J-C and his team – Fiat Euro! 37/2014

Where will Moscovici lead the European economy?

Greek Prime Minister Samaras reminded us of his determination to cut taxes and promised 30% tax reduction on fuel oil tax which was introduced as an austerity measure in 2012. He also wants to decrease the highest tax rate tier on personal income to 32% and the corporate tax rate to 15%. The way from promises to actions in the world of policy-making is long and painful but the flame of hope for a change of approach to the crisis still burns. Finally, after six years in crisis.

Six years in Spain mean six years of falling real estate prices. If you invested in the average Spanish house in 2008, today you have 35% loss on your investment. At least, this seemingly endless slump stopped now. OECD even praised Spanish reforms implemented so far which are said to be much more effective than ones in Italy or France.

French politicians got ashamed this week as well. Not only Marine Le Pen won the presidential poll for the first time but Finance Minister Michel Sapin announced that France will not reach the 3% budget deficit - neither this year, nor the next one and not even the one after. Allegedly, success will come in 2017.

French Finance Ministers earned cardinal fiasco in achieving budgetary targets since the beginning of the crisis. In Europe, however, the failure is rewarded - those who fail still need to be given a chance! And so the previous French Finance Minister, Pierre Moscovici, became the Commissioner for the economy, finance, taxes and duties few days ago. Yes, you read that right. The personalized symbol of bad fiscal management got one of the most important chairs across the Commission.

If you have followed the previous events, this should not come as a surprise to you. His name sounded very often in this context. The chairs in the Commission are not representing the expertise, but the tactical maneuvering of power of PIIGS countries and the core ones, fiscal hawks and pigeons. Slovaks got a decent portfolio of transportation, while our Czech brothers could not hide their disappointment. They got the chair of justice, consumers and gender equality – a chair belonging to the category "well, we had to figure out something, when there are 28 Commissioners". A quarter of Commissioners are coming from the old Barroso Commission.

But the happiest one is the President of the Commission, J-C Juncker. After all, he managed to get more women to the Commission – nine. That will, at least for a while, cool down hot gun-barrels of fighters for gender rights, quotas and understanding.

The Commission is changing name tags, the ECB is changing the interest rates. Central Bank of the Eurozone has somewhat surprisingly cut the interest rates again. Refinancing interest rate fell from 0.15% to 0.05% and the deposit one fell from -0.1% to -0.2%. The aim is to re-inflate the ECB balance on the level from 2012. One of the means for this should be the purchase with asset-backed securities and bonds. The ECB wants to stir up the market which, since the beginning of the crisis in 2008, fell by 80%, further details to be announced by Draghi in October. We can say it is a compromise "QE light".

The vote in ECB was not unanimous, against was the representative of the Bundesbank - Jens Weidmann. He identified the program as problematic and promoting socialization of losses of private banks already in July. Former head of Economy of ECB Jürgen Stark wrote in the commentary for the newspaper Handelsbaltt that ECB with its monetary policy is undergoing enormous risk and is poised to become the "bad bank" to which other banks will throw their toxic assets.

How to boost economic growth again - that's something all politicians of Member States are wondering about. For instant, Polish Finance Minister Matteusz Szczurek proposed to create a special fund with a modest capacity of 700 billion euros. This should finance the European investments in the area of energy, infrastructure and defense. But to beat the crisis with more spending? Well, sometimes it's enough to pick up the stone - grass will grow then.

To get out of the crisis through spending is often mentioned method. Italy is trying to defeat its own crisis for 15 years already but so far, nothing but debt grew there. This, however, would not stop politicians to propose such a tactic again and again. And those proposals are often directed towards Germany which, as the only country within the European family, still has some money in its wallet. So far, they are adamant though. Last week, Finance Minister Schäuble summed up the situation: "We cannot take into account the illusion than our problems can be solved by spending more and more public resources and by creating ever higher deficits."

The only place where they deal with different issues is the United Kingdom. There are only a couple of days left to the Scottish referendum on independence and with growing number of secession proponents, Prime Minister Cameron's nervousness and number of promises to Scots is correlating. But besides the whole pile of internal problems, possible secession would be an interesting precedent. For countries like Spain, for NATO (there are important naval and radar bases in Scotland) but especially for the EU. How would it deal with a potential member/non-member?

To remind us that the bad and good situation are relative terms and that applies to economy too, let's jump from Europe to South America. In Venezuela, the local inflation fell to the new record of 60% and the economy is having a hard time. A month ago, the National Guard fired into protesters in important industrial city of Ciudad Guayana. There is an extreme shortage of raw materials and components in the factories. Production in the local automobile plummeted by 85%. Residents blocked the streets with burning tires. The reason for all that? There is a damaged sewerage in the city for three weeks already and sewage returns back to houses.

So don't forget! Everything is fine unless you can't flush the problems.

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