

PROFESSOR TIM CONGDON – VISIT TO SAUDI HOLLANDI BANK



Wayne Andrews

RGG member Wayne Andrews of Saudi Hollandi Bank describes the recent visit to the Kingdom of one of the UK's most eminent economists

At the end of April Professor Tim Congdon, the former economic policy advisor to the Chancellor of the Exchequer, visited the Kingdom at the invitation of Saudi Hollandi Bank. He made three presentations to the bank's clients (in Jeddah, Riyadh and Dammam) on the subject "The Global Economy: Recovery 2002, Boom 2003?"

The invitation to Professor Congdon was timed to coincide with the launch of Saudi Hollandi Bank's Client Treasury and Advisory Service ("CTAS"), a tailor-made Treasury risk management and deal execution service which offers clients the ability to carry on with their day-to-day businesses unconcerned and unaffected by subsequent exchange rate or interest rate movements.

Professor Congdon's presentation covered a lot of ground (as was to be expected with such a broadly worded title), and ranged from the likely strength of the US economic recovery this year ('patchy') and next ('much stronger') to some very negative and pessimistic views about the future prospects for the 'Eurozone'.

He warned that Japan's budget deficit was growing at an unsustainably high rate. This, he said, combined with the increasing difficulty Japan has in attracting buyers for its long-term government debt, prompted him to advise that both the Japanese yen and government bonds were a 'huge sell' in the longer term.

Unusually, he also chose to devote a significant part of his speech to the rapidly increasing importance of China in the global picture, pointing out that Chinese oil consumption is rising so fast that it will overtake Japan within two or three years as the world's second largest oil consumer.

He then surprised the audience by predicting China would be the world's largest oil consumer within fifteen or twenty years, ahead of the US. He hinted that this would probably make China a good customer for Saudi oil exports in the years ahead, as other economies developed alternative energy sources, such as solar energy.

It was Professor Congdon's views about the long-term future of the Eurozone, however, that attracted most comment. His ideas though were not based merely on economic forecasts, but on predicted demographic trends that are to some extent already happening.



Wayne Andrews presents Professor Tim Congdon with a memento of his visit to the Kingdom

He quoted two reliable, independent sources (The World Bank and the United Nations) who had published reports suggesting the working age population of many Western European countries was about to fall dramatically. The UN study forecasts that, by 2050, the working age population of Spain and Italy will have fallen by roughly 45%, that of Germany by about 30%, and those of Belgium and the Netherlands by an average of about 20%.

In the light of this, Professor Congdon, a self-confessed 'staunch eurosceptic', pointed out that with productivity growth in the EU averaging only about 1% per year for the last few years, the prospects for increased GDP output growth looked grim.

Professor Congdon made a number of references to the British economy, and predicted the UK would not adopt the euro which he said, "could look very different in a year or two". He also referred to the "constitutional implications of a nation giving up sovereignty over its economic, monetary and fiscal affairs".

He dismissed fears of a collapse in UK house prices. He conceded that such an event would have a serious negative effect on UK consumers, but he pointed out that although house prices were high compared to incomes, they were not especially high compared to overall household sector wealth.