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## **A Big Fat Crisis Averted?**

**The ongoing European debt crisis creates new risks for CFOs.**

[Kate O'Sullivan](#), CFO Magazine

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What began as concern regarding Greece's sovereign debt burden has now mushroomed into fears about other Eurozone nations. Mounting anxiety about the finances of Spain, Portugal, and Italy continued to roil global markets even after an initial rescue package for Greece was announced, prompting European leaders to quickly pass a much larger, wider-ranging plan last month that would quash talk of market contagion and preserve the region's fragile economic recovery.

Perhaps they should have scrambled sooner. "If the Europeans had acted decisively at the very beginning, they could have snuffed it out," says Richard Marston, director of the Weiss Center for International Financial Research at the Wharton School.

To U.S. finance chiefs, exposure to the European markets suddenly looks much riskier than it did even a few months ago. "CFOs have to worry about whether they have more euro downside risk than they thought," says Marston. "The euro has already fallen significantly from \$1.50 as late as December 2009, and further decline can't be ruled out." Receivables in at-risk Eurozone nations also merit a closer look, he adds.

Dealmaking in Europe takes on a new level of risk, too, which finance executives will have to price in as they consider acquisitions in the region. And, of course, as the euro weakens against the dollar, U.S. exports will become more expensive in Europe.

As for the €750 billion (\$955 billion) bailout, while it may have met the crucial objectives of heading off a European banking crisis and averting a global panic, it's no panacea, says Campbell Harvey, professor of international banking at Duke University's Fuqua School of Business. "The bailout reduced the risk of a big free fall, but at the cost of longer-term growth opportunities in Europe," he says. "This is going to effectively increase the cost of borrowing in Europe, [which will] decrease growth and employment." For U.S. finance chiefs, Harvey says that "whatever you were expecting in terms of demand for your goods in these countries is probably reduced across the board."

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