
GREECE AGREES TO HARSH NEW SPENDING CUTS AS LENDERS RATCHET UP THE PRESSURE

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4 January 2012 New York Times By RACHEL DONADIO and NIKI KITSANTONIS Pushed against the wall by its foreign lenders, the Greek government agreed on Sunday to drastic new spending cuts but failed to complete an arrangement that would unlock the financing the country needs to prevent default. It agreed instead to resume talks on Monday. In a statement issued Sunday evening after a five-hour meeting, interim Prime Minister Lucas Papademos said that he and the leaders of the three parties in his unity government had agreed to cut spending this year by 1.5 percent of Greeces gross domestic product in order to meet the demands of foreign lenders. Setting the stage for future power battles over Greek banks, the government also said it had set a framework for the bank recapitalizations that would be required after the completion of a broader agreement for creditors to a voluntary write-down of up to 70 percent of Greek debt. That deal is said to be all but completed and now hinges on the Greek political parties accepting more austerity measures. But while the three parties in Mr. Papademos fragile coalition government — the Socialist Party, the center-right New Democracy and the hard-right Popular Orthodox Rally, or L.A.O.S. — may have found consensus on a broader framework on Sunday, they still appeared to disagree on crucial details in the new austerity measures, potentially jeopardizing the whole arrangement. Frustrated at the political gridlock and the slow pace of structural changes in Greece, the countrys so-called troika of foreign lenders — the European Commission, the European Central Bank and the International Monetary Fund — have increased their pressure. They have demanded that Greece reduce its public sector workforce by 150,000 people, cut supplemental pensions and introduce private-sector wage cuts in exchange for the bailout money Greece needs to avoid default when a bond comes due in March. These are seen as necessary in order for other European leaders — most notably Chancellor Angela Merkel of Germany — to persuade their electorates to extend additional loans to Greece should it need it. One euro zone official, speaking on the condition of anonymity due to the sensitivity of the issue, said there was a growing sentiment that Greece needed to accept the tough conditions laid down by international lenders if it was to receive a second bailout. [REDACTED] comes a point where something has to give, and people are becoming frustrated, A the official said. But after nearly two years of austerity, with unemployment at 19 percent and the country plunged into a deep recession, such measures are expected to anger voters and cause social unrest at a time when Greeces political parties are fighting for survival. After Sundays meeting, Antonis Samaras, the leader of New Democracy, said the troikas demands were unrealistic. [REDACTED] are asking for more recession than the country can take, A he said. [REDACTED] am fighting against this. A [REDACTED] is the first time there has been real negotiation, he added. A Greek official said that the government had largely agreed to accept the demands of the troika to push the minimum wage from about \$1,000 a month to closer to \$750, to make Greek labor more competitive. But the official added that the parties had all opposed the troikas suggestion of cutting private-sector wages by eliminating the additional pay given to Greek

workers at Christmas, Easter and the summer holidays. In a letter to Mr. Papademos on Sunday evening, George Papandreou, the Socialist Party leader who stepped down as prime minister in November, said that supplemental pension funds linked to different professions should be merged to reduce their debts and to make them viable, but that a minimum level should be set for monthly payments from these funds. New Democracy and L.A.O.S. have opposed cuts to the supplemental pensions. With elections expected as soon as April, Mr. Papandreou, who is widely seen to have lost control of the Socialist Party and is expected to be replaced as leader in the coming months, called for extending Mr. Papademos's mandate through October 2013 to allow for the implementation of all crucial measures. The tense political talks come amid negotiations for a voluntary write-down of Greek debt. In recent days, the talks have revealed significant differences within the troika. If Greece were to need additional bailout money because the recession has led to a significant drop in G.D.P., the I.M.F. is loath to contribute more, and wants the European Union to make up the difference.

Kaynak/Source: