

The Crisis is Over (Again) – Fiat Euro! 15/2014

European elections at the door. New derby Brussels vs. Moscow. Euro party continues.

Do you know how the euro crisis will end? People will probably just get used to it. Or they will find another, more acute one. That is what is happening in recent weeks. Russian Federation annexation of Crimea rewrote the map of Europe and whole EU is on pins and needles whether Russians have the ambition to "protect" Russian minority in other parts of Ukraine as well. According to information from the top NATO command positions, there are tens of thousands of Russian soldiers already gathered in the border areas, waiting only for warrant, after which they can enter the territory of Ukraine almost immediately.

Crisis or not, situation in euro area is still difficult, regardless of the future transits of Russian gas to Europe. ECB announced that despite the looming price deflation, it will not introduce any substantial action. Even though the interest rates stay incredibly low, there was already a plan to introduce negative interest rates on bank deposits at the central bank. Difficult to say whether the hundreds of millions of euro area citizens would make a revolution in their consumer behaviour, if it would indeed come to a decline in the price level of tenth of a percent. An ordinary person with ordinary income perceives price decline in a slightly different way than central banker does.

However, ECB does not idle and considers (with the example from U.S. central bank) the quantitative easing program. According to report from within the ECB, "release" of new trillion euro could increase the price inflation from 0.2% to 0.8%. In this scenario, we would all pay higher prices but it would be interesting to know whose purses would actually get heavier by one trillion even before the manifestation of inflation effect.

After the presidential elections, Slovakia draws attention to the European ones. In our country, these have traditionally low participation - last time not even every fifth citizen with voting right came to the polls. And this brings some nervousness to Brussels, as general lack of interest in elections reduces the legitimacy of the European Parliament, but especially motivates Eurosceptic movements, mobilization of which may secure a decent result.

All this results in aggravating the rhetoric of Eurosceptic groups against Brussels, and pro-European groups against Eurosceptic. Dutch Prime Minister recently said that national parliaments have greater legitimacy as the EP and should therefore have the crucial role in the development of European decisions. Similar voices are heard from several countries, Italy included. According to opinion of British Deputy Prime Minister, Nigel Farage - well-known and popular Eurosceptic should be excluded from election debates. This is however not in compliance with British themselves who see Farage as a clear winner of the latest confrontation of opinions between two politicians. Its own log into Euro-fire enclosed also German CDU, which in its pre-election manifesto emphasizes the possibility of transfer of competences from Brussels back to the Bundestag.

Another elections, this time parliamentary ones, took place during the past weekend in Hungary. Viktor Orban, who is not very hasty to be in the Eurozone, retained the dominant position. On the contrary, he started his own local party at home in which he de facto nationalized the second pillar. Part of money was used to temporarily

reduce debt and the other served for governmental purchase of shares in energy companies. But money is spent, Hungarian private sector (without political connections) suffers from stagnation and after spending all pension funds, it is going to be the citizens of Hungary who will pay for this party. What will happen next is probably far from actual thinking of current government.

However, until the budget is delivered, let's order more! It seems like French say to themselves, where government is facing the dismissal. 80 MPs conditioned the support of government with "end of austerity measures which plunged Europe into recession." Difficult to say which austerity measures are they talking about. France, which have not had balanced budget for decades, belongs to the club of states which are chronic unable to fulfil own budgetary targets - and a deficit of 3% GDP will probably be again exceeded in this year. French Prime Minister Manuel Valls, however, has a clear opinion on the cause of the problems of his country - the strong euro. More expansive monetary policy would be beneficial for all.

Greece has also some news. Country has emitted 5-year bonds worth 3 billion euro with the rate of return of 4.95%, while the demand on markets has been far greater. But let's not sparkle excessive optimism. Greeks still have a huge debt exceeding 170% of GDP and public finances did not collapse only thanks to European guarantees. Anyhow, Greece is still dependent mainly on a German taxpayer who subsidizes Southern Europe and on the low ECB interest rates that are also artificially reducing the operation of European debt. German Finance Minister carefully prepares Germans for further haircut of the Greek debt.

Europe has already found out who will fight for the boss of the European Commission. As Jean-Claude Juncker modestly tweeted: "the next president of EC will either be me or Martin Schultz. Everything else is fantasy." Sometimes, however, it is not bad to dream a little.

Undisturbed weekend dreams therefore wishes

Ján Dinga

10.4.2014

Translated by Stanislava Dovahunová