

# Great Plan – Fiat Euro! 19-20/2014

*Vanishing unemployed. The patch has its cost. The U.S. of Europe from Italy.*

Recent months registered a return of bankrupt states to financial markets. Ireland, Portugal and even Greece, with hopeless national debt of 175% and five-year recession, sold a new debt to some fools. The only question now is, whether those fools are investors or all of us who have promised to purchase that new debt through the ECB, in case of problems.

Most recently, the group was enlarged by bankrupt Cyprus, which sold a six-year bonds worth 100 million euro with the interest of 6.5%. Portugal already has a plan to leave the rescue program and even without the assistance of a credit line, which would be "on hand" in case of problems. According to the Minister of Finance, the country has a financial supply for one year.

But let's not confuse it with good news. The information above only says that investors are sufficiently convinced that EU citizens are ready to protect any Member State in case of need. Spanish deficit will, after declining, increase again to 6.1%. Anemic France is expected to grow in 2015 by 1.5% and estimates expect it to not fulfill the aimed limited deficit. And while Greek statisticians report annual decrease in unemployment by two-tenths percent to 25.5%, it's nothing more than a chimera. Looking at the local statistics, we can find that number of unemployed Greeks, but also employed once decreased - vanishing unemployed more often just drop out of the labour market than they actually find a job.

Greece is also reporting a hole in the funding for the period of 2015/2016 (financial needs for the functioning of state, not covered by taxes or loans) amounting to 1.9 billion euro. The government, however, promises to find a solution how to cover it. But this patch has its cost. Minister of Finance, in front of his colleagues from other MS, officially announced another partial default of Greece, also known as "softening conditions". This could mean a combination of extension of maturities up to 50 years and a reduction or fixation of the interest rates. For instant, the interest rate on bilateral loans (the first round from 2010, in which Slovakia did not take part) is amazing 0.83% (Euribor rate plus 0.5%). If you think that the extension of maturities or reduction of interests is not an expense, I ask you to send me your annual salary (account number to be provided via e-mail). I will pay it back in 50 years, promise!

Of course, debt is always the security together with interests. If it would come to mentioned "softening", Greeks could save up to 6 billion a year. On the contrary, this help would cost, let's say German taxpayers, according to the analysis of DZ Bank, around 22 billion euro over the lifetime of the loan.

All in all, Europe's debts are rising, unemployment stagnates and economies does not grow. And let's not forget that even young children carefully peek under the bed, if there is not dreaded deflationary spiral lurking around. Fortunately, we have a heroic central bankers, who are ready to move it-vats easier. The ECB has prepared, according to its chief, a great plan for June, which will fight off the deflationary fears, recession and will get the crediting of the economy going. It should include new plans of pouring liquidity and a further reduction in interest rates to zero, or even below.

We will see how banks will cope with this issue. The new money will for sure please them, as well as the governments. European banks are paying a considerable amount of money to purchase government bonds and to help politicians to fulfill their promises. Between September 2008 and December 2013, the amount of state bonds in the assets of European banks increased by more than 110%. Government bonds are secure, while the loan to business is a risk. In 2013, the European banks had in their hands one trillion euro (nearly 60 annual state's budgets of Slovakia) of bad (not-properly repaid) loans, what is an 8.1% increase compared to 2012.

These numbers will shine unpleasantly during the upcoming stress-test of the banking system and that's why since summer 2013, additional 35.5 billion euro were gathered and another cca. 25 billion is planned.

Problematic states remain on the razor's edge. Commitment of the European politicians to keep them with the money of taxpayers seems to be solid so far. But just a sudden change of mood - for instant a poor performance in the upcoming EP elections - and stopping the aid would send countries like Greece, Spain or Italy to the ground faster than rotten pears. It is therefore not surprising that the voices calling for "stronger unity" are coming from politicians of those countries, whose public finances are the craziest. Italian Prime Minister Matteo Renzi did not make any bones about it in a recent speech: "For the future of my children, I dream, think and work towards the United States of Europe." Prime Minister of a country which was glued together 150 years ago, the North wants to break away from the South, and in the recent referendum large majority of voters called for secession of Venetia from the rest of the country. I wonder how would the unity in the U.S. of Europe look like?

But let's get relaxed in conclusion - what about travelling? MEPs spent 10 million euro on 160 trips with a purpose to "establish the facts" during 2012-2013. Puzzling is, that the facts were investigated mainly in countries covered by the Sun and beaches. The most common destination was Cyprus (what is understandable since it failed in 2013), followed by countries of Africa and Asia, such as Togo or Mauritius. Pacific was not omitted either. Cost per trip for one person was more than 13,000 euros.

The rest of us will probably travel by car. What will be, thanks to the EU also safer soon. The proposal is on the table - to compulsory install the tracking black box in vehicles which would, in case of an accident, call the ambulance. It is a matter of time though, when will someone get a progressive idea to combine business with pleasure and send records of your trips to traffic police or tax officers. But who does not do anything wrong, have nothing to worry about!

Pleasant rest of the week without fear of storms and euro bureaucrats,

**Martin Vlachynský**

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**Translated by Stanislava Dovhunová**