

# Former BOE Official Buiter Says Greece May Be First EU Default

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By Svenja O'Donnell and Elliott Gotkine

Dec. 9 (Bloomberg) -- Former Bank of England policy maker Willem Buiter said Greece may be the first major country in the European Union to default on its debts since the aftermath of World War II.

"It's five minutes to midnight for Greece," Buiter, who will join Citigroup Inc. as its chief economist next month, said in a Bloomberg Television interview today. "We could see our first EU 15 sovereign default since Germany had it in 1948."

The EU's economic affairs commissioner said late yesterday that officials are ready to help Greece with its budget deficit after concerns about its public finances sparked a rout in Greek government bonds. Fitch Ratings cut its rating on the nation's debt yesterday to BBB+ and two other major ratings companies are threatening to follow.

"Default is not unavoidable," Buiter said. "But unless there are radical fiscal actions, lasting cuts in spending and tax increases of at least 7 percent of GDP, the writing is on the wall" for Greece.

There's "absolutely" no risk Greece will default, Finance Minister George Papaconstantinou said in an interview today with Bloomberg Television. Greek banks are "fundamentally sound" and Greece will not seek an EU aid package, he said.

Greece, the lowest-rated country in the euro region, is struggling to cut a budget deficit of 12.7 percent of gross domestic product.

## European Assistance

The European Commission "stands ready to assist the Greek government in setting out the comprehensive consolidation and reform program, in the framework of the treaty provisions for euro-area member states," said Joaquin Almunia, who is in charge of EU economic and monetary policy. He didn't say what form any assistance could take.

Greece can expect a bail out from the European Central Bank "only at a price," Buiter said. "They'll probably go to the IMF, have a credible standby program and then aid from Brussels and bilateral aid from selected sovereign governments in Europe and the U.S. will be available."

The benchmark Athens Stock Exchange General Index has fallen more than 11 percent in the last three days. The spread between the Greek and German 10-year benchmark bonds widened to 221 basis points from 130 basis points on Oct.

Buiter, currently a professor of political economy at the London School of Economics, was one of the founding members of the U.K. central bank's rate-setting panel when he joined in June 1997.

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