

Etsior Monthly Opinion 15 September 2009 - Anniversary

In my opinion, the crisis actually started on 9 August 2007 when the European Central Bank (ECB) injected 92B€ after a BNP Paribas monetary fund suspended redemptions. But the collapse of Lehmann Brothers, exactly one year ago, is widely recognized as the starting point of the crisis spreading into the real economy. One year after this financial tsunami began, somebody who would have slept during this year, could be entitled to ask: what is different? The main stock indices are at the level of October 2008, though they have experienced a major drop to March 2009, followed by a 40% recovery. But actual consequences are to be found at different levels and are serious:

- **People:** the ones who have lost their jobs without any other reason than the declining economy due to the financial crises can only have anger and grief. The ones who have lost their houses in the U.S. have the same kind of resentment against the entire financial sector. They have been led into scabrous mortgages, providing a necessary underlying to those who built the highly leveraged securities that contaminated the world finance. This obviously had an impact on the election of President Obama; it will have further impact both in the U.S. and in Europe when discussing the strengthening of regulations. Playing with the life of people is *at least unfair*.
- **Private investors:** they have been badly hurt by the declining stock markets, the collapse of Asset Based Lending; winding down and limits put to hedged funds (side pockets, lock-ups, suspended redemption); emerging markets and of course fraud. In many cases they have decided to liquidate their positions at the worst possible time, at the market bottom, to go to cash. Then they have been waiting better times and will certainly go back to the market when the trend is well established, that is when the top is near. They have plenty of cash, do not want to hear the word "fund" anymore and this will be in memories for a long time.
- **Countries:** China emerges without any doubt as the winner from this crisis. Its economy is rather sound, cash reserves are high, production capacities are there given the drop of exports, banks have not suffered much and the growth rate will be around 8% in 2009. But China is too small an economy to pull the world economy by itself. Europe shows a terrible lack of ambition. The ECB did what it had to do in the crisis time; it is not clear if the after crisis will be so well managed. How fast will the ECB reduce liquidities in fear of inflation? How quickly will it and the Commission go back to orthodoxy? Will the necessary structural

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reforms in certain countries be finally carried on? Will the main countries (basically Germany and France) agree on budgetary common policies? The election of Mr. Baroso as Head of the Commission leaves few hopes. The U.S. will exit from the crisis probably faster than Europe, but it has been harder for Americans than for Europeans given the limited social protection they have. Pressure from the main developed countries to show some kind of honorability and above all to recover money will be hard. Switzerland will have to fight an uphill battle to keep an appearance of bank secrecy. It will have to show that its expertise in financial matters makes the bank secret secondary. Since 1992, I have been convinced that it was too bad for Switzerland not to be a full member of the European Community. The Sovereign, i.e. the Swiss people, decided otherwise and Switzerland is now lacking the bargaining power and the friends it would have had if it had joined the U.E. History cannot be rewritten but I would not be surprised should Switzerland be a full E.U. member 20 years from now.

- **Society:** the young generation, like it or not, is short term oriented. Who can blame them? Communications favor the instant, business decisions are made only considering the short term. People who make decisions are no longer at their position when consequences arise and cannot be held for liable. For politicians, one of the most important things is the next election. I am afraid efforts to change this will be vain, as it is a basic trend in the society.

Finally in this period of Jewish Holydays, I would like to wish a Happy New Year, Shana Tova, to all who are concerned.

We care for you!

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