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Western European Indicators and Insights

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GREECE: Default risk even clearer.

It is clear that EU leaders will not bail out Greece unless the country agrees to another dose of fiscal austerity. Indeed, the thinking of the EU seems to be that the very risk of Greece being allowed to default will be enough to concentrate minds in Greece enough that (increasing) political splits are overcome: over the week-end PM Papademos failed to make Greek party leaders accept the terms on offer for a second € 130 bln bail-out, pushing the country closer to a disorderly default as early as next month. These party leaders were of the (understandable) point of view that too much austerity is being asked of the beleaguered country.

There are suggestions today that this implicit threat from the EU has indeed been enough to swing party thinking in Greece: time will tell. Regardless, there are clear risks ahead. For a start, it is clear that the PSI deal has been (and remains) of secondary importance, as EU leaders may only allow Greece to sign off on any this restructuring once Greece agrees to the further austerity being foisted on it.

Secondly, even this may not be enough. Apart from Greece still having unsustainable debt dynamics even with a debt restructuring, Greece may now require much more than the € 130 bln bail-out, with it very unlikely that the EU or PSI (at least in its current form) will be able to make up what may be up to a further € 15 bln shortfall.