

Greek cabinet approves budget cuts
The Financial Times
October 3, 2011
By Kerin Hope in Athens

[Greece's](#) cabinet on Sunday approved large cuts in next year's budget – including the immediate dismissal of thousands of public sector workers – under intensifying pressure from its international creditors.

However it also admitted that because of the deepening recession it will miss budget deficit targets for this year and agreed with the [so-called troika](#) of the European Union, European Central Bank and the International Monetary Fund.

The finance ministry said that it expects the 2011 budget deficit to be 8.5 per cent of gross domestic product, missing the 7.6 per cent target set by the troika, and next year's to be 6.8 per cent, greater than the 6.5 per cent target.

The cabinet met after Evangelos Venizelos, Greek finance minister, wrapped up negotiations with experts from the troika in the early hours of Sunday.

Mr Venizelos' deputy is expected to present the draft 2012 budget to the Greek parliament on Monday, so the finance minister can attend [an emergency meeting of his eurozone peers](#) in Luxembourg. The finance ministers will assess progress on reforms that are required before Greece can secure the next €8bn tranche of its current bail-out loan.

The mood in Athens was tense ahead of the budget announcement. Transport workers, who are among those most affected by the cuts, are set to stage a six-hour strike on Monday.

Protesters threw stones and petrol bombs at riot police patrolling near Exarhia, a leftwing neighbourhood, in a series of confrontations, but there were no arrests. Several parked cars were torched.

The budget assumes that Greece's economy will shrink about 2 per cent in 2012, on top of a projected 5.5 per cent contraction this year as private consumption plummets and the government slashes infrastructure spending and other public investment.

It is expected to contain spending cuts and tax increases worth about €6.5bn, including additional levies on income and property that the government plans to start collecting this year.

The budget is projected to achieve a primary surplus next year of €3.2bn – before paying debt servicing costs – equivalent to 1.5 percentage points of gross domestic product, putting Greece back on the road to fiscal stability.

Yielding to pressure from the troika, Mr Venizelos has agreed to eliminate 30,000 public sector jobs by December, overriding strong opposition from senior cabinet colleagues.

About 23,000 workers nearing retirement will lose their positions along with 7,000 others after mergers and restructuring at dozens of state-controlled organisations, according to details of the plan leaked to Greek media. In a Greek newspaper interview, Mr Venizelos expressed confidence that Athens had done enough to ensure disbursement

of the next loan tranche and avert a looming cash crunch, saying: "Given that we're taking such tough measures ... the sixth tranche is assured," he was quoted as saying.

However, analysts remain sceptical, citing Greece's reluctance over the past year to comply with EU-IMF deadlines for reform. As a result of the delays both Mr Venizelos and George Papandreou, the prime minister, had to make personal commitments to meeting the timetable in separate letters sent to Christine Lagarde, the IMF managing director. The letters, sent last week, have not been made public.

Even if the EU and IMF sign off on the next loan tranche by mid-October, funds are running so low that the finance ministry may still have to postpone salary and pension payments coming due over the next two weeks.

The troika experts were expected to stay in Athens this week to supervise preparations for next month's launch of a unified payment system for civil servants – a reform that has been delayed because of opposition from higher-paid officials whose salaries and allowances will be cut by 15-20 per cent.

In a rare piece of encouraging economic news, the investment arm of the Gulf state of Qatar announced on Saturday that it planned to lend \$600m to a gold mining venture in northern Greece.

Copyright The Financial Times Limited 2011.

Source: <http://www.ft.com/intl/cms/s/0/17955778-ed13-11e0-be97-00144feab49a.html#axzz1Zhr5UE5X>