

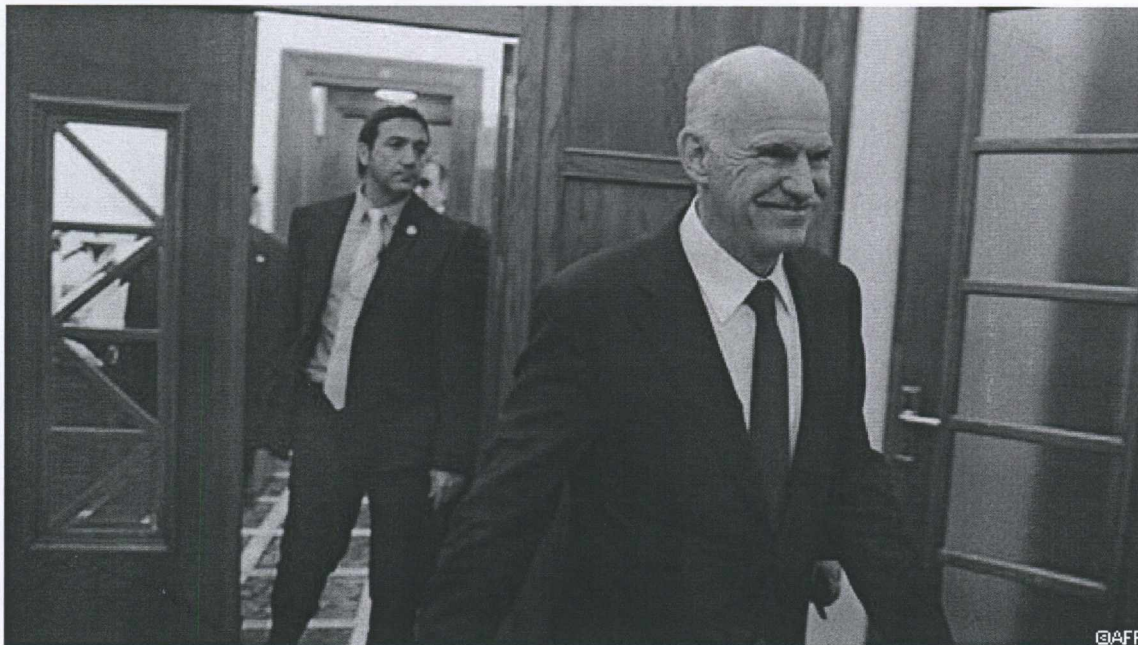
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Greek PM scraps referendum plan

By Tony Barber and Kerin Hope in Athens, Peter Spiegel in Cannes and David Oakley in London



Greece's prime minister has abandoned his plan to hold a referendum on eurozone membership and instead set his sights on winning a parliamentary confidence vote, a dramatic about-face welcomed by European leaders and financial markets.

Capping a day of extreme political turbulence in Athens, George Papandreou told his socialist colleagues that there was no need for a referendum after the conservative opposition promised to support the terms of a €130bn bail-out from the European Union, European Central Bank and International Monetary Fund.

"Failure to back the package would mean the beginning of our departure from the euro," Mr Papandreou said. "But if we have consensus, then we don't need a referendum."

The prime minister's abrupt reversal of a position that his cabinet had unanimously endorsed in the early hours of Wednesday morning overshadowed the first day of a summit in Cannes of leaders of the G20 group of large industrialised and emerging economies.

Greece's 16 eurozone partners, as well as the US, China, Japan and other non-European powers, are anxious that Mr Papandreou and his colleagues approve the rescue deal as soon as possible in order to prevent the eurozone's collapse and limit the risks to the world economy.

His reversal was all the more astonishing since he had proposed the referendum only on Monday and had spent Wednesday evening in Cannes selling the idea to Nicolas Sarkozy, French president, and Angela Merkel, German chancellor.

US president Barack Obama had bilateral meetings with both Mr Sarkozy and Ms Merkel before the summit began, both of which were dominated by the eurozone crisis. While he praised the two for their leadership, he made clear the US expected more.

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“The EU has made some important steps towards a comprehensive solution,” Mr Obama said. “But here at the G20 we’re going to have to flesh out more of the details about how the plan will be fully and decisively implemented.”

The eurozone’s fate has become entwined with Mr Papandreou’s increasingly desperate struggle to maintain control of his government, which bristles with rebellious ministers fed up with his idiosyncratic style of leadership.

In a major reversal of his own policy, Antonis Samaras, leader of the conservative opposition, said his New Democracy party would support the €130bn rescue and its stringent terms for Greece.

“I’m pleased to see that there are sufficiently responsible politicians in Greece who have understood that message and who have been able to see the national priorities,” Mr Sarkozy said, praising the opposition’s decision to support the October 27 rescue deal for Greece as courageous and responsible. “It is an extremely important act which I salute.”

The abandonment of the referendum plan offered much-needed relief to financial markets on Thursday, as government bond yields fell, equity prices went up and the euro rose against the dollar.

Italian bond markets recovered sharply after the European Central Bank cut rates and Greece appeared ready to call off its referendum on the eurozone reform package.

At one point yields on 10-year Italian debt jumped to 6.40 per cent - their highest level since November 1997. By the end of the day they had fallen back to 6.18 per cent.

However, market participants warned that Italian yields remained close to the key 6.5 per cent level, which many bankers and strategists consider unsustainable.

Additional reporting by Hugh Carnegie