

Portugal's Debt Costs Jump, EU Leaders Discuss Future

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As European leaders met to discuss future fixes to the euro zone, the inadequacy of previous bailouts in Greece and Portugal threatened to send the debt crisis back to where it started.

Fears of a second bailout for Portugal sent yields on two- and five-year debt soaring more than 3 percentage points Monday, with both topping 20%.

Providers of default insurance also demanded record prices and upfront payments.

Meantime, the absence of a deal to write down Greece's debt unnerved investors. A pact is needed to obtain a second Greek bailout package and avoid a default in March. The difficulty with Greece has raised concerns about other indebted countries.

"The Greek resolution is an indication there will be write-downs on other debt," said Joel Naroff, president of Naroff Economic Advisors. This comes despite earlier assurances from euro zone leaders that Greek bonds would be the only ones with which private-sector holders would likely take losses.

The major U.S. stock indexes were down slightly, but pared back earlier losses.

Despite the rising concerns, Italian debt auction went smoothly, and European Union leaders approved the creation of a permanent bailout fund.

Twenty-five of the EU's 27 member states also backed a pact for stricter budget discipline. The U.K. and Czech Republic were opposed.

But measures aimed at addressing future deficits won't do much about today's debt load

A Portuguese debt write-down deal or second bailout could happen in the coming weeks or months, says Josh Feinman, global chief economist for Deutsche Bank's institutional asset management business.

Last year, Portugal got a \$111 bil bailout when its bond yields approached 10%, making it prohibitively expensive to service its debt. But yields have stayed above 10% for several months, raising the likelihood the country will need a second bailout.

Restructurings and write-downs on Portuguese debt would be manageable, as its economy is small compared with Spain's and Italy's, Feinman says, but the EU must not let fear spread further.

"They have got to draw the line at Portugal," he added.

Bernard Baumohl, chief global economist at the Economic Outlook Group, is less optimistic. He sees a 50-50 chance Portugal and Spain will exit the euro zone. The chances Greece will leave are higher.

"It's the only way they can solve some of these problems," he said, such as the mismatch between their competitiveness and the euro's high value.