

## World News: Greece's Costs Seen Exceeding EU-IMF Help

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**Abstract:** The 110 billion euro (\$145 billion) three-year Greek bailout by euro-zone countries and the International Monetary Fund won't be enough to cover Greece's costs, an examination of Greek financial figures shows, setting Europe up for more tough choices if private markets don't start lending again. According to data from Reuters, Greece has about 70 billion euros due between now and early May 2013.

**Full text:** BRUSSELS -- The 110 billion euro (\$145 billion) three-year Greek bailout by euro-zone countries and the International Monetary Fund won't be enough to cover Greece's costs, an examination of Greek financial figures shows, setting Europe up for more tough choices if private markets don't start lending again.

The bailout announced here over the weekend will solve one pressing problem: Greece will have enough cash to repay an 8.5 billion euro bond that comes due in two weeks. But the bailout package is based on assumptions that by the end of 2011 Greece will be able to borrow again from capital markets. That may be optimistic, say some bond-market specialists.

"Investors are going to look at [a fresh debt issue] with a lot of trepidation," says Brian Yelvington, an analyst at Knight Capital in Greenwich, Conn. "It will come down to how Greece performs."

Greece's big test over the coming months will be putting in place massive budget cuts and tax increases announced Sunday that are the price of the bailout.

If they are able to do so, and slim the budget deficit down swiftly, "that would give investors a lot more confidence" about lending, says Mr. Yelvington. Still, "they were supposed to make these cuts 10 years ago."

In essence, although the bailout envisages three-year loans, the European Union and the IMF have given Greece a 12- to 18-month audition to show it can change, economists say. Then, it is back to the markets.

Greece needs a lot of cash.

Even if Athens can pare the budget gap as much as promised, it will run significant deficits in the coming years that need to be paid for. A deficit projected to be 8.1% of gross domestic product this year is expected to fall gradually to 4.9% in 2013. That implies total deficits over the coming three years on the order of 50 billion euros.

Greece also will need to pay back past years' borrowing. According to data from Reuters, Greece has about 70 billion euros due between now and early May 2013. That brings the total financing to at least 120 billion euros. Counting the continued rolling-over of short-term debt, Goldman Sachs economist Erik Nielsen estimates Greece's needs at about 150 billion euros over three years. The sum of 110 billion euros has "taken the market out of the equation for at least 12 months," he says, but not three years.

An official of the European Commission, the EU's executive arm, said the bailout is indeed "a little short" of Greece's entire need. But, he added, the bailout plan foresees that "they will get back to the market in 2011."

The tale of the past months, however, has been of declining market access for Greece.

At each of several junctures -- announcing a promise that Greece would be saved, disclosing that details of the plan were worked out, making those details public, saying countries were prepared to step in -- European officials have expressed optimism that, this time, their words would soothe markets.

Instead, Greek bonds have stubbornly slid in price, making it ever more expensive for Greece to borrow.

On Monday, the optimism continued. "It could be that Greece's funding needs in the next three years are higher, but we think Greece will be able to borrow again in that time," German Finance Minister Wolfgang Schauble told reporters in Berlin.

Still, the bailout didn't help the euro, which by late afternoon in Europe had fallen more than 1% against the dollar to fetch \$1.3184. Fears persisted that Greece's promised fiscal cuts would be too much to bear. And the

gigantic sum -- perhaps the biggest outside rescue of a European country since the U.S.-led Marshall Plan after World War II -- gave a sobering glimpse at just how much would be needed if other peripheral euro-zone countries faltered.

Greece did get a boost Monday that could help ease any financing crunch: The European Central Bank agreed to continue accepting as collateral any current or future Greek government bonds, no matter how much debt-rating companies downgrade them. (Standard & Poor's last week cut Greek debt to junk status.)

ECB President Jean-Claude Trichet had said explicitly in January that the ECB wouldn't take such a step. The ECB's past rule had been to accept only bonds above a certain minimum rating.

As an immediate consequence, the new collateral rule will ward off any liquidity crises at Greek banks, which are major holders of Greek debt. They will be able to get cash from the ECB by pledging their Greek bonds as collateral.

More broadly, it may make euro-zone banks more likely to buy Greek debt, because they know they will be able to get cash for it.

Greece could sell short-term debt to local banks, which could then turn around and place it with the ECB, no matter what the country's credit rating.

In effect, "you could be in a situation where private financing becomes irrelevant," says Daniel Gros of the Centre for European Policy Studies in Brussels, "and Greece is financed by the ECB."

Greece's efforts at austerity thus far have run into popular resistance. On Monday, local government workers staged a 24-hour strike, both to protest plans to radically whittle the number of local governments, and over the recent austerity measures.

The country's umbrella public-sector union said it would extend a planned 24-hour strike this week to a second day, also to protest austerity moves. The union had previously announced a strike, along with its private-sector counterpart, for Wednesday.

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**Subject:** Budget deficits; Bond issues; Bailouts; Sovereign debt;

**Location:** Greece

**Company:** International Monetary Fund--IMF, European Union

**Classification:** 9176: Eastern Europe; 1110: Economic conditions & forecasts

**Publication title:** Wall Street Journal, Eastern edition

**Pages:** A.15

**Publication year:** 2010

**Publication date:** May 4, 2010

**Year:** 2010

**Publisher:** Dow Jones & Company Inc

**Place of publication:** New York, N.Y.

**Country of publication:** United States

**Publication subject:** Business And Economics--Banking And Finance

**ISSN:** 00999660

**Source type:** Newspapers

**Language of publication:** English

**Document type:** News

**ProQuest document ID:** 238149931

**Document URL:** <http://search.proquest.com/docview/238149931?accountid=17203>

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**Last updated:** 2013-01-25

**Database:** ProQuest Central

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