The domino effect in EU crisis

The sovereign debt crisis continues to unfold in Europe, with every country appearing to get sucked in

In October, European leaders reached another deal to try to stop the contagion. But which countries are most at risk and why?

Three nations in the eurozone — the 17 nations that use the Euro — have been recipients of bailouts as attempts to solve the crisis keep stalling. Italy became the latest to feel the domino effect of the markets when its debt rating was lowered, the latest in a series of downgrades. Greece, Spain, the Irish Republic and even Cyprus have also had their ratings cut this year. The future of the Euro is being questioned in a way it never has since 1999. Which countries have fallen, and which are feared to be next?

REUTERS

Stationary taxis are seen in front of Athens' Hadrian Gate during a protest in Athens

GREECE

The problem: Greece's huge debts, about 340bn Euros (£297bn; $478bn).

In late 2009, after months of speculation and sovereign debt crises in Iceland and the Middle East, Greece finally admitted its debts were the highest in the country's modern history. Since then, a 110bn-Euro bailout was passed by the eurozone last year and a second bailout of roughly the same size was agreed earlier this year — but not yet passed. Most observers remain highly sceptical of Greece's ability to ever repay its huge mountain of debt. Talk persists of an unprecedented default or of Greece leaving the eurozone.

Because of the interconnectedness of the European economy, this would cause huge losses for French and German banks. Thus, though Greece has been bailed out, fears of it running out of money continue to plague investors. International credit markets remain wary of Greece because of its sovereign debt rating.

ITALY

The problem: Italy has the highest total debt in the eurozone, amid stagnant growth.

In the summer, the country was charged record levels to borrow, which prompted renewed calls to pass spending cuts. The alternative, selling more debt, was unsustainable at rates that reached 6 percent. Rome laid out 60bn Euros of austerity measures and aims to balance its budget by 2013, but markets have been concerned over its growing debt load in relation to GDP — the second-highest behind Greece in the eurozone.

If Italy was to be bailed out, few think that the eurozone (or Germany in particular) could actually afford it. But Italy has the advantage of having most of its debt owed to its own people rather than external investors. This buys it more breathing room than, say, Greece.

SPAIN

The problem: The housing boom turned to bust, leaving the country's banks loaded with bad debt and the highest unemployment rate in the eurozone.

Spain has also seen record borrowing costs recently, forcing its government to adopt numerous austerity measures to get its finances under control. Spain, like Italy, is considered too expensive a proposition for the eurozone to realistically bail out. This is why the eurozone has tried to help lower its cost of borrowing, rather than give it loans as it did to its neighbour, Portugal.

FRANCE

The problem: The country's banks bear a heavy exposure to Greek debt.

While France's public finances have not yet been questioned heavily by the market, its banks have seen sharp falls on the stock market. In September, Moody's downgraded Credit Agricole and Societe Generale after reviewing their exposure to Greek debt. Credit Agricole and Societe Generale have seen their share prices fall by about two-thirds since February, while BNP has fallen by more than half. France has also announced plans to cut spending by 45bn Euros over the next three years.

UK

The problem: UK banks have a heavy exposure to Irish debt.

Other than that, the UK has been relatively unscathed, while its eurozone neighbours endure turmoil. The coalition government has announced the biggest cuts in state spending since WWII. UK gilts are viewed as one of the safest investments in the world, with the country's borrowing costs falling to recent lows. But the situation remains precarious. The country's budget deficit was 10.3 percent last year — this is just behind Greece, greater than Spain's and more than triple that of Germany.

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China weighs up support for Euro rescue fund

China has given cautious support to bolstering Europe's Financial Stability Facility

EU leaders want China to commit to making further bond purchases to its revamped rescue fund.

But after talks with the French President Nicolas Sarkozy, China's Vice Finance Minister said it was too soon to make any concrete plans because of market conditions and the ongoing Greek crisis.

"The Greek referendum was somewhat unexpected, but we consider it an independent decision by Greece. We hope that Athens can reduce uncertainty as much as possible in order to boost investor confidence and calm financial markets," said Zhu Guangyao.

The EFSF is thought to have raised 13bn Euros from three bond issues this year. China's Central Bank is expected to make a 100bn Euro contribution but Beijing has also made it clear that its help will not come without conditions.

Jobless claims fall, labour market slowly improves

New US claims for unemployment benefits fell below 400,000, suggesting a modest improvement in the still-moribund labour market

Initial claims for state unemployment benefits dropped by 9,000 in the week ending October 29th to a seasonally adjusted 397,000.

Futures for US stocks edged higher following the data, and increased gains after the European Central Bank cut interest rates. US Treasury debt prices fell. Economists had forecast claims edging down to 400,000. The level of weekly claims remains well above pre-recession levels and has dipped below 400,000 only on brief occasions this year, suggesting no fast turnaround is imminent for the jobs market. The claims data will not impact the report on payroll levels during October, which are expected to show employers added 95,000 new jobs during the month. That is not considered a fast enough pace over time to bring down the unemployment rate much, if at all. The four-week moving average of claims, considered a better measure of labour market trends, fell 2,000 to 404,500.

REUTERS

A man has chosen Citibank ATMs as a place to protest

In a separate report, the Labour Department said US nonfarm productivity increased during the third quarter while growth in wages and benefits slowed sharply, showing that some inflation pressures were easing even as the economy picked up pace. Productivity rose at a 3.1 percent annual rate, the biggest increase since the first quarter of 2010. Unit labour costs fell 2.4 percent, a much bigger decline than the 0.8 percent rate forecast by analysts.

AMD to lay off a 10th of workforce by 2012

Advanced Micro Devices Inc. unveiled a plan to save about $200m of operating costs in 2012 by slashing 10 percent of its global workforce and streamlining internal business processes

The layoffs mark the first major move by Chief Executive Rory Read, who came onboard in August to try to galvanise a microprocessor maker that has bled market share to larger rival Intel Corp., while missing out on the mobile device boom.

The layoffs should be completed in 2012's first quarter. Savings generated could help bankroll research and expansion into areas such as low-power chips, emerging markets and cloud computing next year. In late September AMD, a distant second to Intel in selling microprocessors that are the brains of PCs, warned of manufacturing problems manufacturing it new 32 nanometre Llano chips as well as older 45 nanometre chips.

Like Intel, AMD has failed to gain traction in increasingly popular mobile gadgets like Google Inc's Android smartphones and Apple Inc's iPad, which some people are buying instead of laptops. Read, who was a top executive with PC maker Lenovo Group Ltd., replaced Dirk Meyer, who left in January.

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