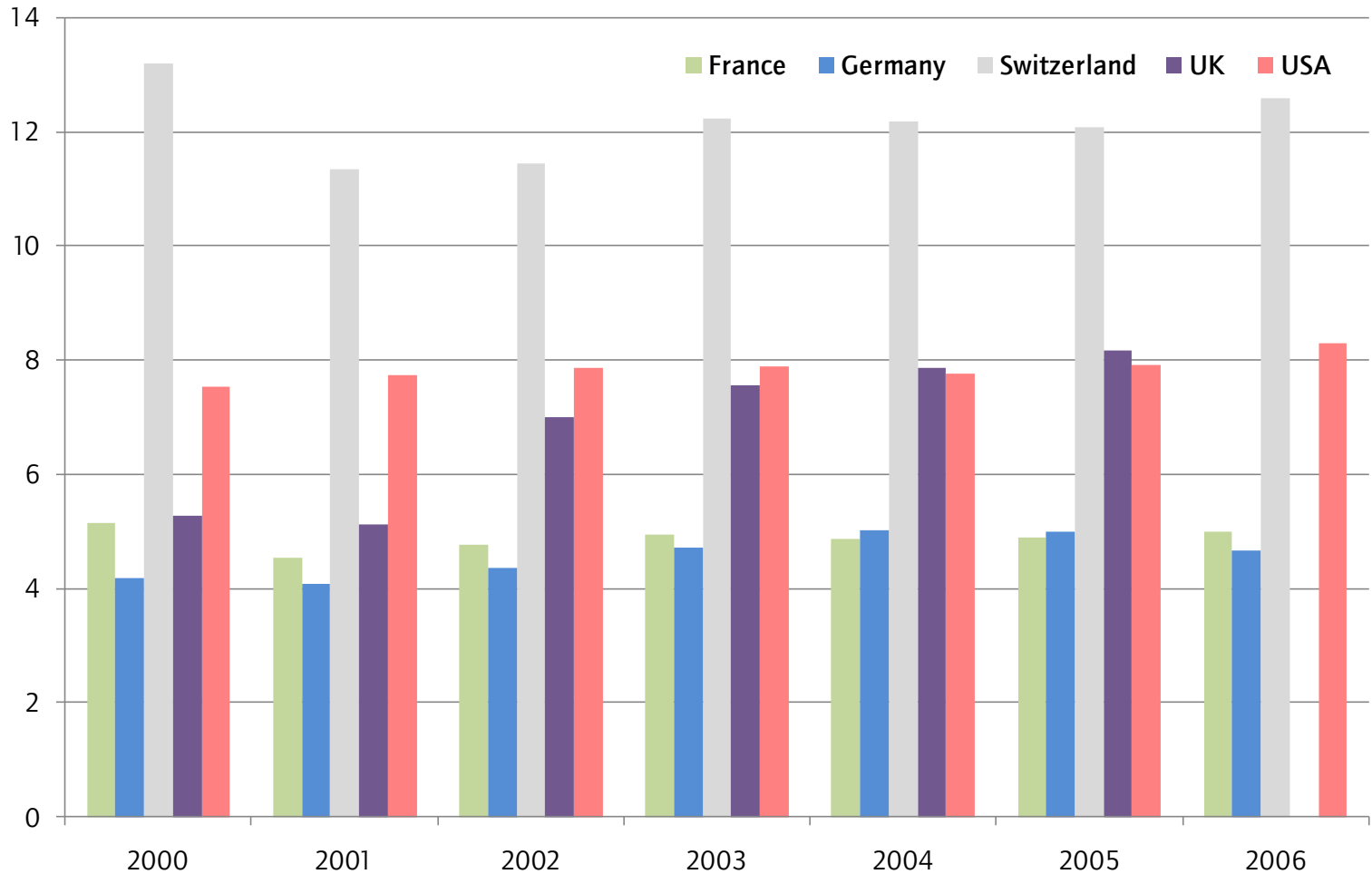
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Impact on income and value-added

- Are financial losses lost in the National Accounts?
 - Theoretically plausible (income as consumption possibility) as foreign financial assets are involved from the European perspective
 - Conceptually, revaluations of financial assets are out of the production-based income-creation system of National Accounts ("value added = production of financial services" not affected)
 - ⇒ Write-offs within the financial sector do not directly matter for GDP or GNI (revaluations are recorded in the financial accounts)
 - ⇒ But: Second-round effects (reduced interest payments on financial assets) do matter for GNI in upcoming years
- Expected production-side effect less pronounced in France and Germany than in the Anglo-Saxon economies

Financial industry's share in total value added

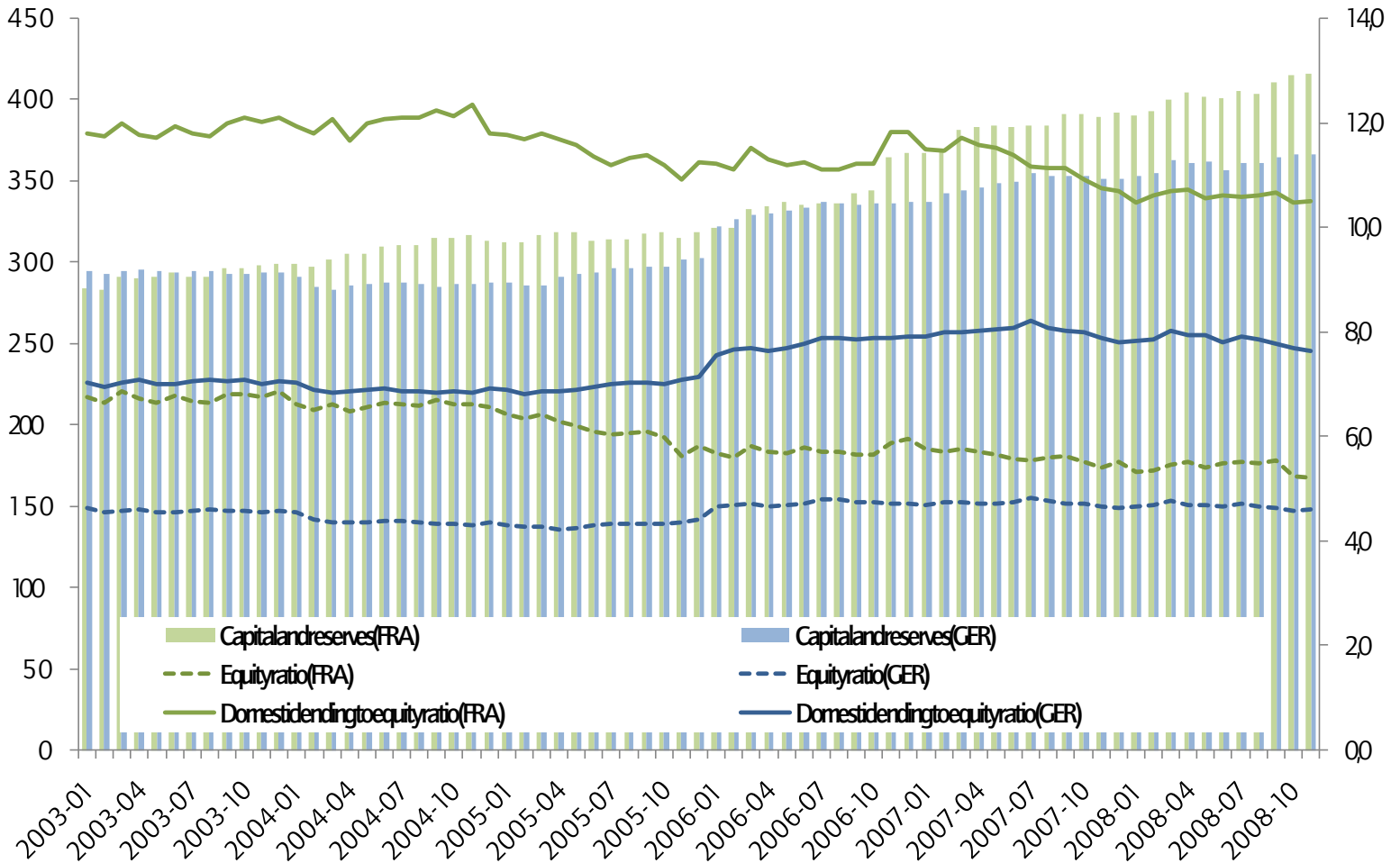


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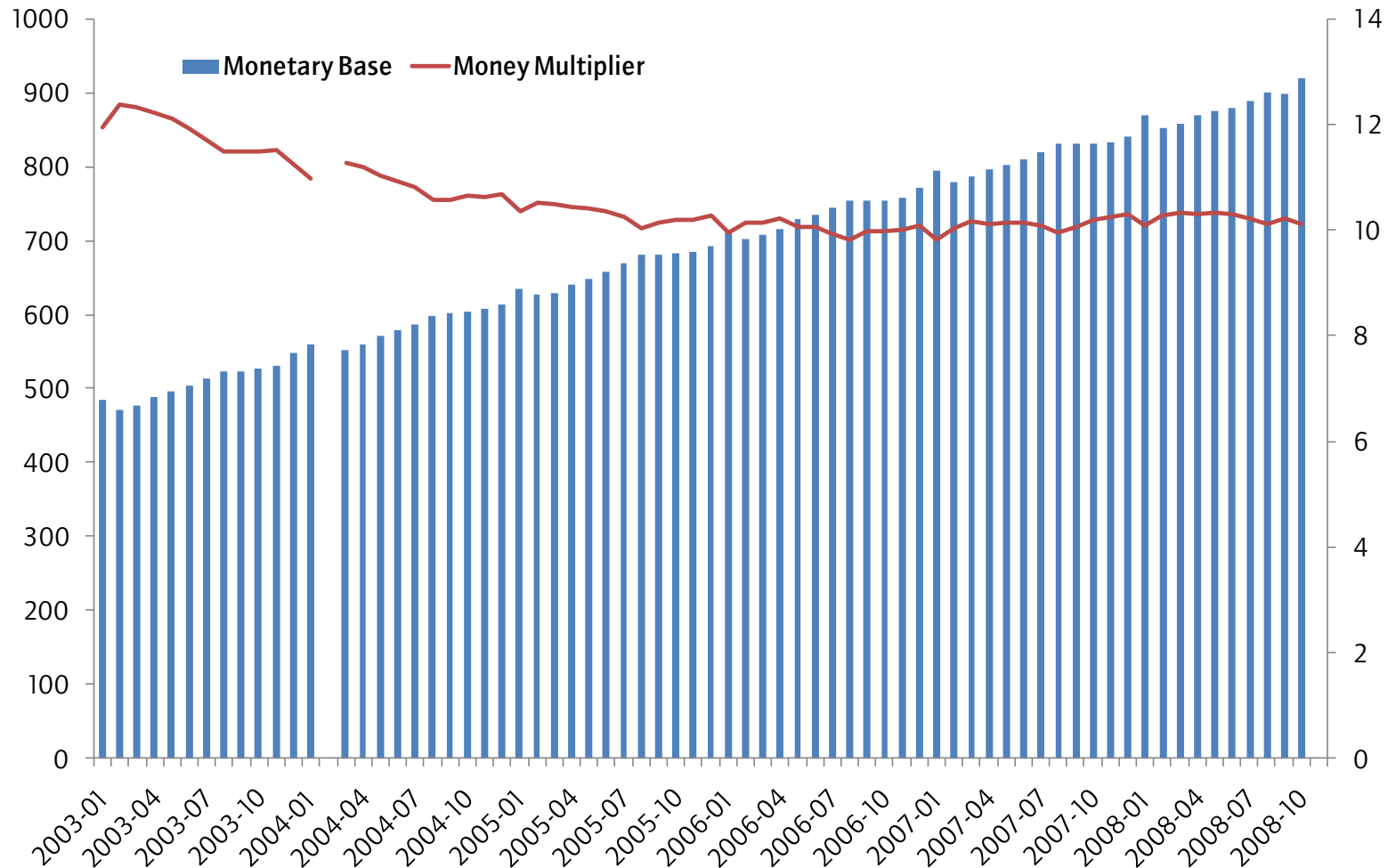
MFI capital base and balance sheet ratios

Bill. Euro (left scale), percentage points (right scale)



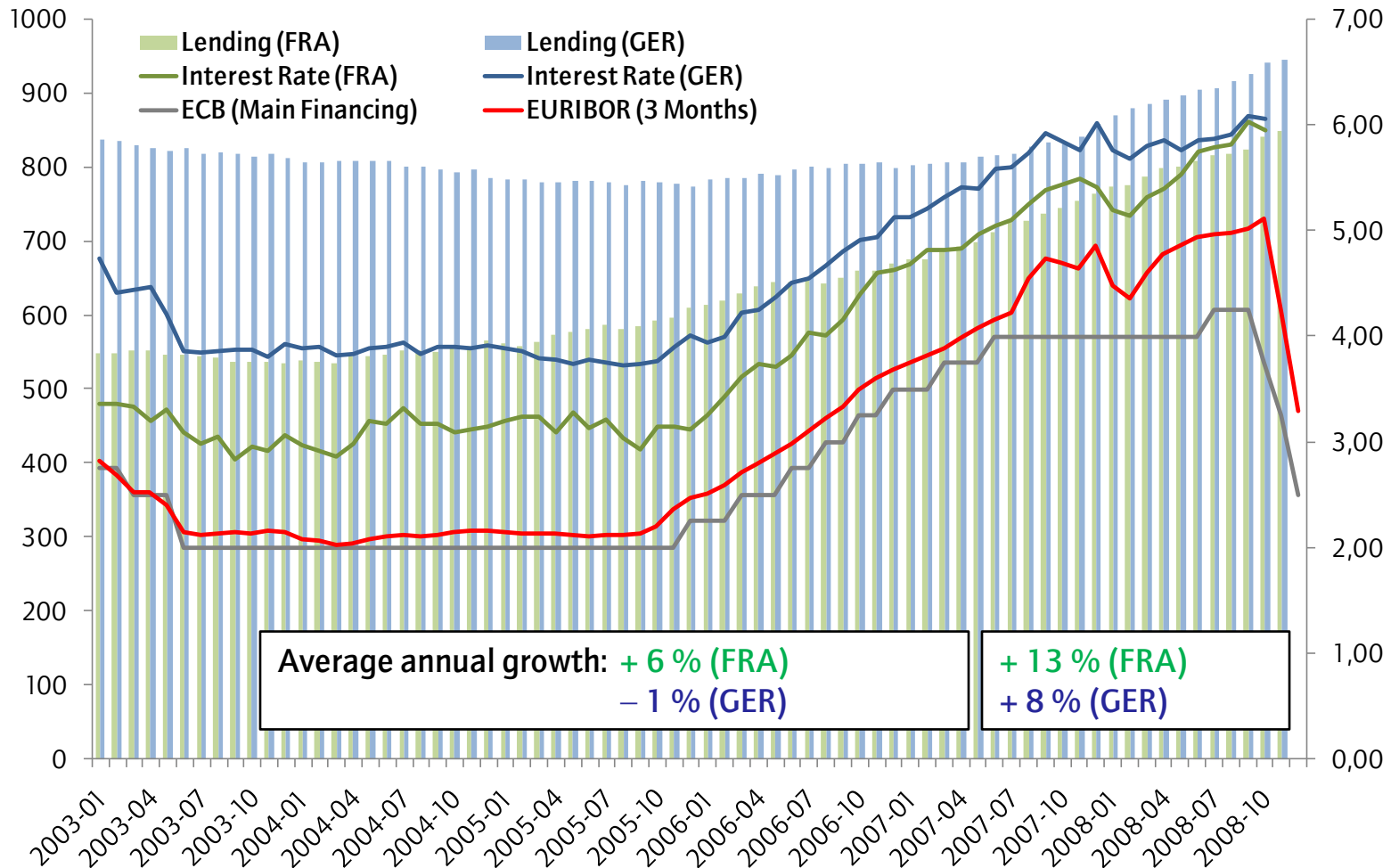
Monetary base and money multiplier

Bn Euro (left scale), money multiplier (right scale)



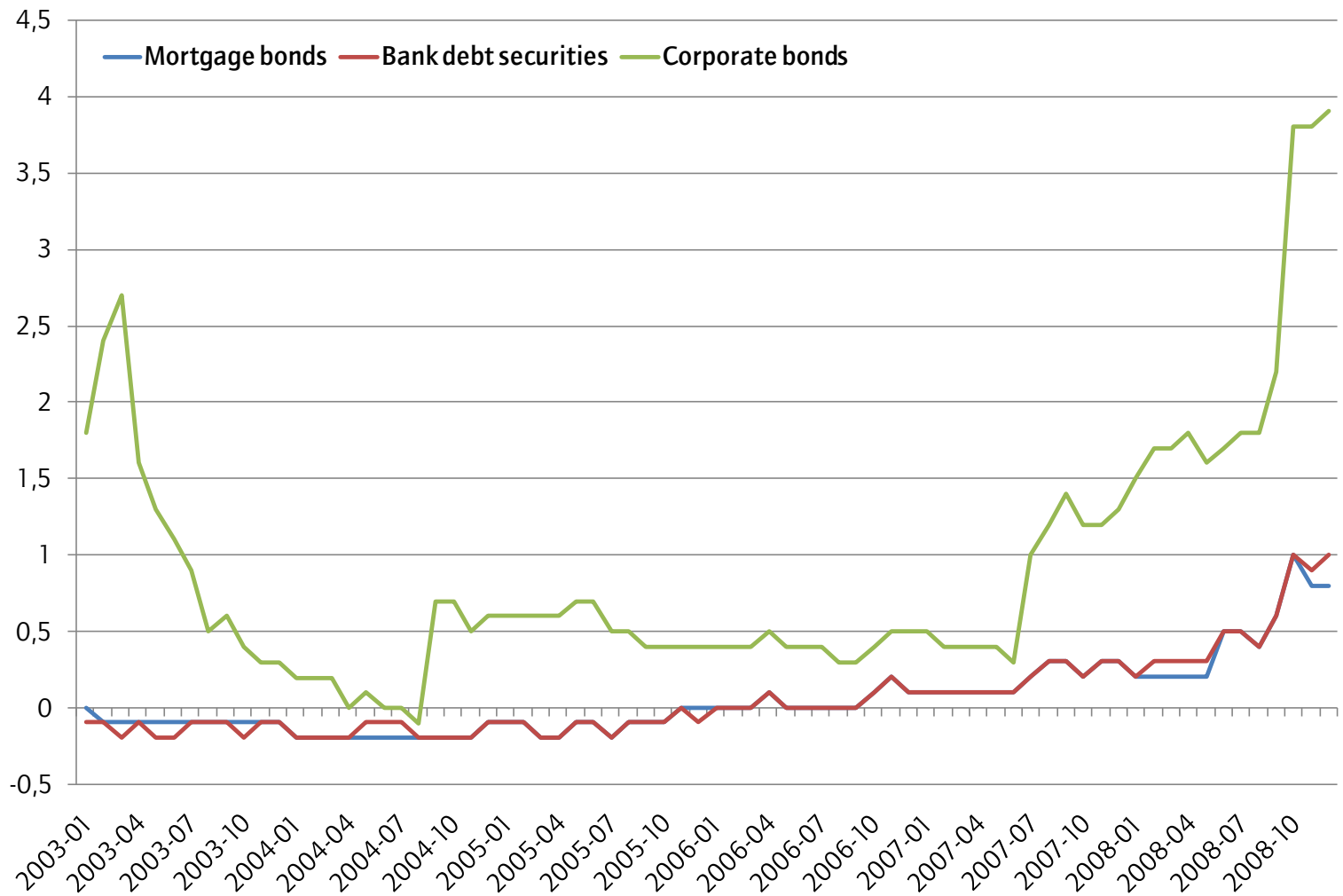
Lending to non-financial corporations

Credit volume in bn Euro (left scale), interest rates in percent (right scale)



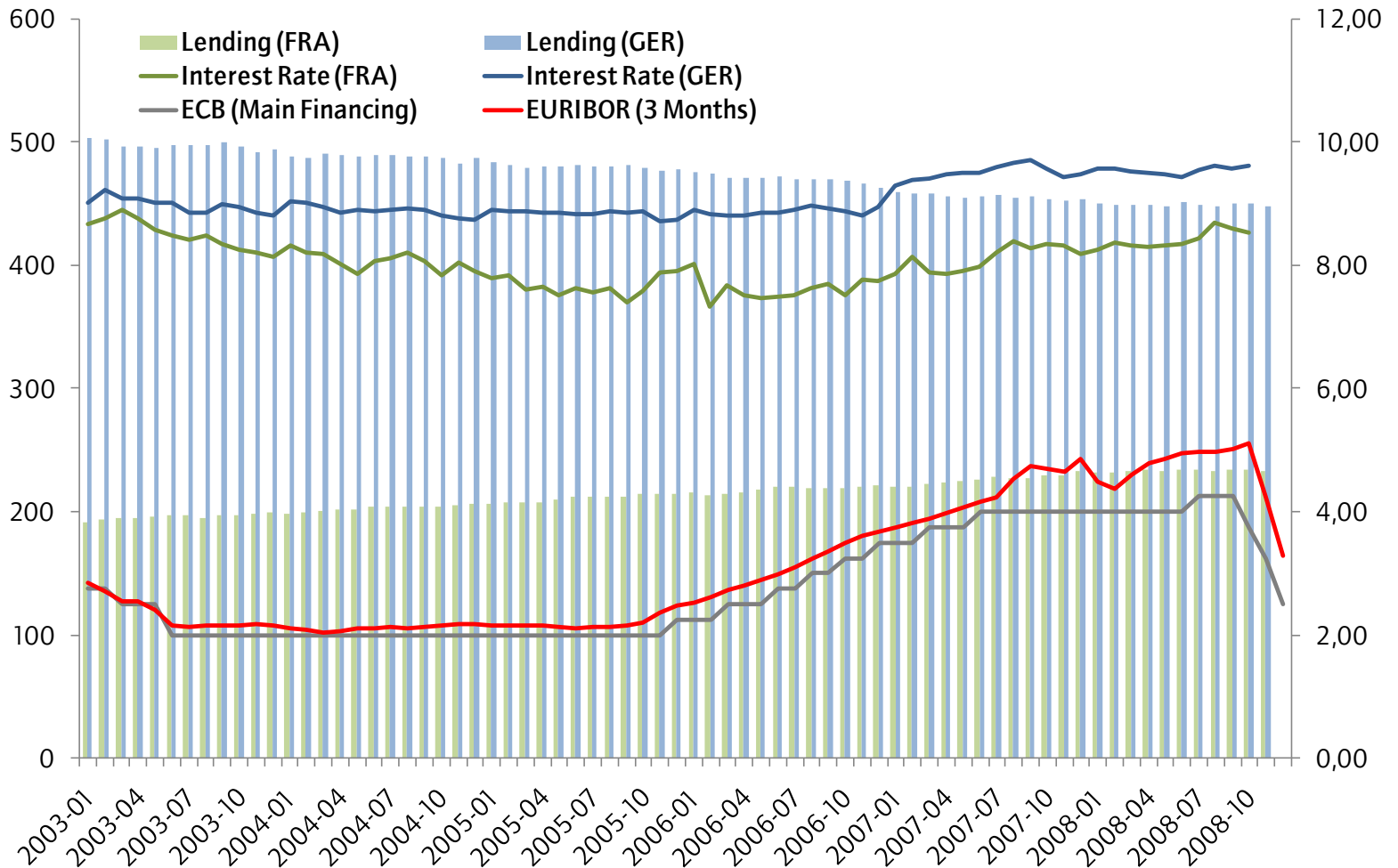
Risk (and liquidity) premiums

Yield spreads of German securities vis-à-vis German federal bonds



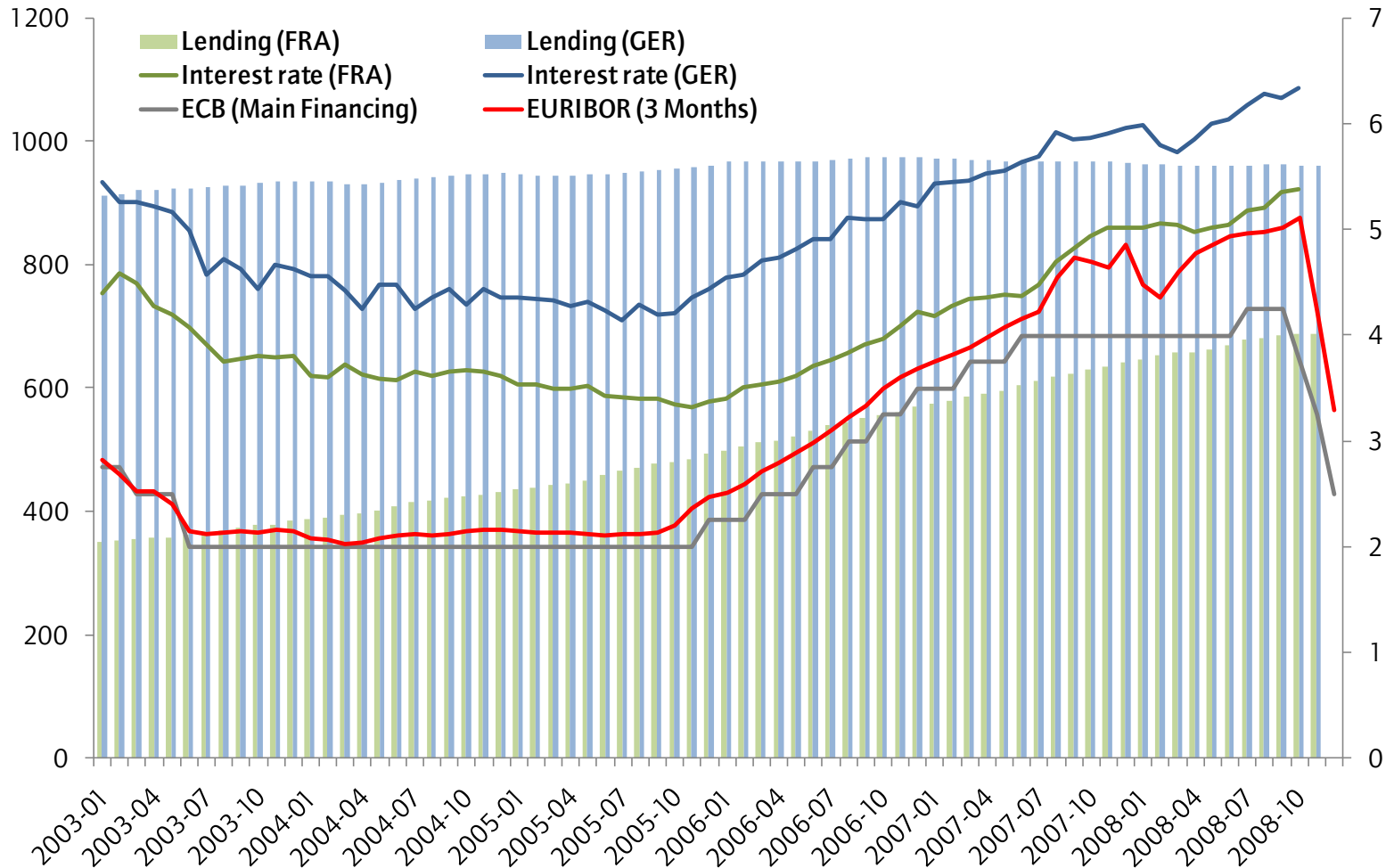
Lending to consumers

Credit volume in bn Euro (left scale), interest rates in percent (right scale)



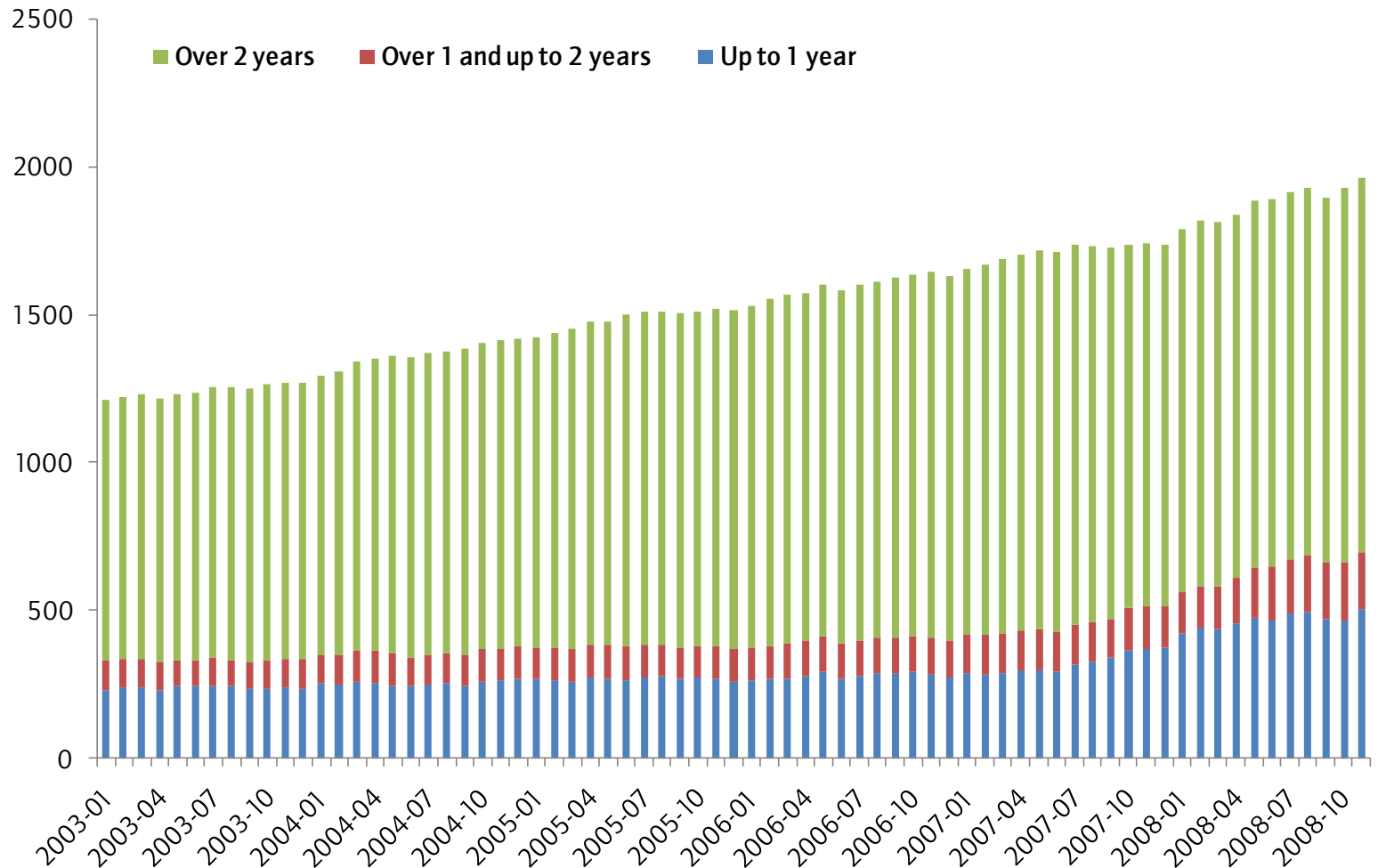
Lending for house purchase

Credit volume in bn Euro (left scale), interest rates in percent (right scale)



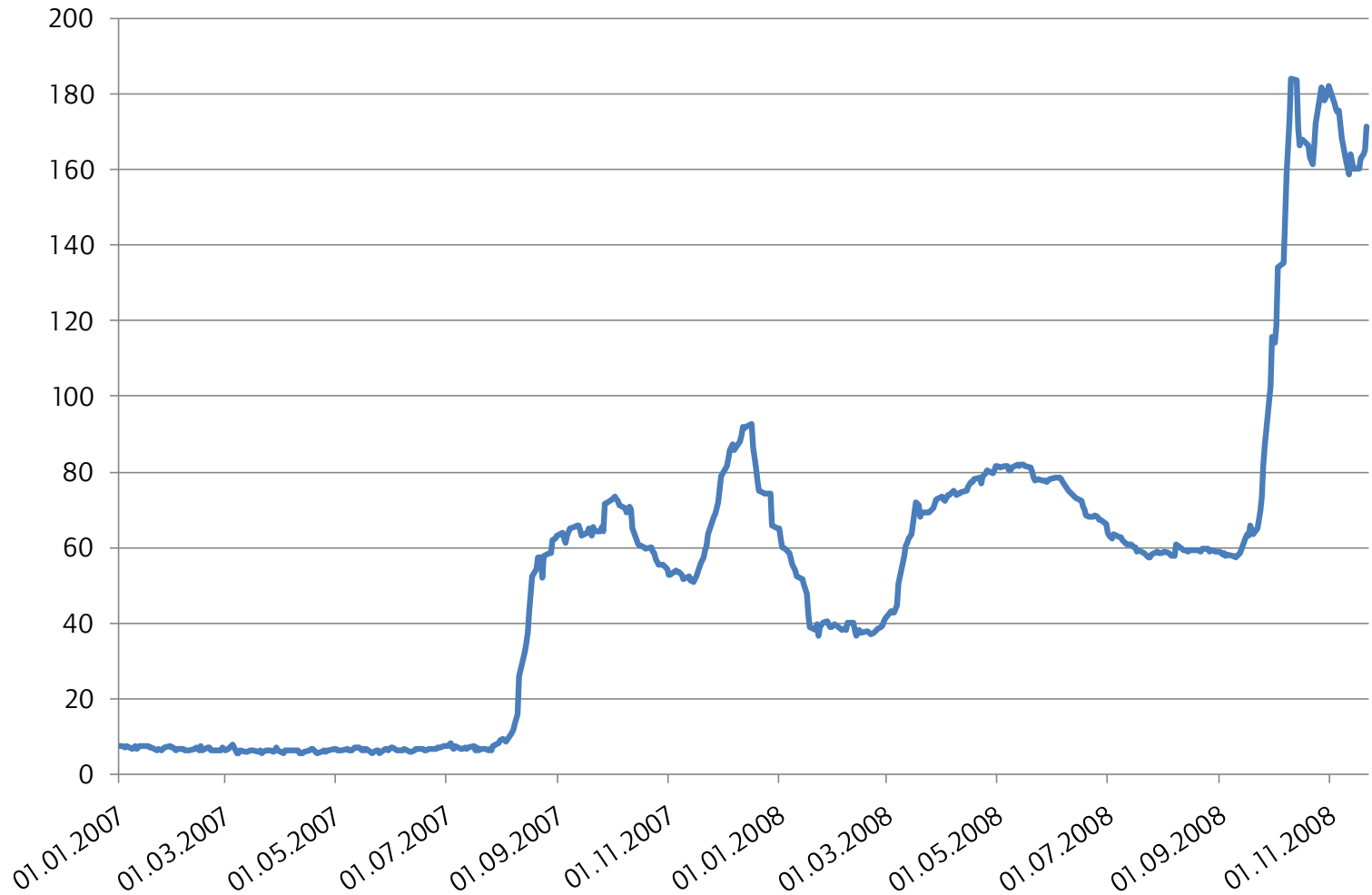
Interbank lending (Eurozone)

Credit volume in bn Euro



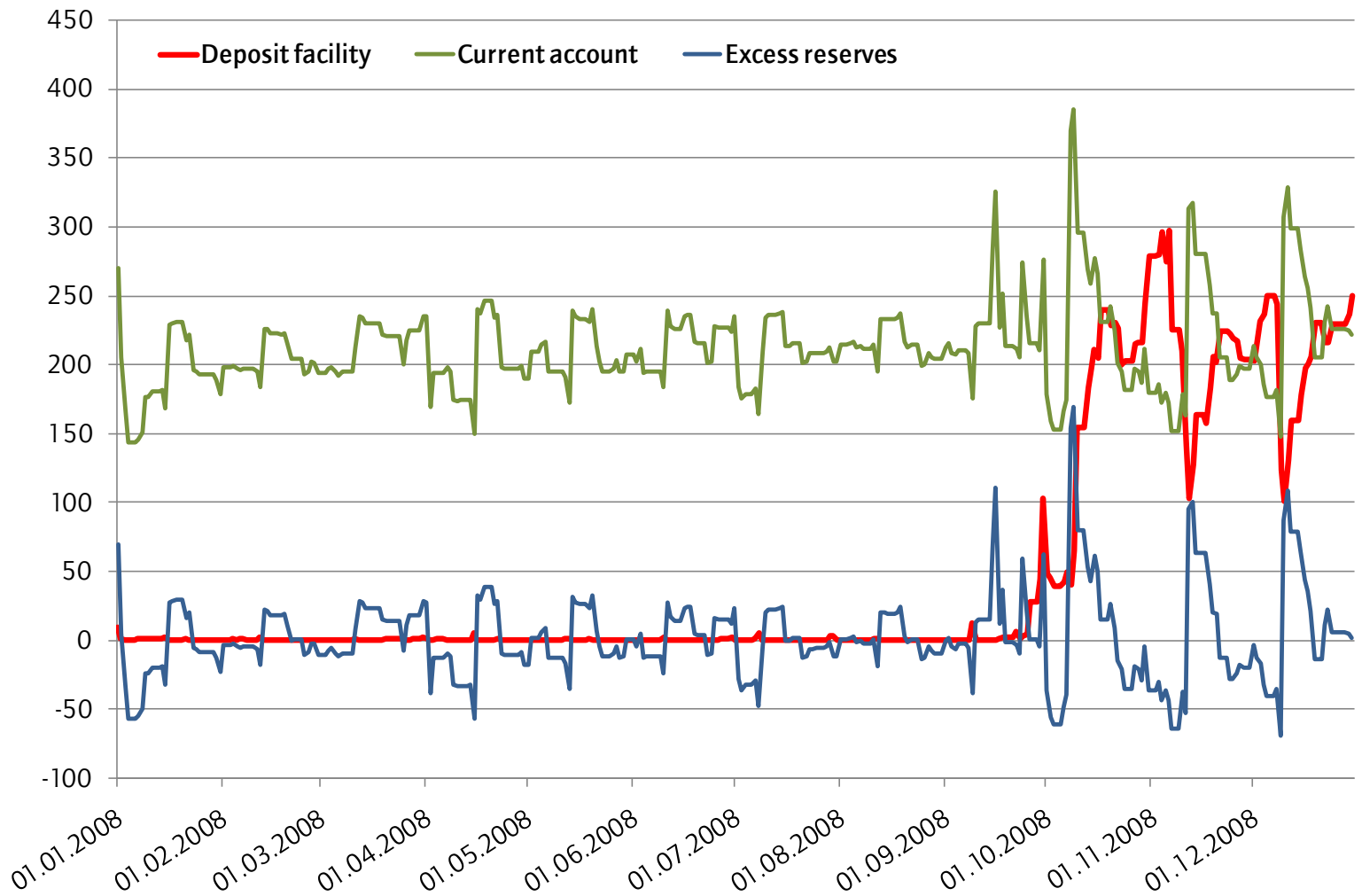
EURIBOR-EUREPO spread (Eurozone)

in basis points, 3-months maturity



Banking system's liquidity position (Eurozone)

Bn Euro



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General response to the financial crisis

- The world won't be the same as the one before the crisis:

"... the one thing we can be almost certain of is when the next crisis comes, it won't involve AAA-rated subprime mortgage CDOs" (A. K. Kashyap et al., 2008)

⇒ Need for forward-looking regulation

Self-healing/-stabilizing market mechanisms

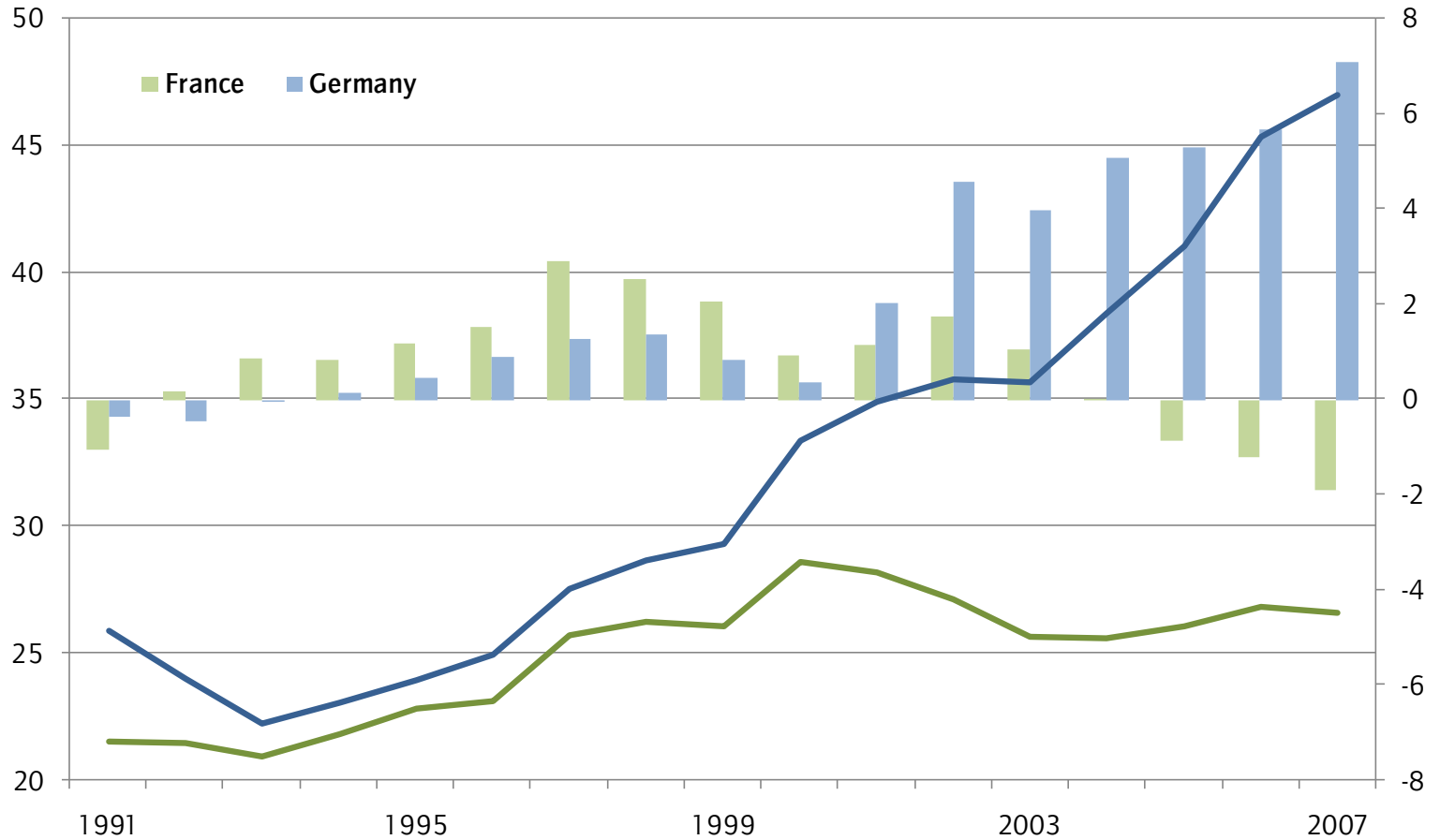
- **Crisis is revealing/clearing unsustainable structures**
 - ⇒ Fighting overshooting, not market correction per se
- **Resurrection of risk-awareness**
 - ⇒ Pre-crisis levels not a reliable benchmark
- **Lowered “reservation” return on capital**
 - ⇒ Reduction of opportunity cost of real investment projects
- **Final return on financial assets not detached from real investment**
 - ⇒ Global credit crunch less likely

France and Germany in recent years

- Quite different structures ...
- ... but equally successful
(to our mutual astonishment)
- Some diverging trends might explain the alternative approaches to anti-recession programs in the recent past (see following 3 slides)

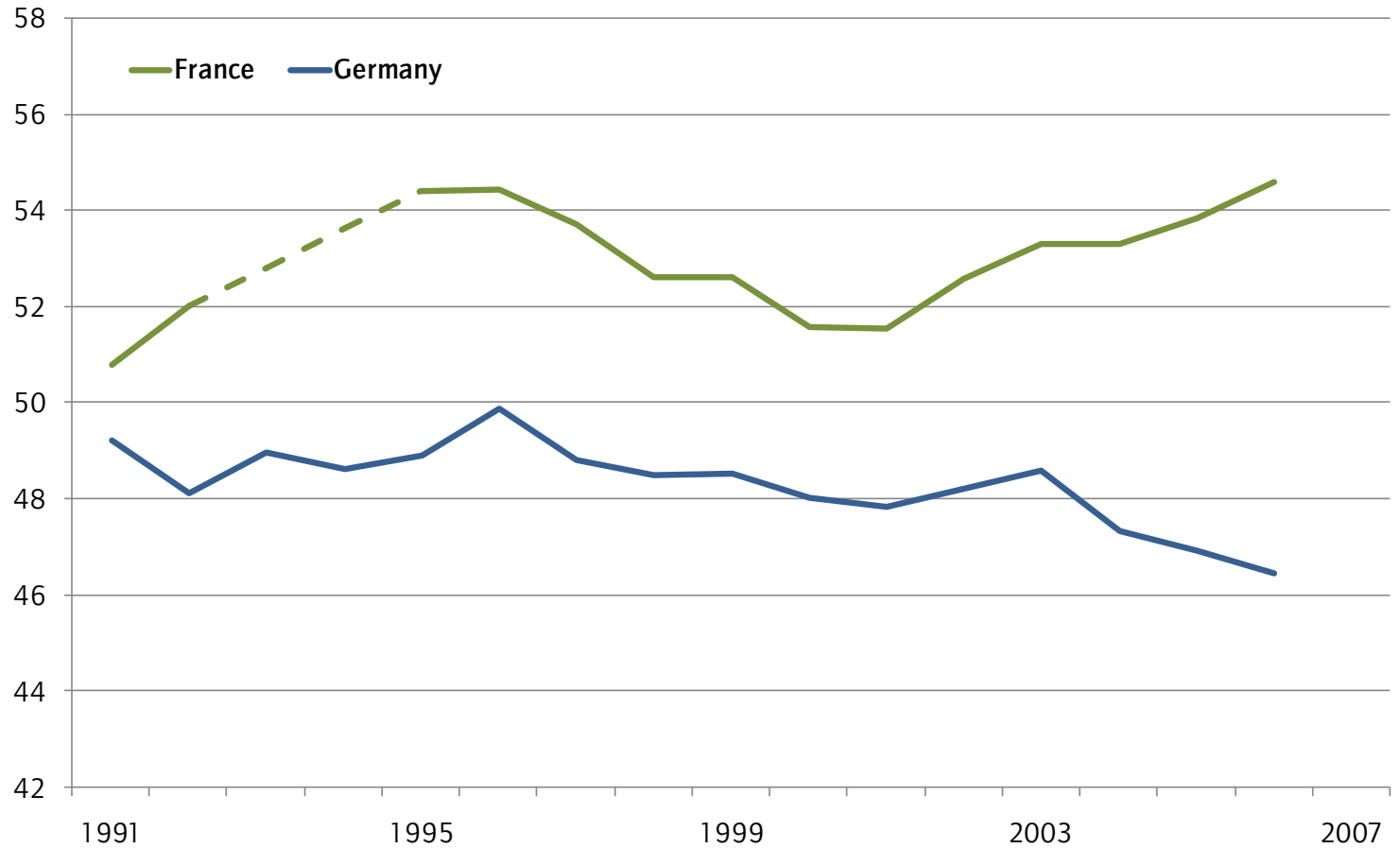
Foreign trade

Exports (lines, left scale) and trade surplus (bars, right scale) as percent of GDP



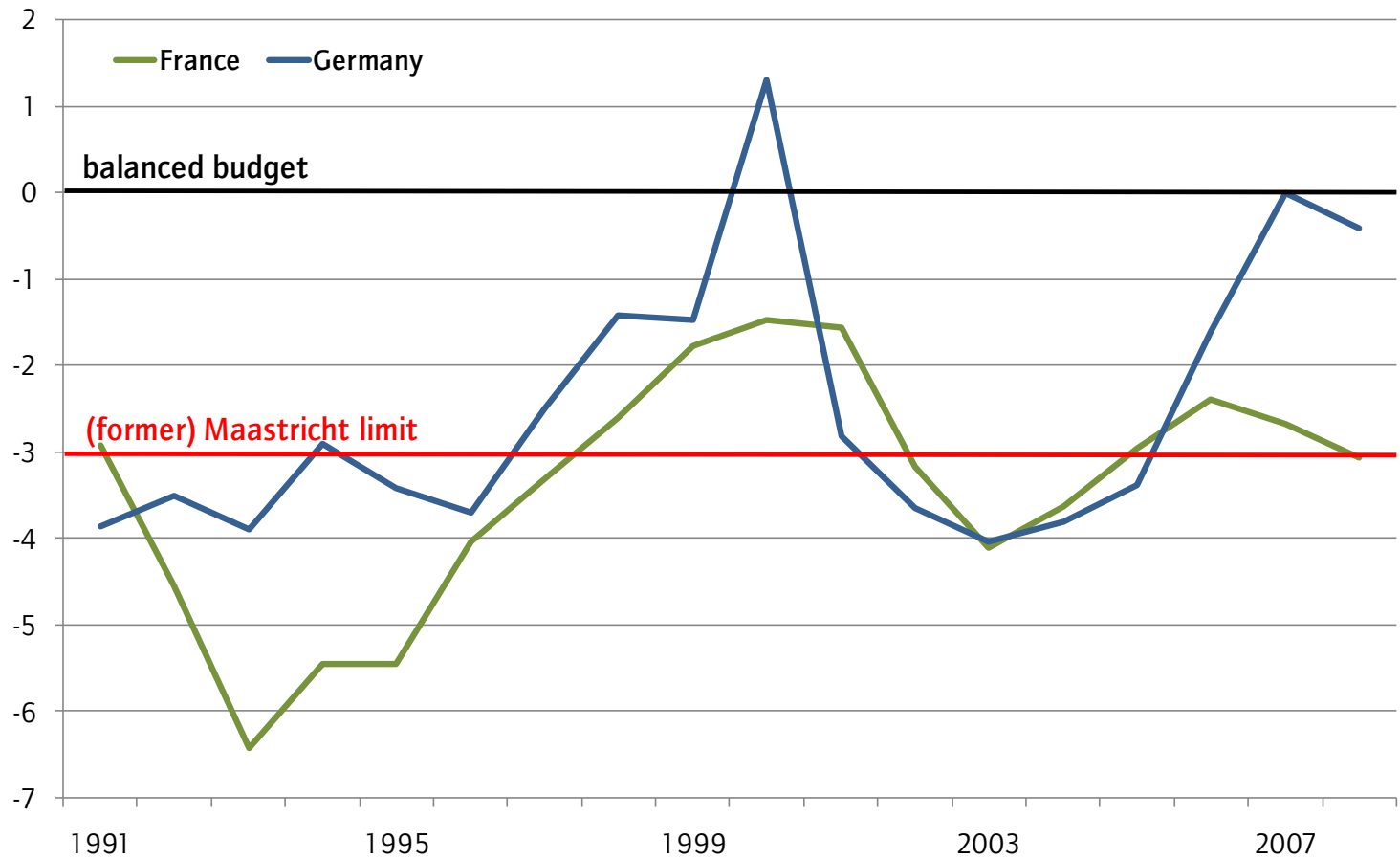
Importance of the public sector

Public spending ratio in percent



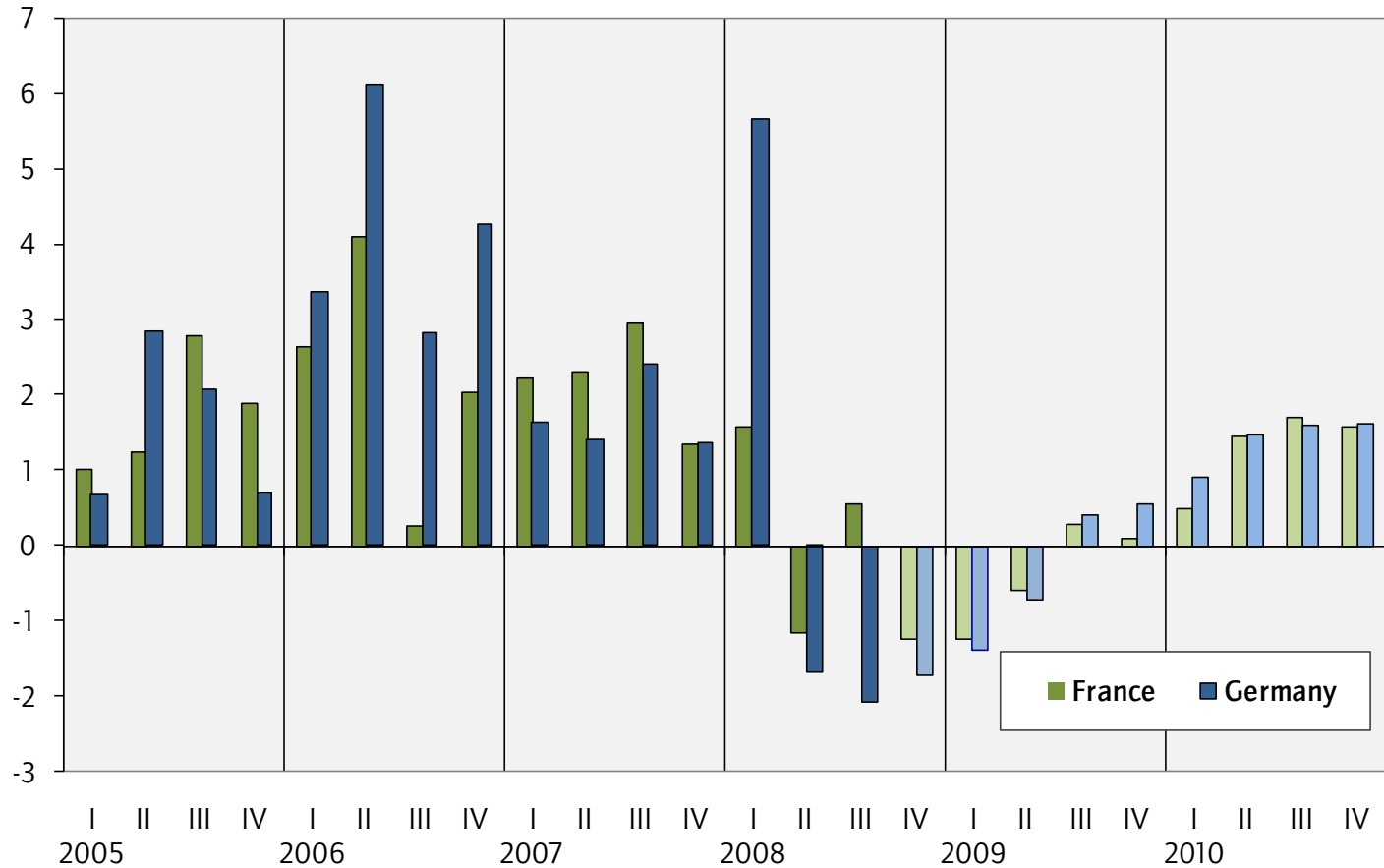
Fiscal deficits

In percent of GDP



Economic Outlook: Real GDP growth

Seasonally adjusted annualized quarter-on-quarter growth in percent; Source: Eurostat, Global Insight, DIW Berlin

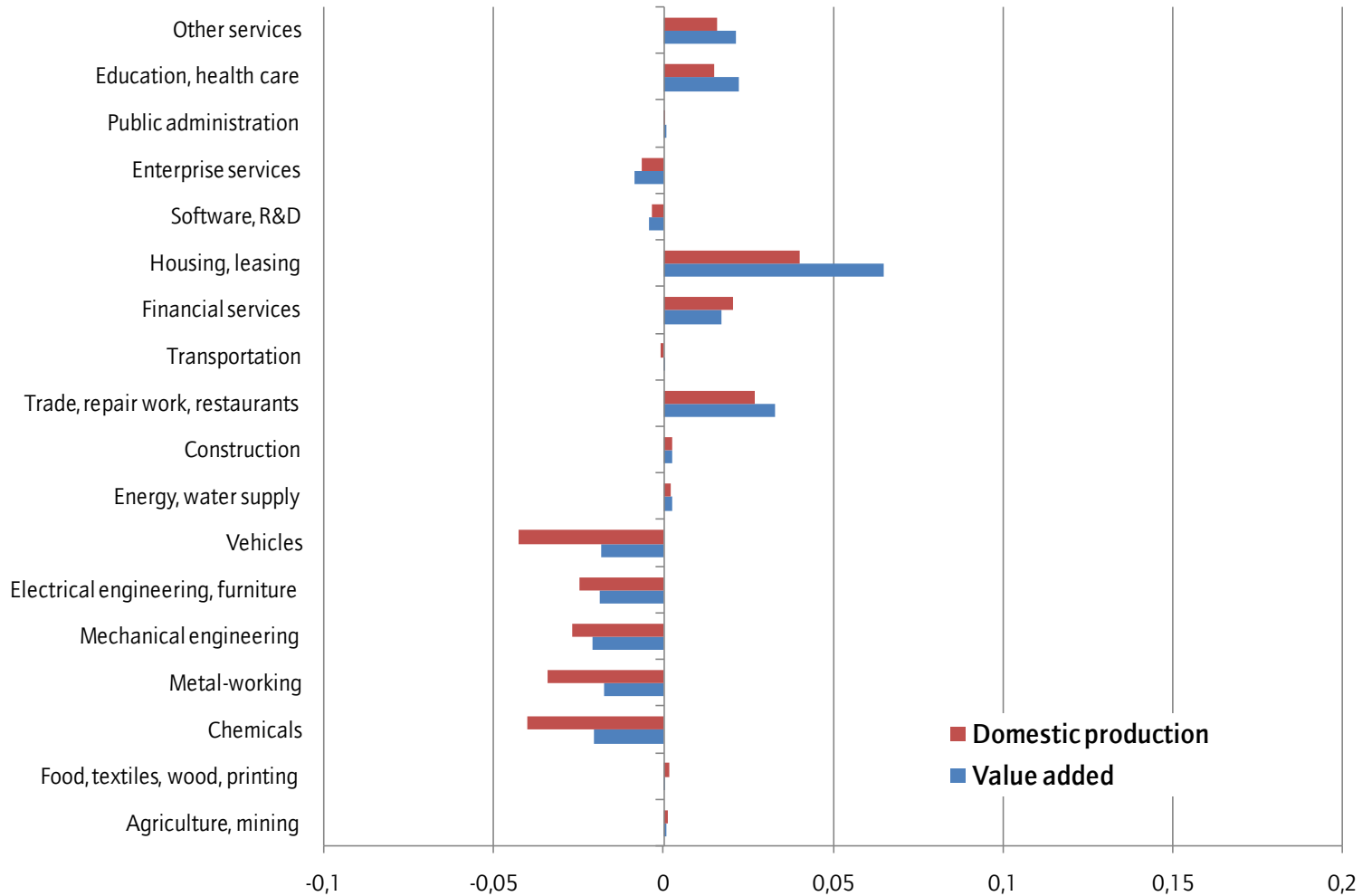


Business cycle stabilization 1

- Impact on real economy not as clear as it seems
 - Wealth effects from financial losses cannot be global (US should benefit, obviously they don't)
 - Extinction of asset illusions: decent policy response?
- Let automatic stabilizers work (accept "endogenous" fiscal deficits)
- Massive exogenous relief due to lower energy prices (e.g. German annual energy import bill lowered by 35 bn Euro)
- Germany: facing an "imported" recession
 - Export orientation with strong focus on M&E
 - Domestic stimuli come with major production shift effects

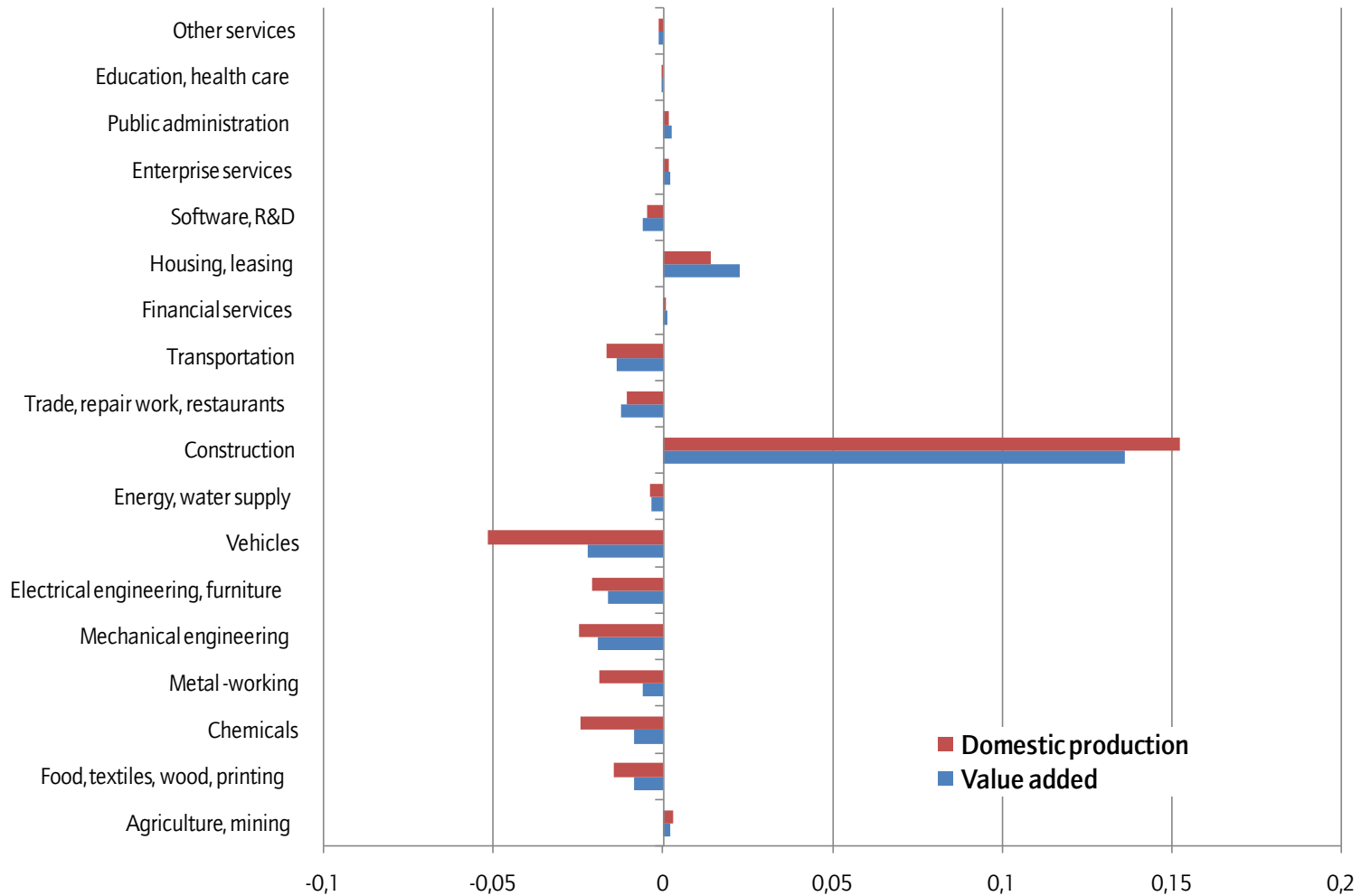
Impact on value added: Consumption vs. exports

Growth contribution by sector in percent



Impact on value added: Construction vs. exports

Growth contribution by sector in percent



Business cycle stabilization 2

- Making employment less volatile than production
 - Strengthening enterprises to keep their permanent workforces
 - Cutting social security contributions for part-time workers
 - Taking general, not sector-specific actions
- Fiscal deficits do not allow for trial and error
 - Few shots only
 - Market confidence in government bonds is not god-given
(Country = sum of enterprises and private households)
- Case for coordinated European programs
 - Average national GDP import share of EU member states: 40 %
 - EU-wide GDP import share: 20 %

Coherent policy approach: Preventing parallel/competing public actions

- **Banking sector: Quantitative monetary easing vs. governmental rescue programs**
- **Focusing public interventions on core fields: financial system stabilization vs. commercial rescue programs**
- **Parallel incentives: saving (strengthening private pension schemes) vs. consumption**
- **Leaving room for corrective positive effects of the crisis: Macro stabilization ("total demand") vs. industry-specific subsidies**
- **Flash in the pan effects of intra-recession demand shifts (e.g. car scrapping discounts) are costly but ineffective**