Lucas Papademos, named today to be interim prime minister of Greece, steered the country into the euro region as central bank governor more than a decade ago. Now the former European Central Bank vice president will have to secure the country’s euro membership for a second time.

Papademos, who has never held elected office, helped foster economic growth rates that surpassed Germany’s and France’s in his eight years at Greece’s central bank before moving to the ECB in 2002. Most recently a visiting professor at Harvard University in Cambridge, Massachusetts, and an adviser to departing Prime Minister George Papandreou, Papademos takes over a country weeks from being unable to meet its debt obligations.

“He’s a leader who can temporarily see Greece through troubled times but keep in mind that he has no political base,” Spyros Economides, a senior lecturer at the London School of Economics, said in a phone interview. “A cross-party coalition will put up with him for a defined, temporary period only.”

Papademos, 64, will assume office after a week that saw Germany and France warn Greece they will cut all aid to the country until it signs up to a bailout plan agreed to in Brussels on Oct. 26. Failure to do so could call Greece’s membership of the euro into question after the two countries’ leaders ordered Papandreou to decide once and for all whether his nation can stay in the currency.

Street Protests

Papademos’s task will be to navigate parliament, the focus of a wave of street protests in recent months, through the legislation needed to secure the next rounds of emergency funding.

Even before his appointment was announced after three days of squabbling among parties, Papademos was the top choice to lead a national unity administration, a Kapa Research poll of 1,009 people for To Vima newspaper showed on Oct. 29.

Papademos earned a Bachelor of Science in physics, a Master of Science in electrical engineering and a doctorate in economics, all from the Massachusetts Institute of Technology in Cambridge, Massachusetts, according to a biography on Harvard’s Kennedy School website. He received his doctorate in 1977, one year after Mario Draghi, now president of the ECB, earned the same degree there.

Papademos’s appointment will take him away from the course he had planned to teach in the spring semester: “The Global Financial Crisis: Policy Responses and Challenges.”

Boston Fed

He taught economics at Columbia University in New York from 1975 to 1984 and at the University of Athens from 1988 to 1993. He also worked as an economist at the U.S. Federal Reserve Bank of Boston.
“He’s a skilled and thoughtful banker,” Fredrik Erixon, head of the European Centre for International Political Economy in Brussels, said in a telephone interview. “And he’s got sufficient distance from Greek politics to be seen as someone standing above Greek party political corruption.”

Papademos will now have to deal with an issue that he acknowledged a year ago. Last Nov. 10 he said that while fears Greece would restructure its debt were overestimated, they couldn’t entirely be ruled out. In May, he told the Wall Street Journal that “haircuts” for holders of Greek debt should not be part of a rescue package. The accord agreed to on Oct. 26 by European leaders includes a 50 percent writedown of Greek debt.

‘He’s Respected’

Papademos will seek guarantees that Greece’s political parties won’t interfere in his work, said George Prokopakis, an Athens-based management consultant, former adviser to the stock exchange and a former faculty member at Columbia, where he overlapped with Papademos in 1982.

“He has more chances than others to succeed,” Prokopakis said in an e-mail. “He won’t water his wine just for the chair or the throne.”

Appointed Greek central bank chief in 1994, Papademos presided over an economy lagging behind its European counterparts. Growth had averaged 1.3 percent in the previous decade, almost half the average of the other 11 countries preparing to join the euro.

Papademos, who described his monetary strategy as “eclectic” in a 2001 interview with Institutional Investor magazine, stabilized the drachma and inflation in his early years at the Greek central bank.

Drachma Devaluation

In March 1998, Greece devalued the drachma by 14 percent against a basket of European currencies to join the EU’s exchange-rate mechanism. Papademos then kept the bank’s main rate above 10 percent for the next two years to curb consumer prices following the devaluation. By 2000, inflation, which had been 14.2 percent in 1993, slowed to 3.2 percent.

Papademos’s legacy as central bank governor was blown apart by the debt crisis that’s ricocheting through world markets. As Papandreou’s government, elected two years ago, revealed that the country’s budget deficit was more than double the previous administration’s effort, investors dumped the country’s bonds, forcing the country to seek a European Union-led bailout.

The previous Greek government also had tried to hide the extent of its debt burden by using off-market swaps arranged by Goldman Sachs Group Inc. They were signed in 2000 and 2001.

It was a “mistake” for Greece to enter the euro region, French President Nicolas Sarkozy said in a televised interview on TF1 and France 2 on Oct.27. “Greece entered with fake figures.”

Bond Yields

Greek 10-year bond yields, which averaged about 6.2 percent in the second half of Papademos’s term as central bank governor, today reached a euro-area record of 28.4 percent.

During his time as ECB vice president, Papademos reined in his support for the publication of ECB Governing Council voting records and minutes. In April 2002 he had told the European Parliament at his confirmation hearings that publishing votes could be helpful in communicating policy and wouldn’t impinge the bank’s
independence. A year later, he said that releasing minutes and voting records “would likely not be helpful at present.”

Papademos’s professional activities extended beyond central banking. Between 1996 and 1997 he sat on the committee that successfully bid for the 2004 Athens Olympics and he headed the jury that chose the winning design for the ECB’s new Frankfurt headquarters in January 2005.

“He’s inexperienced on the political side,” said Tobias Blattner, European economist at Daiwa Capital Markets in London, who knows Papademos from his time at the ECB. “He’s really just a nice guy. In this situation where you need to push through draconian reforms, it requires a tough guy with political weight and skills.”

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