

Building monuments, or memorials? – Fiat Euro!

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Brussels builds grandiose memorials to itself and the sovereign bond situation calms down in the south. Is the situation getting better?

European council will have new headquarters. Planned expenses were hiked [from 240 million eur to 327 million eur](#). Similarly, new European seat is being built in Luxembourg. The Konrad Adenauer Centre will house 2000 officials, offer gym and magnificent portal with 16 pillars. The price tag for this cottage shows 450 million euro. And we should not forget about the new ECB palace. The taxpayer will pay around 1,2 billion euro for this. What did Barroso say about austerity – too much of it?

The latest economic prognosis from the Commission brings back the question, if European politicians deserve any memorials. Despite the traditionally [optimistic title](#), the overall predictions are worse than the previous quarter. Eurozone growth prediction for 2013 reached -0,4% from the previous -0,3%. EU as a whole will slide from 0,1% into 0,1% recession. Nine eurozone members will have deficit higher than 3% of GDP this year, in year 2014 they will be joined by one more state. Ireland will be the record holder with 7,5% deficit, followed by Spain with 6,5%. Spain will take the first place in 2014 with -7%.

Seems like the situation is getting better in the periphery countries. Slovenia was able [to sell bond](#) even after its rating fell to junk category, however for a hefty price 5,67 %. Portugal was able [to sell its first 10-year bonds](#) on market since entering the bailout program. Its government announced [continuation of the hard line](#), announcing 30 000 civil servants lay off, prolonging the work hours of the remaining civil servants by 5 hours (do not worry about their health, they had only 35-hour work week until now) and postponing the retirement age to 66 years.

Similarly, the price of Spanish bonds [fell below 4%](#) for the first time since 2010, despite the abovementioned bad news. To sum up the good news, ECB [started to accept Cyprus bonds](#) as collateral once again. Even the Russians seem not to be so angry – there are rumors they would [prolong the maturity](#) of their older loan to Cyprus.

Well good doesn't always mean good. The economic predictions are worsening from quarter to quarter, similarly the deficit predictions in member states, not to mention the unemployment which breaks the negative record with routine. What motivated investors to ignore the risk associated with the PIIGS bonds? Repeatedly demonstrated determination of EU officials to save local governments with public money. And do not forget about the official plan of ECB to buy problematic bonds, if it will be inevitable. The announcement of the OMT programme last summer seems to be the breaking point.

One week ago we heard about the [interest rate cut by ECB](#). It was more just a symbolical step, this traditional monetary tool is close to its limits of influencing anything thanks to the fragmentation of financial markets in eurozone and everybody just waits, when will ECB start real monetary easing via the OMT programme. Jörg Asmussen, one of the two German representatives in ECB, [allegedly voted against](#). Since minutes from ECB meetings are kept secret for 30 years, we won't be able to learn the truth so soon.

Meanwhile, new initiative is emerging in ECB. The central bank should [purchase bonds collateralized with assets](#) from the troubled periphery banks. In other words, it should accept often worthless remains of housing and other bubbles and throw them on the shoulders of the whole eurosystem. Nothing new. Until recently a similar programme named [covered bond purchase programme 2](#) and before it 1 was used. ECB used to to purchase bonds worth 65 billion.

Critical voices against euro in Germany are coming from various directions, sometimes even from the less expected. For example from [one of the euro founders](#), former German Ministry of finance Oskar Lafontaine. He calls for the dismantling of euro. The current direction of events heads towards a catastrophe, according to him Not only money are heading to the safety of Bundesrepublik from the southern countries, but also people. According to the German Statistics Bureau, record number of [1,081 million immigrants](#) came to Germany in 2012 from Europe.

Excitement emerged after [local elections](#) in parts of England. Strongly eurosceptic (but we should not forget also strongly anti-immigrant) party UKIP headed by the well-known Nigel Farage earned 139 new seats in local councils and radically improved the previous number of 8 seats. They got 23% of the votes around the country and ended up third after the Labour party (29%) and Conservatives (25%). Referendum about leaving the EU promised by the incumbent prime minister after the next election has to be taken seriously.

Think-tank New Direction counted the Tax Liberation Calendar (day, when we start earning for ourselves and not only for taxes) [for the member states](#). Compared to the previous year, tax burden was on rise – average European employee pays more than 45% of income on taxes. And then we say the economy is not growing. It is interesting, that the overall tax burden is higher in states with flat tax than in states with progressive tax.

We informed you last week about announced strike preparedness of euro bureaucrats. It is a bit more complicated. Firstly, European Parliament trade unions announced it from 1.5. to 31.7. Week later, European Council unions joined. European Commission unions were not left behind, they announced preparedness on 9.5. - 30.6.

I hope you noted it in your calendars!

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