The pressure is increasing in the German Pot – Fiat Euro! 18/2013

European Union was intended to bring peace and prosperity to Europe. Eventually, EU even received Nobel Peace Prize for it. Recently, it has not been very successful in any of the stated objectives, quite the contrary seems to be true. Economy is in trouble and the Member States have more and more reasons for squabbles.

The headline news, which flew beyond the radars of our mainstream media was an GermanBundesbank's objection against the OTM program published in the context of German Constitutional Court hearing on European rescue mechanisms.

According to the Bundesbank, which is itself part of the ECB, is this program of unlimited Member States' bond purchases unjustified and represents a major risk to the independence of the ECB and the taxpayers. One of the problems is that the OMT program does not even have a clear legal documentation talking about how it actually will work. Currently it is known just that the ECB will reportedly buy an unlimited amount of some bonds at some time. ECB itself admits this and says that the documentation will be prepared when the right time comes, that is when the program will be actually first time used.

The growing dissatisfaction of Germans is also being reflected in the political field. Eurosceptic party Alternative für Deutschland, freshly founded by several leading German economists, has after seven weeks of existence 10,000 members (smaller German parliamentary parties like FDP or the Greensy have about 60 000 members) and scores 3-5% in polls.

The result in the September elections may be even higher. A recent OECD report could contribute to their success. This report compares income of pensioners to their previous wages in 2008 (do not ask why OECD publishes new reports with ancient data). While German pensioner received on average 58% of their salary in retirement, Italians received 76%, Spaniards 84%, and Greek pensioners - 110%, more than their previous salary. Length of service and duration of drawing the pension also play against German pensioners. Since then, many things have changed, but the German media will make a big issue out of such information and politicians will certainly in turn have work harder to explain voters just why they should be sending money to these nations.

The relationship between the two traditional historical rivals gets less friendly as well. A document leaked from the Hollande's party in which some members identified Angela Merkel and David Cameron as their main enemies. They called them selfish, and ones against whom the party and president have to fight. An indirect response to this was a report of the German Ministry of Economy, which identified France as a great problem child of Europe with high cost of labour, the second lowest number of hours worked and the highest tax burdens in the euro area.

They got at least something right. The French economy is really doing poorly and better times are not waiting behind the door. Unemployment broke record and is the highest in 16 years.

Italy continues to struggle with fighting the crisis. They have a new government composed around the Democratic Party and the new Prime Minister Enrico Letta. He said that fiscal consolidation alone will kill Italy and it will be necessary to orientate on growth. Italy already stimulated the growth in the past and they happened to stimulate a growth of a record debt reaching 127% of GDP. But all this spending did not bring them the hoped growth. Italian economy have been enjoying one of the slowest growth rates in the world for almost two decades. It seems that also the new prime minister recognizes it. He announced slashing the property taxes, abolition of the planned VAT increase and shake up of the social system expenditures. In Italy everything is uncertain though, and chairs under the new government still did not warmed up yet and Berlusconi (yes, that Berlusconi) is already threatening to withdraw his support, if they don't do this or that according to him.

The Government of Cyprus has survived a crucial day when they managed to approve the Memorandum with the Troika by a prevalence of two votes in parliament. Doors for aid from the EU are open. Savers in the Bank of Cyprus are getting officially attributed the losses on their savings after the bank suffered due to foolish Greek government bonds purchases. If you have savings in Bank of Cyprus then from the amount above EUR 100 000 is 37.5% being converted into bank equity (of highly questionable value), other 22.5% is being held in reserve for possible further conversion into the equity and 30% of the savings will be frozen. Of the amount above 100 000 euros you have only 10% available now!

The hottest candidate for further help European taxpayers, Slovenia, suffered an unpleasant wound. Moody's slashed its debt rating to junk category. This confirmed what most have already thought at least since one year ago. If Slovenia does not find some buried pirate treasure, they will need help.

We will talk a bit more about credit rating agencies. Remember how EU proclaimed to create its own rating agency, because those existing ones supposedly do not evaluate European states fairly because they give them very low ratings? These plans fell; they did not find enough investors who would be interested in such a thingy. However, Brussels got what it wanted - in January they introduced a new regulation that should "govern" agencies in making the right ratings.

The creators of these regulations, EU officials, are once again threatening with strike. They do not like the proposed adjustments in remuneration. It is ironic that those who are helping to shape the austerity measures in Greece or Portugal, are not able to accept even salary increase freeze at 2% level in solidarity. Let's hope that the officials strike will not last long!

We conclude with fresh news from the ECB. Money is cheaper! The European Central Bank slashed interest rates to a record low of 0.5%, continuing the cunning tactics deployed at the beginning of the crisis. We are all certainly looking forward that indebting shall be once again cheaper. Proper leverage, that is certainly the way out of the crisis!

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