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NORWAY learns about the eurozone – the hard way

Norway is not only not in the eurozone, it is not in the EU either. The country has been prudent and not dissipated its oil revenues on current account spending as the U.K. has. Its petroleum production fund has assets worth more than $600bn, all of it invested outside Norway in equities and bonds. Referring to "the negative consequences of the Greek debt restructuring on all of the eurozone's bond markets", the fund's chief executive warned that "the euro area faces considerable structural and monetary challenges", and at the end of 2011 Norway "sold all its holdings of Irish and Portuguese government debt, which totalled NKr3.8bn ($657m) and NKr743m respectively…It has also slashed its Italian sovereign debt position from about €8bn in the middle of 2011 to about €3.5bn at the end of March this year" [a]. In the first quarter the fund "bought local currency government bonds from Brazil, Mexico, India, South Korea and Indonesia as well as the US" and is planning further to reduce its exposure to European bonds and equities. "Norway's oil fund…objected to the Greek debt restructuring on two grounds. Firstly, because it disliked how the European Central Bank, European Investment Bank and possibly other official entities managed to get their holdings excluded from the writedowns. The second was the retroactive use of so-called collective action clauses, which compelled the fund to take face-value losses of 53.5 per cent despite voting against the restructuring ". In sum, "many international investors are shunning the eurozone because of how it has managed the debt crisis". Who, from now on, will lend to a stricken country in the eurozone when he knowingly faces the prospect of a haircut or, indeed, an eventual collapse of the euro itself? Only a 'good European'!

What with endless, inconclusive summitry, always held in attractive spots and usually involving the same set of players, it is time we looked again at what has been preoccupying the attentions of the main European powers.

Greece is now "no more than an outrider in a wider crisis of economic imbalances and divergent competitiveness which has pitched creditor nation against debtor and surplus economy against its deficit counterpart…Deposits are fleeing the country at the rate of €1bn a day…Against ever more threatening storm clouds, the austerity versus growth debate is something of a sideshow [and] vacuous promises of growth…the vote winner *du jour*" [b].

"A Greek default could trigger a shock wave of bank collapses and debt defaults across Portugal, Spain and Italy…Germany has a vast exposure to sovereign bonds through the Bundesbank and the ECB" [c]. "The ECB is holding the line with an estimated €100bn of Emergency Liquidity Assistance for lenders, channelled through Greece's central bank. Supplicants must pawn their loan book in exchange…[but] these are low quality assets with haircuts of 50pc or more…There is already a political storm in Germany over 'junk collateral', as well as anger over the Bundesbank's €645bn exposure to Club Med debtors through the ECB's internal Target 2 payments nexus…It would be hard to justify to German taxpayers why the Bundesbank should lend more to 'austerity-resistant' Greeks so that they can squirrel money abroad"[d]. "**Portugal** has sought to distance itself from the crisis in Greece by recommitting to austerity and temporarily scrapping four bank holidays"[e].

"**France** is coddled with illusions…There has been no attempt to prepare the French people for what lies in store" [d]. "France faces a property slump of Anglo-Saxon proportions as the frothiest boom in French history finally tips over, threatening the country with an economic shock just as austerity hits. It is a gigantic bubble, all the more dangerous as it is spread across France…A housing slump would hammer the economy just as long-delayed austerity begins in earnest. Property makes up 65pc of French household wealth" [d]. "The authorities are racing to avoid having to rescue Caisse Centrale du Crédit Immobilier (3CIF) after Moody's downgraded the mortgage lender…warning it could become totally reliant on taxpayer support within months. The lender…is owned by a collection of local authorities and mutuals, giving it implicit government support"[f].

"Madrid continues to look the biggest nasty for the eurozone…The ECB put some financial morphine into the system late last year with the first of its cheap loans to banks. Totalling €1 trillion, it was dubbed a long-term refinancing operation (LTRO) and has proved anything but…If the banks were provisioning properly, they'd probably have to set aside another €300bn, which **Spain** can't exactly find just now…Capital flight is increasing, judging by the latest data from the eurozone's cross-border payments system, Target 2 [which] shows the balance for Spain's central bank is a negative €284bn, the result of companies and individuals taking money out of the country and putting it somewhere safer"[g].

Banca Cívica, "an amalgam of four savings banks that listed last year", found itself facing difficulties "in securing the 2,031 billion euros it needs to increase its provisions for potential losses from real estate assets on its books... As dictated by the government, which wants further consolidation to take place in the sector", La Caixa, through its commercial arm, Caixabank, has agreed to buy Banca Cívica, becoming in the process "Spain's biggest lender in terms of assets"[h]. The way things are going, that might not be much to boast about. "One in four homeowners in the country owes more than their property is worth"[j].

"Spanish borrowing costs have soared to five-month highs, leading to fears that the 'sugar rush' of the European Central Bank's €1 trillion loan programme has already burned off…There's been a lot of negative news on Spain over a sustained period of time"[c]. Then, only days later, "Spain was poised…to nationalise crippled lender Bankia…The forced rescue was ordered by premier Mariano Rajoy after auditors Deloitte refused to sign off the bank's books, amid allegations of €3.5bn of inflated assets. Half of the bank's €37bn of property exposure is deemed 'problematic' by regulators…A string of banks now risk nationalisation"[d]. "Every leg of the eurozone crisis has been marked by denial of the full scale of the problems. Whether Spain's authorities have been deceitful or wilfully blind makes little difference at this point" [k]. "The suspicion (so far fully justified) persists that Spanish banks are the masters of obfuscation…Until [the country] gets serious about reform, investors will stay away"[m]. A fortnight later, the government announced an emergency €19bn investment in Bankia, taking the total amount of aid pumped into the stricken savings bank to €23.5bn, giving the government "up to 90 per cent control" of a bank which "lent aggressively during the property bubble" and is now saddled with "bad developer loans"[n]. The Bankia fiasco has brought matters to a head. "The ECB is holding the line with its three-year lending blitz. Spanish banks have taken up €316bn, averting disaster as debts come due…but…as banks buy, foreigners sell. External holdings of Spanish debt fell from 50pc to 37pc between December and March…We now learn that the regions flattered their accounts by failing to pay suppliers €17bn. Valencia is 765 days late on bills. The debt of the regions has reached €135bn…Catalan chief Artur Mas tossed nitroglycerine into the mix by warning that his fiefdom would run out of money by the end of the month"[d]. "Shares in Bankia…were suspended…as the government unveiled its largest ever bank bail-out…The spread between German and Spanish debt yields rose to its widest level since the euro was launched"[p].

"Spain is to partially close 30 of the nation's 47 state-run airports in an attempt to reduce the costs of its 'white elephants' built throughout the nation during the boom years. Some of the airports have no scheduled flights yet are fully staffed and operational…In all, there are 20 airports that handle fewer than 100,000 passengers a year, well below the estimated half a million they need to be profitable. The nation's two private airports are faring no better": indeed one of them, inaugurated in March 2011 at an estimated cost of €150m "has yet to have a single plane touch down on its runway"[q].

Meanwhile, in the **United Kingdom**, the Bank of England is pondering a further dose of quantitative easing (QE). "Despite the Bank's actions in buying up nearly a third of the gilts market, the economy remains flat on its back…To add more QE now is scarcely going to help and may…be seen as straight monetisation of the deficit"[b].

"Shareholders in Royal Bank of Scotland may never recover the money they lost in the wake of the lender's collapse more than three years ago… Investors who owned RBS shares before its £45.5bn bail-out in October 2008 were likely to be dead before the bank's value recovered to anything close to its pre-crisis level" [f].

What do MEPs do? We know the two cynical answers. What, though, do they do? Throughout the euro crisis, what rôle has the European Parliament played? Has it done or said anything to make us either proud or angry? Has it frightened anybody? Is it just not worth tuppence in old money?

WIND FARMS THAT BLOW COMMON SENSE INSIDE OUT

The Duke of Roxburghe is going to have a 48-turbine wind farm on his land in the Lammermuir Hills. Of course he is not building it himself, nor is he bringing in the wind to howl across it. All he is doing is let others make the pylons and erect them on his land. For this, he "is set to earn more than £1.5 million from the venture" (well, not *earn*, exactly – *pocket*, rather). The energy companies who build the farms "receive huge government subsidies. By 2020 the government will be handing over £100 million a year in rents to landowners simply for the rights to erect turbines on their estates and it is estimated that each turbine generates an income of about £40,000 a year for the estate owner in question"[r]. Especially if land in remote areas is worth as much as all this suggests, every Green in the country should be shouting for LVT. **Instead of *paying*, the public should be *receiving* the land-rent.**

[a] Richard Milne, "Financial Times", 5th. May [b] Jeremy Warner, "Daily Telegraph", 17th. May, 10th. May [c] Louise Armitstead, "Daily Telegraph", 10th. May, 6th. April [d] Ambrose Evans-Pritchard, "Daily Telegraph", 17th. May, 2nd. May, 4th. May, 10th. May, 28th. May [e] "Daily Telegraph", 10th. May [f] Harry Wilson, "Daily Telegraph", 21st. May, 31st. May [g] Alistair Osborne, "Daily Telegraph", 17th. May [h] Ínigo de Barrón, "El Pais" (English edition with the "International Herald Tribune", 27th. March) [j] Angela Monaghan, "Daily Telegraph", 3rd. April [k] Sarah Gordon, "Financial Times", 12th. May [m] "Financial Times", 12th. May [n] Miles Johnson and Patrick Jenkins, "Financial Times", 26th. May [p] Louise Armitstead and Fiona Govan, "Daily Telegraph", 29th. May [q] Fiona Govan, "Daily Telegraph", 25th. May [r] Simon Edge, "Daily Express", 14th. May

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