World Economy

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Hopes turn to fear and uncertainty

Answers to the big issues facing the global economy depend mainly on events in the US and eurozone, writes *Chris Giles*

Meeting of minds: logo for the IMF-World bank events beginning in Tokyo today Bloomberg

A threat of double-dip recession is stalking the world economy. Advanced economies are struggling to raise insipid growth rates, while the fast-growing emerging economies cannot maintain their previous momentum. If anything goes wrong – and there are known potential shocks in the coming months – the risk is rising of a dangerous economic slide.

The Brookings Institution-Financial Times Tracking Indices for the Global Economic Recovery shows a steep drop in 2012 so far, leading professor Eswar Prasad of Brookings to describe the global economy as "on the ropes".

In the International Monetary Fund's twice-yearly World Economic Outlook, published this week, Olivier Blanchard, the fund's chief economist, said the world economy was hamstrung by uncertainty, which was preventing companies from investing and households from spending.

"Worries about the ability of European policymakers to control the euro crisis and worries about the failure to date of US policymakers to agree on a fiscal plan surely play an important role, but one that is hard to nail down," he said.

The renewed concern about the health of the global economy marks a depressing return to fear after an initially strong global recovery. World output jumped 5.1 per cent in 2010, a figure which dipped only to 3.8 per cent in 2011 even with the eurozone crisis pulling the rug from under previous optimism last year.

The hope was that 2012 would witness a return to more rapid expansion, but the latest IMF forecasts now expect only 3.3 per cent global output growth, split between 5.3 per cent expansion in the emerging world and 1.3 per cent growth in the developed world. So the slow descent back towards recession – defined as global growth below 2 per cent – is a big worry for the whole world, rather than one part of it.

That raises a big question for central bankers and finance ministers arriving in Tokyo this week for the IMF and World Bank's annual meetings: are the world's problems in 2012 a temporary glitch in a long march forward, or are fears justified that the last few months of this year are but a phoney war before the crisis again rears its ugly head?

> The slow descent back towards recession is a worry for the whole world, rather than one part of it

The answer depends primarily on events in the US and the eurozone.

The US, still the world's largest economy, is pivotal for the global outlook. With the presidential and congressional elections imminent, its economy is still growing at a moderate pace close to 2 per cent a year. This recovery, however, is not sufficient to reduce unemployment quickly. One good month's data in September brought the rate below 8 per cent, down from a 2009 peak of 10 per cent, but the decline in joblessness is slow for a US recovery and is undermined by evidence of a significant body of discouraged workers who are not officially unemployed.

In response to what Ben Bernanke, Federal Reserve chairman, called a "far from satisfactory" recovery, the central bank launched an ambitious and open-ended third round of quantitative easing in September, under which the Fed committed to create at least $40bn a month. It said the money would be used to purchase mortgage-backed securities and would continue for as long as "outlook for the labour market does not improve substantially".

Even with the Fed's brute force, the fear in international circles is that its action will be undone by politicians unable to stop the US economy falling over the edge of what is known as the "fiscal cliff". Unless existing legislation is repealed, the US authorities will impose tax increases and spending cuts of 4 per cent of national income in January 2013.

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World Economy

Cobbled together: a euro sculpture is partially reflected in a puddle outside the European Central Bank's Frankfurt headquarters Reuters

Ball is in countries' court as ECB stands prepared

Eurozone The central bank has acted to guarantee the 'irreversible' nature of the euro but resolution of the crisis lies with Germany and others, writes *Michael Steen*

Mario Draghi, president of the European Central Bank, has crafted what he calls a "fully effective backstop" against the disintegration of the eurozone. The question now is whether Europe's leaders will use it to push for a resolution to the region's crisis or whether, zombie-like, the bloc stumbles through a lost decade.

The 17-nation region contracted in the second quarter and, in spite of the ECB's actions to slash its main interest rate to a historically low 0.75 per cent, it is proving hard to reignite growth. Even businesses in the eurozone's strongest economy, Germany, are forecasting further gloom in recent surveys, rather than seeing this as a golden opportunity to invest.

There are suggestions the central bank may cut rates yet further by the end of this year or early next, shrugging off concerns about inflation which, although above the ECB's target of "below but close to 2 per cent" over the medium term, is expected to slow down in coming months.

But, as the bank admits, that classical tool of monetary policy is effectively broken. Rates set in Frankfurt are no longer adequately reflected in the cost of borrowing for companies and households in Seville or Porto, due to speculation that countries with distressed bond markets may leave the euro.

The most recent ECB dataset on lending rates to small and medium enterprises shows that a German company seeking a loan of €1m for between one and five years might typically pay 3.8 per cent – a record low – while a Spanish company would pay 6.6 per cent, the highest since late 2008 when central banks cut rates after Lehman Brothers collapsed.

The spread between those rates has been getting wider, although the latest data for August predate Mr Draghi's backstop – dubbed outright monetary transactions or OMT by the ECB. OMT has yet to be deployed, but its announcement alone has already managed to bring down the sovereign borrowing costs of countries such as Italy and Spain.

Mr Draghi's idea is to stand ready to make unlimited purchases of bonds with short-dated maturities on the secondary market for countries with elevated sovereign borrowing costs, if the ECB judges that those costs are caused by speculation about a euro break-up.

This is deeply controversial in Germany, where the Bundesbank has opposed it outright and said it is tantamount to printing banknotes.

German concern – and an effective German veto by its parliament of any application – is one reason why no country has yet applied for the bond-buying to begin. This would entail first signing up to structural reforms and possible deficit cutting measures by applying to the eurozone's permanent rescue fund, the European Stability Mechanism.

But even when, and if, OMTs are used, Mr Draghi has repeatedly made clear his "backstop" is just that – a measure aimed at preserving the singleness of the eurozone and guaranteeing the "irreversible" nature of the euro.

As a tool of monetary policy the measure is not meant to address the fiscal problems of countries with big budget deficits and high levels of debt to gross domestic product. Nor is it an attempt to address the economic imbalances that created the problem.

"The ECB has done everything possible and it could certainly create an environment which is conducive to reforms because it could remove what we call the redenomination risk," Mr Draghi said after this month's meeting of the ECB's rate-setting governing council. "So, it could remove tail risks but ultimately, the initiative is in the hands of governments."

Some economists identify the current phase of the crisis as one of "muddling through", where periodic spikes in the borrowing costs of countries such as Spain and Italy are addressed but no fundamental eurozone-wide reforms are undertaken to eliminate grounds for financial market speculation about the future of the euro.

The outlines of some kind of settlement are emerging in the form of discussions about a banking union, common European banking supervision, and a fiscal pact, but ultimately the shift from the "muddling through" phase to a resolution will require the commitment of Germany and others to still deeper fiscal integration.

A looming German federal election in about a year's time is unlikely to hurry that debate along, with the political risks all too obvious for Angela Merkel, the chancellor, of advocating tighter integration at a time when much public opinion is sceptical of bailouts for southern European states.

"The optimistic view is that even in the muddle-through, we're still moving in the right direction," says Marie Diron, a former ECB economist who acts as economic adviser for Ernst & Young. "The danger is we don't have 5-10 years and that with muddling through you are too close to the cliff."

Returning to growth of 2 per cent in the eurozone would be hard to see happening in the next decade, Ms Diron says, with 1 per cent in prospect only after a period of contraction and stagnation.

The other risk is that too harshly implemented austerity both strains the social fabric of countries beyond breaking point and even harms the very growth prospects so desperately needed to lift the eurozone's economy out of the doldrums.

Setting aside the wider problem of integrating the eurozone's economies, some economists spy the potential for Germany to lead the way back out of the crisis, if fears of the euro breaking up can be dispelled.

"The ECB's announcement (and implementation, if required) that it will buy unlimited quantities of peripheral government bonds, if necessary, will gradually convince investors over the next few months that the euro will not disintegrate, in our view," Ralph Solveen of Commerzbank said in a note.

"This should at least soothe the crisis. Companies should then also turn less uncertain, with the current slumbering [German] boom likely being awakened as a result."

> 'The optimistic view is that even in the muddle-through, we're still moving in the right direction'

Slowdown in growth likely to continue

China

Consumption-led model to the fore as economy adapts to 'new normal', writes *Simon Rabinovitch*

When China reports its third quarter economic data next week, it is widely expected to mark its seventh consecutive quarterly slowdown in growth.

China is still doing remarkably well by global standards: the economy probably expanded about 7.0-7.5 per cent year-on-year in the third quarter. But relative to the country's recent past, the grinding slowdown has been a significant change that many companies and investors are struggling to digest.

"If you compare it to China's growth rate before 2008, you've come down by about a third," says Huang Haizhou, chief strategist with China International Capital Corp.

The causes of the slowdown are clear enough. First, exports, once a leading engine of the Chinese locomotive, have become a drag instead. Net exports used to contribute about 2 or 3 percentage points to China's growth rate. Now, with external demand so weak, sluggish exports will actually subtract about 1 percentage point.

Second, investment appears to have finally peaked at nearly 50 per cent of gross domestic product, a record high for a big economy in peacetime.

Although there is still plenty of capital spending, there is now a huge base of physical capital and so a slower increase in its size means that investment will go from contributing about 6 percentage points to 4 percentage points of growth.

That leaves consumption as the only driver of Chinese growth with the potential to strengthen. Retail sales in real terms have been resilient this year but the economy's shift to a consumption-led model is occurring only gradually.

Tot it all up, and China will struggle to do any better than 7.5 per cent growth this year and next year as well – the slowest in more than a decade. "We expect mediocre growth to be the new norm in China," says Dong Tao, Asia chief economist for Credit Suisse.

The big surprise of the past six months has been the central government's reluctance to do more to arrest the slowdown. It has allowed the central bank to cut interest rates twice and, at the margins, it has boosted spending on investment and provided more support for exporters.

But it has rebuffed calls for anything remotely resembling the Rmb4tn ($640bn) stimulus package that it unleashed in 2008 to power the economy past the global financial crisis.

Many analysts had expected a more forceful policy response from the government and have had continually to revise down their forecasts as Beijing has stayed on the sidelines.

There are competing explanations as to why it has been so restrained.

The simplest is the current juncture in the country's politics. In November, the ruling Communist party will convene a congress in which it will unveil China's new leaders for the next 10 years. Xi Jinping has been anointed to replace Hu Jintao as party chief.

> **7.5%**
> China's slowest growth rate in more than a decade

With officials from the village level to the national stage jockeying for promotions ahead of this once-in-a-decade leadership succession, attention has been given over to politics at the expense of the economy. "The policy paralysis due to political struggles this year is the very reason why it might take longer than usual for the Chinese economy to recover," Lu Ting, an economist with Bank of America-Merrill Lynch, wrote in a recent note.

Another explanation is that the government has come to the conclusion that slower growth is desirable for China. In this view, Beijing has learnt from its 2008-09 stimulus. Although highly effective in propping up growth in the short term, that gargantuan spending effort only made the economy more unbalanced in its reliance on investment.

In an editorial last month, Xinhua, the official news agency, argued that another similar stimulus was "not only unlikely, but would be detrimental to the country's sustainable growth".

A final view – and one that raises a more alarming prospect – is that the government's hands are tied. Even if it wanted to promote faster growth, it would be unable to get much traction. "Imagine the scene when a car is stuck in the snow. The driver keeps stepping on the gas pedal. The wheels move, but the car does not move forward. This car is called the Chinese economy," Mr Dong says.

This bleak opinion is based on the assessment that private businesses are restricted to a series of sectors such as manufacturing and property that are beset by overcapacity.

Unless the government gives them greater access to state-controlled parts of the economy, such as healthcare and finance, they will be unwilling to increase investment and overall growth will inevitably falter.

In contrast to the central government's reserve, local officials have been tripping over themselves to announce bigger and bigger investment ambitions. Over the past few months, provincial and municipal governments have announced more than Rmb10tn in spending plans, from more subway lines in the northern city of Xi'an to tourism development in the southern province of Guizhou.

Taken together, these plans have been interpreted by many as a new stimulus for China. But there is a big problem with this interpretation – the yawning chasm between what local governments say and what they can actually do.

Declining land sales have hit their revenues and banks have shied away from lending to them because they are still saddled with debts from the previous stimulus.

There is, however, one scenario in which Beijing would be likely to launch a real stimulus.

"In the event of a sharp deterioration in global demand, we expect the Chinese government to provide additional policy support, both fiscal and monetary," says Wang Tao of UBS. With total government debt at just about 40 per cent of GDP, it clearly does have the capacity to act.

So while somewhat slower growth might be China's "new normal", it is hard to see it getting much worse than that.

Buy, buy: consumption is the only growth factor with the potential to strengthen Bloomberg

Hopes turn to fears across globe

Continued from Page 1

With fiscal policy a live election issue, there are no bipartisan efforts as yet to mitigate the cliff and although most experts expect the issue to be resolved after the November 6 elections, the precedent from 2011 suggests brinkmanship will ensure uncertainty continues to the last minute.

Gerard Lyons, chief economist of Standard Chartered bank, says minds will be concentrated by the certainty of a new recession if no agreement is struck. "So bad is this outcome that it is unlikely to happen, as neither party could shoulder the fall-out. More likely, there will be a last-minute compromise . . . The trouble is that any decisions need to be agreed before year-end – in the so-called 'lame-duck' session of the US Congress."

If the US suffers from an uncertain political and economic outlook, the eurozone situation is more critical, even though a period of calm soothed the eurozone over the summer. Comments by Mario Draghi, president of the European Central Bank, that he would do whatever it took to ensure the euro remained a stable currency were well received, as was the policy announced a few weeks later of "outright monetary transactions" by the ECB.

These will give it potentially unlimited monetary firepower to bring down short-term borrowing costs, so long as the nations sign up to a deficit-reduction programme imposed from the outside.

Other welcome developments for the eurozone have included the highest German court ruling that the European Stability Mechanism, the new rescue fund, did not breach the German constitution, and Dutch elections demonstrating public support for political parties keen to make the euro project work.

But after months of prevarication, the summer's progress still requires significant further action before the eurozone can be stabilised and confidence can return.

Member states need to agree the definition of banking union, which is aimed at breaking the vicious circle that exists between weak sovereign states in the eurozone and their weak banks. Parts of the core of Europe want a minimal agreement on a common European banking supervisor of only the largest banks, with sovereign states remaining responsible for bailouts of failing banks.

The periphery naturally wants to socialise the risks surrounding its banks and introduce common deposit insurance. In early October, the two sides were as far apart as ever.

The issue of Greece – where the economic numbers are again slipping behind the latest eurozone/IMF programme and disbursements of loans have been held up – cannot be ignored for much longer. The IMF is playing tough, unwilling to lend into a programme it sees as off-track and where the Greek government has not lived up to promises of structural reforms.

> Further action is needed before the eurozone can be stabilised

European governments are more understanding, but a resolution of the impasse is needed soon to prevent the nation running out of money.

It is also looking ever more likely that Spain, too, will need to apply for a formal EU/IMF programme to trigger the ECB purchases of bonds, but Mariano Rajoy, Spain's prime minister, is still holding out. And all the while, the eurozone economy deteriorates. The IMF predicts it will contract by 0.4 per cent before doing little better than stagnate in 2013.

With so many reasons to fear the eurozone crisis will deepen one more, Christine Lagarde, managing director of the IMF, has again called for "urgent action" to see "co-ordinated implementation – multiple players playing one game".

If the two largest economic areas are facing big risks in the months ahead, emerging economies are struggling to maintain the momentum with which they started the year. No longer does anyone believe they have decoupled from advanced economies.

In October, the World Bank cuts its forecast for Chinese growth to 7.7 per cent from 8.2 per cent in May, the lowest rate of expansion since 1999.

With a once-in-a-decade change of Chinese leadership imminent, the low current rate of growth, worse than that achieved in the depths of the financial crisis in 2009, is further unsettling the world's second largest economy.

China's weakness is mirrored in other large emerging economies. Brazil's economy has slowed dramatically in response to policy tightening to restrain excess and the global slowdown. Latin America's largest economy is expected to expand by only 1.5 per cent this year, while India's growth rate is likely to be around half of the 10.1 per cent it achieved in 2010. Even oil exporting countries, such as Russia, have felt the effects of the uncertainties.

With new weakness, monetary policy around the world is attempting to stimulate demand growth even though it is near its limit of effectiveness.

For most countries, the fiscal room to limit deficit reduction programmes is small and precludes much action. So all eyes are on the US and eurozone to take the steps necessary to remove uncertainty and build a little confidence.

If successful, Mr Blanchard says he would be "happy if [the IMF's] baseline forecasts turn out to be inaccurate – in this case, too pessimistic," but no one is counting their chickens.

Contributors »

Chris Giles
Economics Editor
Alan Beattie
World Trade Editor
Javier Blas
Commodities Editor
Robin Harding
US Economics Editor
Claire Jones
Online Economics Editor
Ben McLannahan
Tokyo Correspondent
James Mackintosh
Investment Editor
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US Economic and Trade Correspondent
Simon Rabinovitch
Beijing Correspondent
Michael Steen
Frankfurt Bureau Chief
Robin Wigglesworth
Capital Markets Correspondent
Andrew Baxter
Commissioning Editor
Andy Mears, Pictures
Steve Bird, Design

For advertising contact
Ceri Williams, tel +44 (0)207 775 6321,
ceri.williams@ft.com

‘Fiscal cliff’ looms over growth hopes

US The wounds of the financial crisis are starting to heal but several forces could still blow recovery off course, writes *Robin Harding*

One basic assumption is common to both sides of this year's bitter presidential race between Barack Obama and Mitt Romney: that the US economy is in bad, bad shape.

Mr Romney, the challenger, has made slow recovery the subject of his campaign. "What America needs is jobs. Lots of jobs," he said, declaring that the "Obama economy has crushed the middle class" as he accepted the Republican nomination.

Mr Obama, the incumbent, implicitly agrees that the economy is weak even if he prefers entirely different solutions. In his acceptance speech he talked about it taking "more than a few years" to solve economic challenges. His campaign has put all its effort into attacking Mr Romney's private equity career.

Yet even though the US recovery has been slow, it is actually one of the brighter spots in the global economy, and if it manages to avoid a few nasty pitfalls – notably the so-called "fiscal cliff" – the most likely outlook is for stronger growth ahead.

There are three basic reasons to think the wounds of the financial crisis are starting to heal: the housing, credit and labour markets.

On housing, there is a growing consensus that the market has finally hit bottom. "Recent developments point to a turnaround in the housing market," note analysts at HSBC. "The housing recovery continues to build momentum," say their counterparts at Bank of America Merrill Lynch.

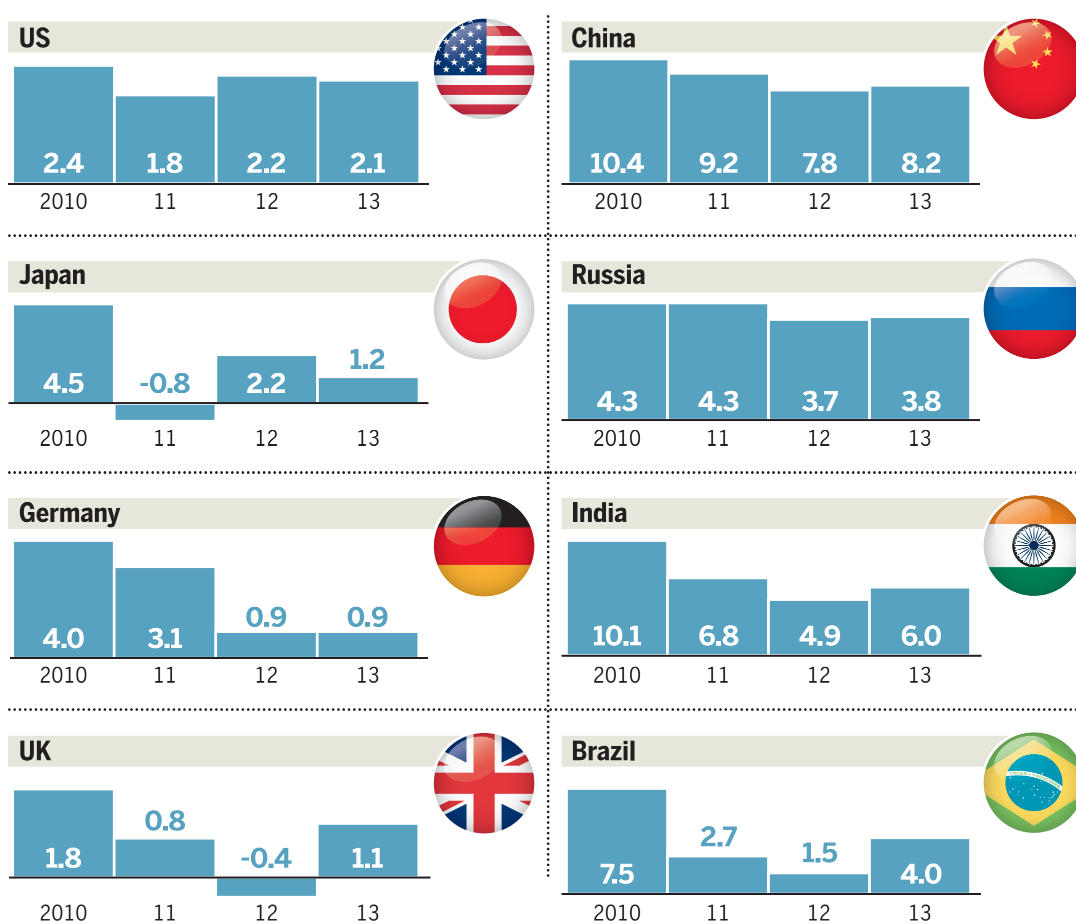
That view is based on a broad set of evidence. All the main house price indices are now on the rise: the Case-Shiller measure is up on a year ago with every metropolitan area showing a month-on-month increase. Home sales are up, houses sell faster, and even construction has come back a little.

That is linked to another trend. Household debt – one of the main legacies of the crisis – has declined from 100 per cent to 87 per cent of gross domestic product and is now close to its long-run trend. Much of the decline is debt written off, rather than paid down, and there is every chance that this measure will overshoot. But there is now the prospect that households could start to borrow more, especially if house prices do rise.

If households are ready to borrow, they will find that US banks are ready to lend. Unlike European banks, those in the US were properly recapitalised during the crisis, and since the middle of 2011 there has been steady growth in outstanding bank credit.

Finally, although the labour market is far from healthy, it is in a much better state than a couple of years ago. For example, the job openings rate – which measures the ratio of open jobs to total employment – is back to a normal pre-recession level of 2.7 per cent compared with below 2 per cent in 2009.

Global growth grinds down as spending stutters



Source: IMF

FT graphic

Put all this together and it starts to look like time truly is healing the US economy. All these gains could start to reinforce each other, as more employment supports more credit, letting people move houses, further boosting the housing sector, and in turn creating more jobs.

> Although the labour market is far from healthy, it is in a much better state than a couple of years ago

But there is a problem with this scenario. Every year since 2009 the US Federal Reserve, along with other forecasters, has predicted that the following year would be the year of strong recovery. Every year it has been wrong. The headwinds have been too strong.

The Fed forecasts growth of 2.5 to 3 per cent in 2013. Private forecasters have 2013 growth at 2.1 per cent according to the Philadelphia Fed's most recent survey. Several forces are expected to weigh on growth – including the woes of the eurozone and a slowdown in emerging markets – but by far the biggest problem is the "fiscal cliff".

The fiscal cliff describes a series of policy changes that current law will put into effect at the end of the year.

They include the expiration of all the tax cuts passed by former president George W. Bush; the expiration of a temporary 2 percentage point reduction in social security payroll taxes; and indiscriminate spending cuts worth $1.2tn over the next decade.

"The point here is that putting all these things together, you have a very substantial withdrawal of income from the economy that will affect spending and will affect the ability of the economy to recover in the short run," said Ben Bernanke, Fed chairman, in a recent press conference.

Taken together, the fiscal tightening written into current law is about 4 per cent of GDP; if that happens, says the Congressional Budget Office, the US is likely to suffer a recession, with output falling 0.5 per cent in 2013 and unemployment rising to 9 per cent.

The US is unlikely to fall straight off the fiscal cliff. If Mr Romney wins the election, the most probable outcome is that the payroll tax cut will expire, but everything else will be postponed for at least six months in order to attempt a big tax reform.

If Mr Obama wins, the situation will be a little trickier. Again, the payroll tax cut will probably expire, but Mr Obama will push hard to see that the Bush tax cuts for those on higher incomes expire as well, while limiting cuts to spending.

Republicans in Congress will not accept that without a fight, and while leaders in both parties understand the perils of going off the cliff, last summer's debt ceiling fiasco suggests they will be quite willing to dance along the edge of it. Even if all goes well, the expiry of the payroll tax cut will still mean some fiscal tightening in the US next year.

That limits the potential for rapid growth but there should still be some of it, especially with such active support from the Fed, which shows no sign of resting on its $40bn a month, open-ended, QE3 programme to buy mortgage-backed securities. The world's largest economy may be ready to lead the global economy once again.

Confidence gives way to doubt, disappointment and confusion

UK

Chris Giles finds the potential for quick growth in the economy has been severely damaged

In autumn 2010, a confident Britain felt it was leading the world.

The economy was recovering rapidly from the financial crisis. The new coalition government showed it could act when it announced a detailed multi-year plan to bring down the gaping public deficit.

Credit ratings agencies were impressed and Standard & Poor's obliged by removing the negative outlook on the UK's AAA-credit rating. Public support for tax rises and spending cuts was high. And Britain – as the poster-child for deficit reduction – blazed a trail soon followed by others in shifting from stimulus to austerity.

Two years on, where there was confidence, there is now doubt, disappointment and confusion.

Although the numbers in work are almost back to the pre-crisis peak with solid employment growth despite mass lay-offs in the public sector, output has languished.

Real gross domestic product has bumped along the bottom, effectively stagnating for two years and still 4 per cent below the 2008 high. Compared with the pre-crisis trend, the volume of goods and services produced in Britain is around 14 per cent lower than could have been expected before the crisis.

The combination of low growth and robust employment is reflected in plummeting productivity, suggesting the potential for the UK economy to grow quickly has been severely damaged.

With low growth has come disappointing public finances. Instead of eliminating the bulk of the deficit by 2014-15 as the coalition government had intended, George Osborne, the chancellor, has already conceded that austerity will have to continue to 2016-17. Other economic disappointments in 2012 are likely to delay deficit reduction even further.

With deficits not falling as hoped, the credit rating agencies are getting nervous. Two of the three leading agencies – Moody's and Fitch – have warned the UK government they are likely to downgrade the credit rating over the next few years.

Even the International Monetary Fund, which hailed the new government's deficit reduction plans in 2010 as "essential", is having second thoughts. In its mission to the UK this year, the fund suggested that if the Bank of England could not kickstart the economy and growth initiatives also failed, the government should consider slowing its austerity drive until the economy is stronger.

Bank of England: governor Sir Mervyn King says deficit reduction is not the only obstacle to growth Charlie Bibby

For some, such as professor Paul Krugman, the Nobel prize-winning US economist and columnist, the UK's predicament has been the predictable consequence of a failed devotion to premature austerity. "Britain is suffering from lack of demand; it could have a quick (not magical) recovery if policies were taken to stimulate demand," he argues.

> 4%
> **Amount by which real GDP is still below the 2008 high**

Many others, including the government, argue that Britain does not have the luxury of being able to delay efforts to reduce public borrowing when the deficit is still 8 per cent of national income. Stagnation since 2010 is not the consequence of what Sir Mervyn King, Bank of England governor, calls a "textbook" deficit reduction strategy but three additional impediments to growth in addition to fiscal tightening that could not have been predicted in 2010.

First was the eurozone crisis, which has hit UK exports hard, damaged confidence and reduced corporate investment intentions as the eurozone accounts for half of UK trade.

Second has been the global commodity price spike, which squeezed household and corporate incomes.

And third has been the continued slow repair of Britain's huge banking sector, which has constrained credit supply and business investment.

A study in the summer by the National Institute of Economic and Social Research showed that these three depressing forces account for the vast bulk of the disappointment since 2010, not deficit reduction.

But the economic disappointments of the past two years have fuelled political debate. The Labour party insists deficit reduction should slow even though it accepts it will not have much money to spare should it win the next election, scheduled for 2015.

The causes of the collapse in productivity are even more puzzling for economists and policymakers, who do not have a ready explanation for why employment is growing strongly despite stagnation in the UK, but the opposite is true in the US.

Both Conservative and Liberal Democrat elements of the coalition government are resolved, however, to stick to the tax rises and steady spending cuts announced in 2010, allowing automatic fiscal stabilisers to slow deficit reduction if growth remains elusive.

Ministers cling to the hope that the forces of stagnation are slowly coming to an end, household incomes are beginning to grow and with greater stability growth can resume.

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Differences seem more symbolic than real

US elections Both candidates would face the same issues with China and negotiations over trade deals, writes *Alan Beattie*

Barack Obama with Chinese president Hu Jintao at a G20 summit in Mexico earlier this year. China is a prominent item on the US election agenda AFP

Going by the heated discussions of trade, currency and offshoring on the campaign trail, a casual observer might conclude that America's place in the world economy hangs on the outcome of November's presidential election.

Such a casual observation is likely to be wrong. While Barack Obama and Mitt Romney regularly hurl accusations at each other of selling out American workers to China, their actual policy differences are considerably less stark.

Though the eurozone crisis is probably the biggest threat to the world economy at present, it rarely gets a look-in during the exchanges between the candidates, which centre on the question of China. Mr Romney's critique of Mr Obama is that he has "failed to take China to the mat" over Beijing's policy of boosting exports by holding down the renminbi, nor addressed its many trade distortions. And he has chided Mr Obama for failing to sign new trade agreements to produce export opportunities for American workers.

But Mr Romney's specific proposals to address these issues appear to informed observers to be either impractical or unlikely to make much difference. He has pledged to name China as a currency manipulator on his first day in office, criticising Mr Obama for failing to do so. (Four years ago, Mr Obama attacked George W. Bush for the same reason, though failed to follow through once elected.)

Yet under current US law, naming a country a currency manipulator – and there are many potential candidates other than China, including firm US foreign policy allies such as South Korea – merely requires the Treasury to open negotiations with its government, something it routinely does already.

In any case, to some extent this looks like a solution to yesterday's problem, as there is little sign that China has recently been trying to weaken its currency. The renminbi has been more or less unchanged this year, at least against the dollar, but with China's foreign exchange reserves having also flatlined, it seems to be genuine capital outflows rather than official intervention preventing it from appreciating.

As for the lack of other actions against China, the Obama campaign says it has brought several cases against Beijing to the WTO at nearly twice the rate of the Bush administration – including one last month on export subsidies for auto parts, timed to coincide with Mr Obama's visit to manufacturing-intensive Ohio.

To remedy the alleged lack of trade negotiations, Mr Romney has also proposed a "Reagan economic zone" – a trade pact bringing together like-minded free-trade countries. But the US is having enough problems with its current negotiations, let alone starting another, much more ambitious, set of talks.

Mr Obama has been defending his record on trade negotiations by touting last year's passage of three bilateral trade deals – with South Korea, Panama and Colombia – which he says will help create American jobs.

But not only do trade economists tend to regard the employment impact of such pacts as small, Mr Obama's critics point out that he inherited the deals from the Bush administration, and spent more than two years before submitting them to Congress.

The main negotiating project of the Obama administration has been the Trans-Pacific Partnership, which combines nine Asia-Pacific countries, with Canada and Mexico declaring their intention to join later. But talks on TPP have progressed more slowly than officials had hoped.

Comments by negotiators and leaked texts from the talks show countries still far apart on subjects such as intellectual property rights, the ability of companies to sue governments for expropriating their investments, and the perennially thorny issue of agricultural subsidies and tariffs.

Yet though Mr Romney has pledged to push on with the talks, it is unclear how he would be able to inject more momentum into the process. A Republican president would face the same constellation of domestic lobbying interests – the pharmaceutical and entertainment industries chief among them – and the same negotiating partners as a Democrat.

Grant Aldonas, managing director at the consultancy Split Rock International and an adviser to Mr Romney's campaign, told a meeting in Washington recently that the main difference between the two candidates on trade is that Mr Romney would aggressively seek so-called "trade promotion authority" (TPA) from Congress.

Formerly known as "fast-track", TPA allows a president to submit a whole trade deal to Congress for a single up-or-down vote rather than being picked apart with amendments.

But Mr Aldonas also said that, as currently constituted, TPP "falls far short of a revolution in trade policy" and questioned the point of an Asia-Pacific trade deal without Japan, so it remains unclear what the point of gaining TPA at the moment would be.

For its part, the Obama campaign has criticised Mr Romney for his tenure at Bain Capital, during which, it said, he outsourced many jobs to China, and has touted its imposition of special import tariffs on Chinese tyres in 2009, a move Mr Romney opposed.

> The Obama campaign says it has brought several cases against Beijing to the WTO at nearly twice the rate of the Bush administration

Again, the differences are more symbolic than real. The Chinese tyre tariffs – which Mr Obama allowed to lapse last month – were a one-off, with a predicted flood of copycat cases failing to arise.

In truth, the most likely impact from a change in administration would come from the international impact of domestic economic policy. If a Romney administration cut government spending rapidly, or if he appointed a Federal Reserve chairman with less willingness to experiment with loose monetary policy than Ben Bernanke, the incumbent, the effect on American and thus global economic growth could be substantial.

But as regards international economic policy itself, and particularly trade, it seems unlikely that much will hinge on November's result.

President cannot make move until election result is decided

If Obama wins . . .

Fixing the 'fiscal cliff' would be a tough second-term task, says *James Politi*

On the stump: Barack Obama at a rally in Las Vegas Getty

On the campaign trail, President Barack Obama's economic message has been fairly simple and consistent. The sluggish US recovery is the result of the deep hole the economy was in when he took office four years ago – and not a reflection of failed efforts on his part.

The blame, he says, should be apportioned chiefly to Republican policies championed by George W. Bush, his predecessor, and Republican intransigence on Capitol Hill blocking his plans to implement a more aggressive fiscal stimulus.

"We don't need to double down on the same trickle-down policies that got us into this mess in the first place. We don't need policies that just help folks at the very top," Mr Obama said at a rally in Las Vegas on September 30, three days before the first presidential TV debate.

"We succeed when the middle class is getting bigger – when more people have the chance to get ahead and live up to their God-given potential."

If Mr Obama is re-elected, there are several certainties. He will try as hard as he can finally to raise taxes on the rich – which he has steadfastly aimed for, always encountering stiff resistance, throughout his first term.

His first opportunity will come during the so-called "lame duck session" of Congress, in which lawmakers will have to find a solution to the "fiscal cliff" – a $600bn mix of broad tax hikes and spending cuts that could tip the US economy into a fresh recession.

One of the biggest components of this budgetary precipice is the expiration of Bush-era tax rates and, while Mr Obama wants to extend them for households earning less than $250,000 per year, he wants to allow them to expire for the richest income categories.

Republicans have so far resisted this "decoupling" – claiming it would hurt business owners and job creators, thereby inflicting further damage to the recovery. The key question in the wake of the election, assuming they hold on to control of the House of Representatives, is whether they would relent on this or fight it until the bitter end, possibly leading the US over the edge of the cliff.

But regardless of how the battle over the Bush tax cuts plays out, Mr Obama still has his work cut out for him on the fiscal policy side. He may well pick up where he left off in July last year, when he tried in vain to negotiate a long-term deficit reduction deal with John Boehner, Republican speaker of the House of Representatives.

Mr Obama has shown a willingness to make some cuts to popular government programmes, even on healthcare, as long as they were accompanied with some new revenues from the wealthy. But since those talks with Mr Boehner broke off, Mr Obama has adopted a much more protective posture with regard to federal pension and healthcare schemes for the poor and elderly – known as Social Security, Medicaid and Medicare.

But come November 7, these could well be on the table again in some form or other if Mr Obama tries to craft a new agreement – worth at least $4tn in deficit reduction over a decade – that would lift a cloud of uncertainty over America's capacity to get its fiscal house in order.

> Obama would no longer be facing re-election, and have flexibility to negotiate

During this time, Mr Obama will have to pick a new Treasury secretary, since Tim Geithner has already indicated that he will be stepping down at the end of the first term.

Among the names that are being floated as possible replacements are Jack Lew, the White House chief of staff and former budget director, and Erskine Bowles, the co-chair of the 2010 bipartisan fiscal commission.

Among the new Obama Treasury pick's biggest jobs next year may well be to weave a broad corporate tax reform proposal into the budgetary discussions.

The White House has already suggested lowering the corporate tax rate from 35 per cent – among the highest statutory rates in the world, though in practice many companies pay less – to 28 per cent.

But much hard work still needs to be done in picking out which corporate tax breaks to limit or scrap in order not to add to US debt levels.

The Obama administration has also rejected a shift to a territorial system of taxation, which does not tax foreign earnings, but may return to it if sufficiently tough conditions are imposed to curtail the shifting of production overseas.

Meanwhile, Mr Obama may well try to reprise themes that he has hammered at in several "state of the union" addresses during his first term, such as the need for additional government investment in innovation, infrastructure and education – which some Republicans scoff at.

In that vein, he could seek to move the US further in the direction of industrial policy – specifically trying to bolster America's manufacturing base, which has been recovering but still remains relatively impaired – through new targeted tax breaks.

The biggest hope for Mr Obama in a second term is that he will able to keep government demand at fairly strong levels – while the US economy is gradually cured of some of the structural problems, such as long-term unemployment, that have dogged it since the last recession.

Since Mr Obama would no longer be facing re-election, he may have a little more flexibility to negotiate with Republicans than he has in the past 18 months.

But the stakes will still be high, for his legacy, as well as for his Democratic allies in Congress who will need approval from voters again in 2014 and 2016.

Long on promised tax cuts but short on substance in costing

If Romney wins . . .

If the GOP's man is elected he faces some tough questions, reports *James Politi*

The morning after what was widely perceived to be a victory over Barack Obama in the first presidential TV debate, Mitt Romney told a conservative group in Colorado of what he saw as the main wedge over economic policy between the candidates.

"I saw the president's vision as trickle-down government and I don't think that's what America believes in," said Mr Romney – who had levelled that charge against Mr Obama the previous night.

"I see instead a prosperity that comes through freedom," he added.

In practice, a win for Mr Romney on November 6 would bring a significant shift in direction for the US towards a much more conservative "supply side" approach to fostering job creation across the sluggish US economy.

Principally, Mr Romney is proposing a combination of lower taxes across the board, coupled with a lighter regulatory regime, that is intended to spur the myriad US businesses that have been hoarding cash in recent years finally to deploy their money for hiring and investment.

In addition, Mr Romney has vowed to pursue deep cuts to spending programmes – except for defence, which he has pledged to protect – and to reform, though not right away, some of the most popular federal pension and health schemes for the poor and the elderly to save the government some money.

Mr Romney would probably, even before he took office in January, push a "lame duck" Mr Obama and Congress to extend all Bush-era tax cuts temporarily, thereby defusing one of the main components of the looming "fiscal cliff".

While Mr Obama is demanding that the Bush-era tax cuts be allowed to expire for the wealthiest Americans, his defeat would remove virtually all his negotiating leverage at the end of the year.

But Mr Romney's plan is broader than extending Bush-era tax rates to all. The former governor of Massachusetts wants that merely to be a step towards a much broader effort comprehensively to reform the US tax code. This would involve a lowering of all rates by 20 per cent – with the top rate falling from 35 per cent to 28 per cent.

To ensure this does not add to long-term budget deficits, Mr Romney says he wants to make up the revenue by closing the myriad special tax deductions that crowd the US tax code.

But he has resisted outlining exactly which ones he would curb – since many of these tax breaks, from the home mortgage interest deduction and the charitable contribution deduction – are extremely popular, and have dedicated political constituencies that would battle to preserve them.

The vagueness of the revenue-generating portion of his tax plan has exposed Mr Romney to harsh criticism that his maths do not add up, which the Republican nominee attempted to counter last week with a pledge to cap annual tax deductions at $17,000. But he was a little less specific during the debate, saying: "Make up a number – $25,000 – $50,000. Anybody can have deductions up to that amount. And then that number disappears for high-income people."

Mr Romney has proposed to push through a similar kind of tax reform on a corporate level as well, with the top statutory tax rate dropping from 35 per cent – one of the highest in the world – to 25 per cent. But there too, it has been hard to discern how the Republican presidential nominee suggests paying for the effort, beside his assurances that certain business tax breaks would be limited.

> **20%**
>
> **How much taxes would fall under broad reform plans**

On the international tax front, Mr Romney has embraced a shift to a territorial system of taxation – which does not impose levies on foreign earnings – which is a top priority for many US multinationals.

On the regulatory front, Mr Romney would probably seek to reverse some of the regulations put in place by the Obama administration that critics argue have imposed excessive burdens on US businesses, and the Environmental Protection Agency could well be disarmed under Republican control of the White House.

Mr Romney has also vowed to repeal both the 2010 healthcare law known as "Obamacare" and the "Dodd-Frank" Wall Street reform legislation.

Though Mr Romney has said he planned to replace the more popular provisions of these bills, it is far from clear how he would achieve this, or what exactly he would seek to preserve.

Finally, Mr Romney has said he wants to do a lot more to spur US domestic energy production, arguing that the Obama administration has resisted opening up federal lands for drilling even amid the country's natural gas boom.

Mr Romney has accused Mr Obama of having a bias towards renewable energy such as solar and wind power, picking "winners and losers" for government loan guarantees that led to some high-profile bankruptcies, such as solar panel maker Solyndra.

But his stance has raised alarm bells among renewable energy producers in the US who might see their government support cut off.

A win for Mr Romney in the presidential race would probably be accompanied by a Republican takeover of the Senate – giving his party full control of the US Congress. But for some of his most sweeping objectives, such as broad tax reform and deficit reduction, he would probably need some Democratic support. Eyeing moderate voters who may worry that Republicans have been too intransigent in resisting tax hikes in the recent budget debate, Mr Romney tried to show that he would be willing to deal with the opposite party if elected.

"We have to work on a collaborative basis – not because we're going to compromise our principles, but because there's common ground," he said towards the end of the TV debate.

Put it there: Mitt Romney campaigning in Denver Reuters

Flush with cash, short on influence

IMF and World Bank The two institutions face new challenges, writes *Alan Beattie*

It is all change on 19th St NW in Washington: last year's switch of leadership at the International Monetary Fund was followed this year by a similar move at its sister institution over the road, the World Bank.

In both cases, a decades-old stitch-up between Europe and the US over the appointments remained in place. But the people in charge will have to adapt their institutions to a very different world if they are to return to a central place in the management of international development and the world economy.

The IMF's leadership changed last summer. The forced departure of Dominique Strauss-Kahn as managing director was followed by the swift installation of Christine Lagarde in the top job, maintaining the position as a European fiefdom.

Earlier this year, the US continued the counterpart tradition of nominating the president of the World Bank – in this case Jim Yong Kim, president of Dartmouth College, who formerly ran the World Health Organisation's HIV-Aids programme but whose appointment was criticised by some development economists because of his narrowness of expertise.

With Dr Kim in the job only a few months, it is hard to make a confident assessment of what the bank will look like under his presidency. Yet the history of the bank in recent decades – and Ms Lagarde's experience at the IMF over the past year – suggest it is not straightforward to retool the international financial institutions for the realities of the modern world economy.

For both institutions, the global financial crisis was a chance to reassert their roles after several years in the 2000s in which their influence had waned.

During that time there were plentiful private capital flows to developing countries, and a new breed of aid donor arrived in the form of China and other big emerging markets, often with rather different views from the bank's on the role of the state in economic development. The bank's relative importance both as a provider of

Leading lights: Christine Lagarde, managing director of the IMF and Jim Yong Kim, president of the World Bank EPA, Bloomberg

finance and of advice to developing countries shrank.

In the case of the fund, the bountiful liquidity and easy borrowing available in the years preceding the global financial crisis meant there were few debt-ridden countries facing a sudden stop in capital flows and needing the IMF to fill the gap.

But both institutions swung into action when private capital dried up during the global financial crisis – and since the biggest funding problems have been in the rich world, specifically western Europe, the IMF has been more prominent than the bank.

The IMF more or less tripled its firepower in 2010 with a general programme of increases in contributions from its member countries, and is adding nearly the same again with a round of ad hoc pledges this year.

Some of the IMF's early clients during the crisis – the central and eastern European countries hit by contagion from the eurozone – have stabilised, if not fully recovered.

> The IMF has played only a junior financing role in the rescue programmes for Ireland, Portugal and Greece

But the fund has found it much harder to operate in the eurozone.

Even with the extra resources from its shareholders, the IMF has been able to play only a junior financing role in the rescue programmes for Ireland, Portugal and Greece, becoming just one member of the "troika" – the other two being the European Central Bank and the European Commission.

And the fund seems likely to provide an even smaller share of the money, or none at all, if Spain or Italy ask for help. With the European Union having to create institutions to deal with the crisis as it went along – usually painfully slowly, and with much public dissent between member states – the IMF has often found itself at odds with both the pace and the content of the rescue effort.

In Greece, for example, as a recent internal review of its activities acknowledged, fund staff were much keener than EU officials for a restructuring of Greece's official debt stock. But their minority financing role gave them relatively little influence

However, over the past year, under Ms Lagarde's leadership, the IMF has become progressively bolder about publicly disagreeing with the eurozone authorities. Last summer Ms Lagarde provoked a storm of criticism by saying that European banks needed more capital – with public money involved if necessary.

IMF staff have also tried to dig in during negotiations over the Greek rescue, saying that the debt sustainability analyses produced by the other troika members were too optimistic, and that Greece would need a bigger writedown in its debt or more official money to fill its financing gap.

The fund has also supported the contention of Spain, the latest country to come into the market's line of fire, that an overly rapid fiscal tightening would merely send the economy further into recession and worsen the debt burden rather than improve it.

On the face of it, the IMF has been given a vote of confidence by the European Central Bank, with Mario Draghi, its president, saying that the fund must be involved in any rescue programme for countries such as Spain or Italy.

But critics are concerned that the fund, with little or no money of its own on the table, will have even less power to determine the conditions that those countries must accept to get a bailout.

The fund and the bank face a world in which they struggle to keep pace with the rapid growth of private capital and the size and speed of sovereign debt crises.

Even with tough and energetic leadership, their task is a daunting one.

'One size fits all' left for more tailored approach

IMF and fiscal policy

The organisation now suits its advice to the nature of the member's economy, says *Chris Giles*

There is an old saying that the IMF acronym does not stand for International Monetary Fund, but "It's mostly fiscal". This nickname was acquired over many years when the IMF's stock position was to tell countries in trouble they had no choice but sort out their public finances with spending cuts and tax increases.

Everything changed in January 2008 when Dominique Strauss-Kahn, the then IMF managing director, stunned the World Economic Forum in Davos, by calling for a fiscal stimulus to solve the gathering financial crisis.

"I don't think we would get rid of the crisis with just monetary tools," he said. "A new fiscal policy is probably today an accurate way to answer the crisis."

Public deficits soared as countries used fiscal policy more than ever to help offset the powerful forces of the 2008-09 financial and economic crisis.

But the clean reversal of the IMF position lasted only two years. Since 2010, the IMF's stance has become seemingly more confused and contradictory.

It frets about the consequences of potential fiscal tightening in the US next January. Christine Lagarde, now managing director, warned against existing US legislation which will impose a reduction in the deficit next year equivalent to 4 per cent of national income as "a serious threat for the United States and, as the world's largest economy, for the global economy".

But in Europe, the IMF is standing firm against disbursing money to Greece unless the country stops dragging its feet in imposing spending cuts and tax rises. And for countries such as Spain, Ms Lagarde said in the same speech that everyone should recognise there "is no alternative to the structural reforms and fiscal adjustment needed to get back on the right path".

As far as Japan is concerned, the country with the largest public sector debt at over 200 per cent of national income, the IMF has few recommendations.

David Lipton, the first deputy managing director, praised recent attempts to increase the consumption tax while stressing that "higher trend growth will be key to bring down Japan's high public debt ratio".

In many ways there should be no surprise that the IMF does not have a simple line on fiscal policy, since debate rages in the academic world over

> **200%**
>
> **Japan's public sector debt as a percentage of national income – the world's highest**

optimal fiscal policy after a financial crisis and the IMF staff reflect all sides of that academic opinion.

Olivier Blanchard, the chief economist, is more sympathetic towards slower fiscal consolidation in his public pronouncements than his boss Ms Lagarde, although the public policy splits are more in the nuance of recommendations rather than in hard differences in policy positions.

The one unifying concept upon which the IMF hangs is that of "fiscal space".

Countries deemed to have significant fiscal space have room to adjust deficits slowly "to avoid undue pressures on activity and employment", the IMF says, while those with little space have no option but to cut deficits hard and fast.

In the medium term, the IMF recommends that all advanced countries should become fiscal hawks and rebuild their lost fiscal space so that they will have room to respond to a future financial or economic crisis.

With this concept, the IMF seeks to reconcile its seemingly contradictory advice since it says there is no "one size fits all" definition of fiscal space.

The US has significant fiscal space because it is a large, relatively-closed economy and holds the world's only reserve currency. It can therefore be more sanguine than smaller economies about its very large budget deficit. But in the longer term, the US must act to restore sustainability to its public finances.

By contrast peripheral eurozone countries, struggling to finance their deficits in markets, have no fiscal space, and must consolidate rapidly regardless of the short-term damage to growth. Greece and other countries accessing IMF funds have completely run out of fiscal space.

Japan and the UK are intermediate cases without the fiscal space enjoyed by the US but, with low borrowing costs and simple market access to debt, they have greater room than many eurozone economies, although these two countries have much less room to delay medium-term fiscal consolidation.

Even though the fund accepts that in the medium term few advanced economies have much fiscal space and should aim to reduce public sector debt, its latest research demonstrated how few examples of successful debt reduction there are.

"Widespread fiscal cutbacks, retreat by the private sector, population ageing, and the aftermath of the financial crisis mean even countries that follow the guidebook will have to moderate their expectations for reducing debt," the IMF warned. Even so, it still urged countries to emulate the successful examples of reduction in debt, by implementing lasting medium term fiscal consolidation alongside structural reforms to boost growth, rather than a series of temporary efforts to get deficits down.

However much those receiving IMF advice would like a clean approach to fiscal policy, the days when the fund could be counted upon to recommend a little tighter fiscal policy than planned in almost every country are now long gone.

With differential fiscal space, countries are not in the same boat even if their deficits appear similar.

Olivier Blanchard: sympathy for slower fiscal consolidation

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Risks ahead for investors if QE continues

Financial markets The true test of the monetary policy experiments will be their effect on the real economy, writes *James Mackintosh*

If all you have is a hammer, every problem looks like a nail. For the world's central banks, the hammer is their ability to create money to buy up assets, and it is pounding on every difficulty out there.

The US Federal Reserve upgraded to a sledgehammer at its last meeting, turning its third round of quantitative easing from QE3 to QE∞ (or infinity) in an attempt to solve the problem of unemployment. It plans to buy mortgage bonds in the market until the economy starts creating jobs – and says it will not tighten monetary policy immediately even when it spots a recovery.

Switzerland long ago moved to an "unlimited" monetary policy, printing Swiss francs as though they grew on trees in order to prevent the currency rising against the euro. The European Central Bank has also promised unlimited intervention to protect the bond yields of struggling eurozone countries against fears that they could leave the euro.

Neither the Bank of England nor Bank of Japan has moved to infinite money printing yet, but the pair are pushing the limits of unconventional monetary policy, with the British trying credit easing and the Japanese buying shares and property investment vehicles.

For investors this sudden monetary battering was great news, helping to drive up shares and other risky assets. Global equities produced an extraordinary summer rally, jumping 18 per cent from their lows at the start of June to a mid-September high, with the eurozone periphery doing far better.

The question now is whether central bank liquidity has left financial markets disconnected from reality. If it has, the likely outcome is a repeat of 2010, 2011 and the start of this year, when the effects of monetary stimulus wore off and markets plunged, recovering only when central bankers promised more action.

Since the equity rally petered out in mid-September, shares have done little in the US or Europe's safer countries, although some struggling countries, particularly Spain and Italy, have seen bigger pullbacks.

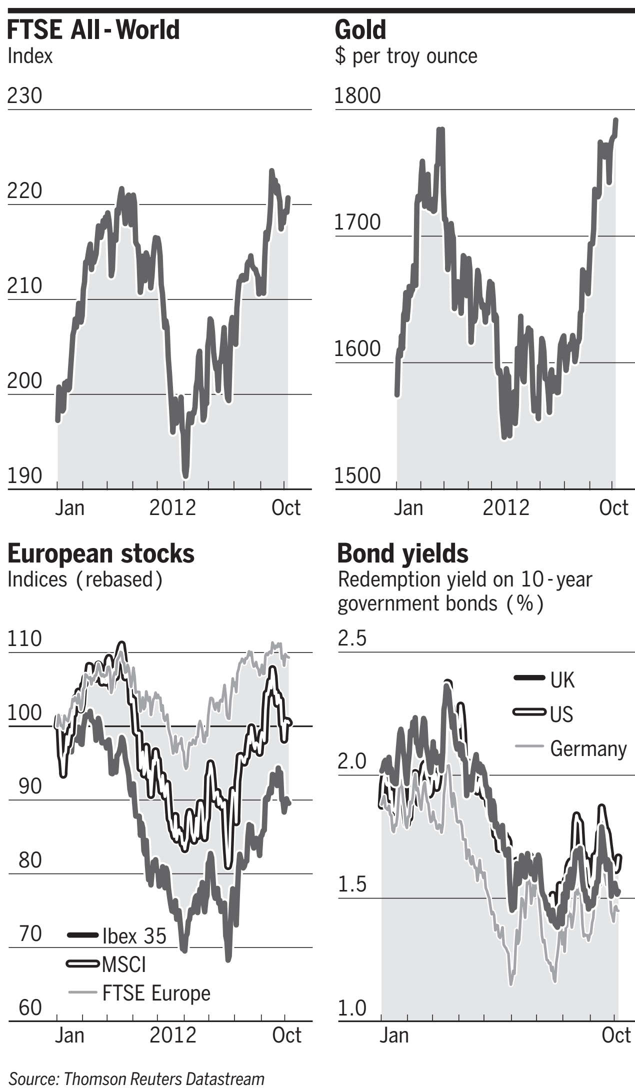
Happy days: has central bank liquidity left financial markets disconnected from reality? Bloomberg

Some investors argue that the sideways move in shares is early evidence of the market growing weary. Much of the effects of both the eurozone and US action was priced in ahead of official announcements, and not much has happened since.

"You're not getting any flow [of investments] through from real money or retail," one hedge fund manager points out, making it hard for the rise to be sustained.

But the real test of the monetary policy experiments will be the effect on the credit cycle and the real economy. Central banks can create money, but they cannot force people to spend it. If it is hoarded, with households paying down debt and companies refusing to invest, then recovery is unlikely.

On the other hand, shares are a leading indicator of the economy, as well as having an influence on it. Fed chairman Ben Bernanke's stated goal is to push up shares and house prices to make people feel richer and spend. This is trickle-down economics writ large: by making those with wealth even better off, he hopes to create jobs for the poor. The danger many investors are focused on is not that the policy fails, but that it works too well.



Source: Thomson Reuters Datastream

"We have entered the asset price targeting era in monetary policy," says Yves Bonzon, chief investment officer at Pictet, the Swiss private bank. "Policy makers have killed the shorts [short sellers]."

This round of Fed intervention is different from other interventions since the crisis. The first round came when bond markets were expecting deflation, and prompted investors to expect something like normal inflation in future. QE2 came when inflation forecasts had dropped sharply, although not to the point of disinflation. The third, last autumn's Operation Twist, had seen a smaller fall in inflation expectations, but there was still a fall.

But this time inflation was expected to be perfectly normal before the Fed intervened. Increasingly investors think the Fed has moved from worrying about inflation to pushing for faster growth, and that makes them fear higher inflation.

Gold is up more than 17 per cent from its May low on the back of QE3, and emerging markets are braced for a repeat of the flood of cash that left the US after QE1 and QE2.

Guido Mantega, Brazil's finance minister, said last month that the Fed was acting only because political gridlock made fiscal measures impossible. "The last resort is to pursue QE measures, which in my view have very little effect because in the US there's no lack of liquidity, unlike in the European market," he said.

Historically, shareholders have not grown concerned about inflation until it reaches 4 per cent, double the targets of the Fed, ECB and Bank of England. But even as it looks like the Fed, at least, has set its inflation target to one side to focus on jobs, there are plenty of deflationary forces which could upset an investment strategy based on the reflation of the world economy.

Quite apart from the risks from a recession-bound European economy adding austerity to its problems, investors face the danger that US politicians could plunge the country into recession in January if they cannot agree a compromise to stop automatic tax rises and spending cuts – the fiscal cliff – going ahead.

The change in Chinese leadership due to start in November adds to the policy uncertainty amid the current slowdown in its economy and the stalled effort to switch from investment to consumption.

The good news is that the problems ahead leave lots of room for relief rallies when, and if, they are solved.

The bad news is that shares look expensive on long-term valuation measures. Cheap or expensive, with bond yields held close to record lows by central banks, many investors feel they have to buy them anyway.

Price is right for supercycle to continue, say traders

Commodities

It may be less 'super' and less 'cyclical' but much will depend on the pace of Chinese economic growth, says *Javier Blas*

As policy makers gather in Tokyo this weekend for the annual meeting of the International Monetary Fund, they will ask for the first time in a decade whether the rise in commodities prices that started in 2002 has finally come to an end.

The slowdown in Chinese economic growth, together with the eurozone sovereign debt crisis, high unemployment in the US and the arrival of fresh raw materials supplies after a decade of investment in new production has certainly started to damp prices for commodities from crude oil to iron ore.

The IMF index of commodities prices is down nearly 15 per cent from a nominal record high set in mid-2008. As the IMF says in its semi-annual World Economic Outlook, the "spillovers" from weaker economic growth "have lowered commodity prices and weighed on activity in many commodity exporters".

Yet, commodities traders, natural resources executives, policy makers and analysts are almost unanimous in warning that the so-called "commodities supercycle" that developed on the back of the industrialisation and urbanisation of China and other emerging countries in Asia, Africa and Latin America is not over – at least not yet.

The IMF commodities index, one of the broadest and more complete measures of raw materials costs, may have fallen from its record high of four years ago, but it is still up 32 per cent over the past five years and a hefty 220 per cent since 2000.

The supercycle's demise has been pronounced – wrongly – before.

In the 2008-09 global financial crisis, the World Bank said it was "best understood as yet another cycle in a long history of commodity price cycles". The boom and bust theory failed as prices recovered sharply in 2010 after economic growth gathered momentum.

Looking forward, it makes more sense to think of the commodities supercycle not so much as like the boom and bust periods of the 1950s and 1970s, but as less "super" and less "cyclical". Raw materials prices are likely to settle at a higher level than previously, with ups and downs tracking swings in economic activity.

If economic growth in emerging countries, from India to Brazil, gathers steam in early 2013, prices are likely to rise again, analysts and traders say.

The commodities market is also likely to be more prone than in the 1980s and 1990s to supply shocks.

> Natural resources groups are responding to the drop in prices by curtailing their expansion projects

This is because, on the one hand, inventories of most commodities – with a few exceptions such as aluminium – are at the lowest level in decades, providing little cushion.

On the other hand, spare production capacity has been mostly exhausted. Thus, the adjustment to any drop in production is almost always coming through high prices denting economic growth and, thus, consumption.

Cost challenge: Canada's heavy oil producers need high prices to avoid losing money Rezac/Greenpeace

For the next few months, however, the key will be economic growth in China.

"If you believe that the new Chinese leadership would boost fiscal spending and growth would accelerate, just buy copper and oil," says a senior commodities banker to explain how dependent the outlook is on the once-a-decade leadership change in Beijing. "But if you do not, then I would start selling," he adds.

The IMF forecast that the world's second-largest economy would expand a relatively modest 8.2 per cent in 2013, somewhat higher than the 7.8 per cent projected for this year, but certainly much slower than the plus-10 per cent typical of the 2000s.

But even if Chinese economic growth remains weaker than during the past decade, other countries in Asia, notably India, are going to demand greater and greater quantities of raw materials.

Moreover, natural resources groups are responding to the drop in prices by curtailing their expansion projects. In due course, lower capital expenditures would translate into less supply growth, forcing prices higher.

The cost of producing raw materials, particularly crude oil but also some metals and minerals, has increased significantly over the past decade. If commodities prices drop much below current levels, some high-cost producers would start losing money, forcing them to shut down production and, thus, supporting prices.

For example, analysts estimate that the highest cost Canadian heavy-oil producers need Brent crude to be trading at least at US$85 a barrel to cover their costs. Brent crude has been trading around $110-$115 in October, but in September prices fell close to the $85 level, triggering talk in the market of imminent output cuts.

The role of high-cost producers is also evident in the iron ore market. About a third of Chinese miners need prices to stay above $100 a tonne to remain profitable, but prices this year fell as low as $90.75 a tonne, forcing some miners to shut down production.

On the hunt for yield in more robust emerging markets

Government bonds

Robin Wigglesworth finds the developing world is benefiting from weak growth in western nations

The "flight to safety" triggered by the financial meltdown has continued unabated this year, as concerns over the eurozone's crisis and the faltering global economic recovery have propelled investors towards the relative shelter of government bonds.

As a result, the government borrowing costs of the US, the UK and Germany have ground lower and lower, touching multi-century record lows this year. The benchmark 10-year government bond yields of these three countries are negative in real terms, or when inflation is accounted for. In other words, investors expect to lose money when they buy them.

"You now have to pay for the privilege of putting your money in a safe place," observes Elie El Hayek, global head of government bond trading at HSBC. "The only thing you can hope for is that everything else loses even more value."

Government interest rates are particularly low in large parts of Europe. While a handful of embattled eurozone countries are suffering from a crisis of investor confidence, others have seen their bond yields tumble as a result of the same crisis.

Indeed, the two-year borrowing costs of Denmark and Switzerland are presently negative even in nominal terms, and have recently been negative for Finland, the Netherlands, Austria and Germany. Germany, the largest and most robust economy in the eurozone, is one of the main beneficiaries, with yields of German "Bunds" below those of US Treasuries.

"Bunds have become paper safety deposit boxes," says Stewart Cowley, head of fixed income at Old Mutual Asset Managers. "They only have value as a repository of money, not as an investment."

Some money managers argue that the government bond yields of the "safe haven" states cannot go much lower, and warn that sovereign debt will prove to be a bad investment once interest rates start to rise.

For example, Germany's creditworthiness is expected to be impaired by the rescues of the struggling periphery, weighing on German Bunds. Some investors are also avoiding US Treasuries, fretting that the US's political stasis and inability to tackle its budget deficit could lead to a debt crisis in the world's biggest economy at some point.

Nonetheless, many investors and economists are more concerned that the west could be facing a scenario similar to that of Japan after its bubble burst, in which economic growth stays stubbornly weak for much longer than expected. In that case, the bond yields of these "core" governments could also stay subdued for much longer than expected.

"People have been shorting Japanese government bonds for decades, and lost money," Mr El Hayek points out. "If growth doesn't return soon we could be facing a similar situation to Japan, with low yields for a long time."

This possibility poses a major problem for asset managers. Although the torrent of money gushing into government bonds has ensured healthy capital gains for investors so far – sovereign debt is one of the best performing asset classes since the financial crisis – the returns on offer now are dismally low.

This can have far-reaching consequences, particularly for investors that need a certain rate of returns to meet their fiscal obligations, such as insurance companies and pension funds.

Martin Senn, chief executive of Zurich Insurance Group, argues that low government bond yields are one of the reasons why listed insurance companies trade at such low valuations. "Interest rates will remain low for some time, which is a huge challenge for long-term investors that have fixed liabilities that they have to meet," he says.

Investors seeking higher returns but wary of equity markets and other risky assets have largely settled on two alternatives – corporate debt and emerging market bonds.

> 'You now have to pay for the privilege of putting your money in a safe place'

Highly rated companies now also enjoy rock-bottom borrowing costs, but emerging market governments have arguably been the prime beneficiaries of the "hunt for yield" in recent years.

These developing countries can for the most part boast robust economic growth rates and government finances in decent shape – attractive propositions for western investors confronted by a lack of both in their domestic markets.

Stewart Cowley: Bunds only have value as 'repository of money'

The developing world's borrowing costs have tumbled as a result. After shooting up to a peak of 12.2 per cent in October 2008, the blended yield of the developing country government bonds in JPMorgan's benchmark EMBI index has plunged to a record low of about 4.7 per cent this year.

Some of the more advanced emerging economies now enjoy decidedly western borrowing costs. Mexico, for example, recently issued a 100-year dollar bond that trades at a yield of just under 4.7 per cent. Its benchmark 10-year issue yields 2.4 per cent, just above the comparable bonds of France.

But it is not just the top tier emerging markets that have seen their borrowing costs decline markedly. JPMorgan's "Nexgen" index of the average bond yield of more esoteric countries has also fallen to a record low, partly thanks to a rally in African sovereign debt.

Developing countries have responded to the resurgent appetite for their debt with a bond sale binge. The volume of international emerging market debt issuance has touched almost $350bn already this year, a record for the period and up nearly 50 per cent, according to Dealogic, the data provider.

In fact, some analysts and investors say emerging market debt is beginning to behave as a "safe haven" asset itself – rallying when global financial markets are turbulent. Emerging market bonds still tend to get hit hard when market stresses become exceptionally severe, as they did in the second half of last year, but for the most part they have proven unusually resilient to turmoil.

"Increasingly the debt flows are becoming counter-cyclical," Bhanu Baweja, head of emerging market fixed income and currency strategy at UBS, noted in a recent report. "Now when investors are worried about global or EM growth they are selling EM equities, but holding on to EM debt. In fact, they may well be adding to it."

Maradona lends hand on central bank policy

Monetary options Policymakers hope expectations of bond purchases will reduce the need for action, writes *Claire Jones*

The year is 1986. The venue, a sweltering Estadio Azteca in Mexico City. The occasion, England vs Argentina in the World Cup quarter final. Just under 10 minutes into the second half, Diego Maradona, Argentina's brilliant playmaker, picks up the ball near the halfway line and beats five players to score a goal often hailed as the greatest of all time.

Sir Mervyn King, Bank of England governor, believes Maradona's goal tells us something about the nature of monetary policy. "The truly remarkable thing is that Maradona ran virtually in a straight line. How can you beat five players by running in a straight line? The answer is that the English defenders reacted to what they expected Maradona to do. Because they expected Maradona to move either left or right, he was able to go straight on," Sir Mervyn said in 2005.

Similarly, by convincing markets that they will shift monetary policy in one direction or the other, central banks can let expectations that they will act – rather than action itself – do the work for them.

Sir Mervyn made the comments seven years ago. But the Maradona theory of monetary policy is one that the world's two most important central banks, the Federal Reserve and the European Central Bank, have deployed in recent months.

With interest rates close to zero, the Fed has resorted to verbal commitments, in September pledging to keep interest rates near to their current record lows until 2015. The hope is that this commitment is credible enough to lower borrowing costs for businesses and households taking out longer-term loans. The Fed and the ECB have also attempted to counter the mood of economic gloom by committing to expand their already bloated balance sheets until conditions improve.

ECB president Mario Draghi has said the central bank will do

Forward-looking policy move: Diego Maradona of Argentina on his way to scoring against England in the quarter-final at the 1986 World Cup in Mexico Getty

"whatever it takes" within its mandate to counter expectations of a break-up of the eurozone. That includes buying a potentially unlimited amount of eurozone government bonds, so long as ailing sovereigns agree to economic reforms.

The Fed has said it will purchase both mortgage-backed securities issued by the government-sponsored enterprises Fannie Mae and Freddie Mac along with government debt until there is a sustained improvement in the US labour market.

The ECB and the Fed will hope that, as with Maradona's goal, this expectation of open-ended bond purchases will mean that their actual buying sprees are far smaller than they otherwise would have been.

Paul Mortimer-Lee, economist at BNP Paribas, said in September after the announcement of the details of the ECB's new bond-buying Outright Monetary Transactions programme: "If the central bank commits to intervening with unlimited firepower and is credible, then it might not actually

> The Fed and the ECB aim to counter the mood of economic gloom by committing to expand their balance sheets until conditions improve

need to do anything at all. So far, the rally in peripheral debt and the drop in volatility would suggest it appears to be working – and working very well."

Mr Draghi's credibility has been strengthened not just because there was only one dissenting vote against the OMT – from Bundesbank president Jens Weidmann – but also by the fact that he split the German elite. The ECB president received the backing of Angela Merkel, Germany's chancellor, and Wolfgang Schäuble, Germany's finance minister in August. Jörg Asmussen, a German member of the ECB's executive board, did not participate in the governing council's August meeting, where the OMT was first approved.

Yields on Spanish and Italian government debt, for now, remain at manageable levels. But the Maradona theory of monetary policy alone could prove insufficient. "The Spanish premier Mariano Rajoy may become a bit like those England defenders – immobile and loath to ask for support. The market will then question whether the strategy is working," Mr Mortimer-Lee said, adding that Maradona could only get away with running in a straight line because defenders were used to his twists and turns.

Mr Draghi might have to master the central banking equivalent of Dutch footballer Johann Cruyff's bewildering signature move – that is, buying large amounts of government bonds – if the OMT is to work.

In the Fed's case, its open-ended commitment to expand its balance sheet is more credible; a measure of US inflation expectations rose to its highest level since 2005 in the days following the announcement of QE3. But it is unclear whether the Fed can convince businesses to add jobs as easily as they can influence financial market sentiment, or whether banks will pass on the benefits of the bond purchases to consumers.

In the UK, the Bank of England and the Treasury have tacitly acknowledged the limits of government bond purchases, unveiling in June the Funding for Lending scheme, which came into operation in August. Unlike quantitative easing, which works by bypassing the banks, Funding for Lending was set up to encourage lenders to offer more and cheaper credit to the UK's businesses and households by lowering banks' funding costs. The more banks extend credit, the more benefit they will get from Funding for Lending.

Cheaper funding will help. But a more pressing concern for lenders is the need to raise capital to meet regulatory requirements and provide some succour to concerned investors. In these circumstances, deleveraging – not extending credit – remains the more obvious course of action.

Other, more radical, options remain. Central banks could buy riskier, less liquid assets. Or they could offer vouchers to households, to be spent by a set date, to boost consumption. But many already believe their existing policy responses have stretched monetary authorities' mandates and credibility as guardians of price stability to the limit.

If the effectiveness of the latest round of measures proves limited, central banks could have to break the rules and adopt policies that owe more to Maradona's first goal against England – which saw the Argentine use what he later described as the "hand of God" to pump the ball into the net with his fist – than his brilliant second. "He was lucky to get away with it," Sir Mervyn King has said of Maradona's gambit.

Central bankers, too, might soon have to ride their luck.

Pageantry replaces panic as host nation pulls out the stops

Japan

The world's third largest economy has rebounded after the earthquake, writes *Ben McLannahan*

Marunouchi has rarely looked this pretty. The main financial district of Tokyo, which provides the backdrop to the 2012 meetings of the International Monetary Fund and the World Bank Group, has been buffed and polished for months.

Tokyo station, just behind the main conference venue, has a gleaming new façade. A construction site near the A-listers' hotel has become a mini eco-park. Lights adorn trees lining the main street of Nakadori, which tomorrow will host a grand parade featuring drums, flutes, bells and demons.

All this pageantry has a point. Last year the world associated Japan with scenes of panic and suffering, as the nation experienced its biggest ever earthquake, its most deadly tsunami in more than a century and its worst nuclear accident.

This year, the world's third-largest economy has rebounded – and this week, thousands of attendees of the world's most important financial summit have had the chance to see it for themselves.

Delegates have taken rickshaw rides around Nihonbashi, the Edo-period centre of mercantilism, and sampled sake from each of the country's 47 prefectures. Others have opted for the kimono fittings in Ginza, or the geisha cruise in Tokyo Bay.

"The world got the impression that this archipelago had been fried by radiation and it wasn't safe to go to," says Paul Blustein, Japan-based senior fellow at the Centre for International Governance Innovation (CIGI), a think-tank based in Waterloo, Canada. "People landing in Tokyo may be shocked to see just how comfortable and well-to-do this place really is."

Japan's economic growth this year should be among the highest of developed nations, thanks largely to a resurgence of consumer spending in the first half of the year, and ongoing efforts to rebuild the tsunami-hit north-east.

Hence the special field-trips this week to the boomtown of Sendai, capital of Miyagi prefecture, which has been boosted by the arrival of thousands of construction workers. Hence the gift from the Ministry of Finance to each delegate: a small ornamental doll from Fukushima prefecture, which rights itself when knocked over.

"The major message the government wants to send out is that life and the economy in Japan is back to normal," says Daisuke Kotegawa, research director at the Canon Institute for Global Studies, and a former executive director for Japan at the IMF.

Task number two for Tokyo, at a time of tensions with China and Korea over territorial claims, is to impress on delegates the idea of Japan as a mature and responsible world citizen.

Tokyo, after all, had not been scheduled to host the 2012 autumn meetings, which are held every three years outside Washington. That honour was supposed to fall to the Egyptian city of Sharm El-Sheik.

But as the IMF cast around for a replacement after the toppling of Hosni Mubarak, Japan accepted the call. Stepping in, in June, not long after the quake, was seen as a way to remind finance ministers and central bank governors of 188 member states of the nation's commitment to multilateralism, even in its own moment of crisis.

This week's discussions on restarting international lending to Myanmar – inserted into the IMF/World Bank's programme at Tokyo's behest – were also aimed at bolstering that impression.

"If we can start providing substantial assistance, including through the World Bank and the Asian Development Bank, Myanmar can be another Vietnam," explained Takehiko Nakao, Japan's top financial diplomat, at a briefing to journalists last week.

The IMF itself has lavished praise on its second-largest shareholder. When the fund went cap-in-hand to its member countries earlier this year to boost its firepower, for example, Tokyo was first to chip in. Its $60bn pledge was also the largest from any country, helping to lift the total loans available to the IMF above $1tn.

And in November 2008, in the wake of the Lehman collapse, then prime minister Taro Aso offered the IMF up to $100bn in temporary funds, while calling on other member countries to inject additional permanent capital.

"When the global economy faced its darkest hours, you stood by your fellow global citizens," IMF managing director Christine Lagarde told a Tokyo IMF forum in July, a curtainraiser to the main event.

Japan's actions, she said, had helped "stave off an even more dire global economic collapse".

Beyond these two broad aims, Tokyo wants what every host nation wants: to teach the world a thing or two.

The last time Japan threw open its doors to the IMF/World Bank, in 1964, it had real economic growth of 11.2 per cent, unemployment at one-quarter of today's levels and a trade account about to embark on more than four decades of almost unbroken surpluses. Now, real gross domestic product has shrunk in three of the past four years, and those trade surpluses have vanished.

But the country's big problems – energy constraints, the ageing of society and massive fiscal deficits – are by no means unique to Japan.

"There is a great sense among Japanese of Japan being disregarded, and considered irrelevant," says Takatoshi Ito, dean of the graduate school of public policy at the University of Tokyo, and a former IMF researcher.

"Yes, we are declining, relatively speaking, but it is much too early to dismiss us. We want to be put back on the map."

> 'Yes, we are declining, relatively speaking, but it is much too early to dismiss us'

Posters for the IMF-World Bank Tokyo meetings Bloomberg

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Banking on Trusted Networks

Connected to People, Committed to People

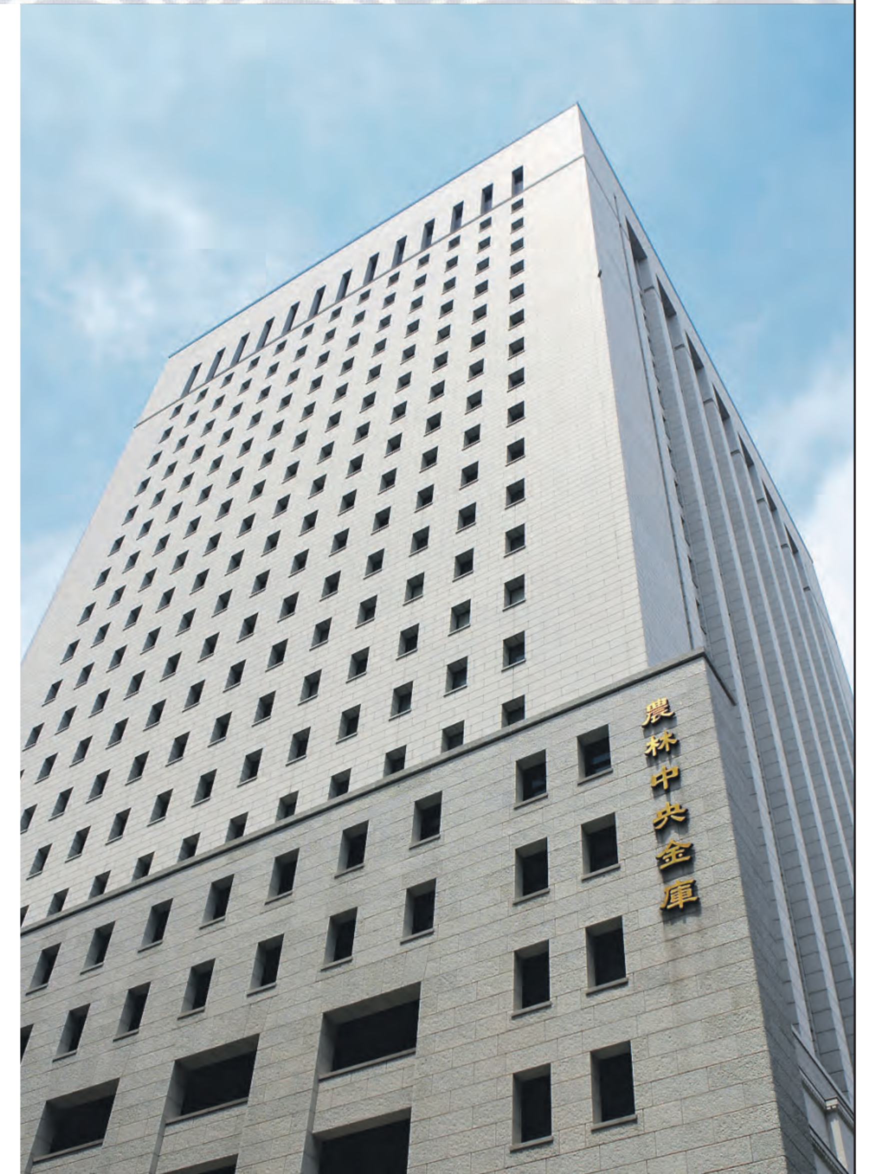
The Norinchukin Bank: the Central Organization for the Agricultural, Forestry, and Fisheries Cooperatives of Japan

The Norinchukin Bank was founded in 1923 as a quasi-governmental financial institution and became a fully privatized cooperative bank in 1959.

The Bank plays a key role as the central organization for the agricultural, forestry and fisheries cooperatives in Japan, where Japan Agricultural Cooperatives (JA), Japan Fisheries Cooperatives (JF), and Japan Forestry Cooperatives (JForest) were created with the aim of improving the economic and social positions of farmers, fishermen and foresters through the collaborative efforts of their respective members under the slogan "All for one and one for all."

The Norinchukin Bank's membership comprises cooperatives within small municipalities, federations of cooperatives within prefectures, and other related organizations. These members are also stakeholders of the Bank.

The Bank plays a critical role in Japanese society as a contributor to the overall economic success of the country and as a supporter of the advancement of the agricultural, forestry, and fisheries industries. The Bank's funds come from the deposits of JA and JF members, through the issuance of Norinchukin Bank debentures, or are raised in the capital markets. These financial resources are then lent to farmers, fishermen, foresters, or companies doing business within these industries as well as to local governments and other public entities. In addition to these activities, the Bank efficiently manages its funds through investments in securities and other financial instruments. The Bank endeavors to ensure stable profit returns to its members and to serve cooperatives across the county as their central organization.



Management Strategies

Its Medium-Term Management Plan underscores the Bank's fundamental commitments. One of these fundamental commitments is to further expand its role as the central organization for cooperatives and as a specialized financial institution whose main focus is to support farmers, fishermen, and foresters. Supporting post-disaster reconstruction is a pivotal part of this commitment. Other commitments include maintaining adequate risk management and appropriate investment portfolio management. The Bank aims to achieve its ordinary profit targets of 50 billion to 100 billion yen per year on a non-consolidated basis and will remain committed to ensuring stable profit returns for its members through solid financial management.

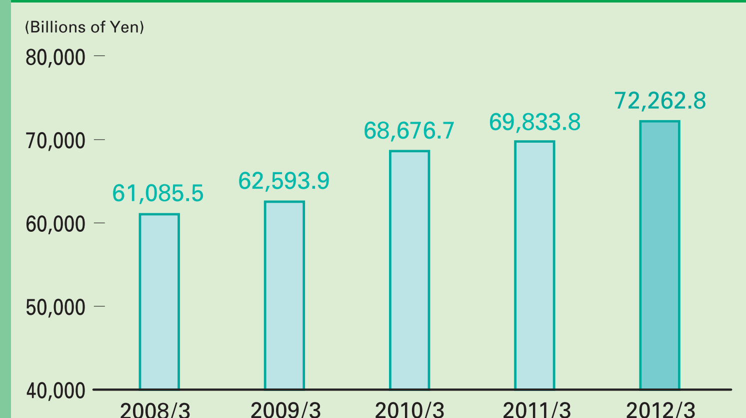
Medium-Term Management Plan (Fiscal 2011 through Fiscal 2012)

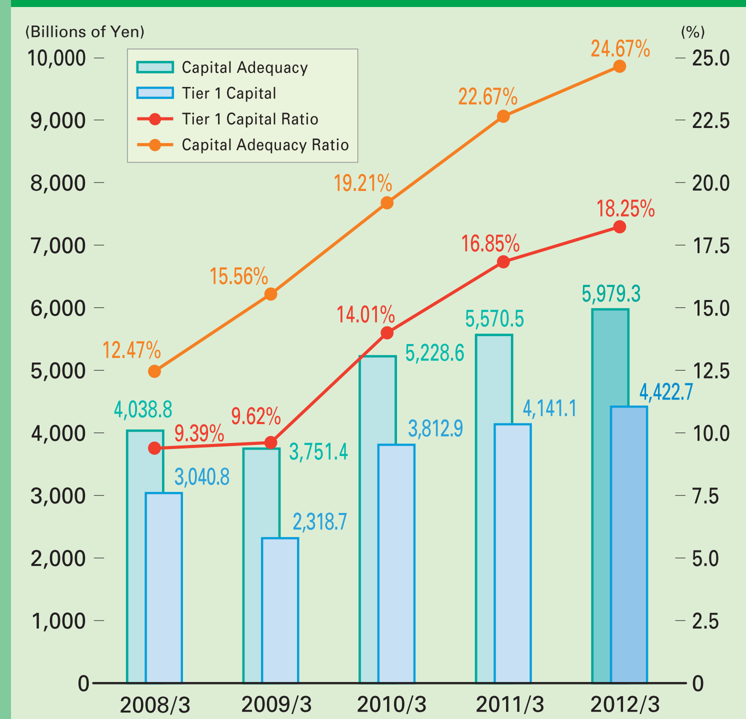
Role as the Central Organization for Cooperatives as well as Financial Institution for Farmers, Fishermen, and Foresters

1. Reconstruction Support Program (Financial Support Program, Business & Management Support Program)
2. The Bank's efforts for its members (business support, human resource improvement and training, emissions trading)
3. JA Bank(JA Bank Medium-Term Strategies implementation: Main bank for the agricultural industry and for local residents)
4. JF Marine Bank (financial services for the fisheries industry, JF Marine Bank Safety System)
5. Forestry business (forest restoration)

Financial Management / Risk Management / Capital Policies

1. Stable return of profits to its members is the management's highest priority.
   Ordinary profit target: ¥50 billion to ¥100 billion per year (non-consolidated)
2. Effective risk management and portfolio management on a continuous basis
3. Take on new high-quality investment opportunities in new fields based on a globally-diversified investment portfolio
4. Maintain a capital adequacy ratio of around 20%





Ratings

(As of March 31, 2012)

Ratings agency	Long-term debt	Short-term debt
Standard & Poor's	A+	A-1
Moody's Investors Service	A1	P-1

Recovery and Reconstruction Efforts

In the aftermath of the Great East Japan Earthquake, the Bank's highest priority has become the recovery and reconstruction of the agricultural, forestry and fisheries industries in disaster-stricken provinces. Immediately after the outbreak of the earthquake disaster, the Bank established the Reconstruction Support Program as part of its efforts to provide assistance to workers engaged in these industries and to JA, JF, and JForest.

The disaster-stricken provinces are areas with many farming and fishing communities in which agriculture, forestry, and fisheries contribute greatly to their economies. Based on its extensive business network that connects the whole of Japan, the Bank plays an indispensable role for these communities by providing people with financial safety nets. At the Norinchukin Bank, we cherish vital connections among people as well as those among cooperative organizations. Integrating such harmonious bonds into financial operations is our style of banking. We are banking on trusted networks.

We are facing a long road to recovery, and currently hardship prevails. At the Norinchukin Bank, we will continue to work closely with people in all communities by making the most out of our trusted networks, which mutually aid both its people and its associated organizations.

Reconstruction Support Program (duration: approximately four years, financial support: ¥30 billion)

Financial Support Program

- Finacial support: Interest subsidies, reconstruction/recovery loans (low-interest loans), Tohoku Agricultural, Forestry, and Fisheries Industries Support Fund and leasing fee assistance

Business & Management Support Program

- Business Recovery: Support for infrastructure recovery including branches, ATMs, terminals, etc.
- Business support: Support to strengthen members' business foundations

2012 International Year of Co-operatives

The United Nations General Assembly has declared 2012 as the International Year of Co-operatives, highlighting the contribution of co-operatives to socio-economic development, particularly their impact on poverty reduction, employment generation and social integration.

The Norinchukin Bank

http://www.nochubank.or.jp/en/