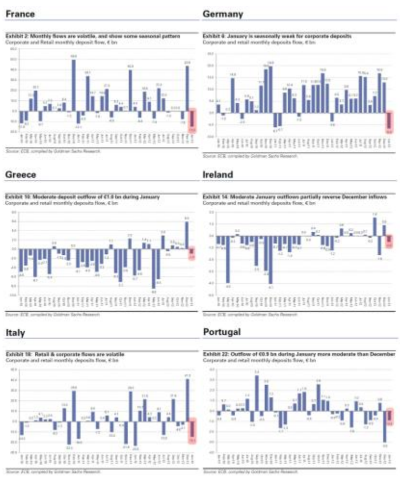
Europe in Fantozzi's hands – Fiat Euro! 09/2013

Two clowns won, who will laugh? The crisis is not returning and also is. Britain vs. Greece.
Italian election results are known to all of you. Technocrat Monti leaves and he will be most probably replaced with a coalition hastily cobbled together under the slogan saying: virtue of necessity. And maybe there will be even early elections. Anyway, Italy is finally where it belongs - in the spotlights.

Economically the third largest member of the euro zone, it has a high potential to sink both ESM and EFSF just like stones. It already had its head in the loop twice, when first in the summer of 2011 and then a year later the yields on its bonds skyrocketed and the ECB had to intervene in order to calm down the situation by buying bonds, or by a promise to buy them. Although Italy has a primary surplus in the budget, it does little help, as the debt reaches nearly 130% of GDP, or two trillion euro in absolute terms, (after the U. S. and Japan, the Italian bond market is the largest in the world and is the largest in Europe).

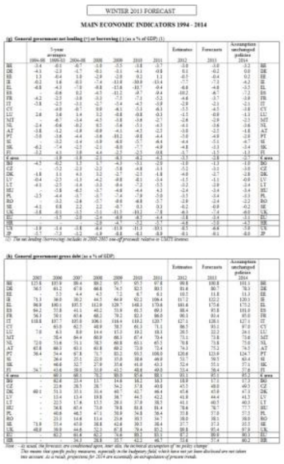
What is even worse, the Italian economy has been stagnating for the last three decades. Since 1991, GDP grew at an average of 0.79% per year, which is slower figure than that in Japan and a negative record for a western economy at the same time. To make matters worse, the population of Italy is one of the oldest in the world, making the demographic pressure on the budget coming a little earlier than in the rest of Europe.



Italy cannot afford any stronger economic cough. Therefore, European leaders monitor anxiously what will happen in Italy after the election. Peer Steinbrück, a potential future chancellor of Germany, directly stated that two clowns won. President Napolitano offended by this, cancelled the meeting with him, but Berlusconi and Grillo caused concerns that Italy will cease to continue with reforms and will rather ask the German wallets for help.
One of the latest moves by the Italian Government was the introduction of the transaction tax that begins to be effective in Italy already on Friday. Let's see how the investors will respond. After a brief enthusiasm in December, when we saw a reverse of the deposit flow and money started coming to banks

in the periphery again, the zeal now quickly cooled down. In January, money again fled from the banks.

The most afraid are Germans. Merkel's adviser said that the crisis has returned with a vengeance. Finance Minister Schauble said something similar, according to him, there is a real threat of contagion of the problems from Italy to other countries. Quite contrasting statements compared with reassurances from Barroso, Monti, Draghi, Lagarde, and latest also fromHollande, who do not forget to point out that the crisis is over even when they are ordering hamburgers.


WINTER 2013 FORECAST

MAIN ECONOMIC INDICATORS 1994 - 2014

Let the numbers to show us the situation rather than politicians talks. According to the latest forecasts from the Commission, six members of the euro zone will have debt above 100% of GDP in 2014. Of the seventeen countries only one will have a budget surplus (Estonia) and nine of the seventeen members will violate the 3% deficit rule (remember that this is a violation of the Fiscal compact?).

France also belongs to the sinners. They already requesteda postponement, and Dutch decided to proceed similarly. They no longer intend to save, the reason is, as always, an "exceptional circumstances." French unemployment rate reached a record since 1997 in the meantime, making the whole government nervous. Industry Minister, Arnaud Montebourg, thinks that ECB should solve this by money printing. Although ECB has already thrown up one trillion euros to the system over the LTRO loans and bought bonds worth more than 200 billion, it seems too little to him.

Cyprus still ranks as a potential candidate for future assistance. In the election there, the president (from a communist party) was replaced by a conservative party candidate who is in favour of the EU rescue. This could be the ultimate break-point on the way for the request for bailout. Cyprus allegedly has enough money only until May. Also with another candidate for help, there was an exchange of power, but with an opposite effect. Slovenian Prime Minister stepped down due to a tax scandal; he is supposed to be replaced with a coalition not very keenon assistance from Brussels, wishing instead to spend on jobs and growth. Let's see whether they will have enough capacity to spend from, as in the middle of this year a € 2 billion of their debt matures, which is quite a large amount for Slovenia.

Thanks to two bankruptcies, Greece managed to reduce its debt by 62 billion in the year-to-year comparison. Still, debt reaches almost 160% of GDP and the social situation there continues to deteriorate. Foreign manufacturers will significantly reduce the supply of drugs, because the traffickers were buying these at regulated very low prices and solling them back again abroad with profits, not to mention the fact that health care facilities often did not pay for the drugs at all. People are angry and politicians cannot feel as safe as they once could. For example, the former mayor of the second largest Greek city Thessaloniki was convicted for life just a few days ago due to embezzlement of city's money.

Bleak weather is not only in the euro zone, Britain has had its rating downgraded by Moody's. There is no wonder as their public finances look worse than the Greek one.

(g) General government net lending (+) or borrowing (-) (as a % of GDP) (1)

	5-year averages							Estimates	Forecasts	Assumption unchanged policies	
	1994-98	1999-03	2004-08	2008	2009	2010	2011	2012	2013	2014	
EL	-6.8	-4.3	-7.0	-9.8	-15.6	-10.7	-9.4	-6.6	-4.6	-3.5	EL
UK	-3.8	-0.1	-3.5	-5.1	-11.5	-10.2	-7.8	-6.3	-7.4	-6.0	UK

The only hint of positive news came from Ireland. Eligible Liabilities Guarantee Scheme, a special guarantee mechanism introduced in 2008, ends now definitely. Like to the fund for deposits protection, the banks were paying there some little change and the state guaranteed their obligations in exchange. It was a simple mechanism for transferring the costs of incorrect decisions from shoulders of bank owners to those of taxpayers, which cost them 62 billion euros. To recap, Ireland population is about 4. 6 million. Unlike Spaniards, Iris paid the costs for the restructuring of their banking system by themselves via ELGS (like Slovaks and Czechs did at the beginning of the millennium, when it cost them about 10% of GDP), but they are doing everything possible to ensure that this created ultradebt would be passed through the ECB and possibly ESM to the whole Euro zone.

Please choose from these two provocations for the farewell: our campaign Richer Slovakia or review of European civil servants pensions.

A rich week wishes

Martin Vlachynský

(Translated by Jakub Pivoluska)