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For Greece and the Euro, 2001 or Bust

Fearing a Minor Role, Athens Seeks Reforms

By Celestine Bohlen
New York Times Service

ATHENS — Greece never had a prayer of joining the first round of countries eligible for Europe's common currency, so its exclusion from the list of 11 countries ready to adopt the euro next year was not an issue here.

Instead, the question is whether Greece, despite its belated efforts to trim its debts and shrink its overindulged state sector, is going to make it into the euro club in 2001 — a goal firmly held by the Socialist government of Prime Minister Costas Simitis and cherished by many Greeks.

For Greece, joining the euro is much like the dream many members of the former Soviet bloc have of joining NATO or the European Union: The tangible benefits of being admitted into the charmed circle may be debatable, but being left out is hell.

"It is already a negative thing to be out of the 11," said Dimitri Papadimoulis, spokesman for the Coalition of the Left, an opposition party. "But if we stay out after 2001, the cost will be painful. Now, we are the European country in the Balkans. Then, we would be another Balkan country in the Balkans."

With the devaluation in March of the drachma by 14 percent — the Greek currency is now part of a European exchange-rate structure that is a prerequisite for future euro members — the Simitis government is convinced that Greece is on its way.

Finance Minister Yiannos Papantoniou says Greece has accepted prodding from its European partners to do in 18 months what it had already promised to do in three years: tackle its bloated public sector with the privatization of 11 publicly held companies, including several state banks, by the end of 1999.

"We have a mutual interest in succeeding," Mr. Papantoniou said, speaking of Greece's pledges to the other members of the European Union. "At this point, I don't see major risks. We are on the right way."

But here and in the rest of Europe, there is lingering skepticism about the ability of the Simitis government — heir to the left-wing political machine built by the late Andreas Papandreou — to meet the harsh criteria set down for euro membership and still survive politically.

As the poorest country in the European Union, with a per-capita gross domestic product half that of Germany, an economy that is even more dependent on a corrupt and inefficient public sector than many former Communist countries and a reputation for squandering European Union subsidies, Greece is far from assured of meeting the criteria for monetary union. "The next two years are going to be critical," said Costas Stambolis, editor of an economic newsletter. "The government will have to undertake wage freezes, a shrinking of the public sector, restructuring. It will create a lot of unrest, and they will have to cope with it."

The devaluation of the drachma, considered inevitable by many analysts, was presented, and for the most part received, as a bold and confident sign of the government's commitment to Europe. The Athens stock market soared, and foreign investors were cheered by the government's pledges to move swiftly ahead with privatization and hold down public spending.

But critics have since found reason to worry. Initially at least, the devaluation has put Greece, if anything, farther from the fiscal goals set for euro membership. In a country heavily dependent on imports, devaluation has led to a rise in inflation and a slowing of the decrease in public debt, much of which is held in foreign currencies. Mostly, the doubts have to do with the government's ability to follow through on its promises.

"Verbally they are doing extremely well," said Stefanos Manos, a former finance minister. "But I am not convinced this government will reach the euro criteria in time. The social base that elects this government is in the public sector. Simitis will not cut off the branch he is sitting on."

The Simitis government has scored notable success in bringing its fiscal affairs into order. Inflation, which was in double digits a few years ago, was down to 4.3 percent a year in February, while Greece's budget deficit, which was 13.9 percent of gross domestic product in 1993, the widest in the EU, fell to 4.2 percent of GDP in 1997, well on the way to the 3 percent level set for entry to the euro.

But many analysts see the final test of Greece's eligibility to join the euro — to take place in the summer of 2000 — as one that is as political as it is economic.

"If we don't make it by 2001, we will never make it, and Greece will be pushed out of Europe," Mr. Manos said. "Greece will have proved itself to be too different from the rest of Europe."