Elections again – Fiat Euro! 08/2013

Nor are we interested in the Italian elections. The crisis ends. The new sick man of Europe. Draghi will take care. The situation in Spain is electrifying.

The Italian elections will take place on Sunday and Monday. Why should we care? Here's the why. As the power gradually shifts away from us to Brussels, the elections in foreign countries are becoming increasingly important. Especially if they are in the third largest economy in eurozone, with a gigantic debt, chronic economic stagnation lasting more than a decade and a huge banking sector standing on feet of clay.

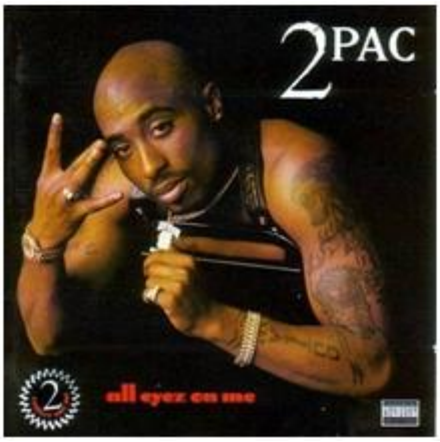
The problem is called Berlusconi. This ageing politician and a pop celebrity in a single person is not about to retire and the whole Europe is anxious about him reshuffling the election results and side-tracking Italy from its path. Particularly those, whose voters would be kindly requested to settle the bill. It does not come every day that the President of the European Parliament woulddiscourage voters of a member country from electing a particular politician. Berlusconi does not water down his worries though. He commented that his deprivation of power in November 2011 was a semi-coup d'état staged by Angela Merkel who asked German banks not to purchase (risky) Italian bonds. Italian bonds are currently sailing in relatively quiet waters thanks to the promise by the ECB to buy them. With the oncoming election, however, the investors' uncertainty may strike faster than a meteorite in the Russian taiga. Italy would have to ask for rescue - and we already know the links with the other European countries and their taxpayers, Slovakia not excluding.

Fortunately, ECB moderates our pessimism. Joerg Asmussen, Member of the Executive Board of ECB, already sees signs of recovery. Although we can only see the highest unemployment historically in the eurozone, the highest public debt, growth revised to -0. 6% (yes, minus), or the worst car sales; a bit of optimism does not hurt anyone.

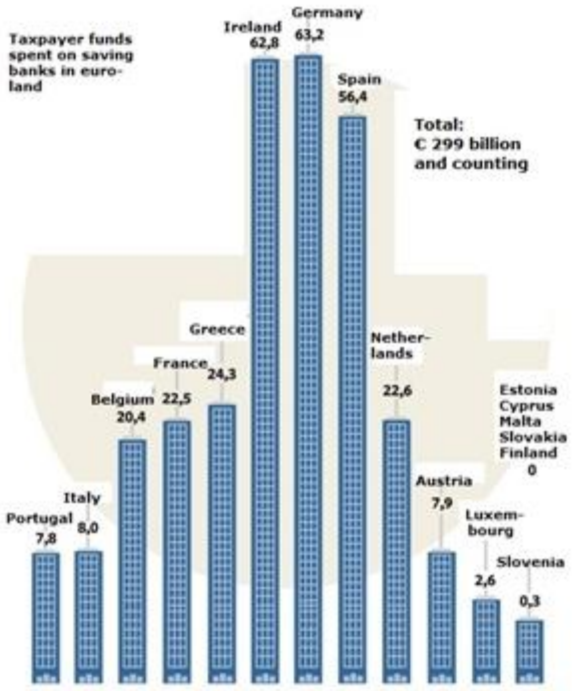
In which could be Mr Asmussen lectured by also the French Prime Minister. Mr Hollande is giving out lessons on the end of the crisis on the spot. His own country is however gradually becoming candidate for the unpopular touring historic title: "the sick man of Europe". French debt is slowly heading towards 100% of GDP, which nevertheless haven't prevented anybody there from reporting repeated breach of the 3% deficit rule What do they want to do with that? The French government seems to be pretty clear about this issue - no savings, no austerity. They would rather prefer to negotiate with Brussels about postponing the obligation to achieve the 3% threshold. And they are deadly serious about the non-austerity. For instance, a plan toextend broadband internet connection across the country is supposed to cost 20 billion euros. It will possibly help to their unemployed to load the job ads faster.

But will they find any? Investors have their own tangy opinions about France and sometimes they don’t hesitate to openly express them. As happened when Maurice Taylor, the CEO of Titan International, an American company, responded in an open letter to French media to an offer to take over a failing French tire factory. In this letter he asked the French government, whether they think that he is a fool, and also messaged that he is not going to take employees who actually work three hours a day and are even proud of it.

Back to the “end of the crisis”; apparently not everyone in the EU has the same opinion on this issue. Günther Oettinger, an EU Commissioner, said for Bild that the only growing thing in Europe is the number of official speeches. In fact, the Member States haven't had enough time to break Sixpack yet and there is an almost finished new Twopack on the table already. This should increase power of Commission to monitor the financial plans of the member countries. At least, fortunately, there was no movement in the new European debt fund, which, when in action, should accumulate all debts of the Member States over 60% of their GDP. These would then be subsequently passed on to the shoulders of countries with debts below 60% of GDP (yes, ours as well). Of course, our politicians also did not forget to think about new taxes, the latest they reopened talks about carbon tax. Just to recall - we are already paying for carbon in a way of more expensive products due to the emission allowances.



A fresh operation of Ireland resonated in the corridors of Brussels offices. Irish adjusted maturity of their bank rescue debt from short term to long. Former ECB board member Jurgen Stark recognized and named this transaction as an (officially banned) debt monetization. ECB President, Mr Draghi, promised to have a look at the issue. Appetite comes with eating, however, and Irish are already thinking, how they could lighten 67.5 billion euros of debt that they accumulated in the rescue operations. In Europe, 300 billion euros have been already spent to save banks, and we don't even count the one trillion euros for commercial banks, which was facilitated through the LTRO.



When it comes to banks, we cannot forget to mention the miracle that occurred last week in Spain. The level of bad loans in the local banking sector suddenly fell by a full percentage point compared to last month Of course, not all miracles are the same. This particular one occurred due to the fact that some of the bad loans were simply transferred to the "bad" bank owned by the state; in other words, from the bank shareholders' shoulders to the shoulders of the taxpayers. In addition, the second largest "real estate crisis" bankruptcy took place in Spain, when a development company Reyal Urbis went under and took 3.6 billion euro of debt with it. Apropos, debt in Spain sparks to the government from everywhere, even from the electrical outlets. The electricity suppliers accumulated losses of 28 billion euro due to the regulated prices, which makes about 2400 euros per a four person household. But let's not just look to the south. There are warning voices heard from Germany claiming that the bill for the proposed step away from nuclear energy can total up to something one trillion euro. And this is a handsome sum that can shake even such economy as the German one.
What a week would it be without news from Greece? This time, however, we only have one piece. About 40 masked people took a new gold mine by attack and set a fire to burn down its equipment. The reasons are typically Greek - unclear. Ecology? Greedy foreign imperialist?

Local disputes? The only clear thing is that the mine employs about 1200 people. Golden Age of Greece is not to come soon.
We wish everyone the right sparks!

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(Translated by Jakub Pivoluska)