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Market Update

Allianz 
Global Investors

Greece – deficit plan wins EU support

Mr Stefan Hofrichter, Chief Economist of RCM, a company of Allianz Global Investors, gives a summary of RCM's current view on Greece.

Greece - deficit plan wins EU support

- The Greek deficit plan wins EU backing as Prime Minister Papandrea agrees to cut spending
- Nevertheless, details of the Greek budget plan are still missing and there remains a scepticism about implementation
- The EU has set a deadline - certain Greek budget objectives must have been met by this date
- At this point in time, no sanctions have been put on the table by the ECB in case the Greek Government doesn't meet the targets

RCM view in brief:

- Overall we remain of the opinion that , if necessary, the EU will remain ready to help Greek avoid a default despite a no-bail-out clause in exchange for strict fiscal consolidation measures
- Greek spreads are reflecting a default risk which is much higher than what we think is a realistic default probability. We cannot, however, rule out another round of investors' worries about Greek bonds, and also bonds issued by other PIGS Governments (Portugal, Italy, Ireland, and in particular Spain) could be the next accidents in the bond markets

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