

ALTER-EUROPA

Euro Area (19) - Statistical Databases: 31/12/2010 Update: 30/06/2012

Should access to all Financial Markets be banned to High Finance (Euro Area)? Part III: The Market for Other Financial Securities.

REMINDER.

After a first article, entitled: "*Part I: closing of the Financial Markets (updated in June 2017)*", we had estimated all the underlying financial markets at nearly 24,250 billion euros at the end of 2016 and we noted that the Stock Exchange was finally the smallest and most commented financial market.

The second article, entitled: "*Part II: The Stock Exchange*", allowed us to identify four blatant anomalies: 1. Every day, High Finance brews more than two hundred billion euros on all the stock exchanges of the euro zone by constantly "stirring" a stock of existing shares.

2. In a single year, the fluctuation of prices can lead to the valuation or devaluation of all the shares of more than 3,000 billion euros but, more or less, the same companies are still there, with the same tools for research, production, sale and distribution of the same products and services.

3. In any case, if something changes for a specific company, it is not thanks to the stock market but because of the stock market because, in order to raise capital later, this company is obliged to offer high dividends, and therefore to select very profitable investments.

Selecting the most profitable investment projects means "rejecting" all those that do not offer returns on investment of more than fifteen percent (15%) each year.

In this way, High Finance deprives us of normal, profitable and safe investments, and therefore it deprives us of jobs and rewarding salaries on national soil, relocations oblige.

4. Of course, there are capital increases on the stock market (for companies, or corporations) but, on the one hand, they are low (less than €200 billion in nine years, since the end of 2007) and, on the other hand, High Finance has captured almost double (€367 billion) of these new issues to bail out following its "fatal" management errors. Fatal mistakes for the citizens who bailed them out but not for the "irresponsible" leaders...

Part III will therefore focus on the Market for Other Financial Securities (other than shares). Suddenly, we change scale, and we enter the world of silence (no one ever talks about it).

SOME FIGURES ON THE SCALE OF THE WORLD

MARKET	MARKET	PIB	Sum-PIB MARKET/P	IB (number of	Population	Sum-POP	MARKET/ person -	
TUSS	TUSS	Sum TUSS	TUSS	TUSS	years)	(millions)	(millions)	US\$
WORLD - DEBT SECURITIES (OUSTANDING) at the end of 2016 (Trillions Dollars)								
USA	41,0	41,0	18,0	2,3	321,4	321	127	559
EURO AREA	20,0	61,0	11,5	29,6	1,7	339,4	661	30 267
JAPAN	12,0	73,0	4,4	33,9	2,7	127,0	726	16 531
CHINA	9,5	82,5	11,1	45,0	0,9	1 371,2	2 097	4 530
UNITED-KINGDOM	5,5	88,0	2,9	47,9	1,9	65,1	2 224	2 473
CANADA	3,0	91,0	1,6	49,4	1,9	35,8	2 260	1 327
AUSTRALIA	2,4	93,4	1,3	50,8	1,8	23,8	2 284	1 051
OFFSHORE CENTERS	2,6	96,0	0,6	51,3	4,6	19,6	2 303	1 129
Others	4,0	100,0	23,7	75,0	0,2	4 996,6	7 300	548
TOTAL	100	75	7	300				

In short, THREE STAKEHOLDERS (USA, EURO AREA, JAPAN) alone had issued 73 TUS\$ or 73% of the Debt Securities in circulation in the World at the end of 2016 (100 trillion dollars, or 100 TUS\$). However, these actors represent only 10% of the world's population (726 million out of 7,300 million inhabitants), and they have created a mountain of debt that represents between 1.7 years and 2.7 years of their respective Gross Domestic Product.

Problem? They almost mortgaged half (45.2%) of the Gross Domestic Product (33.9 TUS\$) of the whole world (75 TUS\$).

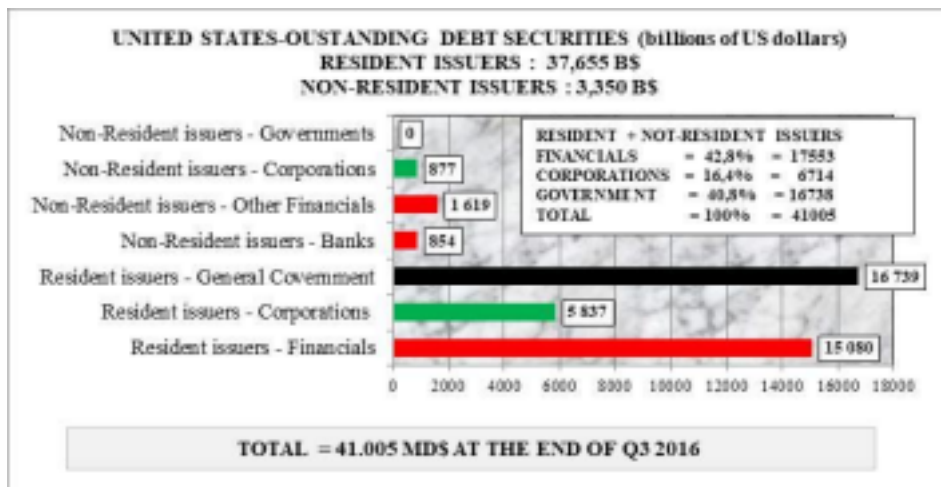
For a good cause? To build or to destroy?

Questions: Who are they? Why did they create and develop these markets?

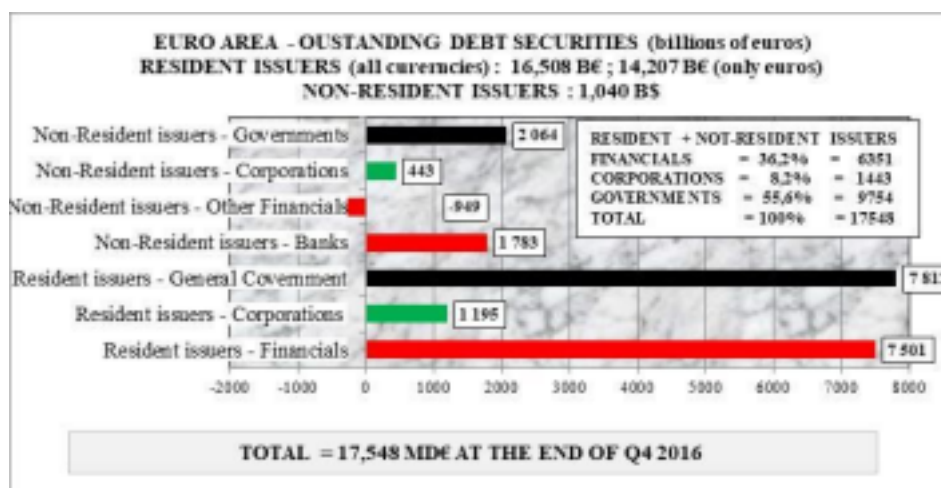
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FOR COMPARISON: OTHER SECURITIES MARKETS IN THE UNITED STATES (IN MDS)



THE MARKET FOR "OTHER SECURITIES" IN THE EUROZONE: KEY FIGURES AT THE END OF 2016.



The first capital market (en masse) is not the Stock Exchange but the Other Securities Market (other than Shares). It is designated as the "Other Securities Market" because the variants of these "debt securities" are multiple: in euros, in foreign currencies, short-term and long-term, in Treasury Bills, in Treasury Bonds, in bonds, in convertible bonds... To simplify the analyses, these two "small" "preliminary" graphs are enough to enter the debate: it is a gigantic market. At the end of December 2016, the total outstanding issues in circulation in the Euro Zone were €17,548.1 billion (all issuers, resident or not, and all currencies combined): ± 45% of the US "Market" (\$41,005 million). The complexity and mass of these Debt Securities Markets issued in the Euro Zone are considerable: it is therefore necessary to "go into" detail to understand their evolutions and characteristics but, to quantify and analyze the evolutions, it is necessary to carry out research and questioning of several hours in the (disproportionate) databases of the Bank for International Settlements (BIS-BIS) and EUROSTAT-ECB.

As always, we will be led to the same observation:

« *Homo homini lupus* »

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(Man is a wolf to man, PLAUTE).

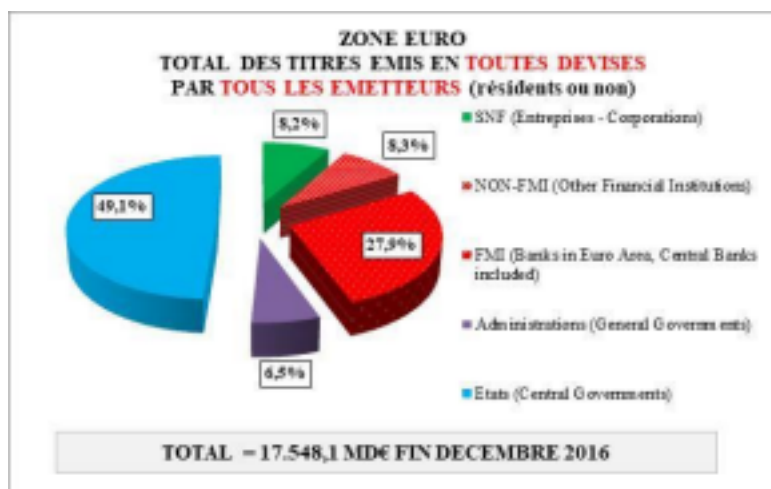
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EURO: DEBT SECURITIES ISSUED BY THE ONLY RESIDENTS

ZONE EURO:

DEBT SECURITIES ISSUED BY THE ONLY RESIDENTS
DEBT SECURITIES OF ALL CURRENCIES AND ALL ISSUERS



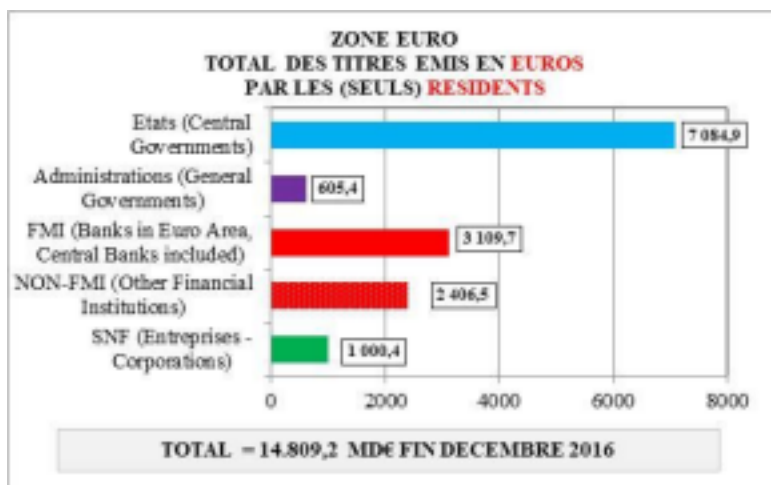
DEBT SECURITIES ISSUED IN EUROS BY RESIDENTS ALONE

DEBT SECURITIES

ISSUED IN EUROS BY RESIDENTS ALONE To understand the evolutions and weak points of this market in the Euro Zone: it is the following graph that will serve as a "compass" to understand all the mechanics.

In relative terms, Administrations (7,084.9 + 605.4) had an outstanding debt of €7,690.3 billion (54.2%) compared to the outstanding amount of Financial Institutions (€3,109.7 + 2,406.5) of €5,516.2 billion (38.8%).

DEBT SECURITIES ISSUED IN EURO BY RESIDENTS ONLY



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to forget the excessive indebtedness of the banking and financial world. Banks and their "non-monetary" subsidiaries have largely supplied themselves with Debt Securities on this Market (excluding the UCITS-M Market).

On the other hand, we will see surprising changes in behaviour that do not appear in the OUTSTANDINGS AT THE END OF THE MONTH but in the NET EMISSIONS at the end of the month.

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BEHIND THIS HARSH REALITY OF "INSTITUTIONALIZED PREDATION", BLATANT ANOMALIES.

1. FIRST ANOMALY: THE NUMBER OF FINANCIAL INSTITUTIONS

To fully understand this multiplication, it is already necessary to start from THE MONETARY FINANCIAL INSTITUTIONS (MFIs in French) or MONETARY FINANCIAL INSTITUTIONS (MFI in English), the only ones authorized to collect deposits and grant credits and loans to the General Public, Administrations and Non-Financial Corporations (companies, or corporations)

Here is the count of the number of entities ("institutions"), considered "monetary" at the end of 2016: 5,933

1. CENTRAL BANKS : 19 + ECB = 20.
2. CREDIT INSTITUTIONS : 5,054
3. MONEY MARKET FUNDS (MMF's) or MONETARY COLLECTIVE INVESTMENT UNDERTAKINGS (UCI M in French), managing issued securities (commercial and other notes) and "monetary" receivables, short-term, maturity less than two years): 641
4. OTHER DEPOSIT TAKING CORPORATIONS: 218

Behind these other credit companies (and deposit) are the store promotions backed by large credit companies such as FINAREF (CREDIT AGRICOLE), SOFINCO (SOCIETE GENERALE), CETELEM and LASER COFINOGA (BNP-PARIBAS). The deposit paid by the customer is a deposit, and the bank withdrawals associated with the repayments of credits go into the collections of these organizations. Note that if the ESCB speaks of Institutions, these Credit Companies are called "Corporations" or "Other Financial Institutions".

The Eurozone had an exponential number of NON-MONETARY FINANCIAL INSTITUTIONS at the end of 2016:

1. INVESTMENT FUNDS: 52,295 UCITS entities at the end of 2016;
2. FINANCIAL VEHICLE CORPORATIONS: 3,733 entities, issuers of derivatives, particularly in the field of SECURITIZATION, these specialists in "gift packaging" often toxic...
3. INSURANCE COMPANIES: 3,387 at the end of Q3-2016 (including 641 LIFE INSURANCE COMPANIES and 372 REASSURERS). They, too, are entitled to collect "deposits" of all kinds, linked to insurance and reinsurance contracts.

Finally, to manage all this mass of collection, these large collectors use PAYMENT STATISTICS UNDER INSTITUTIONS: 5,768 entities

1. including 4,654 ELECTRONIC MONEY ISSUERS or Credit Card Organizations, 2. 82 Payment System Operators who control and authorise payments throughout the Euro Area. We will of course devote detailed analyses to these Other Financials Institutions in a new series of analyses.

2. SECOND ANOMALY: A MARKET TOO "NOBLE" FOR COMPANIES.

Companies (NFCs), representing the Real Economy, producer of (real) national wealth, were only able to withdraw €1,000.4 billion or 4.3% of the total: for Non-Financial Companies, and therefore for the Real Economy, these markets are almost useless.

By comparison, non-resident issuers recorded outstanding amounts of €3,341.3 billion...

However, the height of cynicism, these non-residents were essentially bankers from the EuroZone, relocated outside the euro zone, mainly in tax havens (€1,783.1 billion).

Central and other Governments, from NON-EUROZONE countries, also accumulated a large balance of Debt Securities (€2,063.9 billion) at the end of 2016 within the EuroZone.

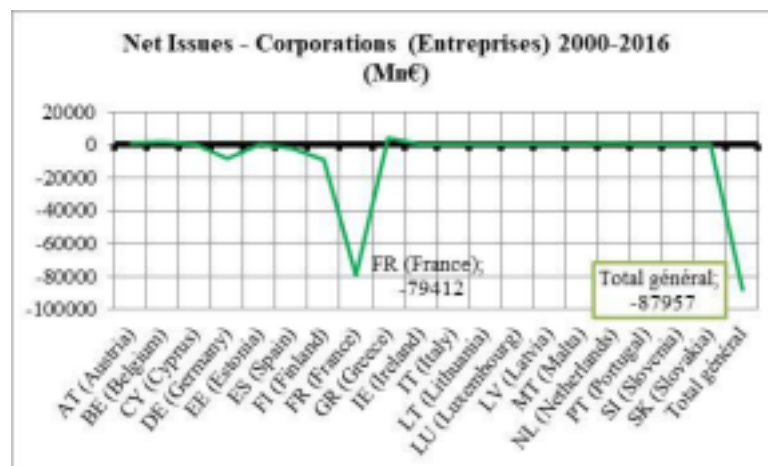
It should be noted that French companies continued to repay their bond debts (-79,412 Mn€) between 2000 and 2016; during the period 1989-1999, they had already disengaged to the tune of -23,595 Mn€.

For all other European companies, it was "clinical death" in this market for new (net) emissions. It should be noted that the major operators were able to use the euro from 1/01/1999 while the general public was only able to do so from 2002 (see: "The introduction of the euro, the Break of the Century"). On the other hand, in this Other Securities Market, only Governments and (to a lesser extent, Local and Social Governments) made positive Net Emissions in 1999.

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There are two major reasons: the European Union, "Champion of Pure and Perfect Free Competition", is actually "the paradise of oligopolies". It offered them everything: tax and social havens, a Community Law in their boots (standards) and a hunting ground conducive to subsidies.

The icing on the cake, "happy globalization" makes it possible to keep employees under pressure by invoking the sweet pretext that: "*We must (always) be more competitive*".¹ Obviously, profits (and dividends) have allowed the emergence of overpowered monsters, able to self-finance their investments abroad by overcharging for goods and services, produced under unfair, even dubious, conditions to European consumers.

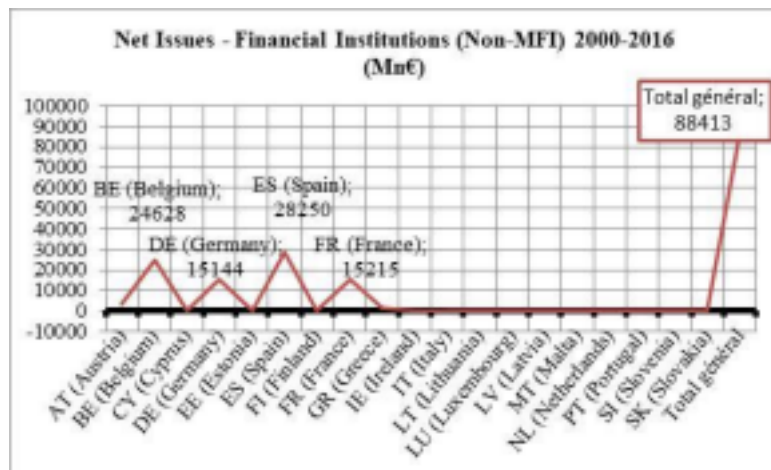
3. THIRD ANOMALY: THE "SMALL ARRANGEMENTS" FISCAL.

This strategy of SFN (listed transnational companies) required the creation of ad hoc financial structures to "create demand" (credit companies, much more expensive than parent banks).

At the level of the Eurozone, the major financial players (banks and insurance) have at the same time created – with COLOSSAL EQUITY – structures specialized in tax havens (Luxembourg in particular) to avoid ordinary taxes and duties.

Within these entities, the dividends collected on the Public Debts and the profits relocated are of course very largely "negotiated" with our friendly countries and "partners".

INVESTMENTS (equity investments, holdings), INVESTMENTS (management of life insurance, other insurance products and asset management by banks, designated as "Investments" by EUROSTAT) and PENSION FUNDS (pensions) are therefore ideally managed tax havens.



The graph above shows the local debt arrangements intended for the (countless) (very profitable) Credit Companies that have been created by the major banks to offer loans of all kinds (consumption, real estate, leasing, LOA, ...): they have indebted themselves on this market to the tune of €88.4 billion. A look at the most greedy: Spain, Belgium, France and Germany.

¹ Exports represent only 20% (€2,000 billion) of GDP in the Euro Zone (€10,000 billion), and the "profit" from International Trade was €300 billion (Imports = €1,700 billion). The Chinese know where their interests are but we follow the rules of our transnational corporations (their profits).

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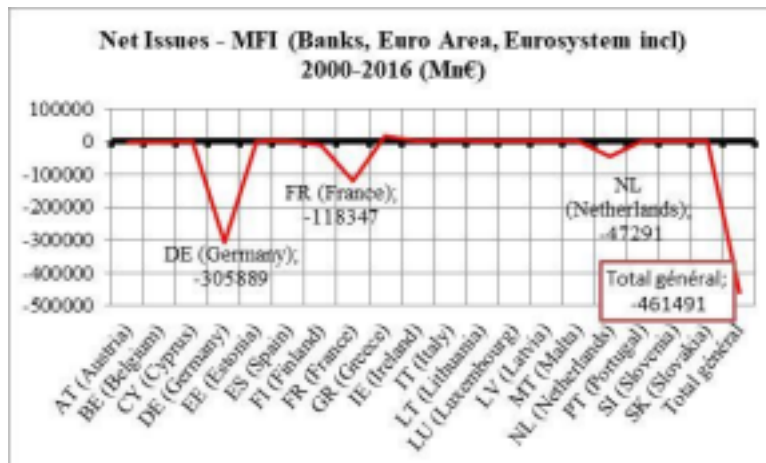
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Officially, these subsidiaries of large banks are backed by companies established in the most tax-friendly countries (graph visible in PART II: THE STOCK EXCHANGE) that they themselves created with significant equity (€154.6 billion). The principle is simple, it is that of "unjust enrichment": the real actors go into debt in their countries of origin to ensure the management of credits and collections, and they have their huge profits and dividends managed in tax havens.

4. FOURTH ANOMALY: BANKS PREFER EASY MONEY.

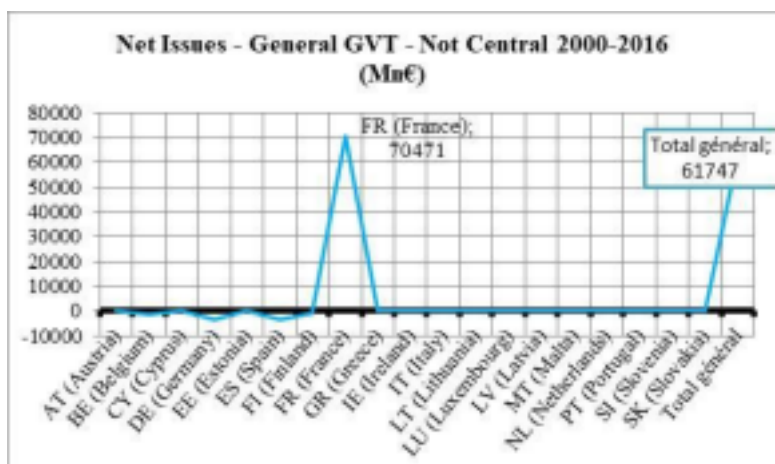
Banks' net issuances - MFIs - over the same period fell significantly (-€461.5 billion), for two reasons: 1. Gigantic profits accumulated in the Roaring Twenties (1989-2007), notably thanks to the introduction of the euro (see article on this subject);

2. The "open bar" financing offered by the ECB since 2008, and especially since Mario DRAGHI (end of 2011).



Clearly, the Banks (MFIs) have not been interested in this market for a long time (well before 2000): they prefer dubious trafficking and illegal cartels on the various markets in the world (more than 100 billion dollars in fines, a straw compared to the gains); they are now counting on the largesse of the ECB and the governments (which provide the guarantees) to "hold on" in anticipation of another speculative "big hit".

5. FIFTH ANOMALY: THE SMALL ARRANGEMENTS "A LA FRANÇAISE". The French example is the most significant: local public administrations and social administrations had to go into copious debt to allow the French State (Central Gvt) to no longer increase the "Central" Public Debt. But let us be reassured immediately: the Public Debt in the sense of MAASTRICHT has therefore continued its progression "thanks" to the big gifts made to the companies of the CAC 40 and to the High Finance that control them.

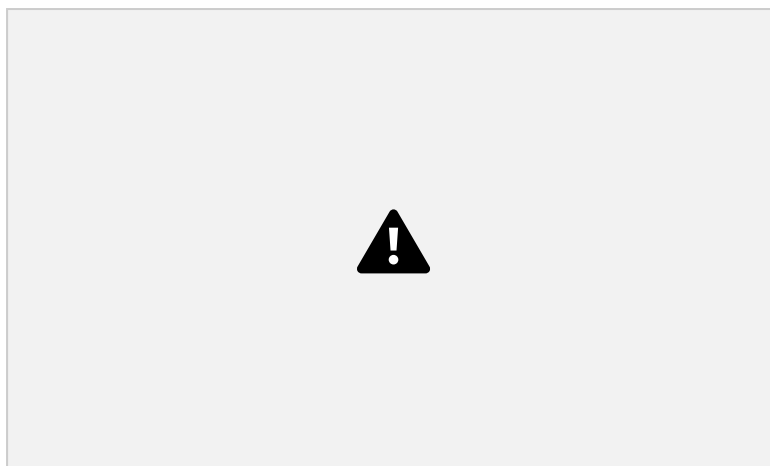


In the following graph, France has reduced its NET EMISSIONS by -78,391 million euros while the Administrations mentioned have increased them by +70,471 million euros: this is the type of manipulation that is taught at the National School of Administration (ENA), the main cog in the FRENCH DEEP STATE.

Other governments have benefited from an international inflow of liquidity through their trade in goods and services and their capital balance.

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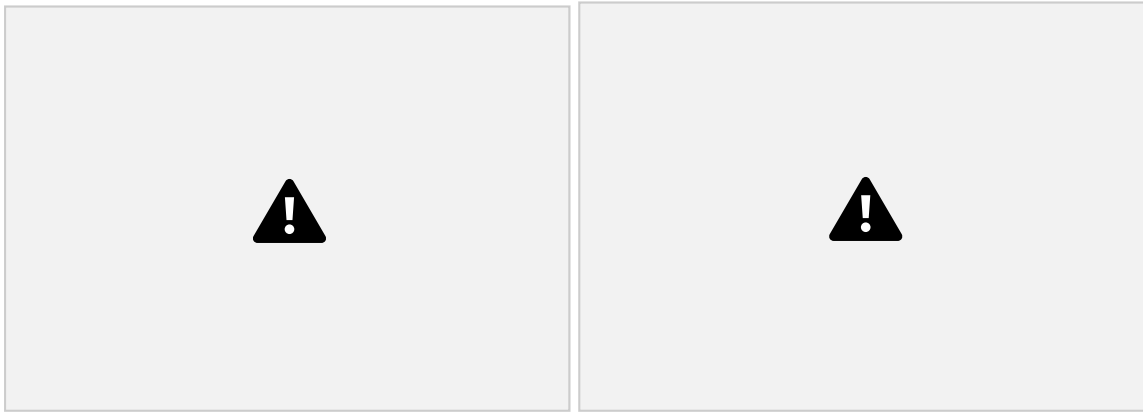
6. SIXTH ANOMALY: A CREE MARKET TO REPEL THE BETRE.

The Maastricht Treaty, ratified by the Lisbon Treaty, stipulates that public administrations (central and other) are obliged to call on banks to raise loans.

Never before has this condition been required...

The situation rent, offered to High Finance, amounts to about €312.0 billion per year for the EuroZone alone, or just under €1,000 per person per year, for a population ranging from newborn to dying.

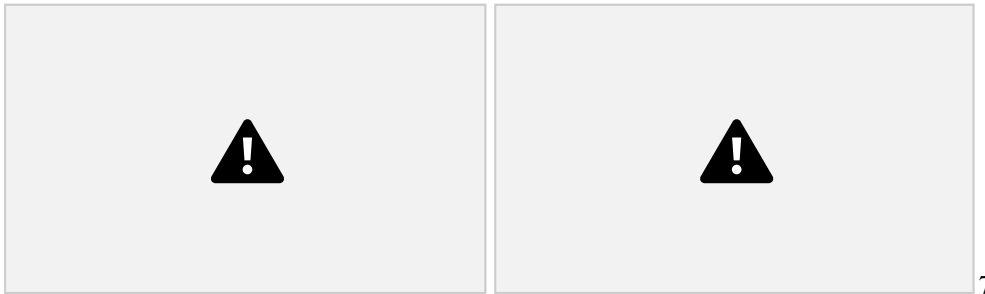
Indeed, Public Administrations (all combined) borrowed 7,000 billion euros on this market at the end of 2016 (6,981 billion €).



If we take into account the ECB's Refinancing Rate (the rate at which High Finance refinances itself) and the 10-year Debt Issue Rate (new business), the difference is (systematically) 1.25 in the EuroZone, all countries combined: the gift to banks is (at this level alone) €87.5 billion or the equivalent of 0.8% growth rate.

1. On the left chart, LT-10-year- rates moved from 5.25% at the beginning of 2000 to 4.25% at the end of 2008;
2. On the graph on the right, banks' refinancing rates have evolved between 4% and 3.75% over the same period;
3. Comparisons for subsequent years show comparable differences.

On the other hand, ten-year rates vary from country to country, and the gap between countries makes it possible to widen margins.



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However, it is this difference, between the ECB Refinancing Rate and the Government Bond Yield Rate, that the banks of the EuroZone are seeking to blow up because, if Germany can borrow at preferential rates, it is thanks to the rating agencies that are far from being above suspicion.

On the other hand, Greek bonds had risen to more than 19% at the end of 2011, and they are still at 7.5% currently; much more for two-year bonds...

With a debt ratio of more than 135%, Greece would have to achieve an annual growth of +10.5% per year to "only" repay the financial costs: it's completely delusional!

The next crisis (Greek and otherwise) may be in Germany itself but for a completely different reason... which we will see later.

CONCLUSION.

The Maastricht Treaty, which imposes the compulsory intermediation of commercial banks for the financing of States and all administrations, raises three fundamental problems.

1. It is an unacceptable situation rent that (according to the principle of quantification used) robs the people of Europe of €87 billion in the low range (remuneration of banks = 1.25%) and 260 billion euros per year in the high range (remuneration of banks = 3.75%), i.e. between €250 and €750 per year per inhabitant (from cradle to coffin).
2. It is a situation rent that prevents any growth of the real economy: financial costs, reduced to GDP close to €10,000 billion in 2016, represent (at the current rate of return on government bonds) a growth rate of between 0.9% and 2.6% per year.
3. This is a considerable risk for High Finance itself because, in the context of a stacking of debts by States and Administrations, the rise in rates will cause the prices of all existing debt securities (already issued) to fall. And therefore, the (considerable) capital losses, which will be recorded, cannot be borne by the equity of High Finance.

Without the direct and indirect support of banks by the States, they are condemned to the cascading bankruptcy

filings of all its actors.

But, even more, it is life insurance and pensions, invested mainly in government bonds, that risk jeopardizing the entire current European Monetary System.

Oh, of course, irresponsible governments will continue to support High Finance but, under no circumstances, will they be able to avoid the fatal pirouette because, the more this rent increases, the more Europeans lose their jobs and their incomes.

In other words, the neoliberal system is running to its doom because fewer and fewer citizens will no longer be able to pay, neither these financial costs, nor the (next but unachievable) socializations of the losses of High Finance. On the other hand, in the meantime, states will continue to "degrease" the most essential rights of citizens. With each turn of the screw, it is the (great) misery that settles a little more!

For what future? NONE.

JUNO Moneta

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For another Europe...
And (of course) for Another Euro...