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Western European Indicators and Insights

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Greece: Bail-out worries continue.

Greek bond yields climbed to new highs as worries that the € 109 bln bail-out that Greece seemingly won last month may be unravelling as a result of a growing dispute over a side-deal struck between Finland and the Greeks, with the Dutch government questioning the arrangement's legality.

The Greek-Finnish collateral deal, reached last week between the countries' two finance ministers, would force Greece to deposit millions of Euros in cash as insurance that Greece would not default on the Finnish portion of the rescue. However, the deal (which was tacitly allowed by Eurozone leaders at the emergency summit last month) has reopened the debate about the bailout, with some countries, including Austria, Slovenia and Slovakia, insisting they want similar deals. As a result, the worry is (as highlighted by comments from Moody's on Monday) that such a sudden proliferation of collateral requests could sap Greece of financial resources, thereby raising fresh questions about Eurozone countries' willingness to continue bailing out heavily indebted fellow members.

Some hope is evident from the fact that Finland has now said it may moderate its collateral agreement with Greece. Even so, the scope of the previous deal and the public and political debate could drag out negotiations over the bail-out and cause significant nervousness in the interim. All of which is symptomatic of the lack of cohesion in which the Eurozone debt problem is being addressed by Eurozone politicians, the point being that at least in regard to Greece this may reflect a growing view among Eurozone politicians that Greece is not salvageable, as much for the fact that the country's appetite for the austerity being forced upon it is not sustainable.