Golden Goodbye – Budiž Euro! 18/2014

On a visit. Deserved retirement. French test. Made in Mexico.

Slovakia was honored with an important visit. Soon leaving president of European Commission - Barosso, praised our country and in return, was given the Order of the White Double Cross of the II. Class from the president Gašparovič. For outstanding merit in strengthening the position of Slovakia in international relations. And since he probably will not visit us as a retiree, we enclosed also a title of Doctor Honoris Causa from the University of Economics. After all, every other line in CV is good!

The retirement club will soon join also some of 766 MEPs (unless they are also members of national parliaments, mayors, heads of the regions or all together). And to not be sad about that, taxpayers have a present prepared - so called Golden Goodbye. Each MEP will receive a payoff, the amount of which will depend on the amount of years in service. The smallest amount, however, is about 47.000 euro, those ones who served at least 24 years can prepare themselves for 190.000 euro. This is, of course, not everything. To say the final 'hello' appropriately, MEPs will also receive a statutory pension of 70% of their payroll. Again, following the amount of years in service, the best ones will enjoy 67.000 euro per year. Is that all? No. Members could also 'contribute' to their additional voluntary pension scheme, which can be up to an additional 50.000 euro per year. I used the quotes because, despite the contribution, the fund of the pensions has already a hole bigger more than 200 million euros.

The thing the MEPs will miss, is the solution for the problem of getting another 15 billion for Greece. This year, the Greeks assistance from the EFSF ends, but problems remain and one of them is a 2.6 billion hole in 2014 and 12.3 billion one in 2015. Part of these will maybe manage to be patched through the market, the other one via expected lower demand of local banks of capital from public sources. But perhaps no one would bet his severance on the question if the country manages to avoid further bailout package. Plans of the Commission are, as always, rather spectacular, almost 180% of the current Greek debt is to be reduced by 2020 at 125% of GDP and at 112% in 2022. Let's hope, they owe to us as well.

The Greek government has already officially requested a discussion concerning possible reduction(read partial remission) of the debt. In addition, a plan to revive the economy was introduced, which surprisingly includes also tax cuts and greater labour market flexibility. Since the beginning of the crisis, country has experienced over 20.000 demonstrations (6.266 in Athens) and the number will probably grow.

Last week, following Athens, also Lisbon celebrated return to the bond market after three years. Portuguese sold 750 million euro of debt in ten-year bonds at ridiculous 3.58%. Slovakia is somewhere around 2.5%. Last year's deficit of Portuguese public finances was, without the help to banks, 4.5% of GDP, while the target was 5.5%.

France as well has a plan of economic reforms including the public spending and tax cuts. The government, under the new Prime Minister, has already tested his popularity by preliminary voting in the National Assembly. There, he passed with 33 vote’s difference. However, absence of 41 Socialists indicated that it will not be a smooth term.

The Netherlands is also in a reformist mood, but this time on the European level. The country isstarting a campaign calling for a referendum on every decision about the transfer of powers from the national level to Brussels.

The atmosphere in the ECB was rather grim last week. The level of excess liquidity - i.e. cash 'buffer' in the Euro system - decreased below 100 billion for the first time since September 2011. Last time's solution was the provision of more than 1.000 billion euro in loans for financial institutions through two rounds of long-term loans via the LTRO. Everyone is waiting for the decision of the ECB, not only in connection with this fact, but also about the overall economic situation. Mario Draghi hinted that the ECB is ready to start buying assets of various kinds, and so to pour new money into the economy. The ECB is bluffing with this cart for two years already and the investors believe it so far. Thanks to that, European indebtedness goes smoother than ever before. But the moment will come, when investors will ask to show the cards. In that case, the ECB will either confer bluff and finance-masters of the MS will weep, or it will actually begin to buy with newly-printed money.

But money brings hard time not only for the EU. While the military-intelligence game goes well for Russia, the economic field does not look that bright. Investors are leaving the country since last year, but with the rising threat of international conflict and economic sanctions rather run away. During the first three months, 64 billion euro left the country, which is already the half the amount of the biggest outflow so far, in 2008. Russian central bank intervened by raising the interest rates. S&P slashed the country's rating on just one notch above 'junk' level and the Russian government is preparing a large-scale financial changes. Country has large foreign exchange reserves, which give time, but memories of 1998 are not that distant.

'China is cheap'. This statement has become almost a law of nature. But the world economy is dynamic and old truths are changing into new myths. Manufacturing Cost-Competitiveness Index is comparing the cost of industrial production in 25 countries of the world. Some results may surprise you. Mexico is cheaper than China, Sweden is cheaper than Brazil. Slovakia is not included but Czech is 7% more expensive than the USA. United Stated are sending the old continent to the knees, when talking about competitiveness - the only one who challenges it is Poland, which is 1% more expensive. Cheap labour is not a panacea.

Financially well-balanced rest of the week wishes

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1.5.2014
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