Written by **Bob Adelmann** on October 28, 2011

Now That Greece Is "Fixed," Portugal Is Next

With an economy already suffering from 12-percent unemployment, a debt-to-GDP ratio approaching an astonishing 360 percent, and the yield on the country's 10-year treasury debt exceeding 12 percent, it won't take much to send the Prime Minister, Pedro Passos Coelho, scurrying to the European Central Bank (ECB), hat in hand, for more help.

In fact Portugal's economy may already have gone over the edge. Simon Ward, economist with Henderson Global Investors, said that the mix of fiscal austerity demanded from the ECB in exchange for a bailout of $115 billion earlier this year and monetary tightening by the ECB has forced Portugal to enter a "Grecian vortex."

Ambrose Evans-Pritchard, writing for the *UK Telegraph*, said that none of this was supposed to happen — that once the Euro "deal" was concluded on Thursday, all would be well. He noted, "The working assumption is that Greece alone is the essential problem, and that other troubles are under control." But he added,

> This rescue machinery may prove to be a Maginot Line if — as many economists think — the danger comes from within Portugal, Spain and Italy. Like Greece, these countries have lost 30 percent in labour competitiveness against Germany since the mid-1990s. That is the root of the EMU [European Monetary Union] crisis. A toxic mix of fiscal tightening, higher debt costs, and now the threat of a Eurozone recession risks tipping them over the edge.

The immediate impact of Greece's default is that investors are pricing in higher risk premiums for other European Union countries' debt, which explains the unsustainably high interest rates on the Portuguese 10-year notes. (U.S. 10-year notes yield just over two percent versus 12 percent for Portugal.) A spokesman for the Royal Bank of Scotland said the Euro summit only "solves one problem by creating another. We expect to see the [debt] markets deteriorate further and see the ECB as the only backstop."

Commentators expect the Portuguese Prime Minister to ask for at least another $80 to $100 billion to tide things over, which appears to be manageable in the short run. Leveraging of the rescue fund (the European Financial Stability Facility, or EFSF) up to one trillion dollars or more will probably allow Portugal's needs to be met (in exchange for more austerity measures, of course). But the contagion is spreading.

Spain's money supply has also contracted sharply, according to the European Central Bank, forecasting a similar inevitable need for help. But Spain's economy is six-and-a-half times larger than Portugal's, and Spain's bailout demands could easily overwhelm even the newly created rescue fund.

And so the recent Euro "deal" can be seen for what it truly is, merely a stopgap measure to placate the banks and impose more extra-legal austerity measures on hapless countries' populaces who never knew they were giving up essential sovereignty in exchange for easy money. As countries such as Portugal, Spain, and Italy get pushed to the edge, the EU will rapidly run out of options. The Eurozone crisis is far from over. Indeed, it is just beginning.