Issue

21

JUNE 2013

Twenty-First Issue

IAFEI Quarterly

The electronic professional journal of IAFEI
(International Association of Financial Executives Institutes)

June 28, 2013, www.iafei.org
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IAFEI News

Letter of the Editor **June 28, 2013**

Dear Financial Executive,

You receive the **IAFEI Quarterly XXI st Issue**.

This is another issue of the **IAFEI Quarterly**, the electronic professional journal of IAFEI, the International Association of Financial Executives Institutes.

This journal, other than the IAFEI Website, is the internal ongoing information tool of our association,

destined to reach the desk of each financial executive,
or reach him, her otherwise,
at the discretion of the national IAFEI member institutes.

This issue again offers a broad variety of articles on financial subjects, all of which merit the reader´s attention.

Worth pointing out are the country reports on *Indonesia, Malaysia, Mexico, Spain Turkey*, but also the articles addressing *the Euro*, and addressing *Leverage* .

Once again:

I repeat our ongoing invitation to IAFEI member institutes, and to their members, to send us articles for inclusion in future IAFEI Quarterlies, and to also send to us your suggestions for improvements.

With best personal regards

Helmut Schnabel

Indonesia,

Country Report: Euphoria Steps Back for a Sober Look at the Effective Possibilities

So far, and in spite of some improvements, the country remains economically below its maximum - interesting for financial investors

By Janis Hübner

March 2, 2013. Three years ago, the Indonesian capital market was still among the great favourites of financial investors. These were especially excited about the combination of economic and political stability, paired with the fast growth of a big internal market.

In the meantime, the euphoria has largely gone. This is partly due to that market prices have strongly increased and investments have therefore become less attractive. Since the beginning of 2010, the Indonesian stock market has risen by roundabout 80 %. The German Dax stock index in the same period only increased by short of 30 %. The development of Indonesian Dollar bonds was not less spectacular: The extra return versus US government bonds decreased from 2010 by 50 basispoints to short of 200 basispoints. The return of these papers even went down by 220 basispoints to 4,2 % and resulted thereby in a total return of bond price appreciation plus coupon of almost 40 %. Easily dwarfed was this, however, by the market for Rupiah bonds. The average return of those, as measured against the GBI-EM bond index of J.P.Morgan, sank from 10,2 % to 5,8 %. The total performance, in Dollars, including the appreciation of the Indonesian Rupiah, was at roundabout 64 %.

Capital Market Is Booming

The Indonesian capital market, in the past years, has over fulfilled the high expectations. And this boom has been boosted by a good economic development. In the years 2010 to 2012 the Gross Domestic Product, GDP, grew, very stably, between 6,2 and 6.5 % per year. The inflation rate since July 2011 was always below 4,8 %, and thus clearly within the target band of 3,5 to 5,5 %.

The cautious fiscal policy course was continued, and the already low state indebtedness sank from 2010 to 2012 from 25,7 to 24,8 %. Because of this good development, did Indonesia again receive the evaluation “ investment grade “ from two of the three big rating agencies. Moody`s upgraded the country rating

to “ Baa3 “. With this was corresponding the upgrade at Fitch to “ BBB- “. Only Standard & Poor`s remains one notch below with “ BB+ “. But the Rating – Outlook is positive, and an upgrade might take place next year at the latest.

But the fact, that investors are looking now with greater scepticism at Indonesia, is not only related to that the securities prices have risen so much. Rather, the development of the country is pointing to the wrong direction. The most visible this becomes, when looking at the current account balance. This for 2012, has shown again for the first time a deficit, which, with 24,2 billion Dollar, is even quite significant.

The cause for this deterioration are the changes in the trade balance. The exports of goods decreased in 2012 by 6,3 % to 188 billion Dollars, because the global weakness of growth led to a decrease of export volumes and to sinking prices for raw materials. The robust economic development of Indonesia made at the same time sure, that the imports rose by 8,3 % to 180 billion Dollars. The surplus in the trade balance of goods sank by more than 26 billion to 8,4 billion Dollars. With this, however, the equalising item was missing for the deficits in the services and the income account, which with 10,8 billion and 25,9 billion Dollars were not far off from the amount of the previous year. The high deficit in the income account results from interest and dividend payments to and from foreign investors and might rather increase in the coming years.

The current account deficit must be financed by capital imports, if the foreign exchange reserves must not be used. This was possible in 2012. But the inflows of direct and portfolio investments result in future debits to the income account, so that in the future a change in trend in the foreign trade of goods will become necessary. The geographical prerequisites for this are good, because South East Asia, other than China, is presently the fastest growing region in the world.

In addition, Indonesia has raw material reserves, for which there is demand in the medium and long run. Among these are oil and gas, rubber, plant oil, rice sugar, cocoa, tea, coffee and tobacco. Further additional earners of foreign exchange are tourism and the textile industry. But at the same time the imports shall grow strongly.

Deficit in the Current Account

The development of the current account should not be worrisome, because the deficit, after one year only, cannot yet be termed as structural, and as so far the financing of it has posed no problems. But when Emerging Markets, in the past years, had got into problems by their own fault, then this had been preceded, as a rule,by self caused current account deficits. In the financial markets, a

deterioration in foreign trade generally leads to a depreciation of the currency. This one could observe as well in the past year in Indonesia. The Rupiah devalued against the Dollar in 2012 by more than 5 %, and was thus, next to the Yen, the weakest currency in Asia.

But the investors were not only disappointed by the fast growing current account deficit, but also by the low dynamism of reforms in politics. The reelection of state president Susilo Bambang Yudhoyono 2009 had created high expectations, which, however, had not been fulfilled. So, the government had already decided upon a decrease of the subsidies for gasoline, but it did not have the necessary support in the parliament. The subsidies, in the meantime, amount to one fifth of the government budget. They reduce the leeway of the state, to, for instance, enhance economic growth by way of investments in education and infrastructure. In addition, the subsidies are in large parts for the benefit of the middle class, so that this instrument, also under redistribution aspects, is not good.

However, there have been, in the past, regularly large, and violent, protests, when reductions of subsidies have been decided. As, in the coming year, there will be elections of the president and of the parliament, the probability is low, that a new attempt will be made before the end of 2014. Realistic this would be only in the case, that the oil price would increase once more strongly, as then the budget deficit would get out of control.

The decision, to increase the minimum wages significantly at the beginning of the year, has caused protests at the camp of the entrepreneurs. The increase has been the strongest, with 44 % in the greater Jakarta area. With now 230 Dollars per month, the wages here are now higher than in other states of South East Asia. As, however, the wage costs, as a rule, stand only for a small portion of the total production costs, the thereby resulting cost increase might be digestible for most of the companies. Also the inflation outlook is thereby not put into question, so that a positive impact for the private consumption can be expected. The dynamics of this in 2012, with a real increase by 5,3 %, was lagging behind the 6,2 % growth of the entire economy.

Investment Ownership Share Limited

With other laws the government has limited the ownership portion, which is allowed for foreign investors in mining corporations. In addition, for mining corporations limitations for exports, as well as export taxes, have been put in place. Also, exporters must repatriate their export receivables within six months, whereby pressure on the balance of payments should be reduced. The trend for state intervention cannot be overlooked, which naturally always raises criticism.

After a phase of almost euphoric evaluation of the economic perspectives of Indonesia, more soberness has now returned. The country continues to have a number of strengths. To them belongs the great stability of the business cycle. Also for the coming years one can expect economic growth rates of 6 to 7 %.

Growth, in addition, is broadly based on end-demand. Private consumption is as much a support, as is capital expenditure. With a population of 250 million inhabitants, the country is offering a huge internal market, which will further grow by wage increases and an annual growth of the population by one percent. The low stage of development of the economy means, that the growth outlook for the consumer industry is as good as for the construction and machinery industry.

And in the meantime, one can speak in this state, formerly shaken by unrest, of political stability. Added to this, are a healthy situation of government financing, and a central bank, which takes seriously its mandate of securing price stability.

This scenario offers good possibilities especially for long term oriented investors.

The weak points of the country are especially playing a role for those corporations, which are regarding Indonesia as a site for production. Already mentioned have been the deficits in infrastructure, which especially relate to transportation and energy. The offer of well educated professionals is limited due to the weaknesses in the education system. As a great problem could turn out as well the continued widespread corruption, where the government, trying to fight against this, is showing only moderate success. Therefore, also in the coming years, industry shall not become the driving force of the economy. In spite of all successes: The country remains, economically, below its possibilities.

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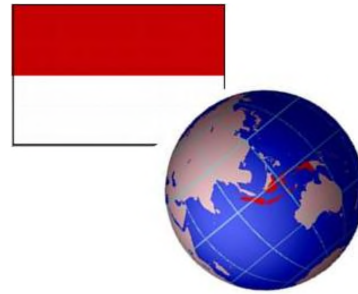
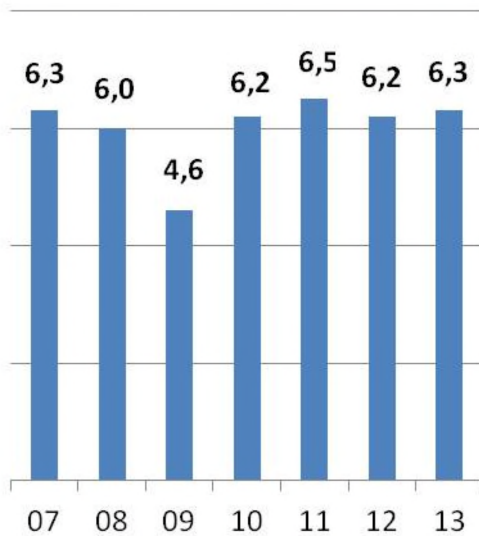
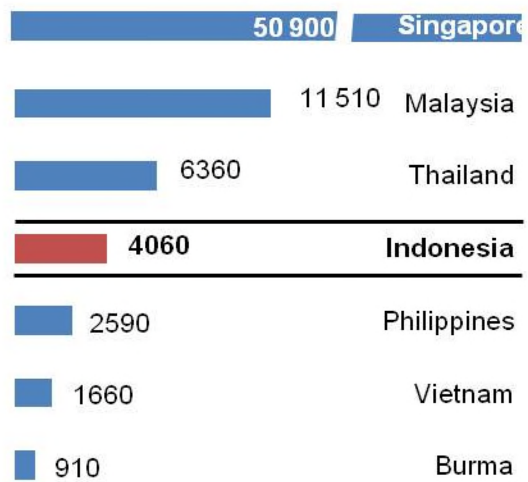
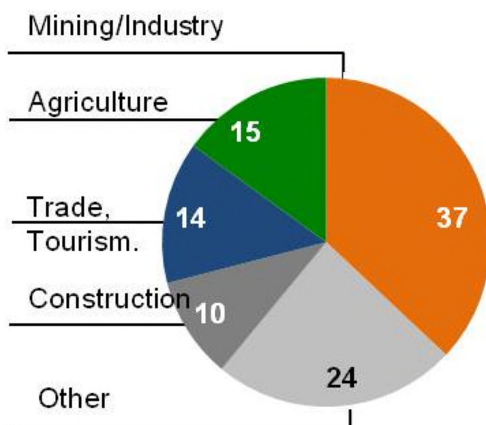
Country Report: Indonesia

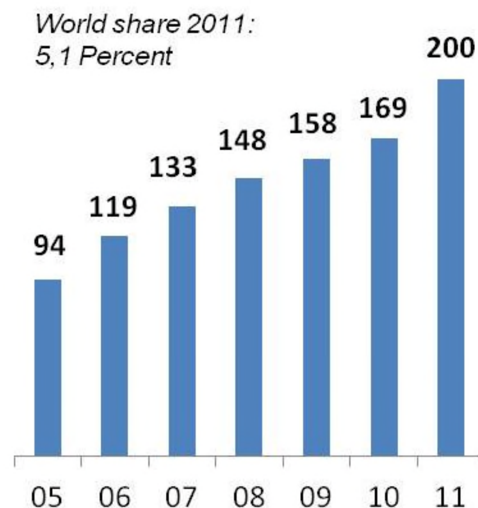








GDP 2010: 708 billion Dollar
GDP 2012: 895 billion Dollar)



Indonesia

Area (in square kilometers):[1]	**1 904 569**
Population (2012, in Millions):[2]	**248**
Inhabitants per square kilometer (2012):[3]	**130**
Growth of population (2012, in Percent):[4]	**1,0**

All footnotes are comparison data.
1) Germany: 357 square kilometers
2) Germany: 80,2 million
3) Germany: 226 inhabitants per square kilometer
4) Germany: + 0,14 percent

Janis Hübner is economist in Macro Research at the DekaBank, Frankfurt am Main, Germany.

Source: DekaBank, Frankfurt am Main, Germany, March 2, 2013. Responsible for translation: GEFIU; translator: Helmut Schnabel

Luxemburg, Article: **by Guy Wagner, Chief Economist**
Banque de Luxembourg, 4 December 2012

Understanding the euro crisis

To understand the euro crisis, it is helpful to remember that at the outset, economists were far from unanimous in their support for a European single currency. At the time, the political authorities did not take account of their arguments, preferring to brandish them as anti-European.

The arguments put forward at the time were for the most part based on the works of two Nobel economic prizewinners, Robert Mundell and Jan Tinbergen.

The optimal currency area theory

Robert Mundell pioneered the optimal currency area theory, an area which would fulfil the four criteria listed in the table below:

	U.S.A.	Eurozone
Mobility of capital and labour	☺	☺☹
Flexibility of wages and prices	☺	☹
Similar business cycles	😐?	☹
Fiscal transfers	☺	☹

Based on the table, the conclusion is that the eurozone, unlike the United States, meets practically none of the necessary criteria for an optimal currency area. Labour mobility is low (partly due to language barriers), the labour and product markets are highly regulated, and there are no fiscal transfers between eurozone countries.

The Tinbergen theory

Jan Tinbergen, winner of the first Nobel prize in economics, defined a rule that for each economic policy objective pursued by a state, at least one policy instrument is needed. In concrete terms, this means that if a state has three economic objectives, it must have at least three separate instruments to meet these objectives. And in practice, states generally have three main objectives

- price stability
- full employment (or at least the highest level of employment possible)
- and a relatively sound external trade balance.

Before monetary union, the Tinbergen rule was met by the countries which are today members of the eurozone.

To meet the above three objectives, these countries had four instruments:

- monetary policy (raising or lowering interest rates),
- money supply,
- (expansionary or restrictive) fiscal policy ,
- currency (which could go up or down).

Before Monetary Union for each country			
3 Objectives			
Inflation	Employment		External trade balance
4 Instruments			
Money supply	Monetary policy	Fiscal policy	Currency
Instruments – Objectives = 1			

Source: Strategic Economic Decisions

Since the introduction of the euro, the Tinbergen rule has ceased to be met. The eurozone countries have lost the control over their monetary policy, their money supply and their currency. The only tool left is fiscal policy (and even here, budget austerity in the peripheral countries means that these countries do not have the control over their fiscal policy) to meet their objectives. This is impossible and the results are less far from optimal.

After Monetary Union for each country			
3 Objectives			
Inflation	Employment		External trade balance
1 Instrument			
Money supply	Monetary policy	Fiscal policy	Currency
Instruments – Objectives = -2			

Source: Strategic Economic Decisions

Mundell andTinbergen: complementary theories

It is important to note that the Mundell and Tinbergen theories are complementary. If the countries making up the eurozone had for example similar economic cycles, the problem resulting from the Tinbergen rule would not be as serious, since what would be good for one country (in terms of fiscal and monetary policies, currency and money supply) would be good for the others. Similarly, if labour mobility in the eurozone was as flexible as in the US, the fact of a country no longer having recourse - due to their membership of the single currency - to the instruments mentioned above would be offset by the ability of the residents of a country experiencing high unemployment to migrate to a country with low levels of unemployment.

As noted at the start of this post, these economic arguments have been ignored by the political authorities. The single currency was allowed to be created and the first years of the eurozone were marked by the following developments:

- an expansionary monetary policy conducted by the European Central Bank, in response to the economic problems in Germany dating from the start of the century, but also due to the monetary policy conducted by the Federal Reserve in the United States;

- convergence of long-term interest rates of the peripheral countries towards the German level (why buy a German government bond offering a coupon of 4% if you could get 10% on a Greek bond in the same currency?);

- the peripheral countries experiencing abnormally low short and long-term interest rates, leading to:

- rising real-estate prices,
- rising consumer spending,
- increased public spending,
- stronger economic growth,
- rising labour costs,
- rising imports and falling exports.

These last two points are very important. Since the introduction of the euro and up until the crisis, there have been huge divergences in labour costs (or to be more specific, in unit labour costs that adjust labour costs for productivity gains) in the north and the south. The upshot of this is that today the south is no longer competitive: in concrete terms, the countries of the south are dealing with high external deficits while the northern European countries are faced with high external surpluses. And external trade deficits imply foreign capital requirements.

Change in unit labour costs (wage costs adjusted for productivity gains)

Source: Datastream, Natixis

The table below speaks for itself. It shows the current account balance (as a % of GDP) of the eurozone countries in the 10 years preceding and the 10 years following the introduction of the single currency. In the 10 years prior to the introduction of the euro, Spain's average current account deficit was around 1.8% of GDP, and its peak was 3.6%. Since the introduction of the euro, Spain's average current account deficit has been 5.8% with a peak of 10%. Such a situation would not have arisen without the single currency which, while presenting a relatively balanced picture of the eurozone situation overall, masked what was happening within the member states. Of course, it is also worth noting that countries like Germany and Finland experienced the opposite trend in their current account balances.

In an environment in which the southern countries are no longer competitive, the Tinbergen rule is all the more important. In the past, these countries could have devalued their currency to restore competitiveness. Locked in the eurozone, they can no longer use this instrument.

Current account balance (as % of GDP)

	Post - EMU (%)		Pre - EMU (%)	
	Peak	Average	Peak	Average
Greece	-14.6	-9.1	-3.8	-2.4
Portugal	-11.6	-9.0	-6.8	-2.0
Spain	-10.0	-5.8	-3.6	-1.8
Ireland	-5.3	-2.1	-1.5	1.6
Italy	-3.4	-1.6	-2.7	0.3
Belgium	-2.9	2.6	1.8	4.1
France	-1.9	0.1	-0.8	0.7
Germany	-1.7	3.5	-1.4	0.0
Austria	-1.6	1.7	-2.9	-1.2
Finland	1.3	4.9	-5.4	-0.1
Netherlands	1.9	5.4	2.1	4.1

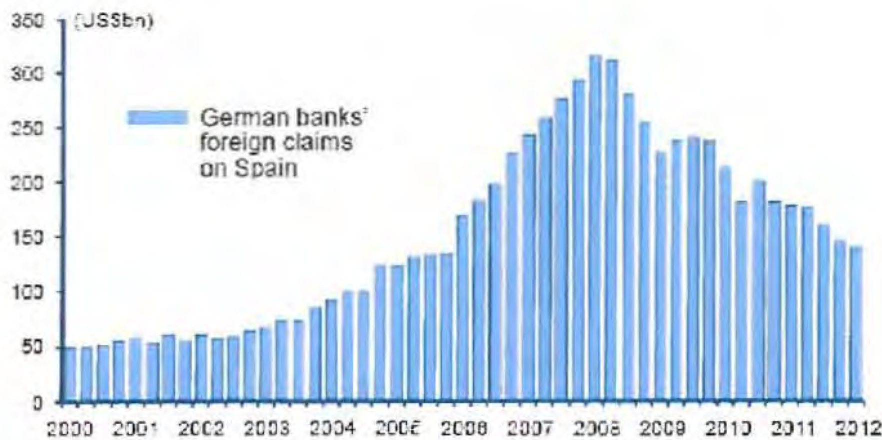
Source: Nomura, Eurostat

Unhealthy interdependence between banks and states

The problems arising from the introduction of the single currency were further reinforced by two factors linked to the European banking system. First, regulations such as the Basel II framework have encouraged a situation of unhealthy interdependence between banks and states. Without going into detail, the Basle II rules strongly encouraged the banks to buy government bonds (and were as such very popular with governments which then had a captive source of refinancing).

At the same time, the banks of the eurozone's northern countries naturally wanted to take advantage of the 'economic boom' in the south, especially as the euro had removed the exchange risk involved in their investments in this region. When the crisis erupted, they found themselves very exposed to these countries (adding to their existing risk on subprime in the US. The banks hardly covered themselves with glory in the crises and it is particularly frustrating that the authorities are not taking the measures required to ensure that an individual bank will never again be able to pose a systemic risk to the financial system.)

German banks' foreign claims on Spain (in billions of $)



Source: CLSA

The interdependence between bank and state and the huge exposure that the banks of the north have to the peripheral countries are only exacerbating the crisis in the eurozone and explain why it is so difficult to find a solution. Both factors are usually put forward by those who claim that a partial or total break-up of the euro would lead to economic catastrophe.

Eurozone caught in a vicious circle

The eurozone crisis is therefore made up of a range of crises:

- liquidity crisis (the inability of the peripheral countries to refinance themselves on the markets on reasonable terms),
- solvency crisis (the inability of the peripheral countries to generate sufficient revenue to honour their debts),
- competitiveness crisis (in the peripheral countries, with the exception of Ireland),
- fragile banking system,

with each crisis contributing to exacerbating the situation.

Steps taken to manage the eurozone crisis

... fall into four main categories:

- the dilution of the European Central Bank's quality criteria (it is accepting assets of increasingly dubious quality in return for the loans it grants to the banks);
- the huge capital injections by the ECB;
- the implementation of a bailout fund (currently being used by Greece, Ireland and Portugal), which provides capital to countries that are unable to refinance themselves on the market and in return imposes cuts in public spending and the obligation to engage in structural reforms;
- restructuring Greek debt

Impact of these measures...

First of all, and regardless of what we think about its approach, it is important to point out that the ECB is not equipped to resolve a solvency crisis or a problem of competitiveness. It can only intervene to manage the other two aspects of the crisis, i.e. to help the peripheral countries to obtain financing, and to prop up the banking system. The second point is that the measures undertaken by the ECB often prove counter-productive. Given that such measures tend to calm the markets, they result in a certain

complacency on the part of the political authorities. They also prevent the adjustments necessary by encouraging the banks on the periphery to borrow capital from the ECB (at a rate of 1%) that they then invest in the bonds issued by their country. Finally, the money that the ECB lends to the Spanish banks flies out again immediately given the lack of confidence in those banks.

Household and corporate deposits at Spanish banks

Source: ECB, CLSA

Budget austerity aggravating economic problems

Regarding the other measures, it is clear that the budget austerity imposed is aggravating the economic problems of the peripheral countries and making it even more difficult for them to service their debt (in the debt-to-GDP ratio, the denominator falls faster than the numerator resulting in a deterioration of the ratio).

Moreover, the capital from the bailout fund is used mainly to pay back existing debtors and does not make its way into the real economy. Also there is no private sector involvement. Obviously no private company is currently prepared to make huge investments in Spain, for example, if it doesn't know whether Spain will still be in the euro in two years' time. Regarding the restructuring of Greek debt, this has not gone far enough, especially as certain lenders, such as the European Central Bank, have not had to take losses on their positions.

The measures taken to date will enable the peripheral countries to refinance themselves (temporarily) on reasonable terms, either because they have taken refuge in the bailout fund (accepting or pretending to accept the austerity measures) and for the time being don't therefore have to resort to financing in the capital markets (Greece, Ireland, Portugal), or because the measures announced by the ECB have been sufficient to lower their financing cost in the market (Spain, Italy). These measures help to gain time but they do not provide a sustainable solution to the eurozone crisis as they do nothing to address the solvency or competitiveness issues.

Later this week... "Can the euro survive?"

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Luxemburg, Article: by Guy Wagner, Chief Economist
Banque de Luxembourg, 6 December 2012

Can the euro survive?

Many observers are wondering whether the euro can survive in its present form. But this is not the question that needs to be asked. Obviously the euro can survive in its current form as the break-up of the euro or the exit of one or other countries is a political decision. The markets cannot break up the euro or force a country to leave, in direct contrast to what they were able to do 20 years ago in forcing the pound out of the European monetary system.

As long as the governments of all the eurozone countries decide to keep the euro in its current form, the single currency will survive.

The real question is whether the euro should continue to survive in its current form. Will survival maximise the well-being of the majority of eurozone citizens? Asked differently, is it possible to save the euro and reboot the eurozone's growth dynamic, thus enabling it to offer new prospects to its citizens and especially the younger generations? The fact is that the political authorities have until now been unable to come up with a coherent plan in this regard.

A plan to save the euro?

What would such a plan consist of? Basically, it would involve retrospectively rectifying the construction problems of the single currency and creating the conditions necessary for the eurozone to meet the criteria of an optimal currency union. Remember that the key criteria not currently being met by the eurozone in this respect are labour mobility, wage and price flexibility, and fiscal transfers. The last point, in other words fiscal union, is often presented as the solution but it is worth remembering that if the other conditions are not met, fiscal union would be nothing more than just a permanent transfer of capital from north to south (and it is important to point out in this respect that the countries in the north, including Germany, are far from being in good financial health). The eurozone would then become like Italy, with great economic divergence between north and south and continuous transfers from north to south.

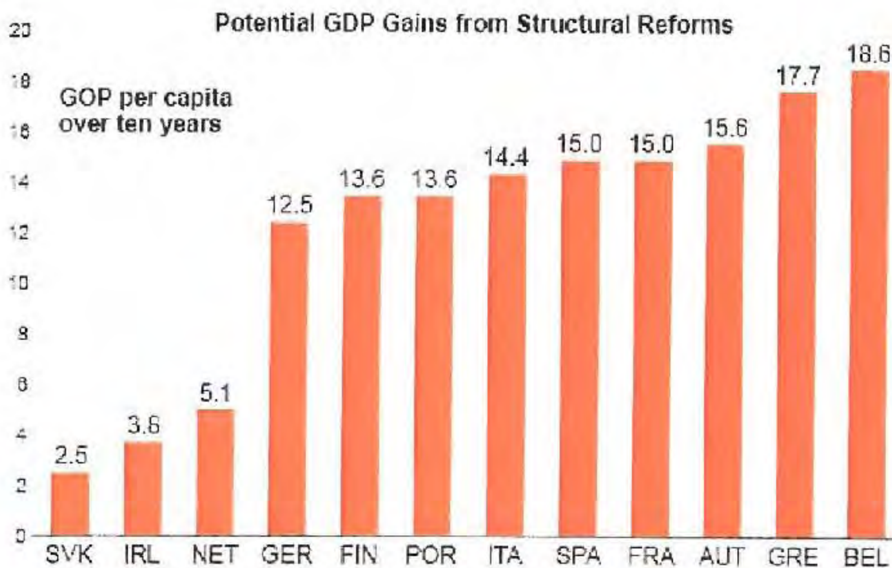
Labour mobility and wage and price flexibility are connected with deregulation of the labour and product markets. Today, these markets are still highly regulated in some countries, as shown in the following graph.

Regulation of the labour and product markets (1 = low; 4 = high)

Source: OCED, Morgan Stanley

Empirical studies show that such deregulation increases a country's growth potential. However, the problem is that the positive effects of such structural reforms are only visible in the medium and long term. In the short term, they tend to impede growth. So political courage and the ability to explain the long-term benefits to citizens are required in order to impose the reforms on a democratic system.

Potential impact of structural reforms on GDP per capita over 10 years



Source: OCED, Morgan Stanley

Structural reforms, banking and fiscal union, abundant liquidity

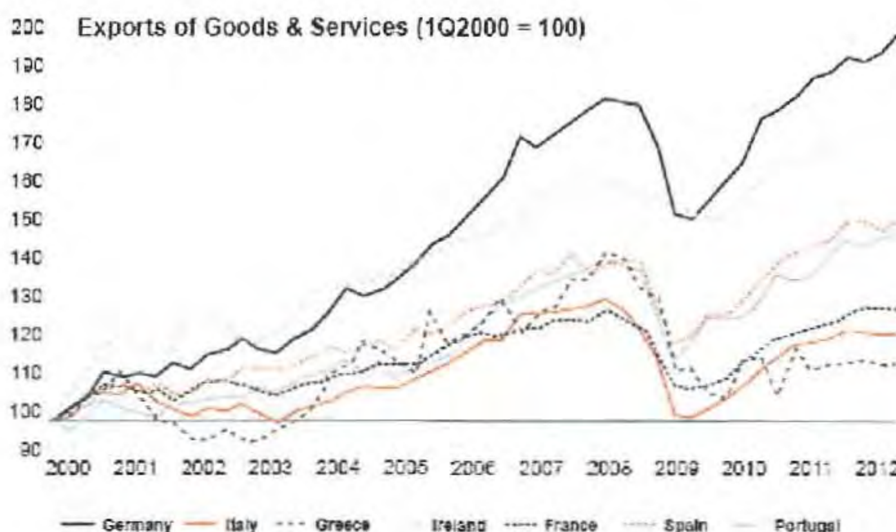
To offset the short-term negative impact on growth, the ECB would have to continue to conduct an expansionary monetary policy and procure the necessary liquidity. In short, such a plan would rely on structural reforms, abundant liquidity, and banking and fiscal union. It could be that this is actually the plan that the authorities are following but so far they have been incapable of communicating it to the public. This has resulted in the people in the north thinking that helping the people in the peripheral

countries is 'throwing money out of the window' while the people in the south have the impression that they are suffering just so the lenders in the north can be reimbursed.

Could such a plan work?

The optimists will see some positive developments. Over the past three years, the unit labour cost has fallen in the peripheral countries, notably Spain and Ireland. This has resulted in a recovery in exports and an improvement in their current account balance (an improvement which is also due to the fact that imports have plummeted because of budget austerity).

Exports of goods and services (index 100 = 1st quarter 2000)



Source: Eurostat, Morgan Stanley

What are the impediments?

In reality, however, there are many obstacles standing in the way of the success of such a plan. The positive developments noted above result from the reduction in wages rather than structural reforms. In this respect, little progress has been made. Moreover, the majority of a eurozone country's external trade is with other eurozone countries. For the peripheral countries to sustainably reduce their external deficit or even convert it into a surplus, the northern European countries will have to accept a reduction in their surplus or even see it transformed into a deficit. We are worlds away from that situation. It should also be noted that the latest economic indicators show that growth in the northern countries is also increasingly impacted by the crisis and that demand in these countries for the products and services offered by the peripheral countries is likely to suffer as a result (one could also ask what would be the products and services meant to provide a sustainable stimulus for these countries' exports?.

The state of the global economy is not contributing to the success of such a plan. The economic context is relatively weak and likely to remain so, particularly because of the structural brakes weighing on growth in the industrialised countries (demography and debt). It is therefore difficult for the eurozone to increase its exports beyond its borders especially as the majority of countries are actively trying to weaken their currency, which means that the euro is still much too strong. Finally, excessive regulations imposed by Brussels are certainly not helping the competitiveness of the EU countries.

Inefficient budget austerity measures

The budgetary austerity measures being imposed on the peripheral countries cannot function in their present form. As noted above, the eurozone countries have already abandoned control of their

monetary policy and their currency. Forcing them to also abandon control of their fiscal policy would deprive them of all the instruments that a country would generally use to meet its economic– and even social – objectives. The return to budgetary orthodoxy is certainly laudable. However, economists are increasingly arguing in favour of greater differentiation in public spending by distinguishing in particular between those that only serve to maintain a disproportionate public sector and those that serve to finance productive investments and produce future revenues. There is currently no such differentiation, the only targets imposed on countries calling on financial aid being to reduce their deficits. The danger is that productive expenditure will be first in line for reduction as cuts in non-productive spending are politically much more difficult to achieve.

Necessary debt restructuring

Lastly, none of this can function unless these measures are accompanied by substantial restructuring of the debt of the countries concerned. Today there is quite simply no credible scenario on the basis of which these countries have any chance of honouring their debt. The debt accumulated in recent years has mainly served to finance consumption. This debt does not create future income that could serve to reimburse it. Moreover, the interest rate that these countries are paying on their debt is higher than the nominal growth rate of their GDP. Once again, the debt-to-GDP ratio is only deteriorating and the countries concerned find themselves in a vicious circle.

When we talk about peripheral countries, we generally mean Greece, Spain, Portugal, Italy and Ireland. But Ireland is in a very different situation. The country is competitive, its labour market deregulated and the rule of law respected (empirical studies show that there is a close correlation between economic prosperity and respect for the rule of law – the rule of law exists in a rather more casual fashion in Greece which makes the task of getting the country back on the path to sustainable recovery all the more difficult). Ireland's only problem is an excessive level of debt resulting from the country's decision not to let its banks collapse. Meanwhile, Iceland, which did not save its banks and is not locked into the euro, is recovering rather well.

All-or-nothing monetary policy

Lastly, it is important to note that if this plan does not succeed, the ECB's current policy will not only prove inefficient but irresponsible. Through its unconventional measures, it is keeping the price of money artificially low. In a market economy in which prices are supposed to give important signals, this can only lead to significant distortions and a poor allocation of capital. The effect of all this will be extremely difficult to rectify in the future. The fact that the central banks of the other leading industrialised countries are conducting policies that are just as irresponsible is a meagre consolation.

In the final analysis, creating – 12 years too late – the criteria that the eurozone should have fulfilled from the outset, and with economic divergences having only been accentuated over those 12 years, is likely to be a lost cause. Doing so without the approval of the people poses an additional and serious risk for democracy in Europe. It is worrying to see that just as the democratic process was already suspended at the time the euro was introduced, it is increasingly being suspended in the management of this crisis. The solution to a crisis triggered by an undemocratic measure (the introduction of the euro) should not lie in a further suspension of the democratic process.

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Malaysia,

Country Report: To Grow with Light Tower Projects.

With the success of the economy, the government wants to secure its power. But the Malaysians want more and liberate themselves.

By **Christoph Hein**

JOHOR BAHRU, April 7, 2013. Too late. " Who is buying in Iskandar today, is coming too late ", says Elsie, the broker, a Singaporian. " The money has been made by others already ". Her colleagues in neighbouring Malaysia are saying the opposite. With power they are pushing apartments into the market and often they promise the blue out of the sky. Iskanda, the south of the Malayan peninsula, is separated only by a narrow sea bay from the millionaires metropolis Singapore and it will be blown up into the growth engine of Malaysia. With this, prices are rising.

Singaporians, who five years ago purchased themselves into apartments, have more than doubled their investment by now. Still, construction goes on: Hospitals and universities, producers of electronics and a British film studio are moving in. After the German chemical group BASF has left, now German Evonik Group is investing there together with the Malayan state Group Petronas. Singaporians, and the Chinese, are both building at the same time an industrial park. The concept behind this: Close by, in the high price location, are residing the headquarters of the firms, while in the Malayan Iskandar the manufacturing work takes place.

If the project is successful, Malaysia could get an industrial push, which it needs. Already now, the World Bank is praising, that the share of capital expenditure in the Malaysian economy is as high as never before since the Asian crisis 1997. This is said to be pushed by high value added private and government projects in the oil and gas sectors, in real estate and in infrastructure. Nevertheless, the country is still living from oil and gas, palm oil, rubber and wood. The trade surplus of the third largest economy in South East Asia is rising and falling with the raw material prices. If Iskandar takes off the ground, it will create tens of thousands of jobs in manufacturing industry and in the services sector.

With this, the governing coalition Barisan National (BN) would be strengthened strongly. Just now, the prime minister Najib Razak has dissolved the parliament. Now, elections have to be held until early June. Promptly, the stock price index in Kuala Lumpur fell by a good 3 %, because the stock

exchange people are afraid of a change in government. Since months, the people is benefitting from election gifts: The wages of government employees are rising, the fees for mobile telephones are falling.

The indebtedness is at 55 % of GDP - good by comparison with Europe, but weak by comparison to the neighbours. As, however, the inflation rate is only at 1,3 percent, demand can be strengthened by election gifts. The Malaysians, in view of a high felt inflation, are holding back, and are saving in spite of low interest rates: With 34 % of GDP, the savings rate is among the highest in the world. Christine Lagarde, the managing director of the International Monetary Fund, is just admonishing the government, to remake its tax and incentives system, in order to achieve growth for all groups of the population.

Getting points is needed by the Barisan National , already governing since more than five years, also for the long term. In the past years, the people were beginning to liberate themselves. The downgrading rhetoric because of sexual wrongdoings of the long time prosecuted opposition leader Anwar Ibrahim, are finding less and less supporters. Ever more people are demonstrating against the feared consequences of a factory for rare earth by the Australian investor Lynas - which is working for the benefit of the opposition.

The 58 year old Najib is less betting on liberalisation, than on growth and the creation of jobs. He is said to be cautiously optimistic to achieve a two third majority, said Najib last week. “ Over the decades, our party has brought stability and welfare to this country “.

The Central Bank Negara, after an economic growth of 5,6 % in the past year, now expects growth of 6 % for this year. The rating agency Standard & Poor´s, instead, expects a growth of 4,6 %. Growth is produced primarily by business people of Chinese and Indian descent.These, in the past, always voted for BN. In the meantime, however, they can imagine, to also vote for the opposition - even if it has another religion. Already the last election 2008 showed, that the government coalition is no longer invincible. This puts Najib under pressure for success. “ The economic growth was pretty strong at the end of last year, the numbers look good. But this is not enough, in order to increase the chances of the government significantly “, says Ibrahim Suffian, a political scientist of the Merkeda Center.

Also for this reason, Iskandar should become a light tower project. “ Until 2015 it is planned, that here on the tip of the peninsula shall live instead of 1,6 million then more than 3 million people “, is Taufik Azad advertising for Iskandar, as Speaker of the Development Agency. The number of the labour force shall more than double up to 1,5 million workers, and the GDP per capita shall increase from 14790 to a good 31000 Dollars. Already today the committed capital

expenditure is at 105 billion Ringgit (26 Billion Euro), of which 36 % is from abroad.

The development of Iskandar, though, is not the first time, that Malaysia attempts, to develop the country by show case projects. " Cyberjaha " a corridor directed from the capital city Kuala Lumpur to the South, shall become a high technology area, thanks to the internet and investors, which is also promoted by the Siemens Group. The result remained modest, like at the newly drawn up city" Putrajaya ", to which the government escaped from Kuala Lumpur. Also the redundant own automobile industry belongs to this, which in spite of the 2 brands Proton and Perodua never took off the ground. Soon, however, the new factory shall be opened by Volkswagen in order to service the growing middle class. It is profiting, as well, from the relatively modern minded Islam as state religion. There are, though, absurdities such as the forbidding of Bikinis in one of the provinces of this tourist country; altogether, however, and due to the Islam, the better off Arabs view Malaysia as a vacation and as an investment country. The Islamic banking industry is prospering. The food industry is developing into experts for Halal – food, which is produced in line with Islamic standards.

Gone are the times, during which Malaysia tried, under a big mouth prime minister Mahathir Mohamad, to promote excessively with the policy of Bumipoutra ("sons of the earth") the indigenous Malayans, whereas the predominantly Chinese business people earned the money. Still, corruption and nepotism are flourishing. But, either one has arranged oneself with it, or one also gives to others at least a chance. For the children of politicians an entrepreneur`s career remains wide open. But also a Tony Fernandes, the founder of Air Asia, who was educated in Great Britain, can develop his business.

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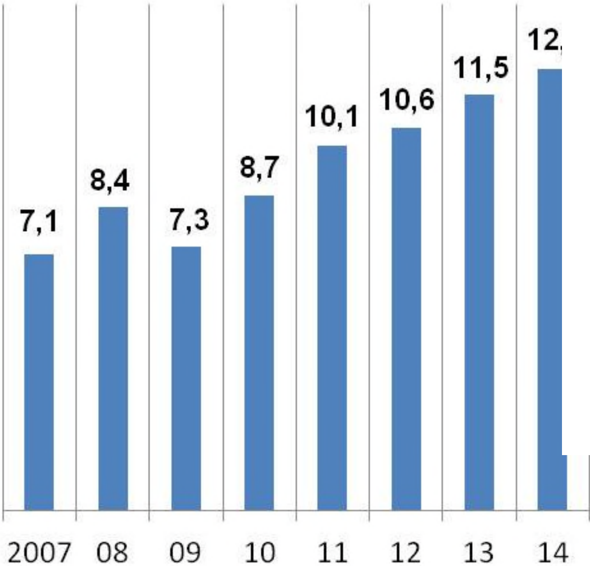
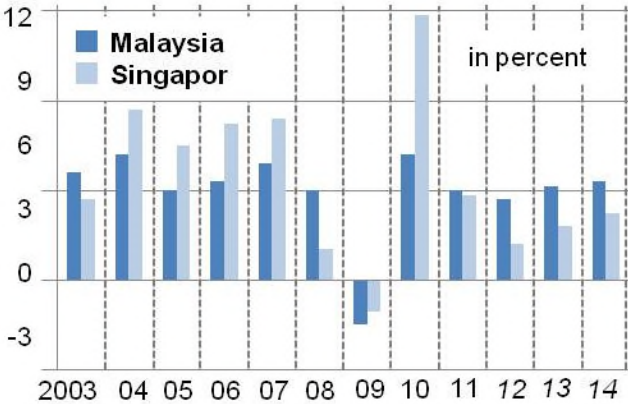
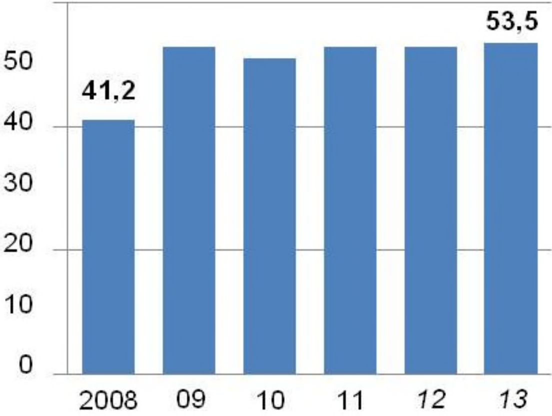
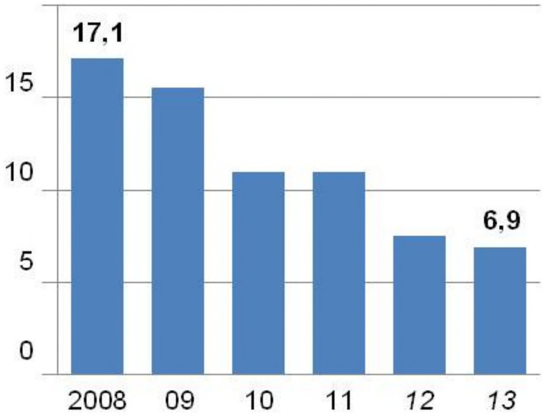
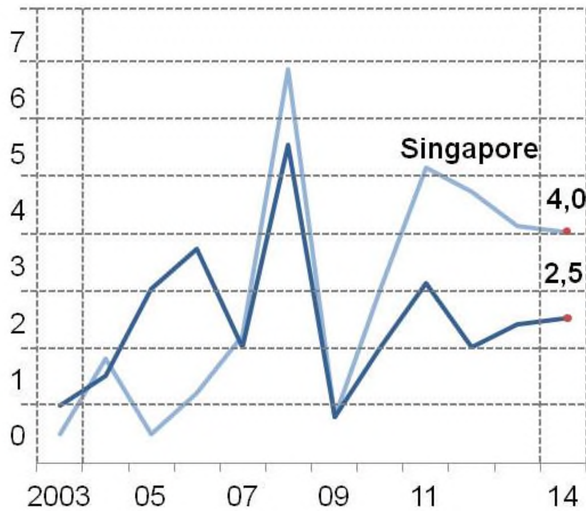
Country Report: Malaysia

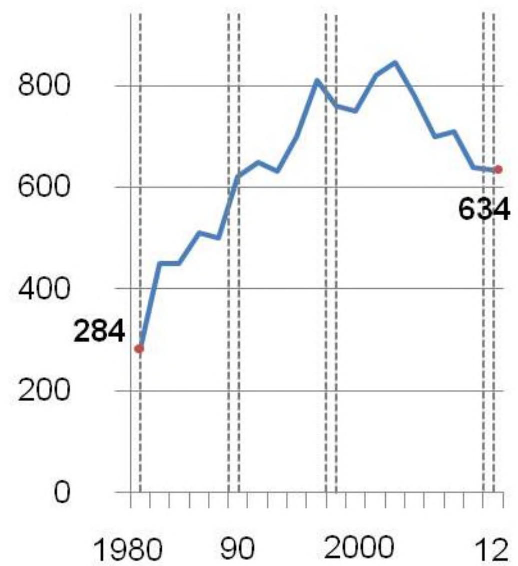












Malaysia

Area (in square kilometers):[1)]	**330 000**
Population (2012, in Millions):[2)]	**29,3**
Inhabitants per square kilometer (2012):[3)]	**88**
Growth of population (2012, in Percent):[4)]	**1,3**

All footnotes are comparison data.
1) Indonesia: 1 904 569 square kilometers
2) Indonesia: 248 million
3) Indonesia: 130 inhabitants per square kilometer
4) Indonesia. 1,0 percent

Article by Christoph Hein

Source: Frankfurter Allgemeine Zeitung, April 8, 2013. All rights reserved. Copyright Frankfurter Allgemeine Zeitung GmbH. Provided by Frankfurter Allgemeine Archiv.
Responsible for translation: GEFIU; translator: Helmut Schnabel

Mexico,Turkey,
Country Report: Reforms are Supporting Mexico and Turkey

By Mauro Toldo

May 23, 2013. Mexico and Turkey, in the past weeks, have harvested the fruits of their reforms. They have received a better rating from the rating agencies.

Turkey has been upgraded on May 16 by Moody´s to " Baa3 ". After almost twenty years of non investment grade status, the country at the Bosporus has now received again the assessment " investment grade ".

Already last November, Fitch had dared to step across this threshold and upgraded the country to " BBB- ". Standard & Poor´s, which remains as the last large rating agency with its rating in the non investment grade category, still had upgraded Turkey in March 2013 to " BB+ ".

Mexico has been upgraded on May 8 by Fitch to " BBB+ ". In addition, Mexico received in mid March the status of positive rating outlook from Standard & Poor´s.

Important have been the steps of the rating agencies in two respects: First, the two countries are heavy weights in the J.P. Morgan EMBIG Index for emerging market bonds in hard currency. Together, they represent one fifth of the index. An upgrade thus becomes realized in the entire universe of the emerging market bonds. Second, the positive trend of the creditworthiness of both countries has been put into question for various reasons. But the decidedness of the rating agencies now leaves little room for doubt about the positive trend of the creditworthiness of both countries and of the entire asset class. This is presently very important, in order to give new impulses to the market, because the rating trend of other countries is going sidewards. In the case of Russia and Venezuela, we even see the risk, that the trend will turn to the downside.

Brazil Continues to Fight

Also Brazil, the former rating " wonder child ", has to fight with many problems, so that it is still not clear, when it will return to a sustained growth again. Mexico and Turkey have shown to these countries, how the path looks towards a further improvement of the creditworthiness.

It is not since long, that Mexico has been written off by the analysts. The country was incapable, to put in place reforms. The government of the then president Felipe Calderon had no majority in the parliament. Any projects for reforms were effectively blocked by the opposition in parliament. The situation of security had deteriorated dramatically by the drug cartels. The oil production sank continuously. The global financial crisis had deteriorated the situation further. All these factors had led in 2009 to the situation, that two rating agencies - Fitch and Standard & Poor`s - had lowered the rating of the crisis-tortured Mexico by one notch each.

The country, which twelve years before had celebrated the end of the seventy years long hegemony of the " Party of the Institutionalised Revolution ", was longing for a return of this party to power. Ironically, this party promised an end to the reform stand still, after itself had been responsible for this with its blockade.The candidate of the PRI and today´s president of Mexico, Enrique Pena Nieto, had promised a renewal of the country and has also delivered so far. Although he is not yet half a year in office, has Pena Nieto pushed more reforms than Felipe Calderon in his entire term of office.

This is also due especially to the " Compact for Mexico ": A declaration of intent by the three largest political parties for the resumption of reforms, which Piena Neto had kicked off. Important successes of the compact are so far the labour market reform, in order to alleviate the rigid conditions in the labour market, the reform of education, in order to improve the quality of the unsatisfactory education sector, and the reform of the anti cartel legislation, in order to create more competition in the telecommunications and media sectors.

Reform of the Financial Sector

In addition, a reform of the financial sector has been executed recently. This one aimed at achieving more competition in the banking sector. In the second half of 2013, the most important reforms will be in the making. A broad tax reform, with a simplification of the tax system. And a re-examination of tax loopholes and tax incentives. Most important will be the reform of the energy sector, which is promising the opening for private and foreign investors.. This reform could enlighten the outlook for foreign direct investment significantly.

The young president seems not to get tired from executing reforms. So far, his endeavour has not failed in view of the " dinosaurs " in his party. Also disagreements with the opposition could be put aside, which otherwise would have caused a failure of the compact. The coming reforms, however, will need more energy than the measures taken so far. We expect a continuation of the reforms in coming months, which will underscore the newly won rating trend.

The reform movement in **Turkey** - contrary to Mexico--- has slowed down recently. However, the country is still harvesting the fruits of the reforms of the past. Especially, as regards the macroeconomic stability, the country has made great progress. The country has great success in decreasing the indebtedness. The government debt, which in 2001 still stood at almost 75 percent of GDP, has continuously decreased to at last 35 percent of GDP! The greater fiscal stability has also had positive effects on the development of inflation. The high inflation rates now belong to the past.

A great negative, however, remains the high need for external financing, which was especially prevalent during the global financial crisis: Turkey needs, because of the high current account deficit, external capital, and this was in this time in short supply. The government of prime minister Erdogan has already made great efforts, to increase the savings rate of the country and to lower the energy imports. - two decisive factors for the great demand for external financing. However, these reforms will take a long time for becoming effective.

In spite of this, one must state, that Turkey is not any more so prone for crises as in the past, which would justify a continuation of the positive trend of creditworthiness, for instance by a further upgrade by Standard & Poor`s. For a further improvement beyond the threshold of investment grade, it is in our opinion still too early. Especially, because the priorities of the government have changed lately. Prime minister Erdogan had reacted to the economic slow down with various measures, without paying much attention to the various components of growth.

By Mauro Toldo. He is Head Emerging Markets/Country Risk Analysis in the Macro Research Department of the DekaBank, Germany.

Source: DekaBank, Frankfurt am Main, Germany . March 23, 2013. Responsible for translation: GEFIU; translator: Helmut Schnabel

Poland, Interview: **We Shall Become a Member of the Euro Only , When the Euro-Zone Will Be Repaired**

Mr. Vincent Rostowski, finance minister of Poland, about his plans.

Warsaw, March 24, 2013. Poland takes its time, when it comes to the introduction of the Euro. The old plan, to access the Euro-Zone in 2012, was laid to rest by the government, in view of the Lehman-crisis and the states over indebtedness crises. " We want to fulfill the Maastricht criteria until 2015", said the Polish finance minister Jan Vincent-Rostowski, since recently also vice prime minister, in an interview with this newspaper. This, however, does not yet mean, that the largest Eastern European member country of the European Union will then effectively join the Euro-Zone. " In view of the uncertainty about the future situation in Poland and in the Euro-Area, it is at present not possible, to name a credible date for the introduction of the Euro in Poland, said the minister. This, one shall only do, when it can reliably be seen, that all prerequisites for joining will be able to be fulfilled.

And this is more than the hard Maastricht-criteria for budget deficit, level of debt, interest rate level and inflation. Rostowski and his government have formulated further preconditions for joining: We must prepare our country in such a way, that it shall be competitive also ten or fifteen years after the introduction of the Euro. We must do before, what Spain, Portugal and Italy have not done before in time, and what they now must do with pain.

Necessary is an extensive program , which takes some time to carry out. To the measures belong a labour market reform , which makes flexible working hours possible, a reduction of burocracy and a better infrastructure. Still, the highway network has gaps, and the railway has to catch up. Rostowski underlines, that in the last year the pension system has been reformed. The possibilities for early retirement have been reduced and the starting age for receiving a pension has been increased to 67 years.

Since 2011, the government is slowly restraining. At last, the value added tax and social tariffs have been increased. In addition, a tax on mines has been introduced, in order to increase tax income. Additional taxes are not in the finance minister´s mind. " The government expenses are not reduced, but they are not increased either.", says Rostowski, who was born in London and who lived there for a long time. As the economy is growing, the government deficit is shrinking continuously. In 2014, the Maastricht-threshold of three percent annual government deficit related to GDP, could be undercut, estimates Rostowski. In 2007, the deficit was still at 7,4 %. Important, though, is for him first of all, that the structural deficit - the one excluding business cycle influences - will shrink to one percent by 2015. At present, it stands at 2,2 %. The amount of government debt in relation to GDP already now with slightly under 60 % fulfills the access criteria for joining the Euro. This year, the inflation could fall, due to the weaker economic growth, under the allowed maximum level, but already in 2014 and due to the better business conditions, it might already again increase strongly.

For Poland to join the Euro, though, it would also be necessary, that not only his country is changing, but also the Euro-Area, the minister is requesting. " The Euro-Area has at last advertised little for itself", he says. This is a reason, why the population is against the

Euro.Formerly, the support has been much bigger. “ The Euro-Zone must be properly repaired. The deep structural differences, which have led to the crisis, must be overcome - through a stronger economic and political integration”, requests Rostowski. He includes into that the European Central Bank - and defends the ECB against the critique against it buying government bonds of financially weak Euro-Area countries. “ The ECB must do everything, that the Euro-Area will not break apart, what its president Mario Draghi has announced in summer of 2012.”.

On the other hand, politicians must intensify the fiscal and the banking union. “ What has been decided so far, is not sufficient. What is lacking, is the securitization of the deposits in the banks, and - what worries us most: It is lacking the democratic legitimation for the planned banking supervision”, criticises the finance minister. “ And the Euro – Bailout umbrella is on the one hand of help, but there is a mechanism lacking, to enforce structural reforms ”. This is said, not to be a secret science, and the International Monetary Fund is said to be successful in this regard since many years.

Rostowski is formulating further preconditions.They relate to the admission to the foreign exchange mechanism EMS, in which the Polish Zloty would be allowed to fluctuate only in a narrow band during two years. The Zloty is said to be allowed only to enter into this mechanism at an exchange rate, which would be an equilibrium exchange rate. It would then also have to be clear, that Poland would be able to fulfill all formal criteria for joining the Euro.

Finally, an internal political consensus would be necessary for the introduction of the Euro. This, presently, is missing. The opposition is calling for a popular vote about the Euro. The finance minister opposes this: “ We do not need a referendum. With joining the European Union, our people have also agreed to the Euro “. However, the constitution still has to be changed with a two third majority. For this, the government needs the opposition. “ Also there is in part support “, states Rostowski. “ But it is presently not enough, in order to change the constitution ”.

In spite of so many hurdles for joining the Euro, Rostowski does not want to accept doubts, that Poland on principle might not wish to join the Euro. “ We want to be in the Euro-Area, because this will strengthen our political importance and because then the growth will accelerate.” Probably in 2015, at the earliest, he might have to prove this willingness.

Interview made by Dyrk Scherff

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Spain,

Country Report: **On the Edge to the Better**

In the sixth crisis year, the government sees a silver lining on the horizon. But there is a lack of strict reforms.

By Leo Wieland

Madrid, June 9, 2013. Visitors to Spain, who during this early summer are coming to Barcelona, Madrid or Valencia, use to ask: Where then is the crisis? Tourists are seeing full street cafes, and they find no revolutionary spark. But off the museums, the beaches, and the shopping malls, the crisis is showing itself: " To Let " - posts are hanging at apartments and insolvent shops which cannot be sold. Outside the supermarkets and the churches, beggars are holding their hand open. Long rows of people are lining up at the open to the poor kitchens of church organisations, which make sure, that 2 million people can eat a gratuitous meal.

The 6 million unemployed, among them 1 million young people, are not carrying a sign around their neck. But they exist, like the stubborn recession: In spite of the first seasonal signs of hope in the labour market, the growth weakness is not going away. In a country with a population of 45 million, in the meantuime 2 million families have no single family member with a regular employment. For them and others, it is time to use up the savings. And at the same time to cut back.

The salesmen at the newspaper stand report, that the sale of newspapers decreased by a third. Also restaurant owner speak of turnover having fallen by a third. Taxi drivers, sellers of mobiles, and even dentists are feeling the cold shoulder of the consumers, who must save. The domestic tourism has collapsed. The towners simply drive to the grandparents " in the village " - and always by carefully avoiding to use highways for which a toll has to be paid, the revenues of which in the meantime have also sunk by a third.

Without the solidarity of the families and the shadow economy, things would look a lot worse in Spain. With shadow labour and services, without paying value added tax on it, many keep themselves above water. The volume of this has just been estimated by the European Union to be a fifth of GDP. To be rather higher than that would estimate the finance minister Christobal Montoro, who knows his citizens well and who is struggling hard to balance the government budget with sinking tax collections, in spite of tax hikes, and at the same time ever more costly social welfare payments and interest payments.

What has increased continuously, are break-ins into apartments and houses, thefts, and other types of small criminal actions. Wherever a copper cable is hanging, the visitor at night is not far away with pliers. And also the foreign visitors realise, that on the Ramblas in Barcelona and the Calle de Serrano in Madrid there is no table and no chair, which is not chained after the close of the business at night.

Although the economic data do not yet give a clear hint on the sprouts of “ green branches “, the Spanish government under prime minister Mariano Rajoy is now daring, after one and a half years of saving and of reforms, to issue the first positive forecasts. It admits, that in the current year not much will happen: Even more unemployed and “ negative growth “ of between one and two percent. But in the coming year the long time longed for silver lining on the economic heaven shall finally be able to be seen, with black numbers of growth - even though only with a “ zero before the comma “.

The European Union is criticising, that the Spanish reforms have not been carried out fast and effectively enough - from the labour market, over the untangling of the entrepreneurs, from excessive burocracies up to a reform of public administration, which is intended to fence in costly triple works at the national, regional and city level. Just now, the “ Troika “ of European Commission, European Central Bank and the International Monetary Fund have again sent their controllers to Madrid: It expresses much worry about the banks, which had to be saved by megaloans. For this 40, out of the offered 100 billion Euros, had to be utilised.

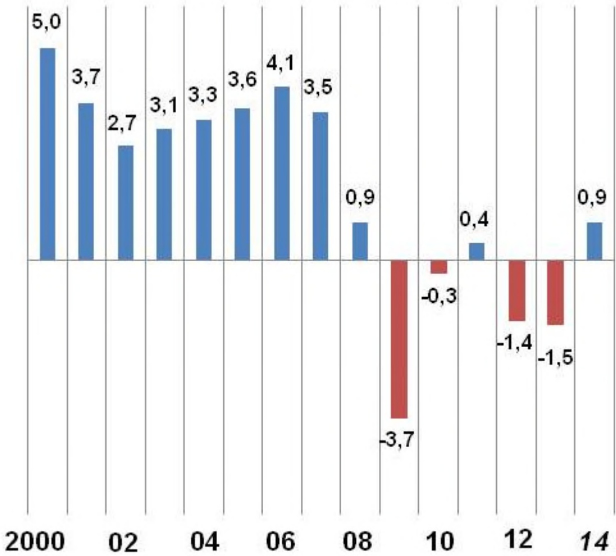
For the bailout actions for the country, much will depend, whether the Spanish “ Bad Bank “ will function. This one is bringing the insolvency remainders of the burst real estate bubble into the market, and it has already sold 500 ap artments since February. In order to attract foreign investors, even the old coast protection law has been quickly changed in such a way, that real estate on the beach front is not any longer been threatened with being teared down. And Russians and Chinese, with deep pockets, who seem to be most uninterested, can buy an apartment for half a million Euro and soon also a permanent residence permit.

The head of government Rajoy is trying, with a notorious deficit of charisma, and with a remarkable stamina, to reposition the country from top to bottom, after seven years of depressing socialism.

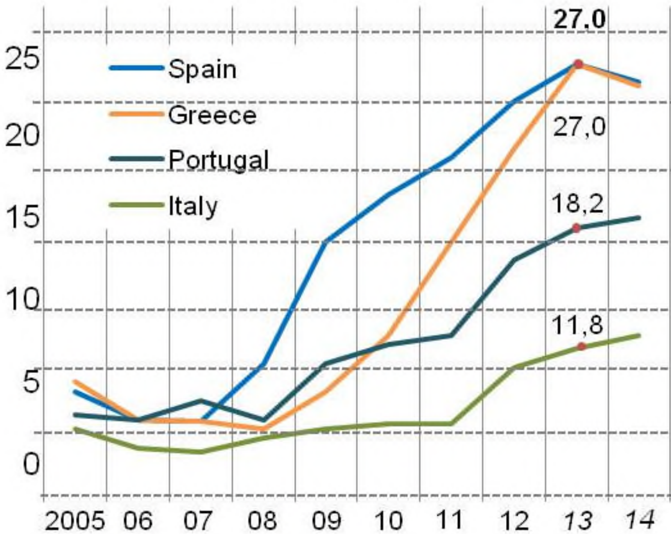
He has 2 points for himself: That so far - contrary to Greece, Ireland, Portugal Cyprus - Spain had not to be saved by its European Union partners from state bankruptcy; and that his policy of expense reductions, tax increases and

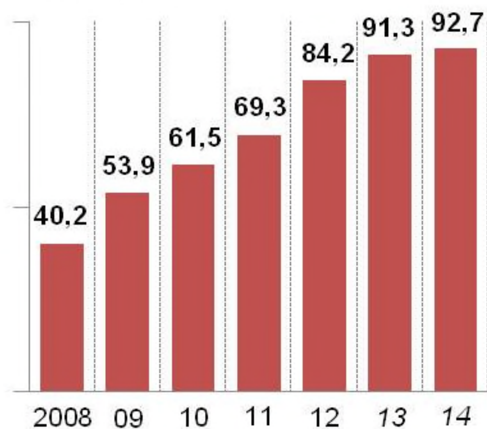
structural reforms has laid the base for a new upturn, which might come just about in time, in order to protect him in 2015 from a huge election debacle.

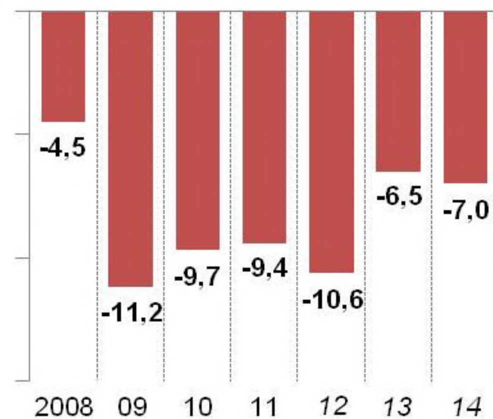
But the new economic model for Spain is not yet in sight, which will come after the old, unrepeatable model of the construction boom. In the country, there is potential: well set up big enterprises and banks, which earn the biggest part of their money abroad, and busy small entrepreneurs full of ideas at home. Just they are important, when it comes to really create new jobs.



1) All data for 2013 und 2014 are estimated forecasts. Real GDP, on the Basis of GDP in domestic currency ,at constant prices.







Spain

Area (in square kilometers):[2)]	**505 370**
Population (2012, in Million):[3)]	**46,2**
Growth of Population (2012, in %)[4)]	**+ 0,7**
Inhabitants per square kilometer (2012, in km^2):[5)]	**91,4**
Rate of unemployment of young people (Rate, April 2013 in %):[6)]	**56,4**

The Data for 2013 are estimated forecasts. All footnotes are comparison data.
2) Germany: 357 104 square kilometer
3) Germany: 80,2 Million
4) Germany: + 0,14 %
5) Germany: 226
6) Germany: 7,5 %

Article by Leo Wieland

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Responsible for translation: GEFIU; translator: Helmut Schnabel

AN EMBARRASSMENT OF RICHES

The amount of cash held by some corporates has markedly increased, but if they continue to do nothing with it, they risk disgrace, argues Charles Cara

The 19th-century US industrialist Andrew Carnegie once said that "the man who dies rich, dies in disgrace", and so spent his later years distributing his great accumulated wealth. Just as in the Gilded Age, the 21st century has seen another great accumulation of cash, but this time it has been by corporations rather than by industrialists. Since 2000, the reported gross cash balances of the 1,500 largest listed non-financial companies around the world have grown from $1 trillion to $3.5 trillion. The recent recession has done nothing to dent this accumulation: almost half was amassed in the past five years.

Together, the 20 largest cash balances total $763bn. Six of these companies are in the US technology sector. For instance, Apple has $30bn of cash and if its financial investments are included, its liquid resources balloon to $137bn. In our analysis, the US tech sector alone holds more than the French and UK companies combined. The next two sectors, in terms of size and cash holding, are also American – industrial goods and health care. Over the past five years, these three industries have accumulated just under $400bn. In relative terms, however, the accumulation of cash has been more evenly distributed and most sectors have increased their cash holdings. So 'hoarding' can be seen as a broader issue.

Since cash holdings will typically earn interest at <1%, against a cost of funding from long-term debt of 2-7% and an even higher cost of equity, holding these balances has a cost. Therefore, corporate managers will have strong motives for holding them. We would group these reasons under five headings: liquidity; anticipation of inflation or growth; risk of future losses; taxation; and, finally, derivative collateral requirements.

Liquidity is clearly a key issue. The global financial crisis exposed the dangers of relying on constantly open capital markets, or on committed but undrawn bank facilities. Companies appear to have decided to 'self-insure' by borrowing long term and placing the proceeds on deposit. This 'self-insurance' has taken the aggregate ratio of cash to short-term debt from enough to cover eight months of short-term debt redemptions in 2000 to 21 months of cover now. Short-term liquidity has also increased and cash is now over 40% of current liabilities compared with less than 29% in 2001.

Another possible reason is that cash is being held to fund future growth, or to cover inflation risks. Both require investments in working capital, since raw materials have to be purchased and labour paid ahead of sales proceeds being received. Exits from recession often result in an increased demand for cash. If corporates really are waiting for a surge in demand, this would be positive.

Tax has clearly been significant for US companies, especially in the technology sector. The US pressure group Citizens for Tax Justice estimates that US companies have almost $1.6 trillion of profits held outside of the US (GE had about $80bn in 2011). Remitting these funds to the US would lead to a tax charge of up to 35%. But instead, US companies appear to have borrowed in the US to fund share buybacks and the cost of carry for this transaction would be offset by the reduction in the tax charge.

Many US technology companies also hold a large cash balance as a precaution against technological shifts undermining their products. A current example is the rise of smartphones impacting BlackBerry/Research in Motion. Its cash balances allow it to survive until the product cycle moves back into its favour. Since these balances also reveal management's belief that insurance is needed against technological risks, in our view, they flag that the valuation of these stocks should be capped.

Finally, increased collateral requirements for derivatives might also be a reason for increased cash holdings. These sums can be large – for instance $2bn out of $20bn for oil giant BP.

As we have argued previously in this column, for governments to close their deficits, the aggregate corporate surplus will have to fall, either through investment, inflation or taxation. In the latter two scenarios, high cash balances are an issue. Inflation erodes their real value while their mere existence presents a tax target for politicians.

The near-death experiences faced by corporates during the global financial crisis have prompted many companies to hold large cash balances as a precaution against problems in the financial sector. But these balances now appear to be more than sufficient, in aggregate. As these cash holdings have a negative carry, reduce return on equity and flag up risks of future losses, we believe corporates need to be using them. If they don't, then corporates could face the 'disgrace' of losing them.

Charles Cara is head of quantitative strategy at Absolute Strategy Research. For more information, visit www.absolute-strategy.com

{ PROTEST VOTING }

JEREMY WARNER

Public opinion is driving seismic change and the political establishment is powerless

One of the curiosities of the British predicament is that as the country drifts ever more irredeemably towards outright divorce from Europe, its politics are actually becoming steadily more 'European'.

First we had the advent of a coalition government, a phenomenon not seen on these shores since World War II, but commonplace for many decades on the Continent. Now we have the march of the 'protest movement', with growing numbers of voters turning their backs on established political parties and voting for eurosceptic voices.

Again, the UK Independence Party's (UKIP's) recent strong showing in English local elections is nothing out of the ordinary by European standards. There has long been a big eurosceptic vote in France, in the shape of Marine Le Pen's Front National. Populist radicalism of this type, mainly of the right, is being mirrored across Europe. In Finland there are the True Finns, in the Netherlands the Party for Freedom and in Italy there is Beppe Grillo's Five Stars Movement, a runaway success in recent national elections.

Even Germany, with its natural aversion to right-wing radicalism, has spawned the Alternative für Deutschland, a trenchantly eurosceptic voice that is eating into support for Angela Merkel's Christian Democratic Party.

These forces make eventual break-up of the euro, and possibly the European Union as a whole, rather more likely

None of this should come as any surprise. We are now well into the sixth year of financial and economic crisis, and across much of Europe, it is still deepening rather than easing. Governments have been unable to provide solutions. Established opposition parties seem equally bankrupt of meaningful alternatives.

Monetary union has, meanwhile, become little short of an economic doomsday machine for much of Europe, further eroding support for the political class that created it. The economic crisis is fast destroying the old consensus.

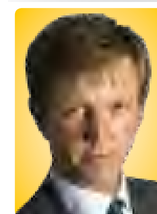
In most countries, the protest vote is, for the moment, too fragmented, disorganised and unrealistic in its aspirations to stand any chance of forming a government. Despite receiving nearly 25% of the vote in recent local elections, UKIP will struggle to elect a single MP in first-past-the-post national elections.

Yet the influence of such parties is already significant, driving the traditional centre right into progressively more populist positions in an effort to neutralise the threat from radical pretenders.

In Britain, the rise of UKIP has seen the Conservatives commit to an in/out referendum, while in Germany, determination to nip the protest vote in the bud has led Angela Merkel to repudiate the sort of policies that might help to resolve the eurozone crisis. To satisfy German public opinion, Merkel must continue to resist anything that looks like a full transfer union.

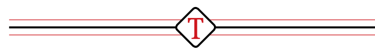
These forces therefore make eventual break-up of the euro, and possibly the European Union as a whole, rather more likely than is generally appreciated in financial markets. Polls show that if a referendum were held in Britain today, there would almost certainly be a majority in favour of pulling out of the EU. This may change over the next few years, but only if economic conditions in Europe improve markedly, which there is no prospect of as things stand. Britons will only vote for Europe if they can see that things are significantly better over there than they are over here. That's not been the case for some time now.

Business leaders have got their heads buried in the sand over this new reality. Rather than campaigning for more Europe, they need to be preparing for an exit and a likely break-up. Public opinion is driving seismic change, and the political establishment looks ever more powerless to resist it.



Jeremy Warner is assistant editor of ***The Daily Telegraph*** and one of Britain's leading business and economics commentators

MASTER OF THE MINES



ACT president and Rio Tinto's global head of corporate finance Jono Slade talks ratings, roadshows and why the iron ore producer isn't parting with its cash

Words: **Sally Percy** / Photos: **Charlie Best**

It all began with a river – a river that flows through the spectacular lunar landscape of southwestern Spain for some 100km. Thanks to the metals in the rocks through which the water flows, the colour of the river is red. And for 5,000 years the area around that river has produced some of the most precious minerals that humankind has ever desired – gold, silver and copper among them. The name of that red river? Rio Tinto, of course.

The company that is named after that Spanish river was born in 1873 after Scottish industrialist Hugh Matheson led a syndicate that bought a mine in the area from the Spanish government. In the 1880s, control of the mine passed to the Rothschild family, which expanded mining activities and introduced new techniques. Now, after a long history of M&As, including the purchase of mining operations in the US, Canada and Australia, Rio Tinto has become the world's second-largest mining company by market capitalisation. It is listed on both the London and Sydney stock exchanges, and boasted an annual turnover of $51bn for the financial year ending 31 December 2012. Its corporate branding is still red, in deference to its heritage.

A company with a 140-year history will inevitably have experienced some highs and lows along the way, and one of those lows occurred in February this year. A month after its CEO, Tom Albanese, stood down, Rio Tinto reported a $3bn annual loss for the financial year ending 31 December 2012 – its first ever – after writing down the value of its coal and aluminium businesses by some $14bn. This was mostly related to Rio Tinto's biggest acquisition to date – the purchase of Canadian aluminium giant Alcan for $38bn in 2007, just before the onset of the financial crisis – and its coal-mining operations in Mozambique.

Hot on the heels of the write-down came a further blow. Standard & Poor's announced that it had changed its outlook on Rio Tinto's A-/A2 corporate credit ratings from stable to negative, increasing the risk of a downgrade over the next 12-18 months. Will the rating agency's warning affect the mining giant's ability to raise funds in future? Rio Tinto's global head of corporate finance, Jono Slade, thinks not. "The significant drivers for our business are iron ore pricing, our level of capex and growth in China. These are the factors that are of greatest concern to investors," he explains.

Over 90% of Rio Tinto's gross borrowings are bonds (nearly $24bn) and it typically taps the capital markets once or twice a year. As its revenues are in US dollars, it makes sense for the company to fund itself in dollars, so Slade devotes a considerable amount of time to meeting investors on roadshows across the US. "We treat issuance like a partnership," says Slade. "We know we have ongoing refinancing needs, so let's not push on size too much and let's get pricing that works for both of us." But although US dollar bonds are its preferred issuance, Rio Tinto also diversifies into bonds in other currencies. Last year, it issued $7.9bn of fixed-rate bonds in US dollars, euros and sterling, with maturities ranging from three to 30 years, a weighted average maturity of around 12 years and a weighted average US dollar fixed-rate equivalent coupon across this period of approximately 3.6%.

Slade's advice for other treasurers with funding responsibilities is this: "Think about your maturity profile because you don't want to be boxed into a corner. We've worked hard to get a smooth profile. Think about what I call 'your cost of regret'. Banks' advice is often 'go early', but think about whether that might be right. In a business like ours, which is very volatile, taking the cash early makes a lot of sense. But that's not necessarily the right thing to do for all businesses. You've got to look at your cost structure, your volatility of cash flows and say: 'Is the cost of holding cash an insurance premium that I am happy to pay?' Talk to more than one bank – they're not always right."

While Rio Tinto's revenues are all in US dollars, its Canadian and Australian operations are sizeable, so its cost base and a fair proportion of its capex are in the currencies of those two countries. It also pays its dividends in sterling and Australian dollars due to its dual listing. Last year, Rio Tinto's treasury handled about $50bn in FX transactions, principally selling US dollars and buying other currencies. The company hardly does any hedging with the exception of a few forwards and swaps, however. "In our case, there's a broad correlation between

VITAL STATISTICS

$51bn
Rio Tinto's annual revenue in 2012

$9.3bn
Rio Tinto's underlying earnings for the year ending 31 December 2012

$19.3bn
Rio Tinto's net debt as at 31 December 2012

$7.1bn
the value of Rio Tinto's cash reserves as at 31 December 2012

2
Rio Tinto's position in the seaborne iron ore supply market

1,400km
the length of Rio Tinto's Pilbara railway system in Australia

13
the number of power stations owned by Rio Tinto's aluminium businesses

commodity prices, FX and interest rates," Slade points out. "At times that breaks down, but in the long term that has been historically true."

The extractive industries sector is known for having substantial cash reserves and Rio Tinto's $7.1bn pile is the kind of headline figure that gets politicians salivating. But they're not likely to see it being used to kick-start economic growth any time soon. Rio Tinto may be the world's second-largest supplier of iron ore, but the commodities market is notoriously volatile. For example, the price of iron ore dropped by around a third over a six-week period in summer 2012, although it later recovered to an even higher level. Unpredictable events such as these mean that the company always needs to be able to dip into its piggy bank, particularly since the capital markets might not necessarily be available as and when the company needs to draw on them. "Just because we've got cash, it doesn't mean it's going to burn a hole in our pocket," Slade insists. "Liquidity management is the most important thing for any corporate. You can go out of business while making profits. But you don't go out of business if you have cash on hand." He also points out that $7bn in cash reserves has to be seen in the context of a large group that turned over $51bn in 2012 and spent $17bn on capex.

In case you're wondering, Rio Tinto keeps the bulk of its cash in funds that invest in US treasury bills. It decided on this investment approach after a counterparty risk assessment concluded that the US government was a safer bet than the banks. Naturally, this has disappointed some of the company's banks, which would like to see some of the stash deposited with them. "But at the moment the answer is 'no'," Slade states. "They're not as safe as they used to be."

Around 30 banks work with Rio Tinto on its $6bn revolving credit facility. Slade has responsibility for day-to-day management of the group's banking relationships and this is a duty he takes extremely seriously. He's introduced an annual review process for around 15 of the banks, which entails him producing a two-page scorecard for each bank to use as the basis for a discussion as to how that bank has performed over the year. This might sound the sort of practice that would send a banker screaming to the pub at 11am on a Monday morning, but Slade says it brings benefits to both parties. "It's about partnership," he explains. "If you don't tell them during the year that something isn't working, how can you expect it to get better?" He admits that the process is resource-intensive, but says that it pays dividends. "If you spend the time with people and they understand each other, when you have a request or they bring new ideas, it should be more focused and tailored, and you hopefully get no surprises."

"Liquidity management is the most important thing for any corporate. You can go out of business while making profits. But you don't go out of business if you have cash on hand"

After originally training as an accountant with KPMG, Slade worked in audit for eight years, but moved into treasury after a treasury accounting role came up with premium drinks maker Grand Metropolitan (later to become Diageo). "I thought it was a way into an interesting group and it sounded an interesting role," he recalls. Since then he has held roles in both treasury and group finance, but eventually settled on treasury as his foremost specialism. "With treasury, you think about things at a high level and solve relatively complex problems, but you also have to implement them at the detailed level and get them right," he says. "When you're dealing with billions, a small difference adds up to a large amount of money." Slade worked his way up to become Diageo's director of capital markets and corporate finance over a decade. Then, in 2009, he moved to Rio Tinto to take on responsibility for global corporate finance. Mining, he says, was a "refreshing change" from working in the premium drinks market and he has enjoyed thinking in a different way.

This month, Slade assumes the post of ACT president and he's looking forward to working closely with the association's CEO, Colin Tyler, and the rest of the Moorgate-based team. He agrees that the ACT punches above its weight in terms of its relationship with the government and regulators, and notes that the association's public profile has grown markedly higher over the past few years. In his view, the ACT

needs to focus on the two issues of relevance and sustainability. In other words, the body needs to be just as relevant to a treasury analyst starting out in their career as it is to the group treasurer of a FTSE 20 company and it needs to be able to deliver the services its members expect both now and in the future. "I'd certainly encourage all members to reach out to the ACT and tell us if we're doing well or if we need to improve things. We don't want to operate in a void," he explains. Slade would also like to see the treasury profession generally in the UK become more diverse. "It's not necessarily gender per se," he observes. "It's culture and experiences. Different people will bring different things to the party and get you thinking."

It makes sense that Slade prizes original thinking. He works for a company that undertakes complex, potentially dangerous and incredibly expensive activities in some of the most remote regions on Earth. You probably don't get far at Rio Tinto unless you can think outside the box. Here, in an airy meeting room in central London, we are far from the heat, dust and bustle of the mines. But a huge print on the wall serves as a reminder of just where the action is. A solitary mining truck is ploughing its way through the barren terrain of northwest Australia. The colour of the terrain? Why, it's red, of course.

Sally Percy is editor of ***The Treasurer***

JONO'S TOP TIPS FOR SUCCESS:

1

"Working in this sector has taught me that it's important to consider the things you don't expect to happen – 'black swan events'. You need to consider that if this were to happen, what would I do?"

2

"Make sure you find some thinking time. We're often too busy to think."

3

"The AMCT provided me with a foundation in treasury. The MCT got me thinking differently. It was about diverse case studies and alternative situations."

4

"The ACT can give you a network of people to talk to. If someone has done a certain bond or transaction, it's helpful to be able to ring them up. It's that ability to 'phone a friend'."

5

"I really don't believe there is a secret to my career success because if there was, I'd bottle it and sell it. If you work very hard at something and if you enjoy it, then 'good things come to those who wait'."

JONO'S CURRICULUM VITAE

2009-present
Global head of corporate finance, Rio Tinto

2006-2009
Director of capital markets and corporate finance, Diageo

2005-2006
Head of FX and forecasting, Diageo

2003-2005
Director of treasury financial planning, Diageo

2001-2003
Head of financial control, Diageo Ireland

1999-2001
Group planning and reporting manager, Diageo

1996-1999
Group treasury accountant, Diageo

1988-1996
Various audit roles, KPMG

Qualifications
MCT, ACA

USA, Article **The Leverage Myth**

By Payden & Rygel, Los Angeles, California, USA, June - July 2013, Point of View, Our Perspective on Issues Affecting Global Financial Markets

What if a notion you hold about the world is widely accepted, yet wrong?

We've all heard the old wives' tales: wait at least 30 minutes after eating before going for a swim. If you go outside with wet hair, you will catch a cold. As humans we weave plausible stories together to help make sense of the world around us.

Myths surround the financial markets, too. Perhaps the most ingrained myth, since 2008 has been a story concerning leverage. Inquire as to the cause of the financial crisis and don't be surprised to hear, "It's all about leverage." If we ask a colleague to explain the depth and duration of the recession? "It's all about deleveraging." The reply would come as if on cue from a playwright's script.

In fact, it's become an all-purpose word. Why is inflation subdued? "Deleveraging!" Why are bond yields low? "Deleveraging!" One renowned investor even labeled the post-crisis economic process as the "beautiful deleveraging."

Just as the cold symptoms begin shortly after the post-shower evening stroll, a semblance of truth exists. Borrowing is down, inflation is low, economic growth is slow, and government debt levels are high as measured as a share of national output (henceforth debt/GDP). Is leverage (the accumulation of debt) the unifying theme?

Just as exploding the myth of the old wives' tale helps us understand the fundamental mechanics at work in the world, the same is true for investors: expose the heart of the problem to make better informed investment decisions. Here we go.

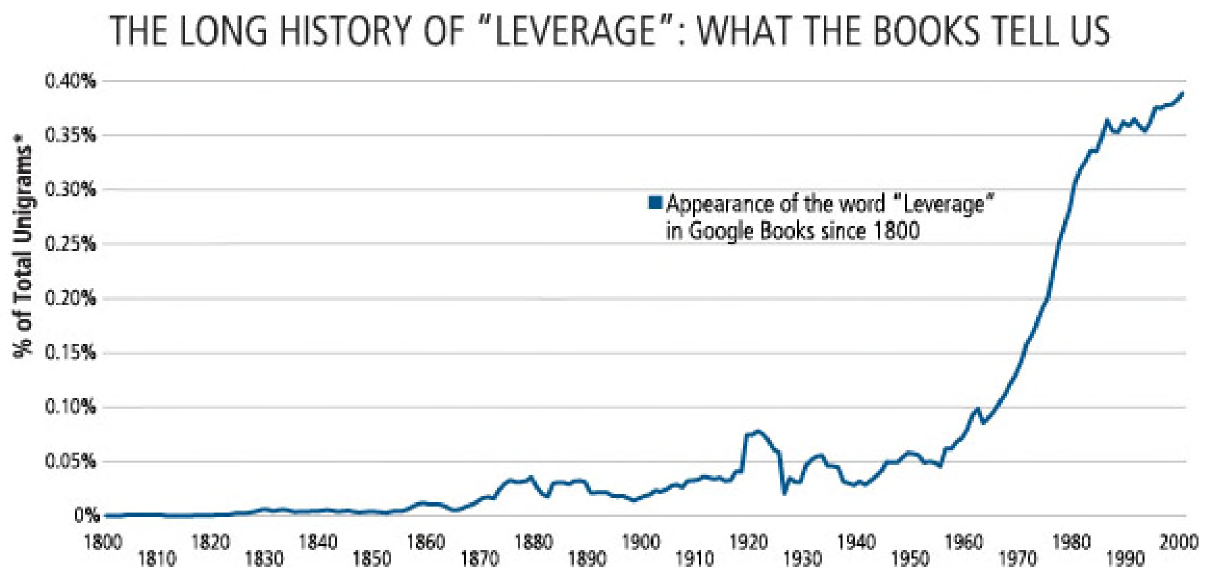
Historical Echoes

Neither leverage nor its antithesis, deleveraging, is new. A look at Google Ngram Viewer (see Figure 1) shows the epic rise of the term in the late 20th century. The inspiring author: one Irving Fisher, economist.

Mr. Fisher pondered the effects of "leverage" in the 1930s after wagering a healthy sum on stocks—and losing it in the 1929 crash. Beginning in 1930, his theory of "debt deflation" appeared in numerous books and grew in popularity in the aftermath of the Great Depression before entering relative hibernation until the 1970s. The notion is simple and familiar to modern readers. As collateral values decline, a borrower's ability to continue borrowing rapidly decreases, often resulting in a fire-sale of assets. In Fisher's example, the stock market crash and ensuing depression after 1929 were signs of this "debt deflation."

fig. 1

THE LONG HISTORY OF "LEVERAGE": WHAT THE BOOKS TELL US



The Modern Version, Repackaged to Entertain Investors

With that backdrop, modern variants of the same leverage story may ring true for certain investors today.Here's how it works. Imagine a US home owner in Las Vegas in 2004 borrowing using a house as collateral. If the house costs $100,000 and Joe Homeowner borrows $80,000, he pays $20,000 as a down payment. The loan-to-value is 80% ($80,000 divided by $100,000). The "leverage" rate is the asset value divided by the cash required at purchase, $100,000 divided by $20,000, or 5 to 1. In modern parlance, the buyer is "leveraged 5 to 1."

Perhaps the most ingrained myth,
since 2008 has been
a story concerning leverage.

Or, if you prefer, by 2006, an investment bank could buy AAA-rated mortgage-backed securities (MBS) by using the MBS as collateral to finance the holdings on a rolling, overnight basis. Due to the perceived high quality of the collateral posted, the bank would pay upfront cash of just 1.6%. This investment bank in this example would be "leveraged" roughly 60 to 1.
Both forms of leverage were indeed integral to the boom and the bust that followed from 2003 to 2007.

Problems with the Theory

It's a great story. Elegant, intuitive, yielding interesting insights. And, as we highlighted above, multi-purpose. It also plots a path for public policymakers: put a cap on leverage (or at least recognize it) and you can help control economic fluctuations ("smooth out the business cycle").

So what's the problem?

First, you might assert, banks were “over levered”, right? As It turns out, banks maintained leverage ratios in 2007 no greater than in 1997. We push on the theory: why no crisis in 1997? or 2003?

Second, what about households? Indeed, households were leveraged but household assets primarily included equities, mutual fund shares, and pension and life insurance reserves (37-56%), followed by real estate (30-42%) through 2010. Leverage spiked when household values fell sharply in the crisis, but at no time did debt exceed net worth by more than 28%. Once again, we wonder, if this is the problem, why no crisis in other years?

What about corporations? To the contrary, the words “thrifty” and “frugal” describe the nonfinancial business sector. Leverage actually fell in the run up to the crisis as corporations accumulated record levels of cash on balance sheet.

But, surely, broker-dealers were “over levered,” right? Well, as it turns out, banks were no more “levered up” in 2007 than in 2003.

To help understand, let us dial back 400 years. In William Shakespeare’s The Merchant of Venice, leverage provided the key plot device (only economists would arrive at this conclusion). As Yale economist John Geanakoplos asks:

“Who can remember the interest rate Shylock charged Antonio? (It was zero percent) But everybody remembers the pound of flesh that Shylock and Antonio agreed on as collateral.”

As it was for Shylock and Antonio in 1597, so it was in 2007: collateral counts most in credit creation. When borrowing against collateral, as long as collateral values remain stable or rise, everything is fine. But, if collateral

value declines a crisis ensues. The crisis corresponds to the case where information is produced and only good collateral can be used once it has been identified.

Indeed, during the financial crisis, not all collateral was shunned by the marketplace as long as it was viewed as "good collateral." For example, for broker-dealer banks before October 2008, corporate bonds maintained their pre-crisis collateral value and had no haircuts applied.

Furthermore, a critical question remains unanswered: why does the de-leveraging occur? The "big 5" US broker-dealers increased total assets from just 2% of GDP in 1980 to 35% in 2007! This accounts for roughly a third of assets of the banking system. This is a long road from 1980, when broker-dealers provided fee-based "broking" services to behemoths depending on the availability of good collateral to borrow. If perceived "good collateral" becomes tainted, borrowing becomes difficult.

The Related Notion: Debt Burden in Deleveraging

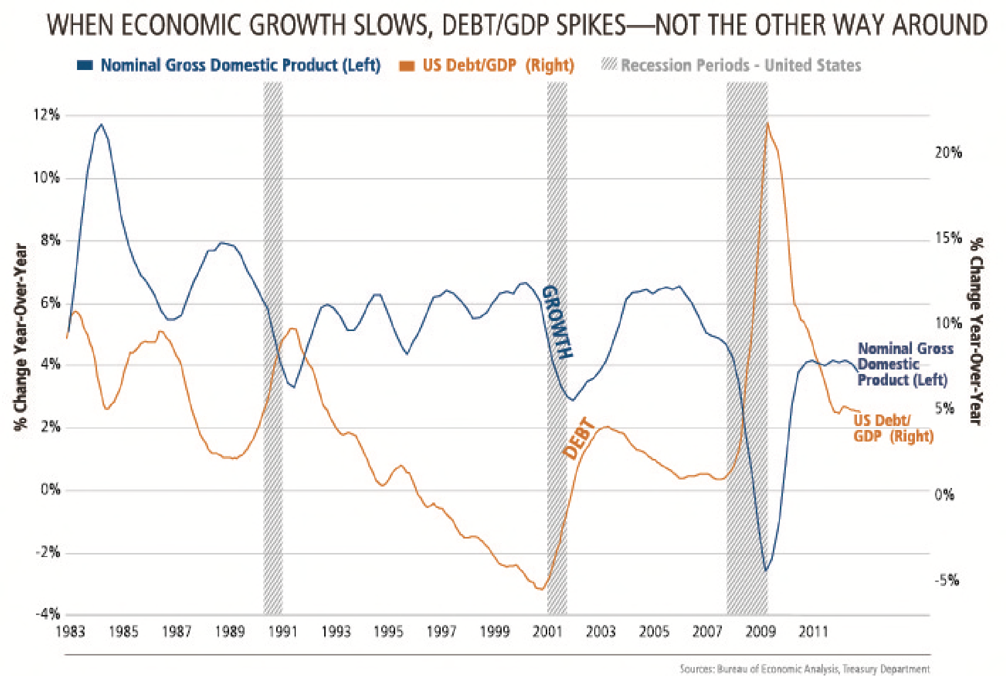
Another related notion is that debt overhangs (the stock of debt) impede growth. This concept was popularized by Harvard Professors Carmen Reinhart and Ken Rogoff, of *This Time is Different* and "Growth in a Time of Debt" fame. They write: "When gross external debt reaches 60 percent of GDP, annual growth declines by about two percent; for levels of external debt in excess of 90 percent of GDP, growth rates are roughly cut in half."

Further, in the words of Reinhart: "What the data seem to reveal is that at lower ranges of debt, you really can't make a link between debt and growth. But once you hit a certain threshold, you hit a wall."

While more recent research throws into question the precise magnitude of the growth slowdown, the real problem seems to be a case of "correlation versus causation." If umbrellas appear on the streets of New York City as raindrops begin to blanket the sidewalks, did the instruments cause the rain?

fig. 2

WHEN ECONOMIC GROWTH SLOWS, DEBT/GDP SPIKES—NOT THE OTHER WAY AROUND



With regard to government debt, we find that the rise in debt/GDP follows a slowdown in the economy. Why? Quite simply: an economic slowdown hits

government revenue coffers, reducing sales, and income tax receipts. Meanwhile, governments usually maintain previous spending plans at least for a time. This gap—the "budget deficit"—widens and must be financed through increased borrowing. So, just as the GDP growth slows, borrowing adds quickly to the overall debt burden. The most popular metric—debt/GDP—records a sharp increase.

But, this is not the cause of slow growth, quite the opposite, in fact. When growth slows, tax revenues fall, and debt burdens rise (See Figure 2).

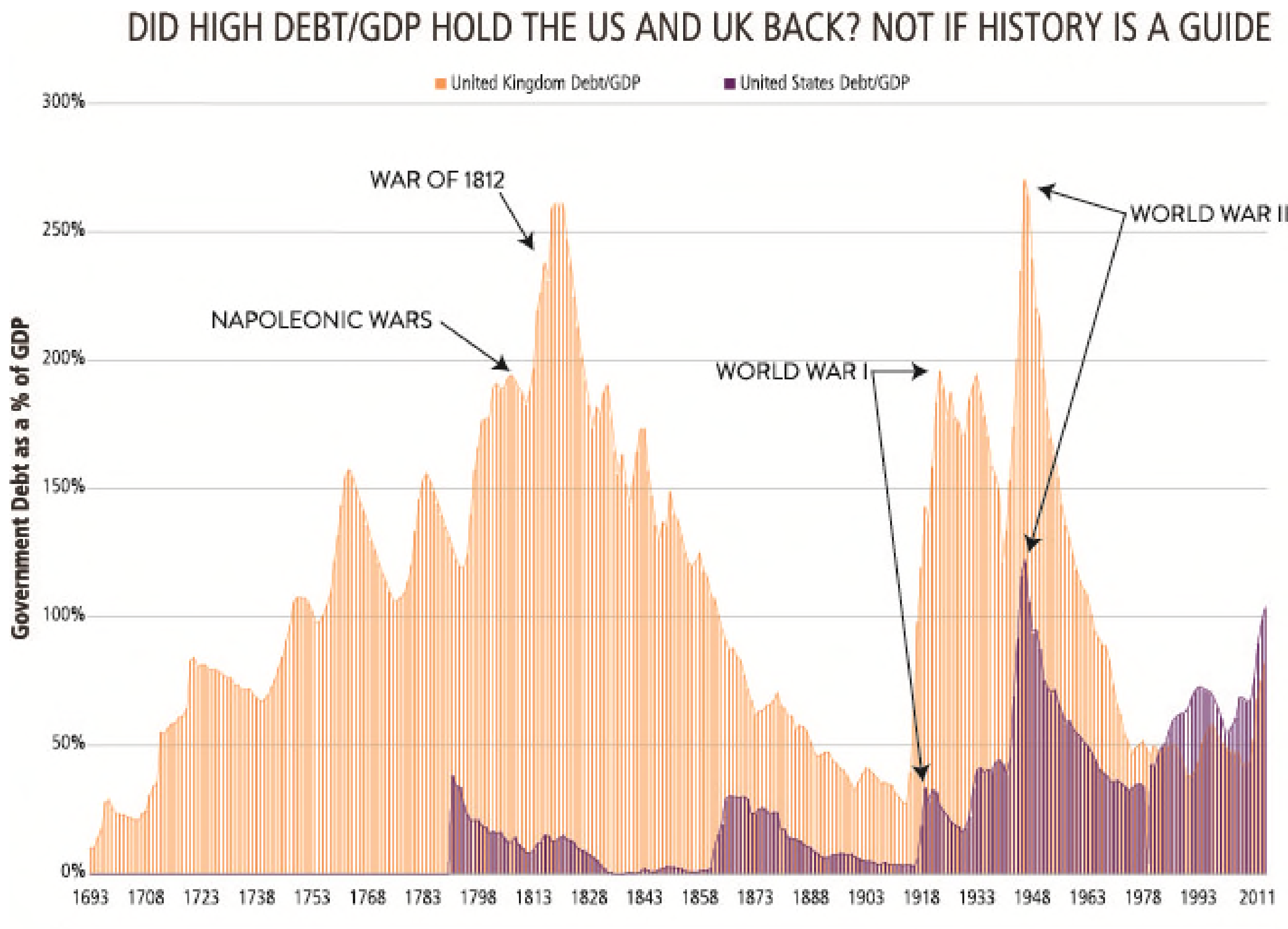
We suggest the same has always been true. In the spirit of Reinhart and Rogoff, if we track back hundreds of years the same pattern abides. Take for example, the United States and the UK over the past two centuries. Periods of high debt/GDP were followed by growth slowdowns (the Great Depression) or war. Did these periods portend slow growth?

Once again, quite the opposite: from the absolute peak of Britain's debt/GDP after the Napoleonic Wars (by the way, a far cry away from today's British debt/GDP levels and more "Japan-like"), what happened (See Figure 3)? The industrial revolution: or the greatest period of economic growth in world history (prior to the emerging markets phenomenon over the last two decades).

There is no critical threshold for debt/GDP. What's more, high debt/GDP do not suggest an economy is doomed to slow and sluggish growth. In fact, history tell us spectacular growth periods often follow for good reason: the preceding period of slow or negative growth drives the much-feared debt/GDP ratios. Growth cures many ailments.

fig. 3

DID HIGH DEBT/GDP HOLD THE US AND UK BACK? NOT IF HISTORY IS A GUIDE



Lessons from Examining Old Wives' Tales

What have we learned? First, collateral is paramount in any financial system. Leverage is a symptom or consequence of the use of collateral. Further, if this is true, interest rates (such as the Federal Reserve's overnight interest rate) remain but one piece of the monetary policy puzzle. Keeping the overnight interest rate at the zero lower bound (ZLB) will not necessarily ignite the risk-taking and credit creation desired by the Fed due to a general shortage of

“good collateral.”

Nor is “quantitative easing” (see our Centerpiece, “The World Biggest Bond Portfolio”, for more on this) an answer. With quantitative easing, the central bank removes high-grade collateral in attempt to levitate the scarcity-value of remaining collateral. Will it work? Perhaps we should ask Shylock.

Second, unlike the field of physics, stable relationships between macroeconomic variables do not exist. There is no debt/GDP leverage “trigger point.” The less scientific phrase, “it depends,” comes into play. A sharp contraction in economic activity preceded the spike in developed world debt/GDP ratios. One path out: economic growth. Watch the pages of newspaper for articles on “the incredible shrinking budget deficits” as the economic recovery progresses.

Third, we suggest investors avoid simple, one-size-fits-all explanations for economic puzzles. The “de-leveraging” concept does not explain everything. The all-too-common problem in economic analysis is the “theory of everything” problem. Elegant, plausible, appealing and…false.

Remember that the next time you sneeze.

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IAFEI News **June 28, 2013**

Newly Created IAFEI Working Committees, starting 2013:

- ***IFRS Committee*** - Committee Chairman, and Committee Liaison Officer: - IAFEI Executive Committee Member and IAFEI Treasurer, Emilio Pagani, Italy

- ***International Tax Committee*** - Committee Chairman Piergiorgio Valente, Italy. Committee Liaison Officer: IAFEI Executive Committee Member and IAFEI Chairman, Luis Ortiz Hidalgo, Mexico

- ***International Treasury Committee*** - Committee Chairman: Omar T. Cruz, the Philippines. Committee Liaison Officer: IAFEI Executive Committee Member and IAFEI Area President Asia, Nguyen Ngoc Bach, Vietnam.

- ***International Observatory of Management Control Committee*** - Committee Chairman: - Frédéric Doche, France. Committee Liaison Officer: IAFEI Executive Committee Member and IAFEI Area President Europe, Middle East, Africa, Armand Angeli

IAFEI Board of Directors Meeting, Warsaw, Poland, October 15, 2013

43rd IAFEI World Congress, Warsaw, Poland, October 15 to 17 , 2013

Hosting IAFEI member institute will be FINEXA, the Financial Executives Institute of Poland, in cooperation with Financial Gates GmbH, Germany/ CFO-Insight magazine

Please turn over

44th IAFEI World Congress 2014, Manila, The Philippines

Hosting IAFEI member institute will be the Financial Executives Institute of the Philippines, FINEX. The exact date has not yet been determined.

45th IAFEI World Congress, 2015, Milan, Italy

Hosting IAFEI member institute will be the Financial Executives Institute of Italy, ANDAF. The exact date has not yet been determined.