

# Giving Out – Fiat Euro! 51/2013

*Someone earns, someone loses. Irish numbers are bad, but Cypriot ones are even worse. Catalanian secession.*

E-cigarettes – they do not smell, they do not create any mess like ashes and butts, in comparison with normal cigarettes they have minimal health impact, and drunken guy sitting next to you in a bar cannot burn your eye with it – thus, they should be banned! In Brussels, [an agreement on e-cigarettes](#) has been accepted. The agreement says that if three European countries ban e-cigarettes, they will be banned in the whole EU.

In the UK, one rural family probably knows, what are they going to vote for in the upcoming referendum on British withdrawal from the EU. Following European regulations they have been [forced to leave their family farm](#), which was supposed to be inherited by their children. Their land is going to be flooded because of expansion of neighboring breeding bird colony.

Brussels takes away, but Brussels also gives. E. g., Greece is going to receive [3 billion euro for highway construction projects](#). It does not matter, that nobody will use the highways because of rapid decrease in traffic, neither the fact, that they have 2-times higher population than Slovakia, but 8-times longer highway network. Moreover, bankrupted country could use the money in a better way. But on the other hand – if Spain has the biggest highway network in Europe, Greeks should be allowed to show themselves as well...

Spain helps its football clubs with its heart and soul. Besides below-market priced real estate transfers (we know the scenario very well in Slovakia, do not we?) to football clubs, Spanish government has [lent them approximately 120 million euros](#). Therefore, when watching Champions League, you should enjoy it as your own – Ronaldo's 30 million annual wage is guaranteed through the ESM also by us.

Railroads receive European money as well. The program "Shift2Rail" has gained [1 billion euros thanks to the initiative of the Commission](#) (to compare: the same amount is annually used for medication in Slovakia). The most of European railways has already been massively subsidized by national governments, but Brussels still thinks they are underused. This program is planned to change this.

The Central African Republic is going to [receive 18.5 million euros aid](#). Except for money they will get also French troops, which plan to suppress Islamic fundamentalists in this former French colony. The [French president Holland is not in favor](#) of paying it all by French budget money, thus he is calling for a formation of mutual European fund. Maybe your grandma living in a small village will soon be financing French machine gunner in Bangui suburb. And because Brussels cares about happiness of everybody on this planet, it promised to buy happiness by "[unprecedented support](#)" also to Israel and Palestine, if they find an agreement.

However, the "giving" is the most generous in the banking sector. European banks got 500 billion euros in bail-outs (the current financial status of "saved" banks is able to [see here](#)) and another 1 trillion of very low interest rate loans from the ECB. This has allowed banks to keep earning by a simple carry trade – borrowing cheap money from ECB and buying government bonds with higher interest rates. We can see this strategy if we take a look into banks' portfolios. In last couple of years, [the volume of investments in bonds is rising](#). Everybody is

happy – banks are profiting and governments have sources to spend (or waste). Unfortunately, perpetuum mobile does not exist, especially not the financial one.

The European bank system still has feet made of clay. Even though Ireland has already left the rescue program, the ratio of toxic credits in Irish banks is still as [high as 26.6%](#). At Cyprus, it [reaches even 48%](#). In contrast, in healthy banking systems, this value is approximately 5%, in Spain it is 12%.

The proposed banking union is meant to handle future bank falls. The concept of the union is becoming clearer. Rules of handling failed banks and a common resolution fund have already been [negotiated by the Council](#) and now waiting for an approval by Parliament.

According to the plan, banks are in next 10 years going to collect 55 billion euros (eventually more) for the resolution fund. In the case of a bank bankruptcy, the Cypriot way will take its place – financially responsible will be shareholders and large depositors of banks as well. On the one hand, mutual surety will strengthen the bank system; on the other hand, it will not solve the main problem. If healthy banks will be forced to help the irresponsible ones, how will they be motivated to do good business decisions? Furthermore, Mario Draghi, Michal Noonan, and others [are pointing out](#) the low capacity of the resolution fund and overcomplicated decision-making. Everybody wanted to keep their right of veto, thus fund decisions need to be made by 2/3 of Members with 50% fund share and approved by the European Council, the Commission and the Resolution Fund Council. In the agreement on the banking union establishment there is included also a politically sensitive issue of sick bank recapitalization. This is planned to be allowed following a next year's stress-test.

After three years of negotiations, there is some progress in the question of the third pillar of the banking union – a common deposit guarantee fund. At the beginning of 2014, rules for national funds are going to unify and they will be [composed of 0.8% of deposit volume](#).

However, there is still something missing, namely a higher personal responsibility. The trial at Iceland, where a local bank CEO [received five years in jail](#) can serve as a model. As you could see a couple of paragraphs above, the problem lies in banks buying government bonds and helping politicians financing their promises.

The Catalanian president has [unilaterally declared the date of an independence referendum](#) – November 9, 2014. The Spanish prime minister Rajoy, supported by the EU president Herman Van Rompuy, has immediately declared, there will not be any referendum. Independence and democratic decision-making are relevant arguments only when talking about third world, but in Europe, Brussels wants to have everything centralized and bureaucratized. Secession could be quite a dangerous complication for politicians...

Wish you to stay together, at least during Christmas. And watch together [our PF 2014 video](#).

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