

New round of promises – Fiat Euro! 39/2012

Spanish economy is now producing nothing else but promises. Why to lock trash bins and how many policemen are needed against one disabled person? IMF against the EU, the EU against the core and China against the FED.



All the eyes have been on Spain for a couple of months already. After the first guarantee of help for the Spanish banks the second act is awaited, which is help for the Spanish state itself. Prime Minister Rajoy declared that he won't accept any dictate of Brussels, but even he realizes that help will be necessary. That's why he decided like a king Solomon– he imposed on Spain all the awaited conditions in advance.

Spanish government prepared a list of 40 measures that are supposed to somehow help its economic situation finally. They include increasing of the retirement age, abolition of tax exemptions, lottery tax, or limiting support for mortgages. At the same time the Prime Minister moved 5 billion from non-budgetary pension fund to fight current fiscal problems – maybe he got [inspired by Slovakia](#)? In general, apart from cuts and increasing taxes along with microcuts of expenditure (0.75% of GDP in 2013), structural reform of (not only) labour market was merely outlined, without providing any specific solutions. Spanish deficit is supposed to reach 4.5% of GDP next year, obviously according to optimistic predictions, new taxes won't stop expected economic slump. The government's estimations of the economic development haven't changed after publishing the measures. [S&P estimates -1.4%](#) in the year 2013, but Spanish financial masters believe that it will be only 0.5%. Again they might be [inspired by Slovakia](#).

In addition they are trying to solve the thriving banking and real estate crisis. The solution is supposed to be provided by [a new fund](#), to which bad loans and foreclosed homes would be moved. Private investors are supposed to help, but try to find somebody who would buy a million or two of empty houses. As if this wasn't enough, there are problems also on the third front, in the regions. Castilla-La Mancha [requested help](#) as the fifth region in a row. It asked for 848 million, which means that a special bailout fund for regions of 18 billion, which was set up by the central government, will have at its disposal only three more billion. What's more, Catalans, outraged with taxes and cuts imposed by the central government, are threatening with [early regional elections](#), which in case of nationalists winning would lead to a referendum on independence. The ongoing Brussels' integration sometimes clearly resembles desintegration.

Extending agony and postponing solutions affects not only tired euro clerks, but also those really suffering. In Spain some of the supermarkets started [locking trash bins](#) in order to prevent hygienic hazard due to the growing number of people looking for food there. In the protectorate Greece police set up lines of riot police against the [demonstration of disabled people](#) and created a tragicomic picture of the current situation in Europe.



No longer than a week ago Greek government claimed that the budget was doing better than it was expected, but Greeks never get the calculations right. It turns out that Greek budget lacks not 15, but [exactly 20 billion](#). Greeks are vigorously negotiating postponing the Memorandum conditions for two years, they want to finance the financial hole that appeared themselves. Well, themselves – [it would be](#)

[financed by ECB](#), or by the creditors by decreasing the interest rates. With the [tax officers on strike](#) it is difficult to obtain revenue for the budget.

President of the IMF came back from summer holidays not only beautifully tanned, but also with new energy. European governments are supposed to [write off part of the Greek debt](#), which is held by their taxpayers. Europe doesn't like it at all, it would mean admitting to their citizens for the first time that they made loss on the loans granted in their name. Final verdict „what will happen with Greece“ will probably be postponed, vicious voices say that until [after the American elections](#).



As you know, ESM will be supported with a capital of EUR 80 billion, out of which 659 million will be contributed by Slovakia (not to confuse with guarantees, they are eight times higher). ESM as a good manager won't let them lie in the vaults, but [invest them instead](#) – into sovereign bonds and soon also into bank bonds. This way our money will be in the best hands.

In Germany first legal attack against the bailout mechanism didn't work out, so now a new attempt will be made, this time [against purchasing bonds by ECB](#), namely against the programme [OMT](#). ECB will also help to resolve this legal challenge. Two of the strongest ECB opponents [Jurgen Stark](#) and [Jens Weidmann](#) repeated their criticism again. According to Weidmann banking systems are supposed to be saved by those who supervise them, namely their national governments. Ministers of Finance of [the core](#) – namely Germany, Netherland and Finland joined by Austria – agreed on this matter as well. The core was reported to turn back to the idea of [leveraging ESM](#). Why back? Because they have already once tried to leverage the bailout mechanism but it ended up with no investors willing to provide the leverage.

Euro synchronizes problems and out of many small problems one big is created, but it is still possible to spend long years carrying out irresponsible politics without having euro. The example is provided by the Great Britain, whose [deficits are set to exceed the Greek ones](#). As a president of the rating section in Fitch said, „[ruling] coalition convinced itself that they are tough without really being so.“

States of the Eurozone's core have record low interest rates and they were helped even more by the Swiss central bank. Due to anchoring exchange rate of franc to euro, a lot of euro ends up in its hands. This year it decided to exchange [80 billion for core's bonds](#). It's not a small thing, this way SNB covered 48% of deficits of the monetary union core countries for this year.

A small jump to the East. Apart from the fact that Chinese, Taiwanese and Japanese ships are playfully splashing each other with water cannons, the biggest world nation has also other worries. It is afraid that FED will [export inflation to the Asian states](#) through its quantitative easing. They were joined in these worried by the Southern Koreans. As if they didn't know that Ben is doing all this for our own good.

Instead of funny ending, we invite you to international conference Cutting Deficits, which will take place on October 9 in Bratislava and will be devoted to fiscal consolidation on the expenditure side. If you want to know how to consolidate without raising taxes, but with cuts, you are welcome to come. [More information and registration here](#).

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