

I want 15% on my deposits, but the risk-return equation isn't working anymore.



The Czech National Bank left its interest rates unchanged yesterday, but much more important both globally and locally was the [interest-rate announcement](#) of the U.S. Federal Reserve 10 days ago. The Fed laid the groundwork for three more years of ultra-low rates.

What are depositors supposed to think? It used to be that interest rates clearly reflected the risk of default of the borrower. An entire system of rating agencies and credit scores was created to manage the risk. This failed to a large degree on the Wall Street and international levels, with repackaged subprime mortgages and various countries getting higher ratings than they deserved. But risk assessment on a lower level hasn't changed much. Residential mortgages can still be had for 4%, which is heavenly, but our enthusiasm plummets when we see that our time deposit is only paying 0.5%.

The risk-return equation isn't working anymore. Oh, it might still work in relative terms. The system is still able to recognize that Greece is riskier as a borrower than Germany, but in absolute terms interest rates aren't adequately reflecting the fact that the entire monetary system is closer to collapse than at any point since at least World War II.

I think I should be earning at least 15% on my deposits, given the huge risk I'm taking of having my money in a bank. Instead, I'm lending to the bank basically for free. And in some cases, lenders are even having to accept negative interest rates.

Gold prices jumped sharply in reaction to the Fed's interest-rate announcement. If central bankers won't admit that they're playing a deadly game, investors will opt out of the failed risk-return mechanism.

Eric Best
best@fleet.cz

Today, Feb. 3

The effort by the CNB and the finance ministry to play down the likelihood of a worsening of the crisis this year could have a positive effect on the market. Companies that have been overreacting by cutting staffing and spending across the board might calm down some. This doesn't mean that companies should believe the rather optimistic forecasts and stop preparing for worse times, because in fact nothing has happened lately to suggest that Europe or America will fix any of their problems. However, companies that are telling their staff to print fewer documents or download less data on their mobile phones are hurting themselves more than helping. There is indeed a real crisis, but life goes on, and overreacting merely makes everything worse.

Readers should not take entirely seriously Kalousek's vow not to raise VAT during this year. The economic and budget situation could change anytime, and Kalousek has made it clear that unifying VAT at 19-20% is his preferred method for addressing a budget crisis.

A long-term investment into a company like AVG Technologies seems to be a big leap of faith. The trend is toward tablets and smart phones, and AVG admits that it doesn't have a clear model for making money from these. When HN devotes nearly a page to AVG's IPO, it would also be nice if it told readers when, and why, the newspaper's owner (Zdeněk Bakala of [BXR Group](#)) cashed out of AVG.

Anyone hoping to get business from the enlargement of the Temelín nuclear plant should be paying close attention to all the stories about Cokeville Assets. There is much more to this than just another tale of theft by this or that "godfather." The documents disclosed by MFD and HN demonstrate a link between Škoda/Appian and ČEZ through Cokeville. A next step apparently will be to demonstrate a link between Škoda/Appian and CEEL, which built an overpriced spent-fuel repository for ČEZ. If it is shown that the Czech nuclear industry is corrupt, the pressure from Germany, Austria and the international anti-nuke movement to abandon Temelín's expansion will grow.

In a sense, comments by people like [Candole Partners](#) and [Michal Šnobl](#) of J&T about the cost-inefficiency of enlarging Temelín play into ČEZ's plans to perhaps bring in a financial investor, as mentioned last week by [Bloomberg](#). Some people are calling this the PPF solution.

One theory about why Schwarzenberg is talking back to his PM with regard to the EU fiscal compact is that he plans to leave as foreign minister so that he can run full-time for president. If this happens, a certain parallel with his former boss will be unavoidable. Havel resigned as president in protest over the separation of Czechoslovakia and thereby contributed to the separation itself. If Schwarzenberg resigned in protest over the failure to sign up for the new EU treaty, he would merely make it easier for the cabinet to keep to its negative stance on this.

Yesterday, Feb. 2

Speaking on [Impuls](#), Senate Pres. Milan Štěch of ČSSD said that the worst part about refusing to sign up for the EU fiscal compact is that the CR was left standing by the U.K., which he said is not very interested in stabilization of finances because a lot of the money flowing into tax havens is flowing into financial institutions with their seat in the U.K. It's not clear what bothers him more, that the CR will be seen as promoting tax havens, or that attention might be paid to the fact that much of the money Czechs are stashing away is flowing through London.

After spending so much time in Israel, perhaps Schwarzenberg will shed some light on whether it plans to attack Iran.

Wed., Feb. 1

The passage of the public-procurement law didn't get much coverage. The big challenge will be to make sure it isn't used to consolidate the corruption so that those with the most resources and the most political connections are given an extra layer of protection by the new law.

Sun., Jan. 29

[Kalousek](#) said he has no proof but suspects that collusion is the thing keeping fuel prices higher than in neighboring countries. We have no proof but suspect that the interest of some to keep a lively black market in fuels also plays a role.