A world of risk and complexity

Geopolitical risks facing businesses are fluid and unpredictable. OMFIF managing director David Marsh set out five in his keynote address

Risk factors are notoriously fluid and hard to pin down, according to the conference's keynote speaker, David Marsh, MD and co-founder of the Official Monetary and Financial Institutions Forum (OMFIF).

"We now live in such a complex and inter-related world with a geopolitical and economic outlook that is variable and unpredictable," he said.

The degree to which major world economies are preoccupied with falling oil prices and the impact of that on sovereign funds and level of inflation we see currently would have been unimaginable a few decades ago, Marsh pointed out. He touched on the following five risk areas.

Brexit

Marsh said that a potential British exit from the EU is an issue that will bring complications for corporate treasurers when it comes to dealing with what is still our biggest trading partner.

The risk of the UK exiting Europe could well position Europe as our number one geopolitical risk, he argued. Britain has integrated its trade with European Monetary Union countries, while Germany has concentrated its trade outside, he said. "If Britain were to leave, it would obviously bring about a big dislocation, but bigger for Europe than for here," he said.

Signs of that dislocation are clearly already present. The German and French concord is breaking down, and Greece is highly unlikely to be able to meet the repayment programme it has been set. A Grexit would very likely be the outcome.

The main effects of a Brexit and further breakdown within the EU would be felt most in the debtor countries, he said. "If Italy, Portugal and Spain were further into recovery, then you could say goodbye to Greece without too much pain. As it is, there will be an impact in Italy and Spain. I'm not very optimistic on that front," he said.

Migration into Europe

Migration into Europe from Syria and elsewhere was another risk subject. Germany has not traditionally seen itself as a country for mass immigration, but the situation is very different today. The refugees, however, will not be easily assimilated into Germany's industrial economy, with low levels of German or English speakers, and a traumatic recent experience.

Germany

The refugee crisis is only one part of Germany's problems, Marsh said. What was once the most stable economy in Europe is also beset by fallout from the VW debacle, which is set to have significant financial impact on one of its giants, as well as reputational damage for the country.

The tragedy for Germany is that it went into market union with a net balance of zero, having run down assets to fund unification. "These days, Germany holds net foreign assets of €1.4 trillion and rising – about 50% of GDP. A lot of that will be written off," Marsh said. Britain leaving the EU will leave Germany more exposed. "If a country like Britain leaves, it will undoubtedly have a knock-on effect. It will lead to a dismantling, and it will certainly lead to a Grexit," he said.

> "If Britain were to leave, it would obviously bring about a big dislocation, but bigger for Europe than for here"

Interest rates

The interest rates of major economies is a risk area that is difficult to read, with even seasoned central bankers within OMFIF admitting their confusion. Marsh said that it was his hope that optimism and "animal spirits" in the US would improve the situation (although his remarks were made before the US Federal Reserve chairman hinted that rate rises might be postponed once again).

China

With China, Marsh emphasised the need to take a long-term view. "There is this evolution away from command-driven economy to a diversified one and from there to a consumption-based economy," he said. China has to open up its capital markets to foreign influences, a change that may be difficult for a command-led state. Nevertheless, there is cause for optimism. ◆