

GREECE

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Challenges remain despite the reforms

Huge progress has been made with the economy, but the country's Olympian social goals mean it still has everything to work for, writes **Kerin Hope**

The Greeks have two words for where they want to be by the summer of 2004 when Athens will stage the Olympic Games. They are "Evropaiko epipedo" - "European standard" - a vision of a country that would operate as smoothly as the trains on the capital's smart new underground railway line.

After 20 years of EU membership and more than €30bn of transfers from the Commission's structural funds, Greece has acquired an unprecedented gloss of prosperity. The launch this year of another €25bn of structural aid is expected to offset the impact of the European economic slowdown and ensure growth rates are maintained at levels above the EU average.

For the first time in a decade companies from western Europe and the US are looking for investment opportunities in Greece as a stable country from which to export to the emerging markets of central Europe and the eastern Mediterranean. Trade with Turkey is flourishing, in spite of that country's financial problems, as the rapprochement launched two years ago in the wake of disastrous earthquakes in both countries starts to take firmer root. There is even a mood of optimism about prospects of a settlement in the long-running dispute over Cyprus with the

resumption this month of reunification talks between Greek and Turkish Cypriots. Preparations for the launch of the euro have gone smoothly, with Greece poised to supply additional euros to its Balkan neighbours to the north. And with the demise of the drachma - a currency linked in popular memory with rigid exchange controls and high levels of inflation - the Greeks will already have moved a step closer to their European ambition.

"We have a window of opportunity over the next three to four years," says Lefteris Antonacopoulos, chairman of the Federation of Greek Industry. "If we put this final package of structural funds to good use, we'll be a respectable member of the EU and be able to shape our own economic future."

Expectations have risen sharply since Greece became a member of the eurozone last January. Tight fiscal policies required to achieve the Maastricht convergence criteria left little margin for social spending. With the budget showing a surplus, the Socialist government is trying to restore the balance with a substantial package of benefits for pensioners and low-income families. But the slow pace of liberalisation means there has been little progress with creating jobs, especially for entrants

to the workforce.

Greece lags behind its eurozone partners on "soft" convergence - raising standards of healthcare, policing, justice and public administration to those available elsewhere in the Union. There is deep dissatisfaction with the poor quality of public services, from overcrowding at state hospitals to the time-consuming journeys that island residents make to file applications for a passport or driving licence.

The bizarre case of the British and Dutch "plane-spotters", detained for five weeks on spying charges after touring a Greek air force base on the annual open day, turned an international spotlight on deficiencies in the justice system. The judiciary is slow-moving and strongly politicised, with senior judges still appointed by the cabinet. Nikos Konstantopoulos, leader of the small Left Coalition party, says the system is plagued by "mechanisms of control, interference and influence-wielding as well as corruption".

Another issue of increasing concern is the pervasiveness of corruption. Greece was placed 42nd out of 91 countries in the latest annual "corruption perception index" published by Transparency International, the global anti-corruption watchdog. Its ranking was

the lowest among EU countries and was also below several central European countries that are candidates for EU membership.

Businessmen complain that tax officials demand sizeable bribes to approve companies' income tax statements or settle VAT obligations, as do workers from the utilities who install or upgrade connections at offices and factories. At the other end of the scale, immigrant workers say they are forced to hand over cash to police officers to secure a place in the queue to apply

for a temporary residence permit.

Miranda Xafa, economist at Schroders Salomon Smith Barney, says: "Cracking down on corruption by tax inspectors must be part of the overall process of reforming the tax system."

The Socialists are aware that without delivering improvements in public services their chances of winning another term at the general election due in 2004 will be sharply diminished. The government has already allocated €2.8bn from the EU structural package to pro-

vide electronic government and the information society. The tax system has been fully computerised so that income tax returns and VAT processing can be completed online.

But Greece still has a long way to go to catch up with its European partners. Many funds in the fragmented pension system are still administered without the help of computers; there is only one terminal for every five civil servants; and only 40 per cent of high schools have an internet connection.

George Papaconstantinou,

secretary general for the information society, says: "The target over the next two years is to provide one computer for every two civil servants and make sure that every school has an internet connection."

Broader structural reforms, delayed while the Socialists focused on meeting the convergence criteria, have moved up the agenda. Costas Simitis, the prime minister, has regained the initiative after being re-elected leader of the Socialist party by a wide margin at a party congress in October.

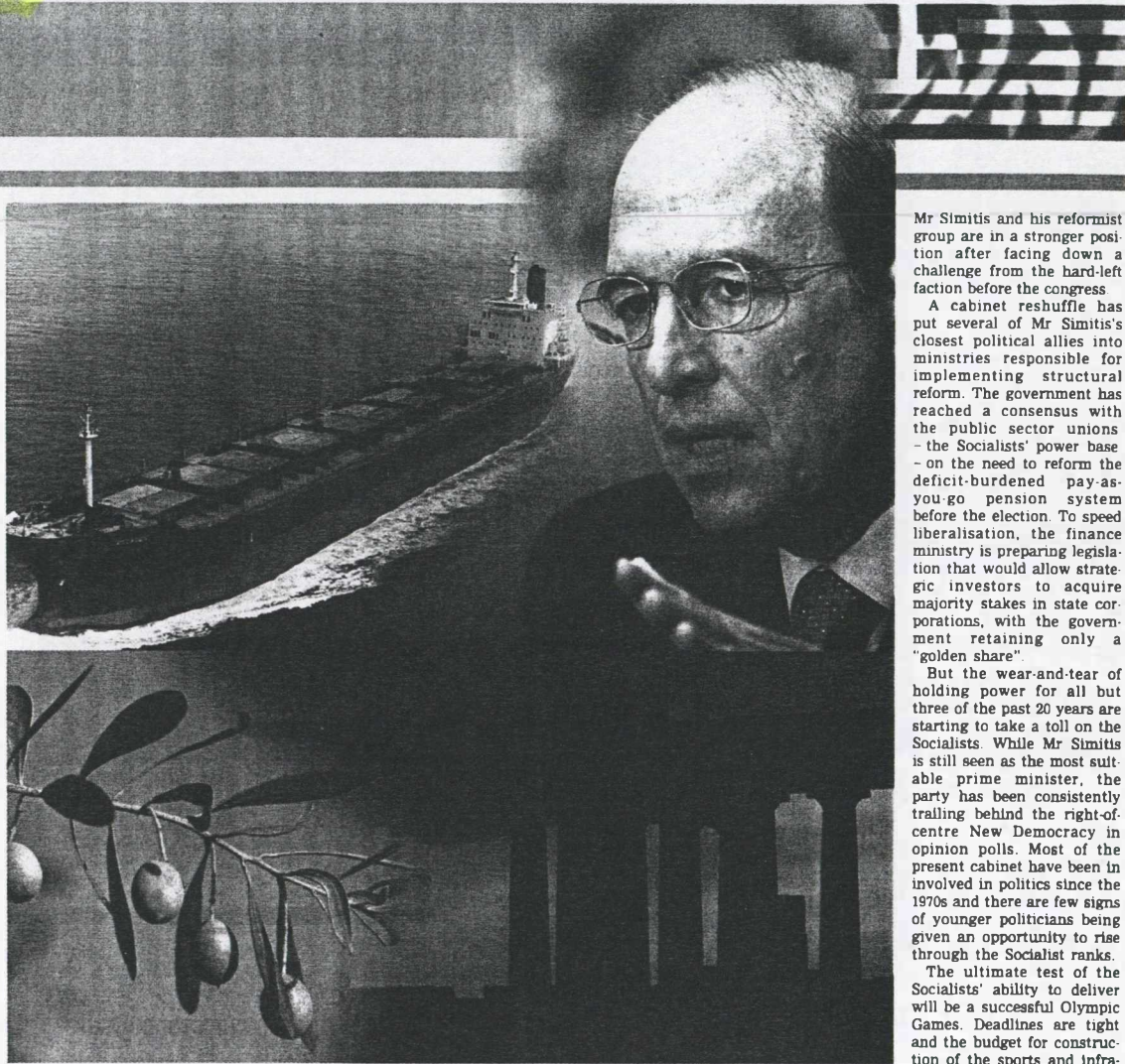
Mr Simitis and his reformist group are in a stronger position after facing down a challenge from the hard-left faction before the congress.

A cabinet reshuffle has put several of Mr Simitis's closest political allies into ministries responsible for implementing structural reform. The government has reached a consensus with the public sector unions - the Socialists' power base - on the need to reform the deficit-burdened pay-as-you-go pension system before the election. To speed liberalisation, the finance ministry is preparing legislation that would allow strategic investors to acquire majority stakes in state corporations, with the government retaining only a "golden share".

But the wear-and-tear of holding power for all but three of the past 20 years are starting to take a toll on the Socialists. While Mr Simitis is still seen as the most suitable prime minister, the party has been consistently trailing behind the right-of-centre New Democracy in opinion polls. Most of the present cabinet have been involved in politics since the 1970s and there are few signs of younger politicians being given an opportunity to rise through the Socialist ranks.

The ultimate test of the Socialists' ability to deliver will be a successful Olympic Games. Deadlines are tight and the budget for construction of the sports and infrastructure facilities needed for the games has soared by more than 3 percentage points of gross domestic product. Because of delays in decision making, some planned upgrades of roads around the capital will not take place and temporary venues will be used for some sports events.

As Denis Oswald, president of the International Olympic Committee's coordinating commission for 2004, puts it: "We have to keep up the pressure. There is still a lot to do and it will be a race against the watch until the end of the Games."



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