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# Finance: Private banks shamefully enjoy a monopoly of lending to the public sector

Series: Governments submit to “Too Big to Fail” banks (part 3)

Friday 5 September 2014, by [TOUSSAINT Éric](#) (Date first published: 31 August 2014).

The eurozone banks have the monopoly of lending to the public sector. It is prohibited for the ECB and the eurozone's central banks to grant loans to public authorities (see box on the ECB). The governments in the eurozone have the possibility of borrowing from publicly owned banks where they still exist, **but they do not do so**.

The private banks get most of their funding, since 2008, from public sources (the ECB and the Central Banks in the eurozone) at very favourable interest rates. Since June 2014 they borrow from the ECB at 0.15% and at 0.05 % as from the 4<sup>th</sup> September 2014 (while the inflation rate in 2013 was 0.8% in the Eurozone, which means that the real interest rate is, in fact, negative). Then they lend to peripheral European countries like Cyprus Greece, Ireland, Italy, Spain, Portugal and the East European members of the eurozone) at high, or even exorbitant interest rates (between 4% and 10%). They lend to Belgium, France and the Netherlands at 2% and to Germany at 1.6% (figures March 2014).

## The European Central Bank

Created in 1998 on the model of the German *Bundesbank* and installed in Frankfurt-am-Main in Germany, the European Central Bank (ECB) is the European institution responsible for applying monetary policy in the eurozone [1]. The Treaty on European Union, commonly known as the Maastricht treaty (1992) created the ECB and defined its missions (art. 105):

- to define and implement the monetary policy of the Community;
- to conduct foreign exchange operations;
- to hold and manage the official foreign reserves of the Member States;
- to promote the smooth operation on payment systems.

Its principal mission along with that of the national central banks of the eurozone is to maintain price stability [2] around an annual inflation level of 2%.

The eurozone's national central banks' monetary competences have been transferred to the ECB. Proclaimed independent, the ECB is governed by bankers in pure banking logic. If European populations demanded other democratic monetary choices, the ECB can quite simply ignore them and continue with its dogmatism favourable to big business and the wealthiest individuals. This so-called independence is no more than a front leading us to believe that the ECB's choices may not be questioned. In fact, it is the big banks and financial institutions, along with the European leaders that impose neoliberal politics on their peoples that have the ear of the ECB. Although labour market policies are not the competence of the ECB, it intervenes regularly to criticise labour rights, and promote the interests of big business.

It must be mentioned that the ECB does not directly buy from the states the public bonds that they emit. The founders of the ECB chose to give the private sector the exclusive right to finance public borrowing. Since 2010 the ECB buys public bonds on the secondary market from the bankers who bought them on the primary market and have difficulties to unload those it no longer wants. This is another way the ECB finances the banks. If the ECB would buy public bonds on the primary market it could directly finance the states. The ECB only bolsters in this way the bonds having been issued by the countries that submit themselves to its brutal austerity policies.

The Lisbon treaty and the ECB statutes prohibit the ECB, as indeed the national central banks, from lending directly to the states. They lend to the private banking sector who in their turn lend to the states at higher interest rates. Article 101 of the Maastricht treaty, reproduced as article 123 of the Lisbon treaty states: "Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as 'national central banks') in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments." This is one of the reasons why this treaty must be abrogated in favour of a truly democratic European Union.

**Éric Toussaint**

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## P.S.

\* <http://cadtm.org/Private-banks-shamefully-enjoy-a>

\* Translation : CADTM.

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## Footnotes

[1] Eleven countries founded the eurozone in 1999 (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain), they were joined by Greece in 2001, Slovenia en 2007, Cyprus and Malta en 2008, Slovakia en 2009, Estonia in 2011 and Latvia in 2014. See: <http://www.civitas.org.uk/eufacts/eurozonemap.html>

[2] Treaty of Lisbon, article 282.