

European shares fall amid contagion anxiety

ARTHUR BEESLEY European Correspondent

EURO ZONE CRISIS: ANGELA MERKEL'S call for talks on emergency rescue aid for Greece to be speeded up came as uncertainty over the plan whipped up turmoil on the markets, sending the euro down and the yield on short-term Greek debt as high as 38 per cent. European shares fell amid growing anxiety about the contagion impact from the crisis on other debt-reliant countries and Spain faced the prospect of higher borrowing costs after its credit rating was cut.

The European Commission, however, said it saw no risk of contagion. "You cannot seriously establish any comparison between the situation in Greece and the situation in any euro area member," said the spokesman for economics commissioner Olli Rehn.

With diplomatic and other European sources saying German resistance was the main stumbling block to progress in talks on a rescue, Dr Merkel advanced her position after demands for decisive action from the European Central Bank and the IMF.

German finance minister Wolfgang Schäuble said Berlin's approval of its contribution to the aid package would be submitted to parliament by Friday week if talks on the plan were finalised in the next few days. There would also be a fast-track procedure to release the money quickly, he added.

"The approval of the German parliament remains uncertain at this point, but we reckon German participation in the Greek aid package will eventually win support," said analysts at Citigroup.

Greek 10-year bonds remained lower yesterday, the yield rising 0.43 percentage points at one stage to 10.48 per cent on concern about the EU/IMF rescue plan. The premium investors charge over German debt to hold Greek 10-year paper peaked at more 10 percentage points but later tightened to 8.25 percentage points.

Having soared to 38 per cent, the market priced the yield on Greek two-year paper about 17.35 late yesterday.

However, an opinion poll for Mega TV in Greece suggested most Greeks disapproved of their government's move to seek aid. Almost 61 per cent of 1,400 people surveyed said they opposed the decision.

The euro dropped to a one-year low against the dollar, reaching \$1.3117 at one point, while shares in Britain, Germany and France dropped between 0.3 per cent and 1.5 per cent, Portuguese shares dropped 1.9 per cent and Spanish shares lost 3 per cent.

Following its downgrade of Greek debt to "junk" status and a two-notch cut of its rating on Portuguese debt, Standard Poor's (SP) cut its assessment of Spanish debt by one notch to AA. SP has a negative outlook on Spain, reflecting the possibility of further downgrade if its "budgetary position underperforms to a greater extent" than anticipated.

The yield on two-year Spanish debt rose 0.10 percentage points to 2.19 per cent and the yield on Portugal's two-year note was little changed at 5.30 per cent.

While the latest downgrade was seen as a sign of contagion spreading from Greece, SP's "junk" rating on Greece drew a testy response yesterday from the European Commission. "Who are Standard Poor's anyway?" asked Mr Rehn's spokesman.

The spokeswoman for internal markets commissioner Michel Barnier said the EU executive would continue to observe “very closely what’s going on” and planned to introduce new rules to regulate the agencies later this year.

“We would expect that when credit rating agencies assess the Greek risk, they take due account of the fundamentals of the Greek economy and the support package prepared by the ECB, the IMF and the commission,” she said.

The response of the European authorities to the Greek crisis drew a withering critique yesterday from Alessandro Leipold, a former acting director of the IMF’s European division.

In a paper for the Lisbon Council think-tank, Mr Leipold said the assistance programme “has been severely mishandled by European policymakers, with a meandering strategy and poor communication”, threatening to undermine European unity itself.

“The time of muddling through must end,” he wrote. “First and foremost of these is rapidity of response. Approaching official support as an ultima ratio is misguided. Any further procedural delays should be forestalled by swift provision of bridge financing.”