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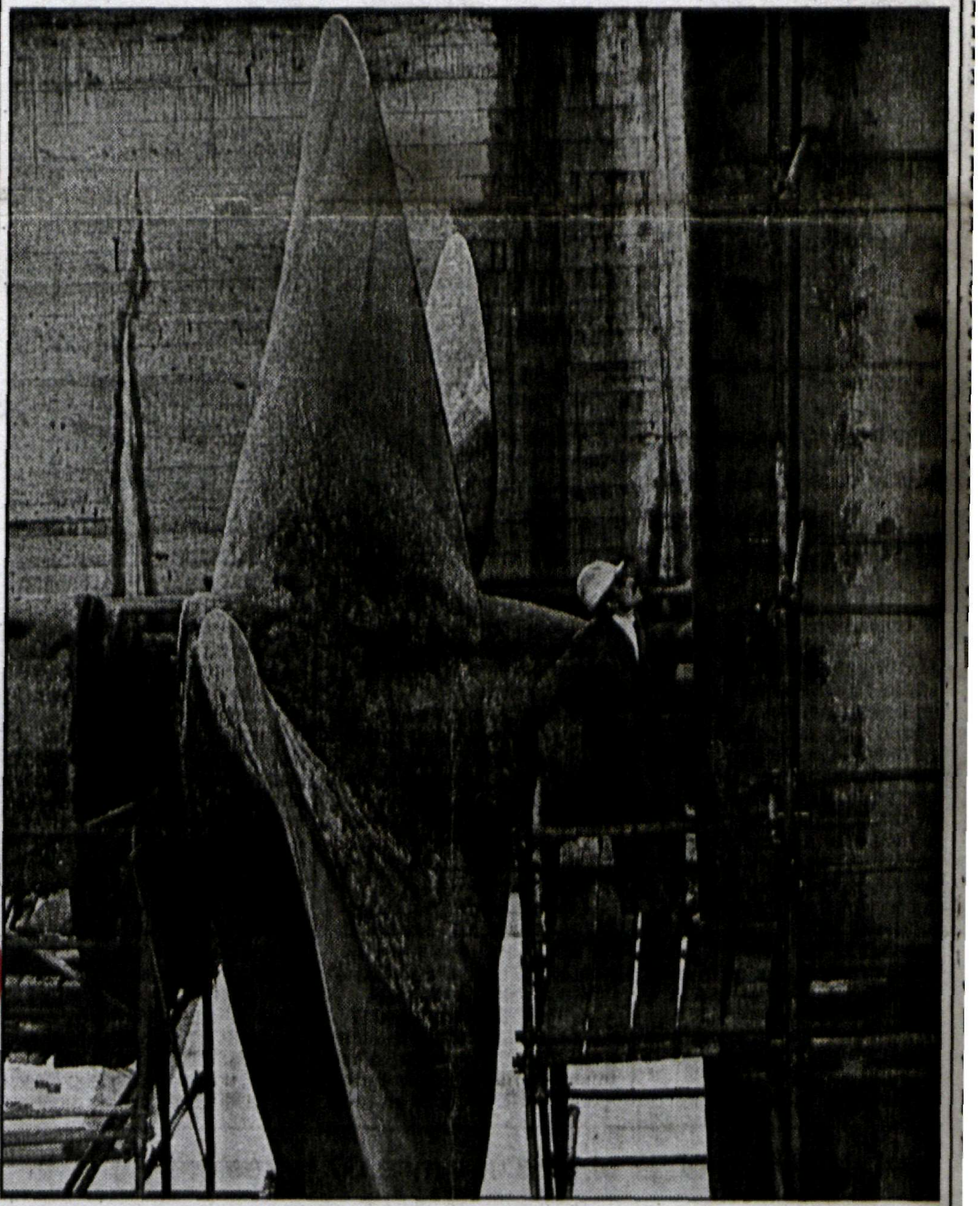
Serbia sanctions squeeze Greece

EC aid is sought by those caught in the economic crossfire of Bosnia's battles. MARK MILNER reports from Athens



Rocky times . . . Tourism and Greece's traditional heavy industries such as shipbuilding face problems on many fronts

PHOTOGRAPHS: DON McPHEE and JUDAH PARROW

THE Greek economy could have been forgiven a collective shudder this week. Already facing structural adjustments to meet the challenges of the single European market, it now has to cope with the impact of tougher trade sanctions against Serbia.

For Greece, sanctions matter. Much of its trade with its European Community partners was routed through the former Yugoslavia. Now even more will have to go the long way round through Bulgaria and Romania, or be shipped via the country's western ports and across to Italy. That might not mean too much for consumer durables, but a sizeable slice of Greek exports is perishable foods.

The tourist industry in the northern part of the country is also bracing itself for leaner times, as the thousands of holiday makers who used to motor down through Serbia find other destinations. Small wonder the Athens stock market slumped almost 3 per cent last Monday.

Greece's finance minister, Stefanos Manos, is not yet prepared to be drawn on just how much sanctions will cost, though central bank governor Euthimios Christodoulou reckons the overall impact could be the equivalent of three to four points off gross national product.

A finance ministry team is costing the sanctions bill, which could be steep. Much depends on the outcome of today's conference on the Bosnian crisis in Athens. But Mr Manos has made clear that if sanctions drag on, Greece will want help to meet the cost, not least from the EC.

He will expect a sympathetic hearing. While Greece is likely to be the EC country hardest hit by sanctions, it is also the one where there is least enthusiasm for Serbia-bashing. The reasons are not simply economic. Serbia and Greece have long-standing ties and if the conflict in Bosnia were to widen, Greece would be the first stop for many refugees. Add in the row over what to call Macedonia, and the war has caused a double headache for Greek relations with the rest of the EC.

Yet, as Athens bathes in the spring sunshine, there are few signs of the miseries to the north or of their inevitable consequences nearer home.

About 35 per cent of the Greek population lives in Athens, and a big slice of the remainder in the country's second city, Thessalonika. Efforts to use regional grants to get industry (and therefore employees) to locate elsewhere have met with little success.

EC membership has brought aid in a big way — on average between $1 billion and $1.5 billion a year over the last decade, according to the prime ministerial adviser, Miranda Xafas. But while imports from other EC countries have doubled since membership, Greek exports to the rest of the Community have virtually stagnated. Greece's current account is deep in the red.

Inflation topped 16 per cent last month, though Mr Manos is hoping for single figures by the year end. Interest rates are over 20 per cent. Government debt is between 115 and 120 per cent of GDP. The burden of servicing it is stretching government finances, driving up the cost of capital and soaking up money that could fund badly needed investment in the economy.

There is a widespread realisation that something must be done and that, in itself, is a significant step forward.

BUT Greece's confrontational politics make it hard to reach a consensus on just what form action should take. "In Greece, we have agreed the targets, we have not agreed the methods," says Theodore Papalexopoulos, former head of the Greek Federation of Industries.

"We won't solve our economic problems until we solve our political problems," says Vasso Papandreou, the formidable former EC commissioner.

Both economy and public finances would look much healthier if the "grey" sector — variously estimated at between 20 and 40 per cent of its official counterpart — were to turn legitimate and the government could plug the leaks in a tax system that resembles a sieve.

The New Democracy government has sought to beat the problem by cutting direct taxes and introducing indirect impositions. But whilst its socialist rival, Pasok, supports cutting the deficit and clamping down on tax evasion, Pasok MP George Gennimatas is among those who argue: "The way to raise revenue is not through indirect taxes but through direct taxation." Indirect taxes, he argues, are regressive, risk inflation and make Greek goods less competitive.

Another headache is the public sector, which accounts for up to two-thirds of the official economy. In the past, it has been used as a safety net, both for companies which would otherwise go bankrupt and as a way keeping down unemployment, presently around 8 per cent. Nor is it simply a matter of size. Confidence in the public administration is low.

The New Democracy government is busy with plans to privatise the telecommunications company, OTE, and parts of the energy sector — specific proposals which provoke opposition even among those members of Pasok who do not regard privatisation as an issue as a political non sequitur for the party. The government is even offering licences for eight casino developments which has led privatisation minister Peter Doukas to introduce himself wryly as Mr Casino.

The privatisation of OTE is arousing strong passions, in part because it plays a key part in the communications network of the Greek armed forces. Mr Doukas argues passionately that by bringing in an international telecoms operator as a strategic partner, the government is helping to give OTE the means to getting to the forefront of technology.

Mr Manos has a starker view. If the government does nothing, OTE will not be capable of meeting the challenges of EC telecommunications deregulation set for later this decade.

But the opposition is not just from Pasok, and not just on ideological or defence grounds. OTE represents jobs, political influence, power — important in a country where who you know can often count for a great deal more than what you know. Politicians from across the spectrum are said to be reluctant to see such a source of patronage withdrawn. Small wonder Greeks grumble about a political system which is characterised as inefficient and worse.

Still, the outlook is not all gloomy. Professor Loukas Tsoukalis, director of the centre of Hellenic studies at Athens University, believes that "the [political] divisions are not really between left and right but between reformers and traditionalists". That would imply some ground for consensus exists.

Lambros Kanelopoulous, the president of the Greek confederacy of workers, is dismissive of the performance of the New Democracy government. He does, however, believe that the labour movement would be able to co-operate with a government which would be prepared to put together a social agreement offering stability of economic performance and providing a safety net for workers' living standards "so that Greece could become a real competitive presence in Europe".

Constantine Simitis, a former minister for the national economy under the Pasok government, predicts a bumpy ride over the next few years. He believes that there will be a "very intensive adaptation process" but that Greece will be able to stabilise the economy.

But perhaps the last word should go to Ms Papandreou: "We leave everything to the last moment, but at the last moment we find a way."

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