

Stability fears spread after bail-out of Greece

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Abstract (Abstract): Speaking in Athens, Poul Thomsen, deputy director of the IMF's European department, said Greece could return to markets once confidence in the programme had built-up. "I expect them to come back to the market this year, but if market sentiment remains..."

Full text: Spain and Portugal in line of contagion ; Euro falls 0.9% against the dollar

Emergency moves by the European Central Bank yesterday and the EUR110bn international rescue package agreed over the weekend have failed to quell investor fears about the future of the eurozone as concerns have risen about the stability of other member countries.

Investors said contagion could hit weaker eurozone economies, such as Portugal and Spain, with some warning these countries may also need to be salvaged.

The fresh fears sparked a 0.9 per cent fall in the euro against the US dollar and saw Greek stocks end the day lower, although bond markets across Europe were stable with yields on two-year Greek debt dropping below 10 per cent for the first time in more than a week.

Speculators are also increasingly betting that the eurozone crisis could escalate as short positions against the euro rose to a fresh record. This is a sure sign the 16-country bloc could come under further selling pressure in coming weeks, investors say.

Mohamed El-Erian, chief executive and co-chief investment officer of Pimco, the world's second biggest bond fund, said there were still doubts about the Greek rescue package.

"The announcements will not mark the end of the Greek debt crisis; nor will they constitute a much-needed turning point that can be sustained for many months," he said in a comment article on ft.com.

Ulrich Leuchtmann, at Commerzbank, added: "French and German governments still have to agree the package, so uncertainty persists, while market concerns regarding the likes of Portugal and Spain remain unaddressed."

There are also concerns that political instability in Greece, where there were more protests yesterday, could undermine the government's resolve to stick to the austerity programme it was required to concede.

Reversing past pledges not to favour one country within the eurozone, the ECB announced it was suspending the minimum credit rating requirement for Greek government bonds used as collateral in its liquidity operations.

The move removes worries that Greek banks would not be able to tap the ECB for emergency funds.

Speaking in Athens, Poul Thomsen, deputy director of the IMF's European department, said Greece could return to markets once confidence in the programme had built-up. "I expect them to come back to the market this year, but if market sentiment remains very negative, they don't have to."

However, many investors are more concerned about Portugal and Spain, which still have to raise large amounts of debt in the private markets this year. Unlike, Greece they do not have a multi-billion euro international assistance package to fall back on.

www.ft.com/greecedebt

Credit: By David Oakley in London and Ralph Atkins in Athens

Publication title: Financial Times

First page: 5

Publication year: 2010

Publication date: May 4, 2010

Year: 2010

Section: EUROZONE WOES

Publisher: The Financial Times Limited

Place of publication: London (UK)

Country of publication: United Kingdom

Publication subject: Business And Economics--Banking And Finance, Political Science

ISSN: 03071766

Source type: Newspapers

Language of publication: English

Document type: News

ProQuest document ID: 250047577

Document URL: <http://search.proquest.com/docview/250047577?accountid=17203>

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Last updated: 2010-11-30

Database: ProQuest Central

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