Greece unveils refinancing plan of state pension fund

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By Kerin Hope in Athens

Greece yesterday announced a €9.6bn ($8.4bn, £5.9bn) refinancing plan for its biggest state pension fund, IKA, as the first step in an effort to overhaul the country's debt-burdened pay-as-you-go pension system.

The Socialist government is committed to submitting pension reform proposals to the European Commission by September, as part of its obligations under the pact underpinning the 12-member eurozone. But the refinancing scheme for IKA may have difficulty winning EU approval because it involves a securitisation arrangement to avoid increasing the budget deficit.

Securitisation involves raising funds by issuing bonds secured against a future revenue stream – in this case pensions contributions – which is used to pay interest to the bond holders.

Eurostat, the EU statistics office, has questioned the practice of using the revenues thus generated to reduce public debt. Greece has already secured funds equivalent to 4.4 per cent of gross domestic product through such transactions, the highest percentage in the eurozone.

But Nikos Christodoulakis, the finance minister, is under strong pressure from GSEE, the Socialist-led trade union federation, to come up with a new pension scheme that would avoid increasing contributions or raising the retirement age. Public sector unions are already preparing a round of warning strikes.

The unions have made the restructuring of IKA, which provides pensions and healthcare for more than 2m wage-earners, a condition for accepting the introduction of funded supplementary pension scheme that would underpin the new system.

The government's initial proposal calls for capping budget financing for IKA at 1 per cent of GDP and issuing bonds worth €4bn. IKA plans to appoint an adviser next month for the first securitised bond issue.

Pension reform is the toughest problem the Socialists face. Pension outlays already amount to about 12 per cent of GDP, the highest percentage in the eurozone. The pay-as-you-go system has a deficit amounting to about 4.5 per cent of GDP, which is financed from the budget. Without reform the deficit would rise to 11 per cent of GDP by 2030.

A year ago GSEE derailed plans to raise the retirement age from 55 to 65, increase pension contributions and consolidate some 300 pension funds into a handful of large, professionally managed funds.

The International Monetary Fund in a report published last month praised the government's efforts to win a consensus on pension reform but warned it "must be mindful of the critical time dimension".

Greece's unfunded pension liabilities are estimated at over 200 per cent of GDP, twice as much as in Italy, while its demographics are the most unfavourable in Europe.