

## I integrate, you integrate, they don't integrate – Fiat Euro! 38/2012

*The Southerners don't want any help, but they keep sinking deeper and deeper. Will the Neo-Nazis lead Europe? Japanese QE worked for 9 hours. It seems that ECB can complete construction of its new residence before the Eurozone falls apart. If only there wasn't this inflation...*

Eleven Ministers of Foreign Affairs [agreed](#) on what is supposed to save Europe. If you guess the answer is deeper integration then you got it right. Apart from the traditional integration steps the talks concerned direct election of the Commission's President and creation of a second chamber of the European Parliament. European police is also supposed to be created, and it will certainly put misbehaving member states in order. I am curious how this integration will go, since today there are already conflicts not only between member states, but also between EU institutions themselves. As is the case of the [planned banking union](#), where both the Parliament and the Council want to have more power.

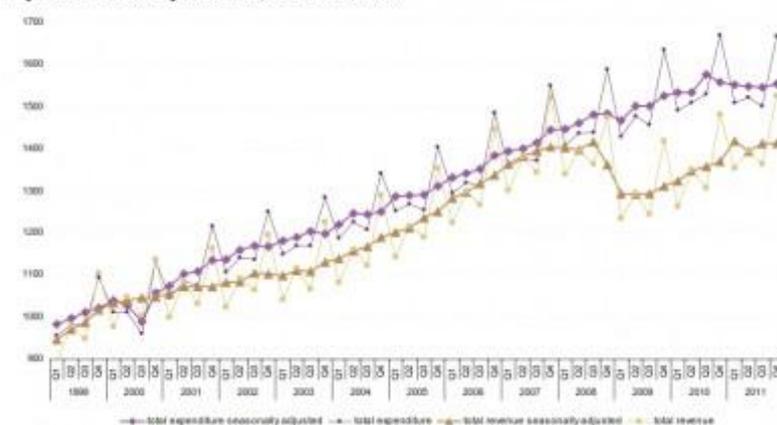
How exactly common police or closer integration will reduce debt of insolvent countries remains an unanswered question.

People and companies who have their savings in PIIGS banks and are transferring them abroad have their own thoughts about deeper integration. [They move them elsewhere](#). In 12 months 326 billion of deposits were moved out of Spain, Portugal, Ireland and Greece, majority of it went to Germany and France. For comparison, it is more than the budget expenditure of the EU in 2 years. There will be soon outflow of deposits also from Switzerland, which gradually abandoned its traditional approach to banking secrecy. Swiss bankers expect outflow of couple hundreds billion francs in the following years. Nobody knows to where, obviously not to Italy or Greece.

After the summer holidays the protests went back to the streets in all four southern PIIGS states, Spaniards are even requesting [a referendum on cuts](#). In the Union there is [decreasing determination](#) to implement further cuts ([were there ever any?](#)). The Reforms don't work either, for example Italy in terms of rigidity of the labour market according to the World Economic Forum fell by one place to disastrous 127th place out of 144 countries.

So who gets the help? The French, concerned about their banks, are convincing Spaniards

Figure 5: EU-27 quarterly government revenue and expenditure, in billions of euro, seasonally adjusted and non-adjusted data, 1999Q1-2011Q4



Source: Eurostat (online data code: [gov\\_q\\_gnfts](#), seasonally adjusted data: Eurostat estimates)

that [they should](#). They, together with Italians, claim that they will do so only if there is [a new surge in their bond yields](#), which dropped after the recent announcement of their purchasing by ECB. At the same time Spanish Minister of Finance, after recent massive demonstrations of Catalans, announced that further cuts are not necessary. Meanwhile, their banks are

sinking deeper and deeper every week. [One in ten loans is not being paid back properly](#), which means the highest rate of delinquency in 50 years. It doesn't stop banks from gaining profit – [out of the money from ECB](#).

But they don't need to be too afraid. [Greeks and Portuguese](#) are negotiating delays vigorously, and Portuguese managed to win another year. Greeks are continuing their negotiations with Troika, which requires further deficit cuts worth EUR 11.5 billion. More austerity is a problem for the Greek coalition, two minor parties PASOK and Democratic Left don't agree with further austerity measures. Leader of [the second one said](#) that „the Troika must stop attacking Greek society!”



No wonder that this „pro-integration“ atmosphere strengthens extremists. According to the surveys the leader of the neo-Nazi Golden Dawn Nikos Mihalioakos has [22% support](#). At this pace Greeks will have a neo-Nazi government already during their presidency in the EU, which starts in 15 months. It wouldn't be anything special though, EU is currently led by a country ruled by a [Communist party](#). In such atmosphere, local intellectuals are looking for safer places, such as Albania – just in case. Albanian private universities are struggling with lack of local experts so they [buy Greek professors](#). By the way, private universities in Greece have been constitutionally banned until recently and even today they don't have the full status of university.

It will be more and more difficult to integrate also the angry Germans. After recently lost battle in ECB concerning purchases of sovereign bonds representative of Germany Jens Weidmann compared the new program to the [devilish practices in Goethe's Faust](#). There, Mephistopheles convinced the emperor to replace gold with [paper money](#) in order to revive his empire. Bavarian Minister of Finance complained that [everyone wants their money](#). Hopefully they won't get fine as Nigel Farage did. He was [fined EUR 2 980](#) for comparing charisma of President Rompuy to a „[damp rag](#)“.



Funny things happen also in the rest of the world, this time in the East. Japan couldn't withstand the luring of the current rounds of quantitative easing around the globe and [started its own](#), 8th in a row. The effect of 10 trillion yen lasted for [roughly nine hours](#). Central banks got in the situation in which practically all of their actions are counted in advance by the markets. As if it wasn't enough, land of the rising sun has a conflict with China concerning three and a half rocks located somewhere in the sea, possibly on a puddle of oil, which led China to announce that it [will stop purchasing Japanese bonds](#).

Let's finish this week with cheerful news. It is well known that ECB employees have to work in inhuman conditions, that's why Eurozone's citizens agreed to give them a new seat in Frankfurt. Last week ECB staff celebrated topping out of its new premises. On this occasion it was announced that [due to inflation on the construction market the costs will increase](#) from



planned 850 million to 1050 million EUR in the 9 construction year period. The press release says nothing if the irony of this statement made anybody of the participants laugh.

Have a nice weekend, hopefully for somebody else's money

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