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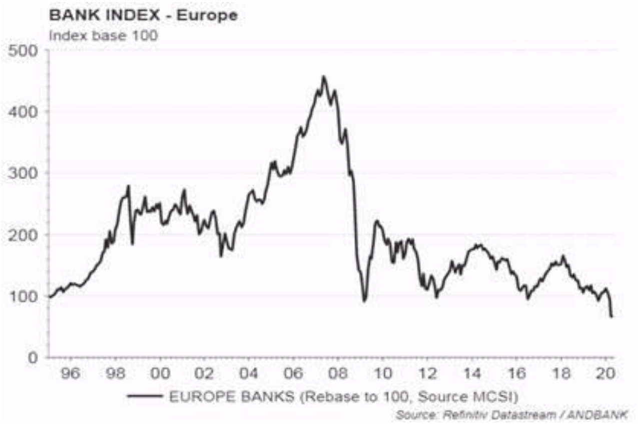
The good old days for commercial banks are already forgotten, and will not return.



The good old days for commercial banks are already forgotten, and will not return. The shareholders of large commercial banks are going through an existential crisis, and I am sure that this occurs due to a pile of circumstances that, surely, you know better than me, and therefore it is not necessary that I remember them here.

Perhaps, by way of exception, given the relevance of the matter, if it is worth mentioning what may have been the last nail in the grave that has buried the banks in their extreme nightmare. A nail that we found out this Monday, with the announcement of the Franco-German rescue plan, which, although in an unclear way, can be an additional blow to the battered banks. Let me explain this in detail.

The Recovery Fund and the banks

Plans for sort of targeted and commensurate Recovery Fund was announced in a join statement by Merkel and Macron early this week, and this will probably have an impact in bank's Income Statements. Some have already compared the Franco-German proposal with the historic signing that took place between Tomas Jefferson and Alex Hamilton, which gave rise to a genuine union of states in North America, surpassing the mere sum of independent states. Indeed, this comparison may seem hyperbolic at the present time, as there are still plenty of reasons for skepticism: The history of Europe is characterized by the enormous distance between what is said and what is done, Merkel has a strong influence today but not in the near future, and a great the discrepancy remains between the Club Med nations and the Frugal Four led by the Netherlands (calling for a responsible EU budget).

However, what makes this agreement a possible game changer are the three innovations that the proposal has incorporated. The first innovation is that the

Recovery Fund is financed by bonds issued directly by the EU in its own name, and guaranteed by the EU's own revenues (instead of being guaranteed by the national states). This represents a big difference from the idea of state guaranteed Eurobonds (which German public opinion deems politically toxic). The second innovation has to do with the **need to channel more resources to the EU** by increasing its budget and income so it can cope with an ambitious debt issuance.

The question is: What would be the origin of these additional funds for the EU? Consensus seems to be emerging that pan-European taxes should be used and these should be based on economic activities which transcend national boundaries, such as a **new tax on financial transactions** (also tax on digital services, or a future CO2 border-adjustment tax). It seems clear that banks are going to have to participate in this effort to increase the budget of the European Commission (a bank tax comes out on all official and non-official bets on ways of financing the European Commission). An effort made on behalf of a higher purpose, (and this brings to my mind the third innovation I mentioned), which is to allow the EU to finance its activities with resources that go beyond its budget, that is, with debt issuance, to achieve a strong capacity of leverage. The idea of issuing perpetual debt that involves the payment of annuities has emerged (cancellable only at the discretion of the issuer). A kind of the old Consol bonds that both the UK and the US used in the past.

The cost could range from 1% to 1.5% and would give the EU plenty of leverage. Issuing € 500bn to finance the Recovery Fund, would involve just € 5bn in annual interest. A very low bill for a European commission that has a current budget of € 270bn, which is intended to be expanded to € 450bn in order to carry out such debt issues. An expansion that will involve a **permanent effort that banks will not be able to scape.**

I don't know if this effort will be the final nail in the grave, but I do know that it is a new nail. Another one