Greece Deserves a Break on Pension Reform

Mark Gilbert Jan 7, 2016 4:38 AM EST

After teetering on the brink of exiting the euro for much of last year, Greece has started 2016 looking much more likely to hang on to its common-currency membership card. Now, after clearing several reform hurdles set by its creditors, the nation deserves some leeway on the thorny issue of pension reform.

Greece's Financial Odyssey

In December, lawmakers passed a bill allowing Greek banks to find third-party buyers for debts that aren't being repaid. That paves the way for the country's financial system to reduce its $100 billion burden of non-performing loans, more than 45 percent of total loans. The legislation marks a significant U-turn; Prime Minister Alexis Tsipras's ruling Syriza party had previously voiced objections to allowing what it called "vulture funds" to buy debts at a discount to their face value.

The government has also made headway in the past few weeks on selling state-owned assets. It will get an upfront payment of $1.3 billion from leasing regional airports to a consortium led by Germany's Fraport; it has agreed to sell 49 percent of the country's electricity grid operator, while the results of the long-awaited sale of a controlling stake in Piraeus Port Authority are scheduled to be revealed on Jan. 12, according to the Hellenic Republic Asset Development Fund. After months of foot-dragging, the government looks on course to meet its 2016 target of raising 3.5 billion euros ($3.8 billion) from privatizations.

Another milestone to watch for in the coming months will be whether Greece is able to lift the capital controls imposed in June to staunch capital flight from nation's banking system -- and whether some of that cash returns. There's just 121 billion euros in the Greek banking system after 50 percent of deposits were withdrawn since the start of 2010; now that Greek banks have been recapitalized for a third time, a vote of confidence from companies and consumers would be a welcome sign that the financial system is returning to normal.

Given its wafer-thin majority of three in parliament, none of these reforms was easily accomplished. But it is overhauling the pension system that remains the trickiest task facing the country.

The most recent figures from Eurostat suggest Greece spends more on pensions than any other European Union country, with 17.5 percent of its gross domestic product spent on benefits in 2012 compared with the EU average of 13.3 percent. With an unemployment rate of almost 25 percent, the government argues that many households are dependent upon the income from a single pension for survival, and is reluctant to cut the overall bill by reducing those payments.

Government ministers say the terms of the bailout agreement don't dictate pension cuts, and that it can achieve the required savings by other means. Tsipras submitted a reform plan to the country's creditors at the start of this week, warning that he won't give in to "unreasonable and unfair demands." To achieve cuts worth 1 percent of GDP, he's proposing instead to increase mandatory contributions from employers, while existing pension funds will be consolidated to reduce administration costs.

I remain unconvinced that euro membership is appropriate for Greece. I'm a decent bassist, but if you made me go on tour with the Rolling Stones I'm pretty sure I'd be heading for a nervous breakdown well before Keith Richards had finished the opening riff to Jumpin' Jack Flash. I still think Greece would be better off with the flexibility to revalue its own currency, set its own monetary policy and plot its own fiscal future. The government, though, seems willing to accept the economic straitjacket that comes with the currency union.

So after all the progress that's been made since Tsipras effectively abandoned his anti-austerity rhetoric and faced up to the obligations accompanying the bailout, it would be a real shame if intransigence over pension reform put Grexit back on the agenda. Yannis Stournaras, the country's central bank governor, was right to warn on Jan. 4 that neither Greece nor the EU can afford another stumble. The refugee crisis, the terrorist attacks in Paris and the prospect of Britain's referendum on quitting the bloc mean the EU is "in a less favourable position to deal with a new Greek crisis," he wrote. A Greek failure to pass the forthcoming review of its progress "would carry grave dangers that the Greek economy may not survive this time around."

The country's creditors have yet to comment on the pension reform proposals. But they should acknowledge the surprisingly good job the government has done thus far, and be willing to accommodate Greece's pension plans, even if they fall short of the complete overhaul that may eventually be required.

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