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Greece Gains Entry Into Single-Currency Zone

By Barry James
International Herald Tribune

SANTA MARIA DA FEIRA, Portugal — In what was called a step toward modernity, Greece formally won acceptance as the 12th member of the European Monetary Union on Monday, and the Greek prime minister, Costas Simitis, said the move would quickly result in lower interest rates, long-term price stability and faster economic growth.

"With this historic step, Greece makes a big leap toward stability," Mr. Simitis said at a summit meeting of the European Union here.

The admission of Greece, the European Union's poorest country, leaves only Britain, Sweden and Denmark among EU members outside the single currency, the euro. Denmark will hold a referendum in September on joining. Meanwhile, Britain's Labor government remains deeply divided over the issue.

Greece will join the single currency on Jan. 1 with an official conversion rate of 340.75 drachmas to the euro, its current central rate in Europe's exchange rate mechanism.

The move was a triumph for the modernizing policies of Mr. Simitis, who has rescued the Greek economy from high inflation and excessive debt and brought it closer to the standards in most of the rest of Europe. He said that many had doubted in 1994 that he could succeed, but that the Greek people had proved they were willing to make sacrifices to achieve membership.

The prime minister cautioned that membership was not a panacea for all of Greece's economic problems, adding that the country would have to continue working hard to restrain spending, achieve a budget surplus, bring down interest rates and boost growth.

The Bank of Greece's 14-day deposit interest rate is more than double the European Central Bank's main refinancing rate of 4.25 percent while economic output per head is on average 30 percent higher in the rest of the EU than in Greece. And at an annual rate of 2.6

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percent, inflation in Greece is still much higher than in other European countries.

Greece sought to join the euro in May 1998 when the first 11 members were chosen, but failed to qualify. This time around, EU economy ministers found it had cut inflation, public deficits and debts to within the "convergence criteria" needed for membership in the single currency.

Because the Greek economy's small bulk in the single currency, and because the decision Monday was expected, the news had little impact on the markets.

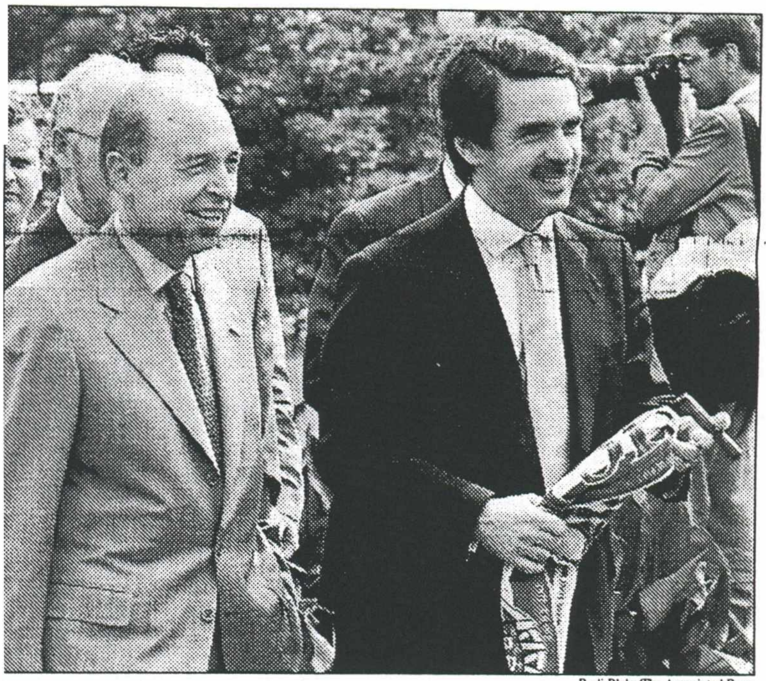
As expected Monday, EU finance ministers failed to unblock a deadlock over a community-wide tax on investment income. The best that finance ministers could achieve was a paper that "could form the basis of future work and discussion," providing the heads of government accept it.

The paper calls for talks with the United States, Switzerland and other countries to determine whether they would be willing to join an international effort to prevent tax evasion by people who put their money in tax-free investment accounts abroad.

Britain balked at the idea of an EU-wide tax on the income from such investments.

EU sources said Austria, late Monday, was threatening to veto an alternative suggestion that called for governments to eventually agree to lift banking secrecy laws to enable governments to exchange information about such nomadic investments. Austria was furious over EU diplomatic sanctions and believed lifting bank secrecy would require a change in its constitution and could provoke a serious political crisis.

Because the question of untaxed investment incomes is linked with other elements of a tax package, the failure to agree has a broad impact on policy within the euro zone. With out an agreement, member states are unable to implement measures preventing double taxation of businesses or proposals to eliminate so-called unfair tax breaks to attract jobs and investments from one country to another, for example.



Rudi Blaha/The Associated Press

The Spanish prime minister, Jose Maria Aznar, right, and the Greek prime minister, Costas Simitis, at the EU meeting Monday in Portugal.

Austria was in no mood to cooperate given the refusal of its 14 partners to lift the pariah status they imposed early this year when the far-right Freedom Party joined the government in Vienna. Prime Minister Antonio Guterres of Portugal told the Austrian chancellor, Wolfgang Schuessel, that nothing had changed to alter the decision since it was imposed in February.

And while no decision would be made at the summit, he said, Portugal would search for a solution during the remaining 10 days of its presidency of the EU. Once France takes over, on July 1, there seemed little hope of a solution because of President Jacques Chirac's open hostility to the Freedom Party.

The Portuguese European affairs secretary, Francisco Seixas da Costa, said that although Joerg Haider, the Austrian rightist, had resigned leadership of the Freedom Party, he was "back in business" behind the scenes and behaving like "a back-seat driver" in Austrian politics.

The Portuguese minister said Mr. Haider's "retirement was clearly a tactical move." He added that Mr. Schuessel had become "hostage" to the Freedom Party, which had done nothing to abate its hostility to foreigners and minorities.

While Austria was asking the other countries to loosen their restrictions, Mr. Seixas da Costa said, "Austria should also be more flexible."

On the sidelines of the meeting, the Belgian prime minister, Guy Verhofstadt, sought a pledge from the British prime minister, Tony Blair, that there would be no repetition of the violence that has marred the Euro 2000 soccer tournament in Belgium and the Netherlands. One official said it was inconceivable that Britain could put domestic pets into quarantine for six months, but do nothing to prevent its soccer hooligans from rampaging through European cities.