

EUROPEAN FINANCIAL STABILITY FACILITY

A ROAD TO SOCIALISM

"It is no longer about Greece, it is about the euro." This, and similar nonsense, is what the European politicians use to frighten their voters and explain them why they must continue in moral hazard. Just like it is impossible to extinguish fire with a fan, it is equally impossible to solve the debt crisis with new debts.

The only thing that will help is to face the truth. Greece must declare bankruptcy, Italy must start saving and the rules set up by the eurozone upon its establishment must finally start being observed. It will hurt, but it is the only solution.

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1 How has the debt crisis started?

To make the common euro currency work in several countries with quite varying economies, it was required to establish the rules. These were not observed and, moreover, non-observance of the established rules was not penalised.

The rule banning the entry into the eurozone to countries with sovereign debt exceeding 60% GDP was not observed right at the start. Greece and Italy¹ got in there in spite of it.

Some of the Maastricht criteria² were violated for 97 times altogether in the first 10 years of existence of the eurozone but no country has been penalised a single time. Germany and France even declared in 2004 that they will not observe the Maastricht criteria.

Non-observance of the rules has led in several countries to considerable indebtedness, in other words wasting, stealing but especially to vote buying³, supported by the second significant characteristics of the politicians – giving out other peoples' money.

Real problems occurred in 2010 when another rule, i.e. Article 125 of the Lisbon Treaty, was violated. The Article stipulates that every country must meet its own

¹ In 1991 public debt of Italy was 105%, public debt of Greece in the same year was 92%.

² Maastricht criteria – government deficit (3% GDP), government debt (60% GDP), inflation rate no more than 1.5 percentage points higher than the average of the three best performing member states of the EU, long-term interest rate no more than 2 percentage points higher than the average of the three best performing countries, 2 consecutive years of the exchange-rate mechanism (ERM 2) membership.

³ Vote buying is one of the fundamental insufficiencies of democracy and it operates on a politician who tells its voters: “If you vote for me, I will introduce the thirteenth pension, free health care and everybody will get the Internet for free”. Naturally, this sounds attractive and brings in votes but the politician does not tell the voters that it will all be financed on debt.

financial commitments on its own⁴. This rule has been evaded when Greece was granted the first loan and violated by the establishment of a temporary European Financial Stability Facility (EFSF).

The ECB has violated another important rule, ban on buying bonds of member states of the eurozone and has bought Greek bonds at tens of billions of euros. It has evaded yet another rule, Article 123 of the Lisbon Treaty that prohibits the ECB from lending to the member states.

As if it has not been enough, the changes⁵ in the temporary EFSF approved along with the increase on 21 July 2011 also represent a clear violation of the rules.

2 How has the EFSF been established?

After the years of disrespectful indebtedness⁶ the first country to experience problems in 2009 as a consequence of non-observance of the rules was Greece when financial markets⁷

⁴ So-called “no-bail-out” clause is extremely important especially when the monetary union is formed by economically varying countries.

⁵ Loans to countries whose banking systems have gotten into problems; short-term financial aids to countries able to finance themselves on financial markets;

⁶ In 1981 when socialist Papandreu, father of the present-day Greek Prime Minister, took power over the country, government debt of Greece amounted to 27% GDP. A year after his governance lasting eight years, i.e. in 1990 it grew to as much as 90%.

⁷ What are financial markets? Firstly, they are banks that invest money of their depositors, which in particular means the savings of people. Secondly, financial markets are also other institutions like pension funds, and pure speculators like hedge funds, descending like vultures over their prey when they sense quick and high profit, naturally connected with high risk. There is a very small difference between a hedge fund and a casino game, therefore hedge fund activities are also called casino capitalism.

were no longer willing to lend the country money at sensible interest rates.⁸

Normally, such state is forced to save up and when it is not able to, it goes bankrupt⁹. Except for Greece. European politicians and the ECB¹⁰ showed up and started to “save” the country. At first they claimed that Greece is capable of repaying its debts all by itself, then that it will need 30 billion euros, later the amount grew to 60 billion euros and finally they came up with the idea that other eurozone¹¹ countries should provide Greece with a loan of 110 billion euros in spite of the fact that it was highly probable that Greece would not be able to repay it. They also assured that the loan would resolve everything and Greece would return on financial markets within a year. Fortunately, Slovakia has not participated in this nonsense, especially thanks to SaS, saving its taxpayers 820 million euros.

However, it came to show, that except for Greece, there are more countries with

equally bad figures¹² – Portugal, Ireland, Spain and Italy, for which a name PIIGS¹³ has been coined. **And what did clever politicians in Brussels come up with? They came up with a temporary EFSF¹⁴ that should protect countries with irresponsible financial management and economy by money of those who handle financial means responsibly. They promised it would only be temporary¹⁵ – lasting three years – and would be based solely on guarantees.**

In August 2010 the Slovak parliament approved the temporary EFSF. Even SaS approved its existence: firstly because it should have been a temporary facility and secondly because loans provided from the EFSF must be “compatible with debt sustainability”, in other words, you get a loan only upon a real assumption that you will be able to repay it¹⁶. The approval of the temporary EFSF contained also power of attorney granted

⁸ What is a sensible interest rate? Interest rate consists of two parts: firstly, it is the price of money that considers inflation and demand for money (so-called risk-free rate) and secondly, risk premium of the creditor. The more debts the debtor (for example a country) has, the higher the risk it will not be able to repay them and therefore the risk premium is higher. Sensible interest, i.e. interest the country is able to pay long-term is the rate not exceeding 6%.

⁹ What does it mean when a state goes bankrupt? With other debtors (like firms), an executor sells their property and pays debts. This is not possible with the state. It becomes a member of the so-called Paris Club and concludes an agreement with creditors. This means prolongation of loan due period, suspension of interest payout and in the worst-case scenario, decrease of principal. In history, many countries have already gone bankrupt, i.e. declared insolvency and in recent years they have been joined, apart from other countries, by Iceland, Russia and Argentina.

¹⁰ ECB – European Central Bank

¹¹ Eurozone consists of 17 states with euro as the currency: Germany, France, Italy, Spain, Netherlands, Greece, Belgium, Portugal, Austria, Slovakia, Finland, Ireland, Slovenia, Estonia, Cyprus, Luxemburg and Malta.

¹² What are figures and when are they bad? Especially monitored is total public debt to GDP ratio (gross domestic product, GDP). Total public debt of Slovakia is approximately 45%, Maastricht criterion is 60%, debt of Greece amounted to 110% at that time. Another monitored figure is the annual deficit ratio, i.e. new debt ratio. Thanks to Fico, deficit of Slovakia was 8% (in 2010), Maastricht criterion is 3% and deficit of Greece exceeded 10% in 2010. Development and growth of economy, i.e. GDP growth is monitored as well. GDP in Slovakia grew by 4%. There is no Maastricht criterion for GDP growth. GDP in Greece dropped by 5% in 2010.

¹³ PIIGS – Portugal, Ireland, Italy, Greece, Spain – name derived from the English word “pigs”.

¹⁴ EFSF – European Financial Stability Facility

¹⁵ For example, Angela Merkel, Chancellor of Germany, said in October 2010 that no permanent EFSF would be provided. This promise lasted less than six months. European politicians started to enthusiastically discuss the permanent EFSF (ESM) as early as in spring 2011.

¹⁶ The said assumption has at least theoretically been fulfilled by Ireland and Portugal, first two countries who have been granted loan from the EFSF.

to the Ministry of Finance to represent the Slovak Republic¹⁷.

As it appeared later on, European politicians have grossly violated their own rules. Firstly, like I have already said, the temporary EFSF will become permanent. And secondly, Greece will be the next country to receive a loan from the temporary EFSF while it is obvious to everyone, that a loan granted to the country which has in fact gone bankrupt, is not “compatible with debt sustainability”. And lastly, the nature of the EFSF will be changed by significant increase of its competence. The EFSF as a private law object will be able to purchase bonds of problem countries and lend them money even earlier than before these countries become incapable of financing by themselves. Moreover, the EFSF will be competent to lend money to even those countries whose banking sectors happen to be hit by the system crisis¹⁸.

All of this is in contrary to the original agreement on the temporary EFSF and SaS would not have supported its existence under these conditions.

3 Is the EFSF in compliance with the principles of democracy?

It definitely is not. **The amounts we speak about in case of the temporary EFSF, its increase and permanent EFSF form a significant part of the Slovak budget¹⁹. What happens if the National Council approves the increase of the**

¹⁷ This is the reason why signature of Ivan Mikloš was sufficient for loans granted to Ireland and Portugal and approval of the National Council was not needed.

¹⁸ This would practically mean that the EFSF would be able to lend money for instance to even Germany and France if their banking sectors are in trouble.

¹⁹ It equals more than one entire Slovak national budget.

temporary EFSF and entry of Slovakia into the permanent EFSF²⁰ is that a sovereign and independent state will pass the decision on utilisation of the amount higher than its own annual budget to the Board of Governors of the EFSF, since commitments of Slovakia (in case guarantees would be effected) will be directly entering the sovereign debt and costs spent for these commitments will influence the budget of the Slovak public administration. This means that the National Council with its so-called “royal privilege” being the approval of the state budget²¹ for which it received unquestionable mandate from the voters in direct elections will abandon this right in favour of some board with no such direct mandate granted by the voters. This strongly contradicts the principles of democracy.

This was the very reason why for example in Germany a group of parliament members led by Peter Gauweiler filed a constitutional complaint against the temporary EFSF. The decision is expected to be made in autumn this year.

4 What is the difference between the first and the second loan for Greece?

The first loan was bilateral, which means that every country of the eurozone has lent Greece a certain sum individually. Unlike the first one, the second loan to Greece should be granted from the temporary EFSF. Similarly to the case of Ireland and Portugal, funds will be used from the temporary EFSF but the

²⁰ The establishment of the temporary EFSF has already been approved by the National Council in August 2010, together with the SaS votes. For the explanation, see chapter two, paragraph four.

²¹ This is the reason why the act on state budget is called the act of the year.

difference is that Greece has already received money²² and it is certain today, that it will not be able to repay even the first loan, let alone the second one. That is the reason why granting of the second loan contradicts the agreement on the temporary EFSF²³ itself. Standpoint of the SaS in this matter is unambiguous and consistent. We were against the first loan and we are against the second loan to Greece.

The SDKÚ party was also against the first loan to Greece²⁴ in May 2010 but today, a year later, it supports the second loan. The party claims that this attitude is firm and consistent and provides three reasons. Firstly, participation of private sector²⁵ (in particular banks) is now granted, which was not the case last year. Secondly, involvement of Slovakia last year was unfairly extensive and the distribution key has been successfully changed in the meantime. And thirdly, if the eurozone changes to a so-called two-speed eurozone, strategic interest of Slovakia will then be to become a member of the so-called northern, stronger section with countries like Germany and France.

Now, let us take a detailed look at these “reasons”:

²² Iveta Radičová said on this occasion that Greece will not receive money from the temporary EFSF because it has already received the bilateral loan. (Source: <http://www.vlada.gov.sk/tlacova-konferencia-po-25-rokovani-vlady-sr-ktore-sa-uskutocnilo-24-novembra-2010/>)

²³ Loans granted from the EFSF must be “compatible with debt sustainability”, in other words, a loan will be granted to a country only upon the real assumption that it will be able to repay it.

²⁴ This, however, was stated during the election campaign in May 2010.

²⁵ PSI – Private Sector Involvement

4.1 Participation of banks

Banks propose²⁶ in their offer a 1:1 exchange of the half of their Greek bonds for new Greek bonds. This means that banks will suffer no loss (!) at the exchange itself, the difference lies in interests. Old bonds bear high interests because they are only secured by Greece, which has the worst rating in the world²⁷ and hence no financial standing. New Greek bonds will be secured by the EFSF²⁸ with AAA rating, and hence the best possible financial standing, exactly like Germany. While banks will receive for German bonds less than 3%²⁹ on average, they will receive 4.73%³⁰ on average for new Greek bonds with an equally low risk (!). Second half of bonds will also be exchanged but with a haircut - decrease of principal by 20%. However, interest will increase up to 6.8%, which will compensate the overall haircut in the course of 15 or 30 years.

This way, bonds of the value of 37 billion euros will be exchanged in a relatively short period of time. Politicians are trying to convince their

²⁶ The moment itself when banks propose their loss is worth a thought. It is like a criminal himself proposing punishment. Josef Ackermann, head of the International Banking Federation and CEO of Deutsche Bank said in relation to participation of banks that it will be tough. He could hardly hide his smile while stating it, which is natural, because in the end, banks will profit from participation of the private sector.

²⁷ Moody's Caa1, Standard & Poor's CCC, Fitch Ratings CCC (Note: all data come from the second half of July 2011)

²⁸ Only principal will be secured while interests will be secured only by Greece. However, interests will be payable each year (coupon), which makes it a lot more probable that they will be repaid. Principal will not be payable before the total maturity period, i.e. after 30 years.

²⁹ 1-year bonds bear interest of 2.08%, 2-year bonds 1.53%, 5-year bonds 2.35% and 10-year bonds 3.13%.

³⁰ 4% during the first five years, 4.5% during the second five years and 5% during the next 20 years.

voters that this is the private sector “participation”. In reality, however, banks will annually earn on this money approximately 1.5% more with the same certainty than as if they would invest it into German bonds. In other words, banks will exchange Greek bonds of the value of 37 billion euros for Greek bonds of the value of 37 billion euros while their annual profit will be 500 billion euros. This is a joke, not a “participation” of banks³¹.

4.2 Participation of Slovakia (change of distribution key)

Participation of Slovakia in the temporary EFSF is 0.9935%. It is definitely high since participation of the richest country of the EU, Luxemburg, is hardly half of this figure as compared to its GDP³². Although Ivan Mikloš has succeeded in lowering it to 0.73%, this figure will be applied for the permanent EFSF only. Slovak participation in loans granted from the temporary EFSF will be even higher, and that 1.0622% because Ireland, Portugal and Greece will not need to participate in new loans. Our participation in the current loan to Greece will then be 1.0622% and not 0.73%, which represents a difference of a quarter of billion euros. If a loan from the temporary EFSF should be granted to Spain also, participation of Slovakia in this loan will

grow to 1.18% and if money is granted also to Italy, it will be 1.35%.

4.3 Slovakia and a two-speed eurozone

Even if the “two-speed” eurozone would be created, a ticket for membership in such a club would not depend on whether a country had supported the EFSF in the past or not because it is the effort of the two best performing economies – Germany and France – to get rid of the peripheral ones³³ that is the reason for dividing the eurozone into two parts. Entry into the “better” part of the eurozone will be decided in particular on basis of a country’s rating. Generally, it will reflect the level of credibility of a country’s fiscal policy and how its long-term sustainability of its sovereign debt looks like. If Slovakia was to take part in the increase of the temporary EFSF and enter into the permanent EFSF, it would have to borrow money on financial markets itself and its rating would only deteriorate. In other words, it is the participation in EFSF that makes our chances worse!

If the first loan to Greece was nonsense because it was heading towards bankruptcy anyway, the second loan is an absurdity because Greece already is bankrupt. Any money for Greece whatsoever is money thrown out of the window. In spite of this, Ivan Mikloš has agreed with the issue of guarantees for granting the loan for Greece in the amount of 800 million euros³⁴ on 21 July 2011.

³¹ The question is: where does the percentage of 21% the European politicians are trying to impress taxpayers with come from? I do not want to get into details but the point is that a high discount rate of 9% has been used to get such a high number referring to participation of banks. Nobody was able to explain why the rate of 9% has been used and why not a lower one. For example, with the discount rate of 5% the result is not a loss for banks of 21% but a profit of 3%.

³² GDP of Slovakia is 70 billion euros, which is 2.5 times more than GDP of Luxemburg while participation of Slovakia in the EFSF compared to participation of Luxemburg is four times higher.

³³ Economics uses the terms “core economies” (for example Germany and France which form a base for the eurozone as a whole with their economic performance) and “peripheral economies” (for example Greece or Ireland whose participation in the eurozone economics is marginal.)

³⁴ In this connection I view the action of ministry of finance Ivan Mikloš, who said at the meeting of the National Council on 1 July 2011 that the sum Slovakia will use as a guarantee will not be 600 million euros (which I feared) but only 350 mil. euros as extremely

5 Why is it necessary to increase the temporary EFSF?

The temporary EFSF was set for the sum of 750 billion euros supplied by the MMF with the sum of 250 billion euros, European Commission with the sum of 60 billion euros and countries of the eurozone with the sum of 440 billion euros. Since participation of Slovakia is 0.9935%, we had covenanted to issue unconditional and irrevocable guarantees of at least 4.371 billion euros. But someone made a mistake in here and it came to show that although the EFSF has guarantees for 440 billion euros from the member states, it is able to grant loans only up to the amount of 250 billion euros without losing the best AAA rating³⁵.

That is the reason for putting pressure on the temporary EFSF increase. However, we must realise that Slovakia already is obligated (from the last year) to issue, if needed, unconditional and irrevocable guarantees in the amount of 4.371 billion euros for loans (total volume) granted to countries with irresponsible financial management. Increase of temporary EFSF means further guarantees for Slovakia that amount to 3 billion euros, now only for the volume of principals³⁶.

inappropriate. Nevertheless, he agreed with the sum of 800 million euros 20 days later in Brussels. He replied that nobody knew of such increase, which is a joke thrown into faces of Slovak taxpayers and only confirms mystification as the working method of the EU.

³⁵ Failure to consider, know or acknowledge that if 440 billion euros is to be raised by countries with different ratings, loan capacity of 440 billion euros while maintaining the best rating is impossible really is to no credit of the EU “experts”.

³⁶ Change of terminology from “total volume” to “volume of principals” means that the effective sum of 250 billion euros comprised principal and interests while the new effective sum of 440 billion euros will comprise only principal with interests being extra. However, we will guarantee for everything and therefore after the increase, Slovakia will not provide the guarantee of approximately 7.2 billion euros but approximately 9 – 11 billion euros (with principal of 7.2 billion euros, average 15-year maturity and 3.5%

Slovakia will be obligated to issue guarantees for approximately 10 billion euros after the EFSF increase, which almost equals one annual state budget of Slovakia and is a lot more than the sum stolen during Fico’s rule³⁷.

Much more important is to ask what happens after guarantees are issued, let us say in case of Greece. I claim that almost nothing will. Wasting and stealing will continue. For instance, deficit for the first 7 months of this year in Greece amounts to 15 billion euros in spite of all the talking about saving which lasted for a year and a half. Greece with extremely generous pensions, army of 134 thousand soldiers and 100 thousand government officers more than necessary, still needs more and more money, will not borrow it on financial markets by standard conditions, but from the EFSF³⁸.

In the meantime the Greeks have stopped playing hide and seek and the Greek minister of finance has said directly that the Greek debt has gotten out of control³⁹. In other words, they will continue creating huge deficits⁴⁰ instead of saving.

interest). A more detailed estimation is unfortunately impossible to make since, as usual, detailed information are not available.

³⁷ Website www.ukradli.sk specifies the sum of approximately 3 billion euros and I ask our coalition partners why we fought so hard against Fico and all the stealing during his rule since in this case they are willing to give their consent to multiply higher losses.

³⁸ Greeks would be stupid if they attempt to get money on financial markets. Firstly, they would have to try managing their economy in a responsible way and secondly, they would pay higher interest. This way they have money from the EFSF, without any effort and at the interest of 3.5%.

³⁹ “Sharp increase of debt and high primary deficit has deteriorated the dynamics of debt, which is out of control, to maximum” said the expert committee assembled by the Greek Minister of Finance in its report issued on 31 August 2011.

⁴⁰ While the “experts” of the so-called Troika (EU, ECB and MMF) had counted with the primary deficit (deficit without interests) of 0.9% for the year 2011 and for the next years with primary surplus yet in May

So, if Slovakia issues unconditional and irrevocable guarantees in terms of the temporary EFSF (on bases of which Greece will receive the loan that it will most certainly not repay), we will in fact have to remit the sum we have guaranteed. As the Slovak budget is also deficient, we will have to borrow the said sum, hence become even more indebted! “Never mind that we are piss-poor, we can always get into dept up to our necks so that we can look like hot shots in Brussels. After all, we are big spenders.”

The permanent EFSF only makes this situation worse. The entire eurozone is heading to the so-called transfer union where responsible states will finance the irresponsible ones. The presently set rules even expressly motivate for receiving money from the EFSF. A country does not need to convince the investors about being a trustworthy debtor, interests will drop to the guaranteed amount of 3.5% and the country which receives EFSF funding will no longer need to issue guarantees for loans provided to other countries. **Hurray! European bureaucrats have conspired to create a mechanism that motivates countries to considerable indebtedness! But the worst thing is that this mechanism provides no solution for the debt crisis. Conversely, it even deepens it.** Just like a drug addict trying to solve problems by increasing daily dose.

6 Are temporary and permanent EFSF solidary?

Solidarity the European politicians flaunt is delusive. Insolvency is not an earthquake or a tsunami when help provided to the affected state would be an act of real solidarity. Insolvency is primarily bad news for the one who lends, the creditor, because he can lose all money or portion of it. It is of no significance

this year (1.2% in 2012, 3.5% in 2013 and 6.1% in 2014).

whether the creditor has lent money to a bad debtor due to insufficient information or greed because of the vision of high interests. What matters is that creditors have profited from Greek bonds⁴¹ for a long time and pretty well without sharing the profit with anybody. So profits were private. Now (in case Greek declares bankruptcy) losses are impending and the European politicians suddenly have mouth full of solidarity (delusive solidarity!). In fact, it is only about saving profits of foreign, especially German and French banks⁴². My question is why financial losses need to be socialised once again while profits are privatised?

In case of the temporary EFSF there originally existed a hope that it could really help the states in certain circumstances. But granting the loan to Greece from the temporary EFSF (already the second one) threw all the principles overboard. Now the loan is only a tool for creation of other debts that will be used for repayment of the old ones, and hence for saving banks' profits. After the changes arranged on 21 July 2011, the temporary EFSF creates options for passing own debts on to others. Is this solidary? No, it is irresponsible!

Putting the question differently: Greece has lived on debt for many years because irresponsible Greek politicians granted their pensioners quadrupled pensions⁴³, buying votes this way. **Is it solidary that a Slovak pensioner must contribute a Greek**

⁴¹ What is a bond? It is a security issued by government that needs money because its income is lower than expenditures. It contains the sum the government borrows (so-called principal), interest on the borrowed sum and date when the borrowed money will be repaid.

⁴² To avoid any misunderstandings: any money whatsoever directed to Greece under the name “borrowing“ or “purchase of ECB bond“ goes immediately to foreign banks (and today, also to speculators in great extent) for repayment of receivables and for interests.

⁴³ Average Slovak pension in 2010 was 378 euros, average Greek pension was 1,365 euros.

pensioner in form of higher VAT to his pension that is four times as high as his own? We claim that it is not. The EFSF is not solidary. On the contrary, it is non-solidary because it encourages creation of debts.

7 Will Slovakia lose the EU funds?

Apart from flaunting delusive solidarity, some are used to argue that if Slovakia refuses to support the EFSF, it will lose the EU funds. Of course, this is nonsense as the EU funds are based on a totally different contract basis than the EFSF but what happens if European politicians start to link the EU funds with the EFSF? This would naturally be primitive blackmailing but in the worst-case scenario, it is always better for Slovakia to lose the EU funds most of which we do not draw (and those we do only nurture corruption and deform business environment), than to issue billion euro unconditional and irrevocable guarantees for the EFSF.

Also, all the talking about how we must be solidary with the Greeks because we receive funding from the EU funds is mistaken. After all, the Greeks have received far more EU funds⁴⁴ than us and it still is not enough. It is not at all about solidarity. **A poor country (Slovakia) is to contribute the richer ones (Greece, Italy) so that they could maintain a lifestyle that is beyond their means.**

8 What happens if we do not support the increase of the temporary EFSF?

“The world will crash down” are the words that can be used for summarizing all the catastrophic scenarios our coalition partners threaten us with. They literally threaten that in case the EFSF is not increased, investors will leave, interests will grow, stock markets

⁴⁴ Estimated amount exceeds 100 billion euros.

will crash, recession will start and we will block the Union. So let us take a closer look at these pseudo arguments:

8.1 They say investors will leave

Investors come and go depending on where and what conditions they find. That is why one of the goals of the SaS is to improve business environment because it is the employers only who create vacancies. The better the conditions for business and recruitment, the greater the chance for investors to come and, logically, the lower the risk of seeing them go away. And the essential question is: if, one day, we have to pay several billions of euros in terms of the EFSF for Greek pensions or for the Irish to maintain their 12.5% income tax rate and Slovakia will afterwards be forced to increase its income taxes, will our business environment be improved or will it deteriorate?

8.2 They say Slovakia will pay higher interests

Interest a country must pay for its bonds depends on its rating⁴⁵. The fewer debts, the better the rating and lower the interests. If Slovakia provides guaranty for loans for different countries amounting to billions of euros, it will inevitably lead to worsening of its rating while interest will grow. Hence the

⁴⁵ There are three large global rating agencies evaluating the majority of world countries depending on their ability to repay their liabilities. The higher the probability that a country is able to repay its liabilities, the better its rating and the lower the risk premium upon placing government bonds on financial market. For example, Germany with the best possible rating (AAA) currently pays for its bonds only 2.8%. Italy with worse rating, higher deficit and second largest debt in the eurozone pays for its bonds approximately 6%.

opposite is true: Slovakia will have to pay higher interests if it agrees to the temporary EFSF increase.

8.3 They say stock markets will crash

Stock price is not based only on financial results⁴⁶ of a particular company but it is often object of speculations. Sometimes a stock bubble gets created, stock prices start to grow rapidly, investors become greedy and sense profit. One day this bubble bursts⁴⁷ and stock prices crash. Some will gain and some will lose. Some – blinded by greed and vision of fast profit – get into debt and lose everything. Sometimes it is banks whose managers mistake a stock exchange for a casino and cause that the bank they work for collapses. It might be sensible to think about more strict rules for banks and higher degree of personal responsibility of their top managers. Potential fall of stock prices is definitely not the reason for supporting the EFSF.

8.4 They say recession will start

This is true, but recession will start anyway. The entire Europe⁴⁸ has lived beyond its means but the party is over now. Countries will have to stop making debts, which means that public expenditures will be lower. This will decrease consumption and logically, production will go down. It will lead to decrease of GDP and recession begins⁴⁹. Global recession is definitely

⁴⁶ So-called fundamental value of stock.

⁴⁷ For example Internet stocks in 2000; bubble features can nowadays be clearly seen in the price of gold.

⁴⁸ Naturally, also the USA but they have decided to postpone the saving.

⁴⁹ According to an economic theory, recession is when GDP decreases in two consecutive year quarters. I dare

not related with bankruptcy of some Greece. Greek economy forms approximately only 2% of the entire EU (and less than 5% of global economy), which is simply too a little influence. But when the recession comes, we should be ready. Slovakia will need finances to fund the investment programmes like highways, higher unemployment benefits, etc.

One more important argument: If recession starts, it will hit all European countries regardless of whether they have the euro or not. In spite of this, Great Britain, Sweden and Czech Republic (countries which do not have the euro) have declared some time ago, that they will not spend a cent on Greece and other problem countries. All the talking about recession is obviously just a threat.

8.5 They say we will block the Union

90% of the capital of member states⁵⁰ was enough to create the temporary EFSF but 100% of the capital is needed to increase it, which puts enormous pressure on all countries in an unfair way: “We understand that you do not want to increase the temporary EFSF but do realise that you block the entire Union”. However, the truth is, that our Union colleagues have at least four options how to avoid getting blocked by Slovakia. Firstly, they will simply amend the agreement so that 90% of the capital would suffice also for the increase. Secondly, they will leave Slovakia out of the temporary EFSF. Thirdly, the ECB will continue purchasing Italian and Spanish bonds.

say that this is nothing compared to billions that will leave Slovakia for Greek pensions, etc.

⁵⁰ Slovak contribution is 0.9935%.

Though this is gross violation of the ECB rules, as we have already seen, rules of his own are not what would be sacred to Mr. Trichet. And lastly, those states thinking they will solve the debt crisis by creating further debts can continue lending bilaterally. Just like they have lent Greece the first time.

However, reality is that consensus decision-making⁵¹ is applied to put pressure on the countries with a different opinion. At first you are told that consensus decision-making is good because we got “one foot in the door” and then, that “after all, we can not block all the rest”.

9 Why has the ECB started to buy Italian bonds?

Like Greece, Italy has also lived beyond its means for years and it never should have been admitted into the eurozone because it has never fulfilled the Maastricht criteria regarding the sovereign debt⁵². It had been admitted into the eurozone and money wasting had continued. At present, Italy is the second most indebted country after Greece, having a debt of 120% GDP, logically paying higher interests than e.g. Germany. Obviously, thanks to the European politicians (who have been solving the crisis for a year and a half and have resolved absolutely nothing until this day) there is uncertainty⁵³ on the market and this has caused that

⁵¹ Process of decision-making when consent of all participants is required, in other words the “veto power”.

⁵² According to Maastricht criteria, sovereign debt of a state may not exceed 60%. Sovereign debt of Italy at the time of its entry into the eurozone was 90%.

⁵³ The truth is that big financial market players have understood that the ECB will save ad infinitum regardless of the fact that it is exactly the thing it must not be doing, and so they play against it. They would be foolish if they would not, and this will cost us all another billions of euros.

interests on Italian bonds have grown above 6%. It is absolutely clear because interest consists of two parts, i.e. price of money and risk premium and the higher the risk, the higher the interest.

Purchasing Italian bonds by the ECB is sheer blatancy. The ECB had no right for doing it. Its boss, Mr. Trichet, and other members of the bank board are obligated to adhere to the rules and not to change them. The ECB goals must be sacred to them and the fundamental goal is to maintain currency stability and price stability (i.e. keep inflation under control), as had been promised to the people when the eurozone was established. Purchasing bonds of a member country just for the sake of interest increase is in strong contradiction to this goal and to all other principles like for instance the independence of the ECB from governments of member states.

The only thing that will help Italy is to start saving in order to stop producing deficits every single year. Italian members of parliament do not need to earn 15 thousand euros net a month or car usage of politicians does not need to cost one billion euros a year. Italians may also sell some state-owned enterprises. They can come to money immediately by selling some of its gold. Italy owns 2.500 tons of gold with the current value exceeding 100 billion euros. There was no sensible reason for the ECB to buy even a single Italian bond. Nobody should expect though that Italy will start saving now. Why would they do it? The ECB will save them if necessary. Ultimately, there are more pleasant duties for Italian prime minister to attend to.

10 Will Eurobonds help?

Eurobonds are something like common bonds of all eurozone countries. They have common guaranty and united interest. In the end of July this year the interest on 10-year

bonds was 2.6% in Germany, 5.9% in Italy, 6.1% in Spain, 11% in Portugal and Ireland and 15% in Greece. Interest reflects the risk of the respective country and concurrently puts pressure on debt decrease significantly, thus motivating towards saving measures.

Issue of Eurobonds will average the above-stated interests for individual countries to a united interest of approximately 4.6%.

Let us take an example. Germany will pay on interests about 33 billion euros⁵⁴ more per year while Italy will pay less by approximately the same sum. But the more Italy will try to manage their economy responsibly, the lesser the advantage will be because of lesser difference between the interest of Eurobonds and the interest Italy (already saving) would pay by itself. Now let us imagine that Italy will completely stop produce deficits one day and start decreasing its sovereign debt. It could then happen that interest Italy would pay would be lower than interest it will have to pay because it is financed by means of Eurobonds. The result is that Italy will pay for its responsible management of finances.

In other words, Eurobonds reduce motivation to manage finances responsibly and encourage creation of further debts⁵⁵.

11 Why do all other countries except for Slovakia support the EFSF?

Let us have a look at who supports the idea of the EFSF in particular. It is the ECB boss Trichet, European Committee boss Barosso and

⁵⁴ Source: IFO Institute, 17 August 2011.

⁵⁵ There also exist opinions that countries will receive money from Eurobonds only up to 60% of their GDP and the rest they must finance on their own. Regardless of how this rule would prove in practice, European politicians have already violated their rules so many times that they will almost certainly violate this one too after majority of countries would reach the said limit of 60%.

Eurogroup boss Juncker. Obviously, these misters and other Eurocrats support the EFSF because they would have to admit their mistake which is impossible in these circles. Why for example would the ECB boss Trichet retire in October admitting he had produced a loss of few tens of billions of euros⁵⁶ and spoil personal reputation thereby? Or, why would the European Committee boss Barosso admit he had made a mistake (having allowed Greece produce deficits manifold higher than permitted under Maastricht criteria) and let his power weaken unnecessarily? In short, everybody in Brussels will defend this nonsense about the EFSF until the last drop of their blood. Regardless of economic and, it seems, also political costs.

Then there are 17 eurozone states. Portugal, Ireland, Italy, Greece and Spain will not stand up against the EFSF because they get (or will soon be getting) money out of it to continue staying indebted. Now on to 12 remaining states.

Malta and Cyprus are tightly interconnected with the PIIGS and soon enough they will probably reach out their hands too. Belgium, which is a target of financial markets also because it has no government for over a year and might be another candidate to receive support from the EFSF. Although Slovenia has a relatively low overall debt, it has produced high deficits for three years now and might as well beg for money and then spend it without paying any. It is only logical that these countries support the idea of the EFSF. Still 8 countries to mention.

Germany and France are definitely for the EFSF because there is a chance for them to gain control over the entire EU with their European economic government. This group also includes Luxemburg, which as a

⁵⁶ ECB has bought Greek bonds for tens of billions of euros, which is in contrary to its own guidelines. If Greece goes bankrupt and real haircut happens (decrease of principal, say to its half), banks would report loss and the ECB as well.

provider of financial services still manages to live well on continuously increasing debts of other countries of the eurozone, and moreover, its participation in the EFSF funding against GDP is the lowest⁵⁷. 5 more countries to mention.

Finland has fought for collateral⁵⁸ with a bilateral deal behind the backs of others in exchange for the loan to Greece as a prerequisite of its participation in the EFSF. Although negotiations have not ended at this moment yet, it is a clear proof that the Finnish know the trap they could be caught in and have serious objections against the EFSF. Estonia has adopted the euro only at the beginning of this year and therefore little is known about their attitude. Enthusiasm about the euro might still be running high in the country.

The remaining ones, Austria, Netherlands and Slovakia, are the countries (along with Finland) with the strongest aversion to the EFSF. Unfortunately, it is too marginal for letting common sense win. By the way, we speak about the politicians only. The fact that they are trying to rescue with the money of other countries adds to their generosity to save everybody around by new debts. We will find a number of renowned economists⁵⁹ who claim with all seriousness that Greece must go bankrupt (so that real haircut could happen) or that it must leave the eurozone. It should devalue its new currency afterwards. Devaluation does not need to be a negative

⁵⁷ Conversely, participation of Slovakia in the temporary EFSF expressed as GDP ratio is the highest.

⁵⁸ Collateral is a financial security the debtor uses as a guarantee to the creditor for its liability. Collateral is used the moment the debtor is not capable of performing the arranged obligations. Establishment of mortgage over an apartment which is the object of financing is a typical example of a collateral.

⁵⁹ For example Kenneth Rogoff, Alan Greenspan, Hans Werner Sinn, 189 German professors of macroeconomics, who signed an appeal to the German government in February 2010 to disapprove of the loan for Greece, etc.

motion in this case but could contribute to the rise of competitiveness of Greek economy and thus help Greece return on financial markets.

I have also heard the opinion that the European Committee, International Monetary Fund and European Central Bank employ a number of experts and those can not possibly be wrong. Well, firstly, it is important to realise that “whose bread I eat his song I sing” and it suits most of the politicians that the EFSF allows them further waste money and buy votes. And secondly, these so-called experts have claimed, not even a year ago, that Greece would return on financial markets in 2012, they got it wrong with temporary EFSF by almost 200 billion euros. I would rely on common sense way more than on experts.

The situation is different if we look at the voters, for instance in Germany. There is a strong aversion to the EFSF which can be seen in Internet debates⁶⁰. Speaking about Germany, coalition majority does not exist even there and opposition votes will be needed to approve the EFSF.

12 What next?

I understand that Slovakia is a small country but there is no need to be over-servile. Once there is the veto right, we must be able to use it, for example when averting huge economic losses is in question. It would be good if we were a little bit more self-confident and realised that concerns of Slovakia are not always identical with concerns of other countries.

I agree with the statement that it is no longer about Greece. At this very time (under the pretence of saving the euro) the central

⁶⁰ For example reactions to my interview in Die Welt on 26 August 2011 where 98% of over four hundred discussion comments were against the EFSF.

European government is being established. Besides common currency, we will also have common debts, common taxes and minimum national competences in the mid-term horizon under its reign. We need to realise that there will no longer be much left for us in Slovakia to take decisions about after that happens. I am asking my colleagues from the KDH party why they oppose harmonisation of taxes and at the same time support something way more dangerous whereof harmonisation of taxes forms just a small part.

Comecon was nothing compared to what is to come. **I would like to point out that this is not the same eurozone we entered in 2009. There are rules that should have been observed but all of them have been violated. Temporary EFSF and permanent EFSF will cost us 1 to 1.5 the amount of our annual state budget! Moreover, there is no guarantee that the attempts for the EFSF increase are over. This is the act of economic treason. We are on the way to economic serfdom.** Has anyone asked people at all whether they want it? All surveys clearly prove that people do not want the EFSF. And, there is no will with our coalition partners to declare referendum. Program declaration of our coalition literally contains the following⁶¹:

“At the level of the European Union, government of the SR will support substantial tightening of the European budget rules – Stability and Growth Pact, while changes must include also a clear mechanism of directed bankruptcy of a country which consistently performs irresponsible budget policy, and other mechanisms for the effective enforcement of the observance of the approved rules.”

Now, our coalition partners are going to do exactly the opposite thing. But they have not


been granted mandate for doing such thing from voters in the elections⁶².

EFSF ratification by the National Council will be a decision that will harm the citizens of Slovakia in the long run and to a great extent.

SaS will simply not sign up for something like this.

⁶¹ Something similar is contained in pre-election programmes of government parties as well.

⁶² Over 60% of the inhabitants of the SR are against the loan for Greece, source: AVVM.



EFSS is the greatest threat to euro because it solves the debt crisis by creating new debts!!!!

Ing. Richard Sulík
SaS Chairman

WHY WE HAVE BEEN ESTABLISHED AND WHAT WE AIM FOR

A group of experts with a great deal of work done as businessmen or managers have stopped grumbling about the conditions in Slovakia one day and established a political party. None of them had been a politician but what they have had in common was ambition and perseverance. Life has thought them that honest and responsible behaviour is not only a guarantee of personal happiness but also a prerequisite to functioning of a community. They have always put first individual freedom within fair rules and a chance of every individual to be successful.

That is how Freedom and Solidarity (SaS), centre-right liberal party has been established, the party of proud and free citizens who have decided to take destiny into their own hands. Their primary task is to work towards the effective and fair functioning of the state.

The greatest weak point of modernisation of Slovakia is its over-bureaucratic public sector which has been entrapped in the slavery of corruption for far too long. Liberal freedoms can not be successfully implemented and possibilities of civil solidarity can not unfold in a society where access to fair-play is impeded and law enforceability is weakened.

"We have not entered the politics to steal but to prevent our children run away from Slovakia. Our aim is to make Slovakia an ordinary country where things work and where a citizen can live freely without being intimidated by the state."

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