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Strengthening of the Swiss Franc through an Example of Housing Loans

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Abstract: This paper emphasizes on the current situation regarding the strengthening of the Swiss franc, closely related to the housing loans in the aforementioned currency. Throughout the paper it is possible to found answers to current, burning, issues: What is responsible for the currency pair growth rate (Swiss Franc-Euro), is there a solution for the citizens who are borrowers in CHF and is there a way out of this crisis and what are the consequences of the sudden strengthening of the Swiss franc?

Keywords: the Swiss franc, the euro, housing loans, strengthening of the Swiss franc

1 Subject, goals and methodology

The strengthening of the Swiss franc had negative effects to the economy of countries indebted in Swiss francs, especially in Serbia as well in the countries in the region. The National Bank of Serbia carried out four models to facilitate the repayment of the CHF loans but the response of the indebted citizens was weak because those measures did not have the same effect as in the surrounding countries. In the focus of the analysis are loans of the citizens. An emphasis is put on the housing loans in Swiss francs in Serbia.

The goal of this research shows that a stable foreign exchange market is necessary in every economy because the lack of stable foreign exchange market creates a rift between the domestic (state) economy and the world economy – a situation in opposite to the process of globalization. Additionally, there are answers to this burning questions: What is responsible for the currency pair growth rate (Swiss Franc-Euro), is there a solution for the citizens who are borrowers in CHF and is there a way out of this crisis and what are the consequences of the sudden strengthening of the Swiss franc?

The basic hypothesis of this paper is that the strengthening of the Swiss franc and the change of the foreign exchange rate in Serbia is not the only issue in the CHF-indexed loan repayment process. Additionally, the real incomes (salaries) are low

and decreasing each year, which is, besides the rate of the Swiss franc, the biggest concern regarding the loan repayment.
Methods used during the development of this research: basic methods, analytical and statistical methods – analysis, abstraction, deduction, induction, specialization and synthesis.

2 Growth in the value of the Swiss franc

The Swiss franc (CHF) was never withdrawn from the usage since its introduction as the mean of payment in all of the Swiss cantons over 160 years ago. The Swiss franc is one of the most stable currencies in the international monetary relations and for a long time it maintained the ratio EUR1 ~ CHF1.5.[1] It is considered that Switzerland has the best meanings of managing the current, two year long, world economic and banking sector crisis. Financial turmoil in the Eurozone (especially the Greek financial crisis) had caused a devaluation of the euro as well as the increase of the GBP[2]/CHF ratio from the previous 1:2.25 to the current 1:1.58, not to mention the Swiss franc – US dollar ratio. Meanwhile, after a referendum held in 2009, the Swiss National Bank decided to tie the value of the Swiss currency to the one of the euro which caused a dramatic decrease of the value of the Swiss franc, formerly one of the most stable currencies, in regard to the US dollar and the euro. Over three years of stability of the EUR/CHF exchange rate ended and caused a certain “disharmony among the currencies”, as the Swiss National Bank decided to quit any attempts of constraining the value of its currency. The Swiss National Bank used to allow the strengthening of the franc against the euro above the 1:1.20 ratios in order to stabilize it at the approximate 1:1.03 ratio. The table bellow clearly shows the drastic change of the EUR/CHF exchange rate with an increase in the value of the Swiss franc of almost 28%.[3]

1 Only once euro strengthened to 1,6

2 GBP is ISO code for the pound sterling, official currency of the United Kingdom

3 The Swiss franc is out of control, uk.businessinsider.com, January 15, 2015

Table 1
EUR/CHF exchange rate[4]

Increased demand for the Swiss franc in a past couple of months is the main reason for abandonment of the defense of its exchange rate by the Swiss National Bank. This a forementioned was caused by the weakening of the euro in comparison to the rest of the most traded world currencies. The franc was pegged to the euro, its value also began to decrease. Considering the fact that the Swiss economy is stable and that avoided the current crisis that should have resulted in the increase of the value of the franc, the entire situation was illogical. Many investors, funds and financial speculators began buying the Swiss currency, creating a huge pressure on the Swiss National Bank. Traditionally, during the crisis, the majority of the people turns to the US dollar, Swiss franc and the gold but the major issue in this situation is that the investors now tend to avoid the use of the gold – resulting in the decrease in its value and significant increase of the usage of the US dollar and the Swiss franc. One of the facts that probably might have been "the last drop" in this situation comes from Russia. The Russian ruble experienced an extreme decline caused by a production rate drop of the world's largest country. The situation caused the weakening of the euro for more than 14.6% and, on the other hand, only 1.026% of the Swiss franc. This prompted a large number of Russian businessmen and companies to transfer their money away from Russia to "safer locations" and one of those safe heavens were numerous banks located in Switzerland thus increasing the demand for the franc and putting an additional pressure on the Swiss National Bank. In the year 2011, Switzerland drastically decreased the value of its currency in order to stop or at least slow the high demand. The franc was envisioned as a strong and stable currency with an increased inflow in the case of the downfall of the euro. The next table shows the EUR/CHF exchange rate before the outbreak of the world economic crisis.

4 Source: http://www.investing.com/

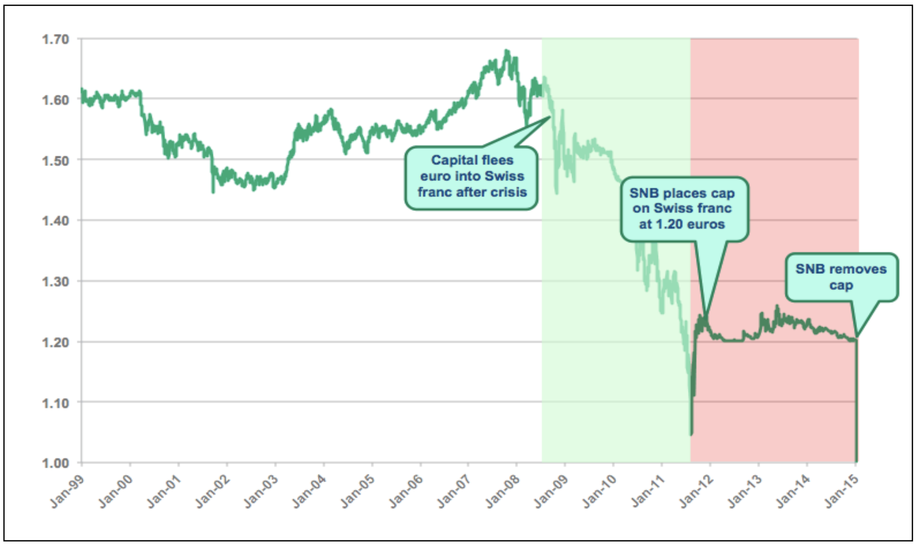

Table 2
EUR/CHF exchange rate before the outbreak of the crisis[5]

It is necessary to highlight that the Swiss franc enjoys stability since 1853 thanks to the nearly zero inflation and the law that stresses that at least 40% of the currency needs to be "covered" in gold. That coverage, however, ended after a plebiscite held in the year 2000. Nevertheless, the Swiss National Bank still maintains large gold reserves of approximately 1.3 tons, equaling about 20% of monetary mass[6].

3 The reasons of the strengthening of the Swiss franc

The Swiss National Bank different from the other central banks in the fact that it is not "owned" by the Swiss federal government but instead exists as a joint-stock company with the shareholders being, amongst the others, the Swiss administrative divisions (cantons) themselves as well as the other state organizations and individuals[7]. One of the theories that could explain the Swiss National Bank's decision to allow the strengthening of the franc is largely underestimated and that is the role of the cantonal governments in the process of lobbying for the payment of dividends. First, the Swiss National Bank pays the dividends to its shareholders for 6% of net profit as well as the "flat rate" to the cantonal governments. That

5 Source: European Central Bank, Quandl, CFA Institute.

6 History of the Swiss franc, https://en.wikipedia.org/wiki/Swiss_franc#History

7 The Swiss National Bank Is Different From Most Central Banks In One Critical Way, Cullen Roche, January 19, 2015

arrangement ensures allocation of up to one billion francs per year among the 26 cantons in proportion to their population, which was considered the most secure and reliable source of income. According to the Swiss National Bank, the dividends were paid once a year for more than a hundred years. The arrangement came to an abrupt end in 2013, caused by the collapse of the price of gold that had a negative impact on the gold reserves of the Swiss National Bank.

> The Swiss National Bank (SNB) is breaking with a long-standing tradition. For the first time since its establishment more than one hundred years ago, it cannot pay its shareholders any dividends. The Confederation and the cantons are also left empty handed, a first since the introduction of the current distribution regulation twenty years ago. This is primarily due to the fact that in the 2013 financial year, the SNB had to accept a large valuation loss on its gold holdings, which could not be offset by other earnings. The SNB also increased its equity capital by creating additional provisions, since the legislator places substantial weight on the SNB maintaining a healthy balance sheet. The annual result of CHF -12 billion also completely exhausted the distribution reserve, and consequently, no earnings remain to be paid out as dividends to shareholders or as distributions to the Confederation and cantons. Therefore, the conditions laid down in the National Bank Act (NBA) for the payment of a dividend or distribution are not fulfilled.

Picture 1

A year without dividends and profit distribution – what are the reasons[8]?

The 30% decline in gold price during the 2014 resulted in loss of more than nine billion francs, which meant that the SNB, according to the Act 31 of the Federal Act on the Swiss National Bank, lost the ability to pay the dividends. That caused a major shock to the cantonal financial sectors. Explaining why the SNB decided to cancel the payment of dividends in 2013, Jean Studer, head of the SNB Council, pointed out that the consistent payment of dividends clearly showed that there were "special factors over the last two decades that created the large payments". He also reminded the cantonal governments that the "SNB regularly pointed out that the distribution is not guaranteed". In turn, cantonal governments objected to the National Bank demanding that it must secure more financial resources for 2014 in order for them to counteract the losses from other sources of income. In the beginning of the year, the SNB informed the cantonal governments that it expects a net gain of 38 billion francs in 2014, which would re-enable the payment of dividends. The report stated "re-establishment of the distribution of resources to the cantons in the amount of 1 billion francs per year" [9]. However, less than a week after the report, the National Bank quit the policy of pegged exchange rate causing sudden strengthening of the franc and financial losses due to the harmonization with the market. Free strengthening of the CHF relative to the euro meant that the value of the reserves in the euros, which bank "bought" in order to maintain the exchange rate, decreased in the francs. The question is why the SNB reacted in a way that caused it a "secure loss". One of the possible reasons could simply be bad timing. Thomas Jordan, the Chairman of the Governing Board of the Swiss National Bank at the time, stated that the franc is "largely overrated" on its pegged value. It is quite

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8 Source: Jean Studer: A year without dividends and profit distribution - what are the reasons?, President of the Bank Council 106th Ordinary General Meeting of Shareholders of the Swiss National Bank, Berne, 25.04.2014 http://www.snb.ch/en/mmr/speeches/id/ref_20140425_stj

9 Swiss National Bank expects annual profit of CHF 38 billion, Large annual profit allows for supplementary distribution: http://www.snb.ch/en/mmr/reference/pre_20150109/source/pre_20150109.en.pdf, SNB, January 9, 2015

possible that he believed that the CHF could slightly lose its value in relation to the euro after the end of the aforementioned limitation.

4 The decree of the Swiss National Bank and its impact on the European countries

The SNB’s decision to abandon the defense of the exchange rate had a huge effect and consequences in various European countries. For example, if a CHF-indexed mortgage or a housing loan is being paid in euros, it results in much higher “form” of loan. Now, there are about 21.000 clients or users of the CHF loans in Serbia, largely mortgage and housing ones. The biggest issue is that these borrowers have absolutely no way out of this situation. Transferring these loans to loans in euros at the current exchange rate is not a solution because in 2008, 70.000 francs were equal to 43.500 Euros and in 2014 - 60.000 Euros. To summarize, after 78 months, the base of the loan had increased for almost 20.000 Euros. It should be noted that the strengthening of the CHF is not the only issue in this situation. The already low real incomes (salaries) are decreasing each year, which means that the creditworthiness of Serbian population is steadily dropping. If an average salary equaled those in Slovenia or Poland (1.000-1.200 euros), the loan repayment process would be a lot easier. This is, in addition to a high rate of the CHF, the biggest problem in the process of loan repayment. The entire situation had a large impact in the surrounding countries as well, considering the fact that in a significant portion of credit portfolios in some countries are denominated in the Swiss francs. The last fluctuations of the CHF exchange rates are responsible for the increase of the “value” of the loans[10]. The table below gives an insight of the situation in various European countries. The countries with the largest number of CHF-borrowers are Hungary, Poland, Austria, Croatia and Serbia.

10 The Polish zloty value decreased in relation to the euro by 1.1 and the Hungarian forint by 0.6

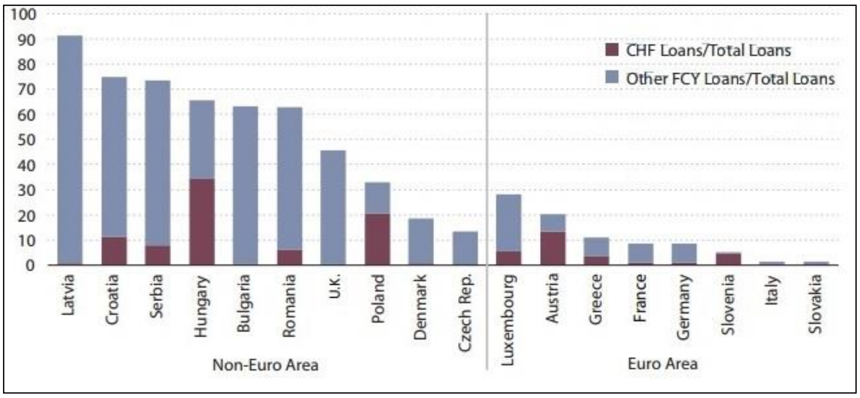

Table 4

Share of foreign exchange loans in the number of total loans in Europe in 2011[11]

4.1 Measures for facilitation of the repayment of CHF-loans in Serbia and the surrounding countries

National Bank of Serbia, the core institution responsible for the stability of the financial system and financial services consumer protection issued a Decision on measures for preserving stability of the financial system in the context of foreign currency-indexed loans[12]. The Decision consists of two parts. The first part refers to every singular loan agreement that the bank signed with the consumer prior to implementation of the Financial Services Consumer Protection Law ("RS Official Gazette", No 36/2011) regardless of the foreign currency in which the loan is indexed. The second part refers exclusively to the housing loans indexed in the Swiss franc. The National Bank of Serbia obliged to offer the loan users one of the four models to facilitate the repayment of the CHF loans:

1) A CHF-indexed loan is converted into a EUR-indexed loan at the exchange rate which is 5% lower than the middle EUR/CHF exchange rate calculated based on the official middle RSD/EUR exchange rate and the official middle RSD/CHF exchange rate, valid on the day an annex to the agreement is concluded, while the rate of interest that a bank applies to EUR-indexed loans is charged thereon, along with the optional extension of the loan repayment term, in accordance with the client's request, by maximum five years.

2) A CHF-indexed loan is converted into a EUR-indexed loan at the EUR/CHF exchange rate calculated based on the official middle RSD/EUR exchange rate and the official middle RSD/CHF exchange rate, valid on the day of concluding an annex to the agreement, while the interest rate applied by a

11 Source: EUR/CHF Foreign Exchange of the Swiss National Bank

12 http://www.nbs.rs

bank to EUR-indexed loans at the annual level is reduced by 13 percentage point, but not necessarily below 3%, along with the optional extension of the loan repayment term, in accordance with the client's request, by maximum five years.

3) The interest rate at the annual level is reduced by 1% point, but not necessarily below 3% along with the optional extension of the loan repayment term, in accordance with the client's request, by maximum five years.

4) The amount of a CHF-indexed monthly installment is reduced by 20% of the contracted amount for the duration of 36 months from the date of conclusion of an annex to the agreement. Upon the expiry of that term, the client resumes repayment of the contracted installment amount. The total amount by which monthly installments are reduced is repaid in 12 equal monthly installments after the expiry of the original maturity date.

The National Bank of Serbia had often called for citizens to convert their CHF-indexed loans into EUR-indexed loans. The citizens, however, rarely responded to those calls and these measures did not have the effects of the ones in the surrounding countries. A number of reasons can explain this attitude. First, if a borrower decided to accept any of the aforementioned models, the benefits would be almost insignificant. The monthly interest rate would be lower for 2.000-3.000 RSD, yes, but considering the fact that the interest rate has nearly tripled since the beginning, that amount would have no real effect. Secondly, by allowing the conversion, the consumer gives the bank a legal right to increase the base of the loan, thus losing the possibility of judicial annulment or a change of the already harmful contract. In 2008, 70.000 francs equaled 43.000 euros and today the borrower owes the bank approximately 60.000 francs or 58.000 euros, 15.000 more than the original amount. In this case, there are additional expenses of the public notary and the real estate cadastre, all of which are considerable (up to several hundreds of euros) to the nearly bankrupted borrower. One more consequence of the conversion method is that the interest rate is calculated from the beginning of the already increased loan base, which means that the loan is going to cost far more than the original amount. Similar methods were considered by the other countries in the region but had no effect in general.

4.2 Measures for facilitation of the repayment of CHF loans in Hungary

Hungary, where a significant number of loans were indexed in the Swiss francs, has resolved the issue regarding the repayment of these loans. The Government, led by Prime Minister Viktor Orbán, enabled the consumers of the CHF-indexed loans a conversion to the Hungarian forint-indexed loans at the lower, more favorable exchange rate. The conversion process, however, cost the Hungarian National Bank approximately nine billion Euros - the amount it had to transfer to the commercial banks. According to the Hungarian National Bank, the entire process managed to "save" the borrowers nearly 700 billion forints, which is about 2% of Hungary's GDP. In November 2014, about 12 billion USD were converted into forints, which are now the base of the mortgage loans tied to the Swiss franc.

COUNTRY	GROWTH RATE
Latvia	-5.6
Croatia	-11.4
Hungary	-5.5
Romania	-3.1
Bulgaria	-2.1
Czech republic	-2.0
Lithuania	1.9
Serbia	-0.4
Bosnia and Herzegovina	-1.2
Montenegro	0.7
Estonia	1.9
Slovakia	5.4
Republic of Macedonia	6.9
Albania	13.9
Poland	13.9

Table 5

Real GDP growth in Serbia and other countries in 2011[13]

It should be noted that the Hungary's method of "low-cost conversion" was also adopted and implemented by Montenegro.

4.3 Measures for facilitation of the repayment of CHF loans in Croatia

Croatia probably has the biggest issue when it comes to the process of repayment of the CHF-indexed loans. For example, Poland has about 2% of unpaid loans while that percentage in Croatia reached about 17%. It is estimated that there are around 60.000 CHF-indexed loans in Croatia, mostly housing or mortgage loans. According to the Croatian National Bank, total amount of the CHF loans it late September of 2014 was 23.7 billion Croatian kunas, 92% of them being housing loans. The solution came through a change in Croatia's Consumer Crediting Act

13 Source: IMF, Ministry of the Finances of Republic of Serbia

that pegged CHF/HRK rate at 1:6.39 in the period of one year, charging the financial institutions. According to various Croatian economists, this “system” could eventually create the environment in which it would be possible to convert CHF-indexed loans into HRK-indexed loans, in accordance of the Croatian National Bank.

5 The consequences of the strengthening of the Swiss franc in Serbia

Fluctuation and permanent changes of the exchange rate (in this case the CHF) can cause issues in the process of loan repayment, thus increasing the number of non-performing loans (NPL)[14], and in the case of Serbia – stagnation and decline in personal earnings and rise of the unemployment rate as well. Considering the fact that a large percentage of NPLs is considered a risk for the state financial system, many Central and Eastern European countries are urging that elimination of this issue needs to be an absolute priority. The increase of the number of NPLs began simultaneously with the world economic crisis in 2008 when macroeconomic condition began worsening – reduce in economic activity, increase of the unemployment and the decline in the value of national currencies. This resulted in increase of the NPLs in these countries for 8% between 2008 and 2014. Growing number of NPLs led to a restriction of loan offers in general and reduced credit activity led to reduced economic activity. In consideration, many countries are in process of formation of various solutions and strategies for NPLs on a highest. Some of those countries had already formed inter-institutional organizations for solving the issue that are NPL’s, while the rest are in process of formation.

14 Non-performing loan (NPL) – a loan is nonperforming when payments of interest and principal are past due by 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days overdue.

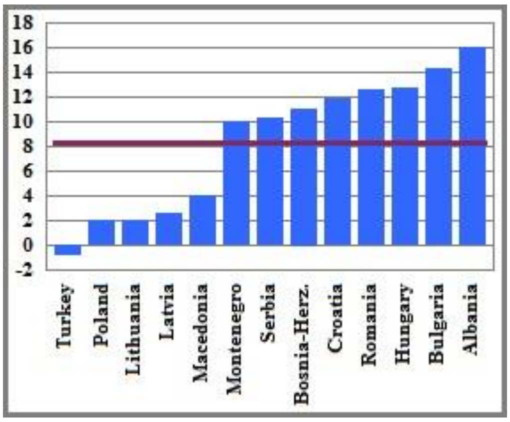

Table 5

Changes in the share of gross NPLs to total gross loans in the region[15]

The previous chart shows that Albania has the largest share of NPLs in the region with a tendency of further growth. The credit activity significantly increased since 2003, which led to an increase of the number of domestic loans relative to the country,'s GDP from 7% to 40%. Simultaneously, the "euroization" of loans increased about 50%. Albania has implemented a loan write-off strategy in order to cope with NPLs that resulted in decrease from 24.1% in June 2014 to 22.8% in the December 2014. Serbia is experiencing a continuous growth of Non Performing Loans that now make 16.1% of the total loan mass. In May 2014, the NPL indicator showed fort the first time an increase over 10% and that value further grew to 10.9% at the end of April of the same year. The end of April 2014 saw a gross NPL indicator of 9.0%. Housing loan quality deterioration is primarily caused by unemployment, stagnation of the incomes and devaluation of national currency. The basic criteria for an individual borrower that needs to be satisfied is adequacy of a Debt to income ratio (DTI) which is a relation between credit commitment and monthly income. The DTI in Serbia varies from a bank to bank and ranges around 40-60%. Some commercial banks that allow 60% DTI, without any restriction or regarding the general monthly expenses of its client, can create a situation where a mere loan signage of a lower-income individual produces severe financial difficulties and loan payment issues.[16] For an example, if a borrower chooses aforementioned DTI, he or she completely "stretches" its monthly incomes, which makes it insufficient for regular monthly expenses. Most of the people then choose

15 Source: Draft strategy for solving the NPLs, http://www.rsjp.gov.rs/strateg/64/nac/1%20Predlog%20Strategije%20za%20NPL.pdf, August 17, 2015

16 Duško Ranisavljević, Miroslav Hadžić: Problematični krediti stanovništva u Srbiji, Univerzitet Singidunum, Belgrade 2015, pp. 456-457

"survival" over monthly loan payments. Unemployment also has a significant effect on the increase of NPLs. According to the official data, unemployment between persons aged 15-64 in Serbia is 19.9%. Stagnation and decrease of incomes also cause this issue. Official reports shows that average income in Serbia has dropped 1.3% in nominal and 3% in real terms between 2014 and 2015. Increasing number of NPLs is causing ever growing pressure on Serbia's banking sector[17], it limits credit activity, disables growth rates and in general and halts economic development, regardless the fact that Serbian banking sector is solvent and highly capitalized. In order to cope with this issue, the Government of Serbia adopted a Strategy for solving the Non-performing loans.[18] The Strategy's goal is to:

1. Evaluate NPL solving capacities of the banks
2. Create conditions for the development of NPL market
3. Promote and encourage extrajudicial settlements
4. Promote methods for addressing corporate debt through court and mortgage regulatory framework.

6 New measures of the European Central Bank

On March 9, 2015 the European Central Bank (ECB) began its massive money-printing program, euphemistically called quantitative easing (QE).[19] Planed volume of monetary emission is about 1.100 billion euros, which is equal to about 33 Serbian annual GDP's. Total monetary emission should be realized throughout monthly tranches for 60 billion Euros each. This operation is conducted by the national Central Banks, through purchasing of government securities on a secondary market, with an exception of the National Bank of Greece. The distribution of the monetary emission should be in accordance of the economy of each country involved. The ECB is expecting to stimulate the anemic Eurozone economy by stopping the deflation processes and by increasing the inflation rate from current minus 0.3% to about 2% positive. The ECB hopes that the implementation of this program is going to decrease interest rates not only on government securities but also on regular commercial loans, thus stimulating the demand, consumption and investments. Moderate inflation rate growth should ease up the control of national debts while the projected decrease in value of the euro could entice competitive abilities in general, especially of the Mediterranean countries. The implementation of this program is strongly supported by a number of European economic elites who believe that the ECB should have introduced this policy earlier, considering that the Eurozone's monetary emission/GDP ratio is well

17 Many developing countries, including Serbia, experienced credit growth before the outbreak of the crisis. Serbia experienced this credit expansion in 2005 and 2006, largely thanks to the arrival of foreign banks on its market.

18 http://www.rsjp.gov.rs/strateg/64/nac/1%20Predlog%20Strategije%20za%20NPL.pdf, August 16, 2015

19 Officially: The public sector purchase program.

behind that of the United States, Japan and the United Kingdom. Those economists have put a further pressure on the ECB implying that its conservative and cautious policy played a big part in the outbreak of Eurozone debt crisis. Money printing, however, cannot solve the biggest problem of highly indebted countries – their non-competitiveness. The introduction of the Euro made the borrowing expenses (interest rates) of less developed economies significantly low, moving those countries closer to the European most developed states. Up until 2007, low interest rates have stimulated the growth of consumption, import and domestic prices as well as affordable financing of deficits of the current transactions. This lack of market discipline additionally affected the drop of competitiveness and eventually produced a deficit of the balance of current payments.[20] If carried out, this method should create 35% price drop in Greece, about 30% in Portugal and Spain and around 10% in Italy. That price drop will "repair" the competitiveness of these countries and, in long terms, re-balance the process of current payments. The easiest and fastest way to establish this balance is to depreciate foreign exchange rate but that method is not possible in the Eurozone. On the other hand, a significant drop of the value of the euro since May 2014 is partially beneficial and is slightly improving the whole competitiveness on the Eurozone but is not eliminating the price disparity in its borders. Since the depreciation of currency is not possible, the only solution remaining in order to establish economic balance and restore competitiveness is to create a deflation – the internal price-drop. This method is extremely "painful" and difficult because general price lowering is next to impossible to implement. Moreover, the entire drama that is shaking Greek economy is considered a result of numerous concessions to Greece in the past. That consideration is undoubtedly causing the ever-present hard-line attitude towards the Greek Government. In favor of this policy goes the example of the Republic of Ireland which government quickly implemented the price-correction policy and is now on the fast way out of the crisis. The Irish recovery with the help of the deflation method is explained through the fact that crisis struck Ireland much earlier than other countries and that the Irish economy began consolidating and adapting to the new conditions before the establishment of various help-mechanisms in the Eurozone. Simply put, in the beginning of the Irish crisis in 2006, there were no methods or solutions for this problem and Irish economy's only choice was to adapt as fast as possible in order to avoid complete downfall.

20 Source: https://nkatic.wordpress.com/2011/07/09/grcka-kriza-i-njene-pouke/

7 Conclusions

The effects of the various interventions by the Central Bank and monetary policy are closely related to one another, resulting in a number of undesired consequences. A single Central Bank, even a small one like the Swiss National Bank, can influence foreign economies[21]. There are 21.000 beneficiaries of the CHF-indexed housing loans in Serbia. Only 1.700 (8%) decided to follow the facilitation methods of the National Bank of Serbia. The National Bank expected that the majority of borrowers will transfer their CHF-indexed loans using its methods but the response was rather low. According to the official data of the NBS, over 80% of loan consumers decided to continue the repayment in Swiss francs. In addition, only 255 loans converted to EUR-indexed loans. The first results show that 54% of consumers mostly chose the Third (54%) and the Fourth (31%) model. The 10% saw the First model as a solution and only 5% opted for the Second model. The results will be available after the expiration of the prolonged offer in September 2015. The development of the NPL market through an evaluation of possible difficulties (taxes, regulations, accounting and data availability) should be preferred. Various tax reliefs regarding the NPLs already exist but it is necessary to remove any obstacles in order of full implementation.

The process of quantitative easing plans monthly "injections" of 60 billion euros (1.14 trillion euros totally) to the financial system from March 2015 to September 2016. It also includes the possibility of prolongation of the program in case there are no desired effects. The program also includes a method of formation of money supply and "solvency injections" to the economy system through an extended bond-purchasing program of both public and private sector. Purchase of bonds will be done in accordance with the capital-participation of some ECB member banks while 20% of purchases are to be centralized with risk sharing between the ECB and the national central banks. The basic goal of the program is to induce the investments and consumption. This money-printing decision of the European Central Bank could in fact be the last chance of preserving the Eurozone but it requires the change of the basic regulations of the Integration process or a more responsible behavior of some EU members who need to accept the consequences of their policies.

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