Waiting for ESM – Fiat Euro! 28/2012

Is destabilization of the EU really the only alternative? German constitutional court takes its time. The state won't allow any competition in manipulating interest rates. Many Spaniards have put all the eggs in one basket, which is currently hitting the ground. When Silvio is talking, rating agencies are listening.

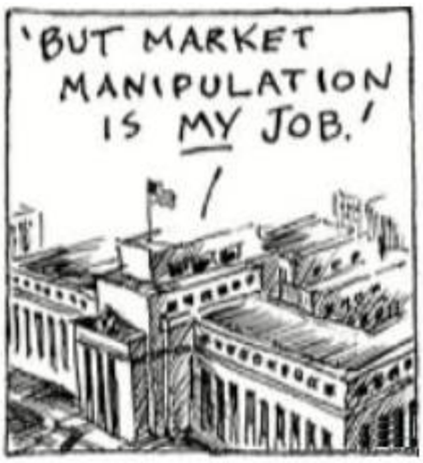
New chairman of the Council for Budget Responsibility and former governor of the National Bank of Slovakia Ivan Šramko claims that there is no alternative for the Eurozone. Who doesn't seek, won't find. And then they are surprised. Apparently, in Poland they didn't read this interview. Poland decided to freeze the efforts to introduce euro soon. They don't know yet that they don't have any alternative.

According to the analysis of the Council of Economic Advisors to the German government **euro is today a „destabilizing force" in Europe and the bailout mechanisms (EFSF and ESM) don't have any chance to solve the crisis.**

Oh yes, **ESM**! It was supposed to be functioning for a week now already! Well, it won't happen that fast. German Constitutional Court said that we **will have to wait up to three months for their decisions concerning compliance of this instrument with the German constitution**. And since it's mainly about German wallet, without German „yes" there won't be any party in the peripheries.

European politicians started reacting to the scandal concerning long-lasting manipulations with interest rates LIBOR by the commercial banks. European Commissioner for Internal Market Michel Barnier suggests severe sanctions for manipulating economic indicators such as LIBOR in the amendment of the Market Abuse Directive. Should employees of central banks start looking for good lawyers? Manipulation of the most important indicator in the economy – basic interest rate – is in their job description. Up-to-date slogan today should say: „**Hands off LIBOR! State won't allow any competition in manipulating interest rates**."

Spain demonstrates the **real toughness and obduracy of the new fiscal rules**, which the new fiscal union was supposed to be based on. The country **was allowed to postpone for a year fulfilling aims of the fiscal consolidation (deficit under 3% of GDP)**. Plan for Spanish banks restructuring was also agreed on (MoU, Memorandum of Understanding), which is supposed to be signed at the meeting of the Eurozone's Ministers of Finance on July 20. The aid will take a form of long-term loans (average time of paying off the debt – 12,5 year) to the Spanish fund for restructuring in several tranches up to the total sum of EUR 100 billion. The first tranche of 30 billion will be transferred at the end of this month.

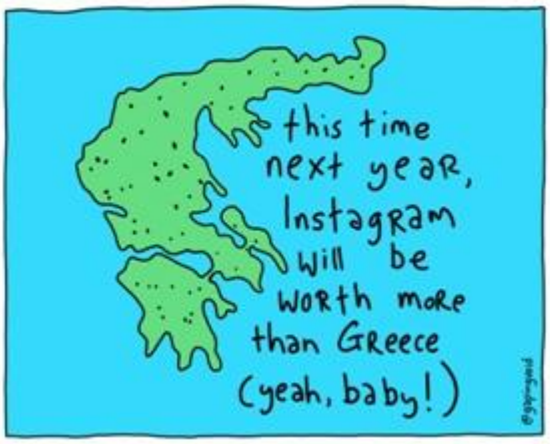


picture: Jim Grant

MoU is interesting as it is the for the first time we hear about the need to transfer part of the losses of the bailed out banks to the bank's creditors, until now an untouchable group. The problem is that the losses won't be transferred to the big institutional creditors, but through preferred stock and subordinated debt to the small, naive retail investors. They were tricked into buying this junk products by promises of high yields and complete safety by the now rescued banks, who were trying to buy few months of time be pretending solvency. And now these small investors are very surprised, many of them transferred their life savings into these assets, now knowing that they are, unlike deposits, not insured.

Thanks God there is social security in Spain. Wait a moment! **Spanish Social Security Fund massively invests in the Spanish bonds (it is the biggest institutional holder of Spanish bonds and until recently it helped to keep their prices at the high level by active purchases despite other investors running away from them)**, which have recently not been very lucky. Not to mention what will happen if the fund will be forced to sell these bonds to cover increasing social expenditure. Madrid, we have a problem!

Greeks won't privatize this year. This way they won't fulfill the aim signed by Troika to collect EUR 3.2 billion out of state asset sales. Seems they will be able to sell only two assets. **According to Troika's report Greece failed to implement 210 out of 300 reform goals defined in the conditions of the bailout.** Who could think so two years ago….



The preliminary report by the European Banking Authority (EBA) shows that 27 out of 31 surveyed European banks managed to increase the ratio of equity capital (core tier one ratio) to desired 9%. So the banks are safe now? **Ok, then can we stop playing the game of „European solidarity" and actually move on to restructuring the debts of the insolvent countries?**

At the meeting of the Ministers of Finance it was agreed that the Prime Minister of Luxemburg and leader of the Eurogroup in one person Jean-Claude Juncker will hold the second position at least until the end of the year. So his words that in summer he will „give up the function for the time constraints reasons" wasn't true. He lied again.

The funniest politician of Europe, the ex-Prime Minister of Italy Silvio Berlusconi wants to run for re-election in the next year's elections. **Rating agency Moody's reduced Italy's rating from A3 to Baa2 with negative outlook a day after this news appeared.**

Enrico Giovannini, director of Italian statistical office ISTAT, threatened that given the limited budget from January they won't be able to provide statistical data. Maybe it's not such a bad idea. Without this data it would be more difficult for the policy makers to create illusion of widespread control over the economy, tempting to carry out harmful interventions with unintended consequences.

Joke of the week was provided by Finns this time. All honour to their efforts to stop the bailout efforts in Europe, based on a redistribution of losses without addressing the base of the problem. Allegedly, Finns are asking for shares in the Spanish banks as collateral for the Spanish bailout! It can be expected that the principal of the banking bail out loan won't ever be paid off and so eventually these commitments will be transferred into capital. And then Finland will become one way or another share holders in these banks so there is no need to actively search for more shares.

Cute animals for the end:

Have a weekend full of good decisions

Juraj Karpiš