# Financial News in Southern Europe Generally Grim

The latest financial news from Europe may fall into the "good news, bad news" category — although the "good news" simply means that things have not fallen apart as much as they could have. The problems of the Mediterranean Basin region of the European Union — France, Italy, Spain, Portugal, Greece and Cyprus — reinforce that idea.

French bank Societe Generale, showed a big drop in quarterly profits, which has been typical of many European banks during the current crisis. Revenue fell by seven percent, largely a consequence of a decline in international banking revenue. According to a statement released by the bank,"The second quarter was marked by a significant slowdown in economic growth in Europe and continuing strong tensions in European financial markets, with investors holding back on their investments pending durable solutions to the sovereign debt crisis."

On Monday, the second largest Mediterranean nation, Italy, found that Standard & Poor's held steady the credit rating of 15 of the largest banks in Italy (good news) but the financial rating service also degraded the credit rating on 15 other Italian banks. Two other rating services — UniCredit SpA and Intesa Sanpaolo SpA — took similar positions. Standard and Poor's noted that the assets of the banks were acceptable, but the risk of loan losses, caused by the increasing recession of the Italian economy, was increasing, which put banks at the risk of having to write off or write down the value of some loans.

Portugal was another nation in the Mediterranean region which had a "good news, bad news" report. Portuguese banks reduced their borrowing from the European Central Bank in July, which indicates less dependence upon outside funding to keep its financial institutions afloat. But the value of Portuguese real estate is falling dramatically. It was estimated in May that the reduction in real property value over the prior year was 8.9 percent, but revised data now indicates that the actual drop in value was 11.3 percent. Real estate has historically been considered one of the most important and stable sources of collateral for bank loans. Thus, the impact of declining values will inevitably appear in reduced bank assets, creating further strain on Portuguese banks.

Spain may be facing a full scale bailout as its economic situation has grown progressively more dire. Spain's normally reserved Prime Minister Mariano Rajoy on August 3 said that a bailout was growing more likely. Finance Minister Luis de Guindos on August 5 stated of the possible aid program: "When we know the details, we'll have a more precise calendar," which suggests that the decision to seek aid has already been made.

Peter Chatwell, an interest rate specialist, has noted of the Spanish economy: “It’s still very speculative to think that things have in any way improved. We’ve not seen significant investment flows into the periphery. Credit rating still makes it very difficult for the institutional investor to participate in those markets.” Others have agreed with this assessment. Antonio Garcia Pascual, Chief Southern European Economist at Barclays Capital noted: “Risks remain tilted towards fiscal slippages for regions and social security.”

The political situation is volatile. Protests in Madrid and Barcelona have gotten much public attention, and Spanish politicians have attacked any more austerity moves and spoken indignantly about outside demands upon Spain as a precondition to help.

Last week another Euro nation in the Mediterranean Basin got bad news from Standard & Poor’s when the rating agency downgraded Cypriot national bonds one notch deeper into the “junk bond” category, as it reduced the credit rating from BB+ to BB. In June, Cyprus became the fifth nation in the seventeen nation euro zone to seek help. Although the dollar (or euro) amounts involved are relatively small — €2.8 billion ($3.43 billion) to recapitalize its banks — that simply reflects the small size of the nation. Cyprus, which is closely connected economically as well as culturally with Greece, is absorbing the fallout from the practical collapse of the Greek economy.

There is almost nothing good to report out of Greece these days. As the *Economist* reported on August 4, Greece has only completed 100 of the more than 300 reform benchmarks which had been set by international lenders trying to bail out the Greek economy. This is in spite of two general elections since those reforms were identified.

A “troika” has been set up by the European governments and their supranational agencies to handle these myriad bailouts. Representatives are from the European Commission, the International Monetary Fund, and the European Central Bank. An advisor to these has privately said: “A lot of work has been done, yet almost nothing has actually been completed to the satisfaction of our partners.”

Greece has been informed that it will not receive any more rescue funds until more of these reforms are actually in place, and the speculation that Greece will drop the euro or perhaps even leave the European Community has grown in recent months.

It is not just a few nations in Europe which are facing what may be a financial and then economic meltdown. It is an entire section of the continent — all of continental Europe west of the Rhine and south of the Alps, more or less. What can be done? Increasingly, it looks like almost nothing that governments or supragovernmental organizations can do will be enough. This only serves to reinforce, once again, the failure of centrally-planned Keynesian economics where technocrats are trying to print their way out of a recession.