USA TODAY

Greek financial woes far from over

Updated 6/29/2011 9:24 PM |

By **Gary Strauss**, **USA TODAY**

Global markets rallied Wednesday after Greece's parliament backed sweeping austerity measures to avoid bankruptcy. But Greece's plan is a stop gap measure at best, economists say.

By Thanassis Stavrakis, APRiot policemen block stones at Syntagma Square in front of the Greek Parliament in central Athens on Wednesday.

Enlarge

By Thanassis Stavrakis, AP

Riot policemen block stones at Syntagma Square in front of the Greek Parliament in central Athens on Wednesday.

The austerity package includes a five-year, $40 billion plan to trim spending through increasing taxes, cutting wages for public sector employees, and raising the country's minimum retirement to 65 from 61.

The parliament's approval, amid another day of violent anti-government protests in Athens, was seen as crucial for $17 billion in bailout loans aimed at staving off default this summer.

While the news propelled European stock exchanges up 1.5% or more and helped the Dow Jones industrial average gain 73 points to 12,261, the austerity plan, which faces another parliament vote today, does little to solve Greece's long-term financial woes.

STORY: 46 hurt in clashes on eve of Greek vote

PHOTOS: Rioting in Greece

"Whatever measures Greece enacts, there is no way the country can pay its debts in full, so it comes down to how much of the pain is shared with creditors and banks," says Cornell University economist Eswar Prasad.

Also key: Greece's ability to lower its deficit by selling $71 billion in state-owned interests, IHS Global Insight economist Diego Iscaro says.

He notes that Greece has yet to reap any benefits from privatization and doubts the country will meet its year-end goal to raise

$5 billion.

"There are many question marks over how these assets are going to be privatized," Iscaro says. "Given Greece's high debt levels, falling tax revenues and an economy that's still quite weak, this is a country that still faces a lot of challenges."

Jonathan Henes, a bankruptcy and restructuring expert at New York-based law firm Kirkland & Ellis, says Greece has merely bought some time.

"There's still a high likelihood that there will be a default. This just pushes it off for a little longer," Henes says. "The only way to fix this is to reduce debt to a level that's sustainable for the country. At some point, they're going to have to face reality."

Debt woes also plague Portugal, Spain and Italy, which are watching bankers to see how they deal with Greece.

"A messy restructuring of Greek debt and the spillover effects to other economies would hurt consumer and business confidence around the world," Prasad says.