Europe reels under bail-in shock

The EU bail-in regime has already produced numerous victims among financial institutions and the population, and now threatens a systemic crisis. According to data put together by financial analyst Mike Shedlock, deposits are flowing out of southern Europe, especially Italy, into banks in Germany, Luxembourg, and Holland. The new deposits are in turn put into the ECB (European Central Bank), despite its -0.3 per cent interest rate for such deposits. This so-called flight capital in fact amounts to an organised, classic bank run, such as Franklin Delano Roosevelt faced when sworn in as President in 1933. Shedlock explains, under the headline "Europe Fears Bail-Ins", that what is driving the large and growing capital flight is "fear of bail-ins, confiscations, capital controls, and bank failures like [those] we have seen in Greece and Cyprus. Recent examples include Portugal and Italy."

Euro deposits parked at the ECB increased from €36.6 billion in January 2015, to €196 billion in December 2015. Analysing the ECB data on the "imbalances" thus created within the Euro death-zone, Shedlock shows this is largely flight money of deposits from those who are first in line under the EU bail-In schemes.

Run on big Italian banks

In Italy, national regulators stepped in and suspended trading in bank stocks on 18 January, after they dropped 4-6 per cent for the day. The declines were led by two of the biggest, Monte dei Paschi di Siena (MPS) and Banca Intesa San Paolo. They issued an order banning "short selling" in the banks' stocks. MPS and Carige (Savings Bank of Genoa) had collapsed by 11 per cent and 13 per cent on 11 January, investors creating a run on the probable candidates for a bail-in. MPS and Carige are now faced with a major crisis which they can solve only in two ways under the EU regime: a major recapitalisation or submission to the BRRD rules (bail-in/bail-out), including a Troika regime for Italy.

Recapitalisation is virtually impossible: there is no market for either shares or bonds of the two banks. One-year MPS bonds currently offer an 18 per cent yield! Shareholders who participated in the last capital increase last year have now lost 50 per cent and will not be inclined to throw more money into the fire.

Two other banks, Banca Popolare di Vicenza and Veneto Banca, are expected to increase their capital ratio in the next months in order to fulfil standards set by the ECB, and bets are on that they will fail to do so.

Italian Member of the European Parliament Marco Zanni warned against insider trading in the case of MPS and Carige. "Strangely, someone gets information before others and thus such vultures can cash large profits or avoid large losses. If this theory is true, and history often teaches that it is true, I would start to worry. MPS and Carige are not the four small banks which were rescued in December. They have issued bonds for billions of Euros, have a stock market capitalisation of about 4 billion and have deposits for many billions. If they undergo a resolution procedure, billions of savers' money will evaporate and it will be chaos."

Prominent Italian economists have called for a moratorium on the EU bail-in legislation in Italy, beginning with Luigi Zingales and Luigi Guiso in the financial daily *Il Sole 24 Ore* on 30 December, followed the next day by Paolo Savona, former head of the Italian Deposit Guarantee Fund.

Class action suit in Portugal

Senior bondholders of Portugal's Novo Banco have teamed up to challenge a recent central bank move that makes their investments nearly worthless, and might sue various commercial banks that sold them the bonds. A coordinator of the group told Reuters the debt holders formally registered a Lisbon-based association, grouping 55 investors with a total 7 million euros worth of bonds, on 13 January, and now have up to 90 days to file a lawsuit. If successful, the class action could block the Bank of Portugal's decision for other bondholders also.

The association argues that only bonds falling under Portuguese jurisdiction were chosen for the "bad bank", amounting to unequal treatment of creditors, while a "fair solution would be to apply a small haircut to all senior creditors." However, "The Bank of Portugal has avoided hitting debt under British jurisdiction, where it would be easier for big funds to sue … apparently it did not know that there are small Portuguese retail investors with these products." More legal cases are expected to follow.

The European Central Bank tried to wash its hands of the matter on 13 January by distancing itself from the 29 December Portuguese central bank bail-in. Some depositors had asked the ECB to intervene, charging discrimination between bondholders as losses were imposed on some while others were unaffected. "The decision by Banco de Portugal [central bank] to bail in some senior bondholders in Novo Banco was taken exclusively by BdP [Bank of Portugal] under its national resolution powers", the ECB said in a 13 January statement. "The ECB neither requested nor approved a bail-in of senior bondholders in this case", according to Reuters. Because the bail-in took place before 1 January, when the new EU bank resolution regulation went into effect (the BRRD—Bank Recovery and Resolution Directive, *AAS* 13 Jan.), it was still governed by Portuguese authorities and did not require ECB approval. The ECB avoided declaring that the Portuguese bail-in of €2 billion of senior debt was illegal, however, and passed the buck back to Lisbon. But the Portuguese government is also washing its hands, saying it was the "independent" central bank which took the decision!

Grand larceny

The British-based TruePublica news network had an article on 9 January, "UK Banking Industry—Most Unstable in G7—Implements Depositor Bail-In Scheme", warning in particular against the mass theft of deposits at UK banks under the new rules. This article is a follow-on to one published in September under the headline "Grand Theft Auto—UK and EU Bank Depositor Bail-In Regime Implemented", which described how banks throughout the EU would simply steal deposits if any of them failed.

"On the first day of 2016", author Graham Vanbergen says, "all banks located within the EU follow the 'Anglosphere' nations of Britain, America, Australia, New Zealand and Canada into an agreement, where the next bank failure and bail-in could cost depositors all their money.

"Think it won't happen? Six years after the last financial calamity caused by reckless bankers aided by negligent politicians, in late 2014 one in five European banks failed basic stress tests that would see bankruptcy on the first hint of trouble. What did they need to get past that stress test? Twenty-four thousand million euros.

"One should not forget that the Bank of Cyprus passed its stress test with flying colours just before it crashed and burned. That bail-out and bail-in came in at €23 billion [cost] to the taxpayer but it also took 47.5 per cent of depositors' money over €100,000 as well.

"Think it won't happen to British banks? This from the *Financial Times*: 'The Bank of England's stress tests of the banking sector have been attacked as "fatally flawed" for setting hurdles that are too easy to clear and giving false comfort about the safety of the financial system.'"