Greek premier says country risks sinking in debt

Greek prime minister says country risks sinking in debt, has lost credibility

By Elena Becatoros, Associated Press Writer , On Monday December 14, 2009, 7:31 pm EST

ATHENS, Greece (AP) -- Greece's prime minister says the country must seize control of a ballooning government budget deficit and has warned that the country risks drowning in debt if it fails.

George Papandreou called Monday for unity during a speech to business and union leaders in Athens. He pledged that his new Socialist government, elected in October, would take steps over the next few months that are decades overdue.

"Greece, with so much potential, is in critical condition," he said.

The raft of measures included a reduction in defense spending in 2011 and 2012; slashing bonuses across the public sector; reducing social security and government operating expenditures by 10 percent each, and imposing salary caps for public utility directors.

He also called for taxes of up to 90 percent on large bonuses for private bankers; the closure of a third of Greece's tourist offices abroad, and eliminating cost-of-living increases for public sector workers with monthly salaries of more than euro2,000 ($3,000).

Other measures include the introduction of a capital gains tax and the resumption of inheritance and property taxes abolished by the previous government.

Many measures would be painful, the prime minister acknowledged, but he promised that the weaker sections of society would be protected.

Greece has been facing its worst debt crisis in decades amid the global recession. It faces political pressure from the European Union to straighten out its finances and obey deficit limits intended to support the shared euro currency.

"Greece faces the risk of sinking under its debt," Papandreou said, adding that the country "has lost every trace of credibility" and that financial markets want to see action.

"Our slogan of 'Either we change or we sink' is more pertinent than ever," he stressed.

Greece is not the only country in the eurozone facing debt problems. Ireland, Spain and Portugal all are suffering from extra scrutiny in bond markets.

The Irish government last week unveiled a record euro4 billion ($6 billion) in budget cuts to combat its own runaway deficit. But Athens has come under the most pressure from other EU countries to take drastic measures to bring its public finances in order.

Papandreou pledged that Greece's debt, which has soared to a staggering euro300 billion ($442 billion), will begin to be reduced by 2012 at the latest.

He promised to bring deficit spending, currently projected at 12.7 percent of economic output for 2009, to below the EU's euro-zone requirement of 3 percent by the end of 2013, when his Socialist party will be completing its first four-year term.

European Union officials have warned that Greece must deal with its problems itself and not expect a bailout.

"We are all hurt when Greece is held up as an example to be avoided in the entire European Union," Papandreou said. "We are all hurt when we hold the negative records in corruption, lack of competitiveness, in the deficit, the national debt."

The prime minister also pledged to crack down on corruption, carry out a major reform of health care finances and bring immigrants -- tens of thousands of whom work in the country illegally -- into the social security system.

"The stakes for Greece are clear. This concerns our sovereign rights, our right to have a social state," Papandreou said, adding that he did not want to "take half-measures which target the wrong problems and the wrong groups of people."

Papandreou spoke on the same day a delegation from Moody's credit rating agency was in Athens to review the economic situation. The deficit is currently projected at four times the 3 percent limit imposed by the EU for euro currency countries, and twice the previous official projection, while debt, estimated at 113.4 percent of GDP in 2009, is forecast to reach 120.8 percent of total economic output next year.

Moody's put Greece's government credit rating under review for possible downgrade in late October, and a verdict is expected by early next year at the latest. Last week, Fitch Ratings downgraded Greece from A- to BBB+ -- the lowest rating of any of the 16 countries using the euro.

Lower ratings mean that the government will likely have to pay higher interest rates to borrow, making it even harder to cut the deficit.

http://finance.yahoo.com/news/Greek-premier-says-country-apf-196905444.html?x=0&sec=topStories&pos=5&asset=&ccode=