Rotting – Fiat Euro! 20/2013

The financial crisis has been with us for six years and counting. The symptoms don't change- growing unemployment, low or even none economic growth, the same ineffective measures adopted by governments and central banks. However, one thing that does change is the perception of the crisis.

Italy, France, Spain and the majority of the "old" members, with the exception of Germany, are suffering from recession yet again. Even Germany grows by a rate of only 0.1%. Spain has been in recession for seven quarters, and the same goes for Italy, for which this has been the longest period of decline since 1970. Several European countries have gone de facto bankrupt and had to request help from others. However, several members of the "others" group are prepared for the leap into the support-recipients category. Unemployment is reaching historic heights. Governments have reacted by increasing taxes, and despite the fairy-tales about public expenditure cuts, spending in this area is higher than before the crisis, whether nominally, in real terms or even proportionally to the size of the economy.

However, something has changed. Despite the poor economic results, countries such as Portugal and Spain are able to borrow from the markets and defer painful reforms, such as to the Spanish educational system, for the price of a rapidly growing debt. Our generosity in lending to governments of these countries and mainly the unprecedented steps taken by the ECB have succeeded in persuading investors that the Euro-project, in its current form, will be pushed-ahead, at least for a few years. The ECB is ready to immediately play the ace called OMT, that is to start buying the bonds from the problematic states. First in line for the OMT treatment is maybe Ireland. Although Ireland is relatively economically successful and there is a good chance that it will return to the regular loan regime, it might want to get a bigger slice of the common cake, as their share of the EFSF/ESM loans was not as generous as in the case of Greece or Spain. Thus the Euro-crisis is no longer an acute danger prepared to strike a country down to its knees in one hit. Instead, it becomes something accepted, a regular part of life, the standard. Unemployment, minimal economic growth and a significant growth of debt. A sort of slow rotting.

The various approaches laid out are not unchangeable. The German Minister of Finance reminded us about this at a recent conference, where he warned that the stimuli provided by central banks in the world are causing "critical issues" and should be stopped as soon as possible.

Another protracted topic is the financial transactions tax, which threatens to cause economic damage not only in the countries which decided to adopt it. The Dutch Minister of Finance Jeroen Dijsselbloem voiced concerns that the tax could cost the Netherlands up to 500 million euros. The main impact would be on "speculators" (the new term for future pensioners), who keep their money in various pension funds. The discussion about the functioning of the banking system in the EU is similarly split. After the Cypriot experience questions occur such as in what circumstances should depositors without an insurance bear the losses of banks to which they provide their money. Germany, the UK and the Netherlands want the depositors to be on par with senior creditors, so they could bear a certain risk. France, Spain or Portugal, for understandable reasons (consolidation of their trembling banking sectors), view the transfer of risk onto the depositors only as a last resort.

One European discrepancy was solved during the last week. European ministers of finance were able to outvote their British, Finish and Dutch colleagues and to approve a rise of the EU budget for 2013 by 7.3 billion Euros. The Commission requests up to 11.2 billion to cover its programmes, some MEPs even request 17 billion. Austerity, anyone?

Last week we mentioned a strike emergency in almost every trade union of European office workers. The German newspapers Bild counted the amount of holidays which an euro-official can enjoy. They reached a number of almost 100 days - additionally to the standard vacation the officials enjoy various other holidays, for example they receive more days-off depending on the distance of their home from Brussels, or a substituted leave if they have to work the "inhuman" amount of 40 hours a week compared to the Brussels standard of 37.5 Those are benefits indeed worth fighting for!

We usually avoid public opinion surveys; however, this poll caught our attention. Pew Research asked 8000 respondents from predominantly southern countries various questions, including whether they prefer cuts in government spending, or stimulation by higher spending. Surprisingly, 80% of the French respondents and 67% of the Spanish supported austerity measures in the form of cuts to government expenditure.

Slovenians, teetering on the edge of bankruptcy, are still avoiding drastic cuts. They introduced ascheme for the privatisation of 15 big state-owned companies and increased VAT. To the north-east of Ljubljana, specifically in Finland, the Supreme court has made an order for the publication of the details of the secret agreement, which somehow secured a collateral deal to Finland in exchange for the provision of financial help to Greece. We already know that the deal included a bond-swap (an exchange of potentially bad bonds for some better ones) concluded with the help of some Greek banks, however we are still waiting for the analysts to deal with the several hundred pages of the contract for further details. Cyprus has received the first part of the bailout money.

And we have another contribution to our entertaining section You can't make this stuff up, it must be French. It seems that French politicians have the opinion that their citizens watch too much Hollywood-rubbish and listen to improper music, so they decided to impose a special cultural tax on smartphones and tablets. The tax should subsequently help French artists in their failing struggle for the hearts of their French admirateurs. Let's hope they won't flee to Russia with their hard-earned profits.

Have an enjoyable rest of the week, including music of your choice.

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