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On the Eurozone – first, Bertrand, and then André - perhaps you both might tell us whether the unexpectedly good performance - in terms of somewhat above trend growth, but very low inflation -- is going to continue? Do you think that current policies are the right ones?

Bertrand BADRE

I just want to manage your expectations: I am not an economist and I had prepared myself to discuss the state of the financial system, though I am not totally ignoring your issues. I think the Eurozone, as you rightly say, is the good surprise of the year. It is even ahead of the US in terms of expectation, which is unheard of. It has never happened in all the conferences I have been to in the last few years. Here we are, it is happening, so I think that we should really celebrate this. On top of that, being French, I have a special tenderness for what is going on in our country. I think that there are true reforms happening and it is all the easier since these reforms are being pushed by some tailwinds, which really is an important factor. I think we should really enjoy this. It is more and more healthy. Investment is picking up. It is not just the usual consumer-driven growth; it is also driven increasingly by investment.

The headlines, as John rightly said, are good and they are good enough for us to celebrate. For 10 years we were miserable talking about the Eurozone and for once, I think it is okay. I also do not think that there are any reasons to be complacent, because there are a number of pending issues. I have always tended not to overreact to the global perspective on European banks. I think there are some European banks that are in trouble, but it does not mean that the European banking system is in trouble. I am a little bit tired of hearing this kind of global comment on the European banking system all over the world.

There are issues in certain countries, we know some of them, some belonging to the North some to the South, but it does not mean that the system is broken. This being said, I think we have an issue that I would be happy to address when we discuss the financial system, which is the profitability of the banking system. I think that the banks and the recent set of results from the largest banks, in particular Deutsche Bank, Société Générale, Crédit Agricole, BNP or the British ones, are somewhat disappointing. It is a mix of market activities not returning as much as in the past, probably of lack of volatility, but also of growing regulatory pressure, etc., and the impact of low interest rates, which you cannot ignore. You can try to charge the clients more fees, but it is very difficult to move from an interest-margin-driven business, to a fee-driven business, when consumers are quite reluctant to pay at the end of the day. You see the retail banks are really suffering immensely and it is going to last. On top of that, although it is difficult to quantify, you have the issue of fintechs, which are eating the fat part of the value chain. If you add all of this, I think you have a real issue of profitability for the banking system.

Then, I think you have the big issue, which is the deal that I expect, or hope will happen, but do not think will ever happen, between France and Germany. Basically, the French say that they are going to stick to the 3.0% or below. We will do our reforms and the Germans will stop their obsession with an excess in their public finance and start disbursing for infrastructure, etc. I am biased because I am French, but I think that the French are starting to do their part of the deal, but I do not see the Germans moving in that direction. I think we will still maintain the imbalances, which are part of the problem of the Eurozone. You cannot have the Eurozone basically serving Germany's current account forever, so you have to address this imbalance. That is one of the issues.

The second issue is that we still have issues in the South of Europe, which have not been addressed, not to discuss Catalonia and its impact. This is really a question mark, and we have some questions in Italy, some economic and



political ones. Not to forget Greece, where we have kicked the can for many years, but every July we have a drama to say whether it is going to be all right, but we manage it and we push it for another year.

At the end of the day, I see the glass more than half full, but I am still considering the signals with a lot of care. I do not call them downside risk, but I would call them not alarm, but alert. Just pay attention to this.