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An education in the eurozone: Lucas Papademos shows a board game designed to teach Greek children about the euro

## Bringing Greece's euro experience to ECB job

By Kerin Hope

What a difference a decade can make. Back in the early 1990s, while his predecessors as governor of Greece's central bank played at politics, Lucas Papademos worked quietly in a back office as the bank's chief economist.

At that time, Greece's public finances were in such deep disarray the European Commission warned it might be expelled from the European Community. It was hard to imagine Greece could ever put forward a credible candidate for high office in Europe.

At today's meeting of EU finance ministers in the Spanish city of Oviedo, however, Mr Papademos is likely to be selected for a high-profile post - vice president of the European Central Bank.

But he has strong credentials for the job: an academic background and a record of successful management of monetary and foreign

exchange policy, which enabled Greece to make an unexpectedly smooth landing in the eurozone last year. He says the Greek experience could be considered a model for candidate countries for EU accession.

"We had to maintain the currency in the [exchange rate mechanism] without creating tension, but also reduce inflation to the required 2 per cent level and achieve interest rate conver-

gence. We had to maintain the tightest possible monetary conditions," he recalled in an interview yesterday.

Mr Papademos's academic research is also highly relevant to the ECB. He studied monetary policy and how it can effectively reduce inflation, and how the structure of financial markets can shape the effectiveness of monetary policy.

He holds a PhD from the Massachusetts Institute of

Technology and taught economics for 10 years at Columbia University in New York before joining the Bank of Greece. He also spent a year working at the US Federal Reserve in Boston.

But he also has experience of European policy-making, acquired by representing Greece on the European Community's monetary policy committee and at meetings of alternate central bank governors.

Mr Papademos's first hands-on confrontation with financial markets came in 1994, when as a deputy central bank governor he successfully defended the drachma against a massive speculative attack in the run-up to lifting controls on short-term capital movement.

Promoted to governor later that year, Mr Papademos worked hard to secure independence for the central

bank - long seen as a freedom of the governing party - in line with EU directives, while seeking to improve transparency in its relations with commercial banks and the government.

Other goals were to reduce inflation, then three times the EU average, and encourage the Socialist government to improve fiscal discipline. Since Greece achieved entry to the eurozone, he has urged the government to speed structural reforms in order to improve competitiveness and achieve real convergence with its European partners.

Mr Papademos is said to be "polite but firm" in his dealings with the government and financial markets.

As Miranda Xafa, economist at Schroders Salomon Smith Barney puts it: "The markets trust him because he provided good guidance in the run-up to eurozone entry and was never misleading."

## Central bank warns of oil price threat to eurozone inflation

The European Central Bank yesterday warned that high oil prices threatened to push up eurozone inflation and were generating uncertainty over the speed of economic recovery, **Tony Major writes from Frankfurt.**

In a slightly more hawkish monthly bulletin, the bank said consumer price inflation was "somewhat higher than

was expected a few months ago".

But the ECB said inflation should still drop below its target ceiling of 2 per cent over the coming months, although the decline "may be less pronounced" due to oil prices.

On growth, it said oil prices were contributing to uncertainty surrounding the

"precise pattern of recovery in the course of this year".

It said it was likely that the trough in economic activity was reached at the end of last year. But doubts surrounded the speed and strength of the upturn.

The bank's concerns over any recovery were echoed by Ernst Welteke, Bundesbank president. He

said the German and other European economies "have bottomed out only if oil prices do not rise further".

Economists said the tone of the bulletin was in line with ECB president Wim Duisenberg's comments last week and was consistent with eurozone interest rates remaining on hold for the next few months.