

Europe's Leadership Changes

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It was another turbulent week for European leaders, particularly those in Greece and Italy. As we reported in last week's Thought 4 Thursday, the political crisis in Greece erupted when Prime Minister George Papandreou announced that he would put the new European rescue package to a referendum. Other eurozone nations were astounded by the delay. Global markets reacted negatively to the announcement, and Greece's international creditors froze the country's next bailout installment payment. Faced with a backlash from within his own Socialist party, lawmakers called for the Prime Minister to resign.

On November 4, Prime Minister Papandreou survived a confidence vote in the Greek Parliament. He did so only after pledging to form a unity government with his political opposition, led by Antonis Samaras. The two parties, Papandreou's Socialists and the opposition conservatives, have spent three days in intense power-sharing negotiations.

Earlier this week, eurozone finance ministers declared that the heads of the two main parties had to commit in writing to the terms of the country's bailouts before Athens can receive the next loan installment. Wednesday, the Prime Minister announced that an agreement had been reached with the opposition on the creation of an interim government that will secure the country's new debt deal.

There had been intense speculation as to who would replace Papandreou. That speculation ended this morning with the announcement that Lucas Papademos had been named Greece's new Prime Minister. Papademos, widely believed to be the strongest candidate, is the former European Central Bank Vice President. Papademos will be heading a crisis coalition whose objective is to implement the negotiated eurozone bailout plan for Greece.

Greece's Prime Minister is not the only European leader to be ousted this week. Italian Prime Minister Silvio Berlusconi became the newest political casualty of Europe's debt crisis on Tuesday, when he announced that he would step down after being stripped of his majority in parliament. Berlusconi's imminent departure spells the end of the flamboyant, billionaire media magnate's 17-year dominance of his country.

Berlusconi stated that he is planning on stepping down after parliament passes the 2012 budget containing austerity measures. However, he provided no timeline for when the budget would be voted on, meaning he could remain in power for several more weeks. Berlusconi also indicated that he would like to call fresh elections early next year, seemingly rejecting calls to create a new unity government.

The uncertainty sent yields on Italian sovereign debt soaring to eurozone-era highs. 10-year bonds were yielding well over 7%, the level that sent Greece, Ireland and Portugal to seek EU bailouts. Markets reacted Wednesday with a "flight to safety", as equity prices tumbled while prices on US Treasury notes increased.

TPI continues to monitor the European debt crisis very closely. As reports surface, we will keep you informed of the latest developments. Please feel free to contact us if you have any questions or concerns.