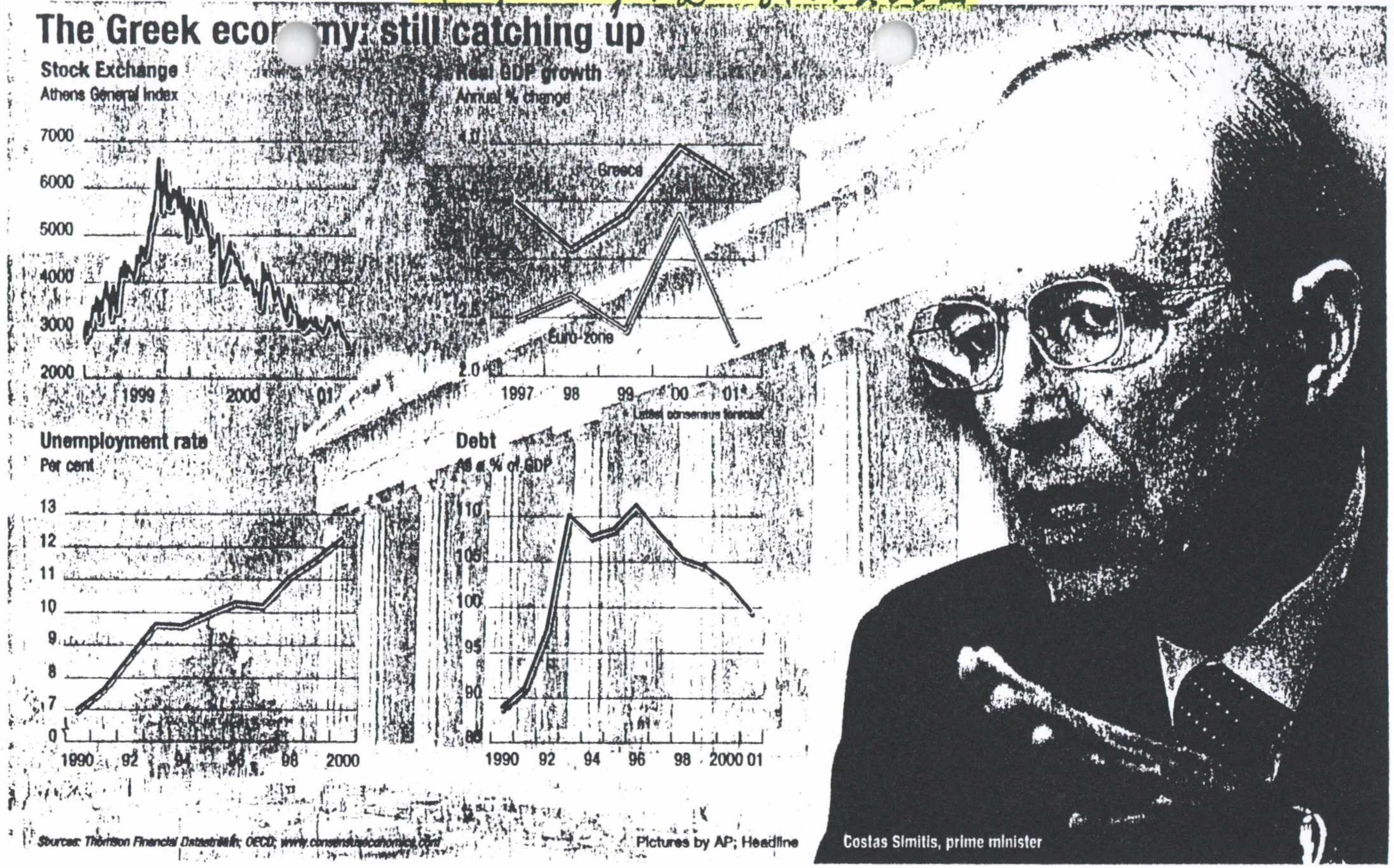
F.T p.2 6.7.2001

Pressure grows on reformist Greek premier

After defeat on pensions, Costas Simitis and his modernisers face a fresh onslaught from the left, reports **Kerin Hope**



Sources: Thomson Financial Datastream; OECD; www.consensuseconomics.com. Pictures by AP; Headline

Costas Simitis, prime minister

Greece's leftwing Socialist politicians are preparing to fill the summer months with their favourite pursuits.

These include choosing up-and-coming supporters as delegates to a Pasok party conference in October, and putting pressure on Costas Simitis, the prime minister, to postpone long-awaited structural reforms.

Greece's entry to the eurozone in January has highlighted the urgency of an overhaul for the pay-as-you-go pension system, effective liberalisation of the telecoms and energy markets, and reforms to simplify the tax system.

Without broad-ranging structural change, Mr Simitis warns, Greece's chances of catching up with income levels in Spain and Portugal will recede. Unemployment is already the second-highest in the EU, at just under 12 per cent, in spite of economic growth rates above the eurozone average for the past three years.

The OECD said in a recent report: "Greece has usually been the slowest country in Europe to comply with EU liberalisation directives, repeatedly negotiating derogations that put it years behind its EU competitors. This is equivalent to self-handicapping in a foot-race."

However, after 20 years of almost uninterrupted power, Socialist officials have close ties with vested-interest groups linked with state-controlled utilities, tourism development, defence procurement, and infrastructure projects.

Mr Simitis's cabinet opponents, led by Akis Tsochatzopoulos and Costas Laliotis, the long-serving defence and public works ministers, see no reason to make another push for reforms. They argue that after the Greeks' strenuous three-year effort to qualify for membership of the eurozone, the process should be gradual.

"The populists feel they've got the upper hand since the prime minister was forced to back down over pension reforms. That makes it harder to advance changes in other areas," says a member of Mr Simitis's modernising faction.

The modernisers admit they underestimated the strength of trade union reaction to a plan announced in April that called for raising the pensionable age from 55 to 65, and merging 200 pension funds into eight occupation-related groups. Demonstrators took to the streets in the biggest protests since Mr Simitis came to power.

Moreover, representatives from GSEE, the Socialist controlled trade union federation, refused an invitation to participate on a special committee the government has set up with a brief to revamp the proposals.

But Mr Simitis cannot afford to delay much longer. Greece's pay-as-you-go pension system is in worse shape than other Mediterranean members of the eurozone that are also being urged by the European Commission to speed reform.

The yearly cost to the budget of covering the pension system deficit already amounts to more than 3 per cent of gross domestic product. Its liabilities are estimated at more than 200 per cent of GDP, considerably higher than in Portugal and Spain.

But the government is committed under the terms of the EU's stability and growth pact to achieving budget surpluses that would enable the public debt to be reduced from 101 per cent of GDP last year to 60 per cent by 2010.

Pasok's hard-left faction has grown increasingly restive since an opinion poll last month showed the prime minister's approval rating had slipped below that of Costas Karamanlis, the conservative opposition leader.

The pension issue is the main reason for the plunge in Mr Simitis's popularity. Reforms would run counter to Pasok's traditional policies of handing out generous pensions and social benefits to low-income earners.

Weakness on the Athens stock market, where share prices have been falling steadily for over a year, is another factor. A quarter of Greek households became shareowners after the Socialists launched a campaign to promote popular capitalism. But small investors have lost an estimated Dr1,200bn ($3bn) in the shake-out.

To avoid prolonging the tensions gripping Pasok, Mr Simitis insisted on holding the next party conference six months earlier than planned. He will put his political future on the line in October by standing for re-election as Pasok's leader.

Mr Simitis is still the favourite to stay at the helm, according to an opinion poll published in Sunday's Eleftherotypia newspaper. But Mr Tsochatzopoulos, already defeated twice by Mr Simitis for the top job, is planning to spend part of the summer on a pre-conference tour of the provinces.

His supporters say conversations with local holidaymakers in cafes and tavernas, as much as opinion polls, will help him decide whether to have another shot at bringing down the prime minister.