

# Immediate Insight: Greece

24 June 2011



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## Problem postponed, not resolved

After a week of uncertainty, EU leaders agreed to support Greece with further funds if the Greek parliament passes another package of austerity measures next week, aimed at saving an additional €78 billion. This followed a tight win for the reshuffled socialist government in a confidence vote on Tuesday.

The measures agreed by the Greeks include a cut in the income tax threshold, an increase in heating oil tax and a new minimum tax for the self-employed. In addition, there will be a one-off solidarity tax of between 1% and 5%, with politicians pledging to pay the highest rate. The opposition remain opposed to the package as a whole, but have indicated that they will support the proposed spending cuts but not the increased taxes.

Passing these new measures will release €12 billion in IMF and EU loans which can be used for maturing debt repayments in July. There are reports that banks are being pressed to roll over maturing debts for a further five years, although it remains to be seen how many institutions are willing to do this.

### Insight's position

It is noticeable that there has been little in the way of a relief rally following yesterday's announcement. We had expected the EU to agree a package this week, but this is only a temporary solution to a more deep-rooted problem.

While the immediate problem has receded, the Greek economy remains weak. We are therefore not confident that the Greeks will be able to collect the increased tax revenues or cut spending programmes as promised. This could produce further disruption later in the summer.

Despite the ongoing volatility, we expect the ECB to hike rates again in early July, although markets are now less confident that this will be the case following weak economic data and the ongoing debt issues in the periphery.

Insight's European portfolios have been zero-weighted in Greece, Ireland and Portugal for some time. We retain an underweight position in Spain.

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