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Rescue looms amid more pain for Greece

Borrowing costs driven higher and stocks hit

Premier talks of 'decades of mistakes'

By Kerin Hope in Athens, Tony Barber in Brussels and Anousha Sakoui in London

A €40bn rescue of Greece loomed closer after another debt downgrade and news that the country's finances were worse than thought drove its borrowing costs even higher.

A sharp fall in share prices on the Athens stock exchange and fears that Greek banks are about to face a funding crisis raised expectations that George Papandreou, prime minister, would bring forward a formal appeal for help from Greece's eurozone partners and the International Monetary Fund.

"It's our historic obligation to take decisions that will avert the worst for Greece," Mr Papandreou told his cabinet. "We have reached this point after decades of mistakes, omissions and sitting back idly."

His comments came as a sell-off in Greek government bonds intensified, driving the yield on 10-year debt to 8.83 per cent, the highest since 1998.

The turbulence spread to currency markets where the euro fell to its lowest point against the dollar since last May.

Mr Papandreou had hoped to wrap up a deal with a visiting IMF mission before activating the rescue package agreed in principle by eurozone leaders.

The eurozone-IMF aid is expected to be worth at least €42bn, with two-thirds coming from the countries that share the euro with Greece and which are demanding tough austerity measures and strengthened European supervision of Greek economic policies in return.

The measures are stirring opposition from trade unions, which yesterday closed hospitals, stopped ferries sailing and picketed hotels in Athens.

Dominique Strauss-Kahn, IMF managing director, said the fund's experts in Greece would need "some days" to fix the rescue terms. "There is no silver bullet to solve it in an easy manner," he said.

The IMF is thought likely to insist on tougher conditions than Mr Papandreou has introduced to cut Greece's budget deficit and stop its public debt from soaring out of control.

Its team yesterday voiced doubts about the quality of official Greek data after Eurostat, the European Union's statistical service, revised its estimate of the country's 2009 deficit to 13.6 per cent of gross domestic product from 12.7 per cent.

A debt downgrade by Moody's, the credit rating agency, followed. Moody's cut its rating on Greek debt by one notch to A3, a blow for Greece as the agency has been relatively cautious about marking down European sovereign debt.

Goldman Sachs' chief economist Erik Nielsen warned that, while he did not expect a forced debt restructuring, investors should watch for signs of voluntary debt restructuring to address large debt repayments in coming years.

Additional reporting by Alan Beattie in Washington


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