



European debt crisis flashback

Overview

Japan, the US and Euro zone are facing very tough situations currently. Japanese government has focused on reconstruction of a ravaged country, the cost of which is estimated at JPY 25 tn (about USD 300 bn), notwithstanding the fact that its public debt reaches about 200% of GDP. The US Congress has not managed to find an agreement on 2012 budget yet threatening normal operation of government agencies. Euro zone debt crisis seems returning after the Portuguese political crisis. European countries have to implement austerity packages to reassure the market confidence. "Do not crack under the pressure" could be the leitmotiv of these governments in the coming months.

Focus: European debt crisis flashback

S&P downgraded Portugal sovereign debt after its parliament rejected the new austerity proposal on March 23. Portugal might have to seek for a bailout program soon following Greece and Ireland, likely totaling up to EUR 75 bn. Spain could soon be the next one to face debt crisis when its peak of debt due is coming in April, July and September this year. Given its high exposure to Portugal, high debt burden, economic difficulties and fragile banking system, Spain might also need a rescue package from the stability fund of Euro zone to come out the crisis. Greece and Ireland economies have not improved that much, thus they renegotiated lower interest rates and longer maturity of the loans linked to the bailout package.

To enhance budgetary discipline and improve surveillance of economic policies, the European Union has put forward six proposals to improve implementation of Growth and Stability Pact and monitor economic imbalance. The penalty clauses of the Growth and Stability Pact are especially strengthened and the European Commission has extended rights to decide to launch penalty against the violating countries. These periphery countries will have to struggle to repay the bailouts in the coming years, and a possible extension of the stabilization mechanism beyond 2013 implies a sharing of losses and risks among European partners via debt restructuring of the most fragile countries.

CITIC Securities Research

Yifan Hu
(o) 852-22379116
yifanhu@citics.com.hk

Alexis Garatti
(o) 852-22379117
alexisgaratti@citics.com.hk



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Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
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	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

地址: 香港中环
添美道 1 号
中信大厦 26 楼
电话: (852) 2237 6409
传真: (852) 2104 6580
电邮: hkresearch@citics.com.hk
网址: http://www.citics.com.hk

Address: 26/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
Tel: (852) 2237 6409
Fax: (852) 2104 6580
Email: hkresearch@citics.com.hk
Web: http://www.citics.com.hk