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Greece to form coalition government

By Kerin Hope in Athens and Alex Barker in Brussels



The leaders of Greece's two largest political parties last night decided to form a government of national unity to start implementing a €130bn bail-out plan, then take the country to elections.

George Papandreou, premier, reached the deal with Antonis Samaras, leader of the opposition conservatives, during a 90-minute meeting with Carolos Papoulias, Greece's president.

Mr Papandreou will stand down as prime minister, opening the way for a non-political personality with a strong economic background to serve as interim premier.

The two leaders postponed naming the new leader until today after failing to reach agreement on a suitable candidate. The frontrunners are Lucas Papademos, a former vice-president of the European Central Bank, and Stavros Dimas, a former European Union commissioner who worked at the World Bank.

The president's office said in a statement that the new premier would be named today. No date was set for the election, which Mr Papandreou has said should be held early next year.

The agreement, which ended a five-day political standoff, was expected to reassure markets and Greece's international lenders that the country is committed to carrying

out fiscal and structural reforms agreed with the European Union and International Monetary Fund.

Senior Greek politicians, businessmen and lobbyists held intensive discussions to identify candidates for cabinet jobs in a national unity government that would begin to implement the new €130bn rescue package.

Eurozone finance ministers – including Greece's Evangelos Venizelos – are due to discuss the political chaos in Athens and efforts to prevent the spread of the crisis to Italy during a meeting of the so-called eurogroup today.

There is scarcely concealed anger over Mr Papandreou's handling of the crisis in EU capitals. Senior European figures involved with the bail-out talks saw the hiatus in Athens as his last-ditch attempt to exit the job with some pride intact.

Patience had been running thin with Greek ministers who were expected to be given a frosty reception at the eurogroup meeting unless significant progress had been made towards resolving the political chaos in Athens, a prerequisite to the disbursement of an €8bn tranche of the bail-out that is already a month overdue.

Olli Rehn, European Union commissioner for economic affairs, urged Greece to swiftly set up a government. "We have called for a national unity government and remain persuaded that it is the convincing way of restoring confidence and meeting the commitments," he told Reuters. "Work has been going on in Athens to mend that confidence and we need a convincing report on this by finance minister Venizelos in the eurogroup."

Outlining the stakes for Greece in stark terms, Mr Rehn made clear that any new government would need to demonstrate that it had broad political backing for both the new bail-out programme and the debt reduction scheme in order for the EU to release rescue loans.

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