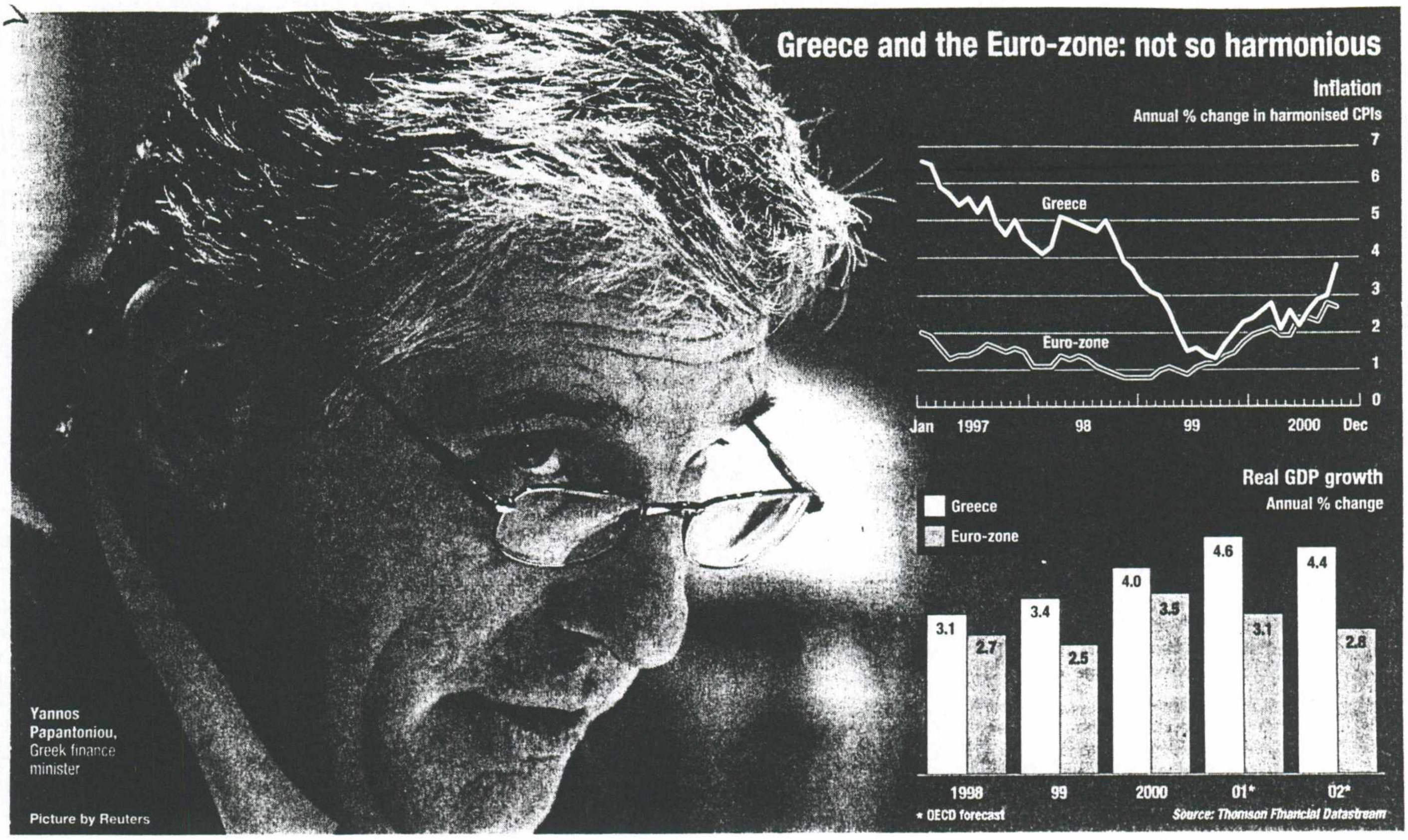
F. T p. 2 19.12.2000




Yannos Papantoniou, Greek finance minister

Picture by Reuters

# Greeks nervous as date with euro nears

**Optimism over curbing inflation and the budget deficit is giving way to anxiety about competing within the single currency zone, writes Kerin Hope**

For Greece the post party hangover has come too soon.

Jubilation, in the country, which is set to become the 12th member of the single European currency on January 1, has given way to anxiety about whether the EU's poorest country will be able to compete in the euro-zone.

The Greek central bank has signalled concern over rising inflation by delaying final cuts in short-term interest rates until the very last moment. Less than two weeks before the deadline for interest rate convergence, Greece's benchmark 14-day deposit rate is still 100 basis points above the European Central Bank's 4.75 per cent refinancing rate.

Headline inflation rose to 4.2 per cent in November, increasing for the fourth successive month. While the headline rate was projected to slow to about 4 per cent in December, following a decline in international oil prices, Greece is still far from the ECB's target for euro-members of an inflation rate below 2 per cent.

"Greece is joining the single currency with one of the highest inflation rates in the euro-zone," says Miranda Xafa, economist at Salomon Smith Barney. "But it no longer has the old tools, monetary policy and the exchange rate, to control inflation. It's up to the government to keep wage and fiscal policies tight, and to speed market liberalisation."

Yannos Papantoniou, the finance minister, who launched Greece's bid for euro-membership three years ago, sounds confident about keeping wages under control. Under a two-year agreement signed last year, public sector wages are set to rise 4.2 per cent next year, while an extra increase to match inflation will be postponed until next December.

With the help of experts from the US Internal Revenue Service, the Socialist government has overhauled tax collection, introducing computerised cross-checking of returns and reducing the number of tax offices around the country to curb tax evasion and corruption. Mr Papantoniou says revenues this year will exceed forecasts by almost Dr900bn, equivalent to 2 percentage points of GDP.

"We're looking at several more years of exceptional revenues that will help to support a budget surplus," he says. The government is already close to balancing its books this year, with the budget deficit set to fall from 1.8 per cent to 0.8 per cent of gross domestic product. A surplus amounting to 0.5 per cent of GDP is projected for next year, which would be the first in almost three decades.

**'Now is the moment for government to accelerate structural reforms'**

According to Greece's first stability and growth programme, due to be approved next month by its euro-zone partners, the economy is set to grow 5 per cent next year and sustain a similar growth rate for the next three years.

These are optimistic targets, given Greece's past problems with disbursing EU grants for infrastructure modernisation and attracting foreign investment.

Lefteris Antonacopoulos, chairman of the Greek Industrialists' Federation, says private sector investment will rise 8-10 per cent next year, driven by lower interest rates. "But Greek manufacturers are also investing more outside the country. This year, for the first time, Greek investment abroad is higher than inflows of foreign direct investment," he says.

The Socialist government adopted a cautious approach to structural reform during the effort to qualify for euro-membership, opting for partial privatisations of state corporations to avoid confrontations with trade unions. The government has failed to attract strategic investors from abroad because of its reluctance to hand over majority stakes and management control in state utilities. The Socialists' effort to promote popular capitalism by floating small equity stakes in state corporations on the Athens stock exchange has backfired miserably this year. Share prices collapsed immediately after Greece's application to join the euro was accepted in May. Disappointed by the stock market and negative interest rates on savings accounts, retail investors are returning to their old habits and buying up parcels of land.

Unlike Portugal and Ireland, the Greeks also took full advantage of derogations allowed by the EU for opening up telecommunications and energy markets to competition. Though both markets are due to be liberalised next year, only Greek companies are preparing to launch new ventures in telecoms and electricity generation.

Ms Xafa says: "Now more than ever is the moment for the government to accelerate structural reforms. Rapid liberalisation would boost competition and bring down prices for transport and utilities. There would be a positive impact on both competitiveness and inflation."

F.T 19.12-2000 p. 2.

# Greek PM upbeat on Olympics planning

By Kerin Hope in Athens and Matthew Garrahan in London

Costas Simitis, Greek prime minister, said yesterday preparations for the Athens Olympics were moving ahead and on schedule, but made no mention of appointing a new managing director for Athoc 2004, the organising body for the games.

The post has been vacant for two weeks following the resignation of Petros Synadinos, who complained his job had been downgraded. Mr Synadinos was the fifth senior Athoc manager to step down this year.

Speaking after a meeting with Gianna Angelopoulos-Daskalaki, Athoc president, the prime minister said four sites had been selected to construct accommodation for about 21,000 media representatives expected to cover the 2004 games.

The sites ranged from a building complex near the main Olympic sports facility in Maroussi, which would be renovated by the local municipality with private sector funding, to a military camp on the Attica coast.

The timetable for construction of sports and other facilities for the Athens games is lagging behind schedule with many tenders postponed until next year. Organisers of some events are concerned that, even if the facilities are ready, there may not be enough time to stage rehearsals to ensure they operate effectively.

Mr Simitis has taken responsibility for making the games a success and is becoming more involved in planning for the event by regularly meeting Athoc. But senior members of the governing Panhellenic Socialist Movement have raised objections to the role played by Mrs Daskalaki, a former MP with the New Democracy party, the conservative opposition.

The International Olympic Committee said it had confidence venues would be constructed on time. It added that any dispute over the Athoc managing director role would not halt progress being made.

"The Olympics means so much to Greece that this is not an issue which is being polarised on party political grounds," said Michael Payne, IOC marketing director.