

The new Iceland? Greece fights to rein in debt

Fears of default grow as years of profligacy come home to roost

- Helena Smith, Athens
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The Olympic flame in Athens, 2004 – the costliest ever games. Photograph: Petros Giannakouris/AP

The likelihood of [Greece](#) becoming the next Iceland and plunging into bankruptcy looms over a meeting of EU finance ministers in Brussels today as the Greeks prepare to take another pasting from their colleagues.

After years of profligacy, hosting the costliest Olympic games ever in 2004 and failing to rein in its spiralling public debt, the country was on the brink of defaulting on loans, according to some seasoned commentators.

And the uncomfortable prospect of the eurozone member being unable to pay its debts was one that investors were pondering in the wake of the Dubai crisis that has sent markets falling around the world.

With a public-sector deficit approaching 12.5% of GDP – more than four times the stipulated EU amount and nearly double the level announced by the previous conservative administration – the gravity of the situation has not been lost on Athens' new socialist government.

"Our economy is in intensive care," said George Papandreou, the prime minister, barely a week after assuming power in October. "This is without doubt the worst economic crisis since the restoration of democracy [in 1974]."

National debt – the highest in the EU and projected to rise to 135.4 % in 2011 – has made the outlook grimmer still. After years of posting 4% growth rates, the economy is expected to contract 1.2% in 2009 with unemployment levels tipped to top 9% amid growing poverty.

And yet it is not all gloom in Athens. The credit ratings agency Standard & Poor's, through its Greece analyst Marko Msrnik, ruled out the possibility that the country would go bankrupt. "Although the public finance situation is worrying we will maintain our [A -] credit rating," he said in an interview with the authoritative Kathimerini daily at the weekend.

Today, the outgoing EU monetary affairs commissioner, Joaquín Almunia, who has used strong language to describe the country's financial woes in the past, appeared to agree. "Greece is not about to go bankrupt," he said.

Tellingly, the Athens stock exchange rebounded for a second day after falling sharply last week amid concerns over the fallout of Dubai's debt crisis and fears over the soundness of the Greek banking system.

The socialist government hopes to prove doomsayers wrong by implementing a €3bn (£2.7bn) fiscal stimulus programme to jumpstart an economy that is not only blighted by structural problems but thirsty for reform. By drastically reducing public expenditure, including defence spending, it says it can trim the deficit by 3.6 percentage points to 9.1% of GDP next year.

Within days of taking office, Papandreou, a staunch advocate of a "green" economy, announced that his ministers would have to make do with

small "electric" cars and not the fleet of Mercedes their predecessors had used. Clamping down on widespread tax evasion and taxing the rich and church will, he hopes, also bring in badly needed revenues. The all-pervasive problem of corruption will also be targeted with Papandreou likely to call a rare meeting of party leaders to deal with the scourge in the coming days.

In a rare show of consensus, Greeks know their country's credibility is at stake. "The bitter truth is that we don't have the confidence of anyone in Brussels any more ... for too long we have cooked the books," said a leading commentator, Yannis Pretenderis.

As he steeled himself for the Ecofin meeting in Brussels, the finance minister Giorgos Papaconstantinou, appealed for time: "Change takes time and time is an increasingly scarce commodity especially in today's jittery international markets," he wrote in the Wall Street Journal. "The new government has hit the ground running. But restoring Greece's credibility will not happen overnight."

What Greece needed from its partners, he said, was a "suspension of disbelief", until the results rolled in.

<http://www.guardian.co.uk/business/2009/nov/30/greece-iceland-debt>