

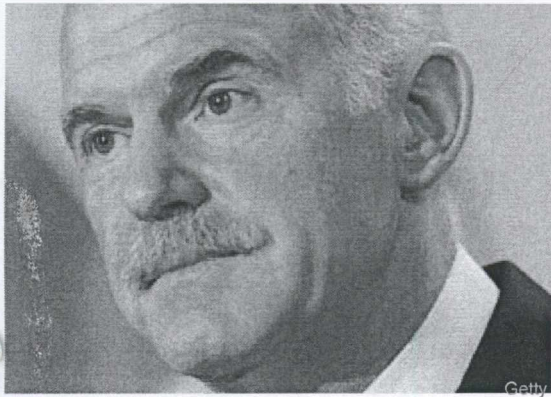
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Greece calls referendum on EU bail-out

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By Kerin Hope in Athens, Peter Spiegel in Brussels and Telis Demos in New York



Greece's prime minister unexpectedly announced a referendum to approve a second EU bail-out deal for his austerity-hit country, less than a week after it was agreed with international creditors at a European Union summit.

George Papandreou made the pledge on Monday night in a speech to lawmakers in his fractious PanHellenic Socialist Movement (Pasok) party but did not set a specific date for the vote.

“We have faith in our citizens, we believe in their judgment and therefore in their decision,” Mr Papandreou said after rejecting a call for early elections by some socialist politicians. “All the country’s political forces should support the [bail-out] agreement. The citizens will do the same once they are fully informed.”

The premier’s move reinforced concerns that Greece’s fraught domestic politics are spiralling out of control amid growing popular anger over public sector job cuts and tax increases. Strikes and violent demonstrations have become frequent in Athens and other cities.

The referendum also looked likely to cause alarm in Brussels, Paris and Berlin after Mr Papandreou’s assurances at Wednesday’s summit that Greece was determined to maintain a steady pace of reform.

Brussels blog



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One senior EU official told the Financial Times that Mr Papandreou had appeared reticent about the components of the bail-out package during talks at last week’s summit of EU presidents and prime ministers but no one was prepared for the referendum announcement that came “like a bolt out of the blue”.

“I don’t think anyone expected this,” the official said. “The calculation has to be this is the only way [Papandreou] believes he can get this through.”

“With an irresponsible opposition that is promising Greek voters the moon, it is very difficult to see how this referendum could be won,” added Sony Kapoor, head of Re-Define, an economic

consultancy. "The decision is good for democracy but is likely to make the euro crisis worse by heightening uncertainty in this very fragile environment."

The announcement exacerbated declines in the euro and equities, as investors feared that angry Greek voters could derail the painstakingly negotiated plan.

The euro fell to a session low of \$1.3827, down more than 2 per cent on the day and erasing its gains from last week, when the deal was first announced. US stocks accelerated their decline as well, with the S&P 500 index ending the day down 2.5 per cent. It was the index's worst one-day fall in nearly a month, ending what had been stocks' best month since 1991, with a gain of 10.7 per cent, on a sour note.

An opinion poll published on Sunday showed that more than 60 per cent of Greeks were opposed to the terms of the new bail-out, which would include another 100,000 job losses over the next three years and big cuts in pensions.

The vote would probably be held in January, when Greek bondholders were expected to sign up for a voluntary 50 per cent haircut being negotiated with the International Institute of Finance, wrapping up the new bail-out package. One Athens banker said: "This is a worrying decision by the prime minister. It could derail the whole process even before it's properly started."

The premier also announced that a vote of confidence in his government would be held this week to endorse the referendum proposal. That vote would follow a three-day debate on Greece's worsening economic and social problems

Antonis Samaras, the conservative opposition leader, immediately rejected the proposal, arguing that a referendum was "not the way out".

"The only option is elections and, like Ireland and Portugal, to request the obviously necessary changes in the bail-out agreement," he added, referring to proposals by leaders of the two other eurozone member states that are implementing EU-IMF programmes.

Mr Papandreou said this year he might call a referendum on reforms of Greece's political system but ruled out a vote on its relationship with the eurozone. His sudden reversal came as a shock, according to party officials. "This is another upset in a situation that is already volatile," one said.

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