
A 'naïve response' to economic growth?



With many economies expected to begin posting growth again this year, the group executive director and CEO of wholesale banking at Standard Chartered Bank has some words of caution: accepting GDP figures at face value “would be a naïve response”.

“A lot of that growth is as a result of policy stimulus which is unsustainable,” says Mike Rees, speaking in Singapore shortly after US President Barack Obama outlined plans to rein in the banking sector. Rees adds: “Then you don’t see the reality of life. So I think it’s easy to pick figures and to want to look hopefully forward based on that without a real rational understanding of what sustainable economic growth is.”

Rees also believes that US, European and Chinese GDP growth is a knee-jerk response to policy stimulus, which again is not a reflection of true economic growth. “The understanding of what is truly going on in the economy and, rather than grabbing at individual monthly statistics and looking at the trend, is going to be the key.”

“Typically, the effect on GDP starts two years after the end of the crisis,” he told the Singapore Press Club. Much of the optimism about the economy, he

explains, is fuelled by high liquidity and low interest rates. “I would say that’s more in hope than in reality. Getting back and understanding the true economic reality -- I think people would be more sanguine about some of those prospects.”

But perhaps what is also fuelling the current feel-good sentiment is that politicians are playing to the popular vote. Just last week, President Obama proposed to curb US banks and ban them from using taxpayers’ money to engage in proprietary trading or from operating hedge funds and private equity funds. Though it may have indirectly cost the Democrats the US Senate seat in Massachusetts previously held by the late Edward Kennedy, Rees believes Obama is “responding to a view of the political” to stop the decline in his popularity.

On the other hand, the quantitative easing introduced by central bankers last year is, according to Rees, merely a ‘drug’ with long-term side effects. Although it helped boost the economy, it only did so in the short term, because to tight interest rates now would mean less liquidity in the economy, which in turn would result in less credit being available.

Regulators are, meanwhile, trying sort out the mess that they helped to create, while attempting to keep the banks in check.

While Rees believes that the banking community, both domestically and internationally, is now on the right track, the danger still lies in localised political responses. “I think there is increasingly a meeting of the minds between bank regulators and central bankers about the need to coordinate, for example, increased capital requirements on banks, withdrawal of quantitative easing. The big risk is the disconnect with politicians who are reacting to populist views of these issues.”

The real political question, Rees says, is whether we should reduce the risks by accepting lower levels of growth, though he thinks that debate has not really started yet.

The key, he adds, is in getting these individual agendas coordinated so we can achieve the right outcomes. To do this, he advocates a more conservative approach -- a gradual recovery to sustain the economy.

“I think the challenge is not sudden movements of levers from here to here; the world economy is far more delicate than that and it’s fine-tuning things to get the right balance. It goes back to getting the right fundamentals and

you don't achieve that by lurching from left to right, so it's more a balance in the middle. I think the world's financial markets are more complicated than that, and it needs a more subtle response."

As new Basel banking supervision proposals are being drafted to mend the industry, can its reputation be salvaged too? Rees seems to think so. "It's easy to blame the banking sector but I think the blame lies across politicians, regulators and the banks ... There are many parties that are culpable for how we got to where we are. Unfortunately, a lot of the burden of responsibility is pointed to bankers."

Making the case for the industry, he says that despite the recent setbacks, banking is key to underpinning economic growth. "It provides the paving mechanism to economies, the maturity and transformation of economies that people want to save short, borrow long; it provides the underpinning to trade and investment flows -- there is a real role for banking."

Conversely, bankers too, he says, need to go back to basics. "Keeping the balance sheet strength is very important. And we maintain an asset-deposit ratio of just under 80 per cent." Rees adds that it's 'unsustainable' for banks to have asset-deposit ratios of 140 per cent or more.

"We have to remember that banking is essentially an industry of confidence. People work all their lives to make savings; we are the custodians of their savings -- we need to remember that and remember that the most important thing we need to do to look after their savings is to have their confidence. To have their confidence is a question of getting the fundamentals right. That's a thing you win over years but can lose quickly if you're not careful."

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