Greece seeks further cuts

By COSTAS PARIS, ALKMAN GRANITSAS and CHARLES FORELLE

ATHENS—Greece’s government held an emergency cabinet meeting Sunday to plan new measures to bring its unruly budget deficit into line, after heated warnings from the other euro-zone nations over the weekend that its efforts were insufficient and might threaten the delivery of future aid.

During a late-evening break in the meeting, Finance Minister Evangelos Venizelos pledged that Greece would adopt a raft of new budget-cutting measures endorsed by the "troika" of European Commission, International Monetary Fund and European Central Bank inspectors overseeing the country’s bailout.

But there were signs of swelling exasperation, and with it a larger risk that Greece could descend into a messy debt default. Mr. Venizelos said Greece was being "threatened and humiliated" by the troika’s continued demands for cuts, which include mass firings of public workers.

In a fiery statement released after the meeting, Mr. Venizelos lashed out at his political opponents—but also, unusually, at the euro-zone countries that are funding Greece and administering its bailout. "We should not be the scapegoat or the easy excuse that will be used by European and international institutions in order to hide their own lack of competence to manage the crisis," he said.

On the other side, German Finance Minister Wolfgang Schäuble, in a newspaper interview published Sunday, said Greece wouldn’t get the next quarterly dollop of aid, valued at €8 billion ($11 billion), unless it met strict deficit targets. Greek officials say they have only enough cash for another month.

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Greece and its rescuers have engaged in this kind of brinkmanship just before other aid disbursements. Threatening to withhold cash is one of the few tools euro-zone nations have to compel Greece to trim its deficit.

There are indications, though, that this round is dangerously serious—a reflection of the fraught politics on both sides. Prime Minister George Papandreou on Saturday abruptly canceled a trip to the U.S., and will instead preside over emergency meetings that continue Monday.

In Greece, the ruling Socialist party, known as Pasok, is under enormous pressure to ease austerity measures that have been in place for more than a year and yet have done little to curb the debt crisis. Government officials fear that new measures—particularly firings of tens of thousands of public workers—could trigger new public protest and possibly new elections.

"There is a climate of panic in the party. I have never seen it like this before," a veteran Pasok politician said. "I doubt that Pasok will be able to adopt such measures, and the prime minister might be forced to call early elections."

In Germany and other stronger countries, politicians who have approved the aid to Greece are striving to show restive taxpayers that Greece’s feet are being held to the fire.

In the interview with tabloid Bild am Sonntag, Mr. Schäuble said Greece "must produce the numbers that show things are according to plan" in order to be paid. Euro-zone finance ministers delivered the same message to Greece in private at a weekend meeting of
European finance ministers in Wroclaw, Poland, according to senior Greek officials familiar with the matter.

The bailout troika pulled its team out of Athens earlier this month amid indications Greece wouldn’t reach its deficit goals. Mr. Venizelos said Greek officials will hold a teleconference with the troika members Monday.

The Greek bailout, first set at €110 billion in May 2010, is on the rocks. The country appears to need at least twice that much money in the coming years, which means a second bailout is being prepared. But Greece is likely to miss deficit targets set in the first bailout; that means even more money could be required to compensate.

To plug the deficit hole, the Greek government recently proposed a special property tax, announced with much fanfare. But now the tax looks unlikely to deliver new revenue quickly enough. Mr. Schäuble raised doubts Saturday that Greece could even collect it this year.

That has Greece scrambling for ideas. It might have to consider retroactively—and with immediate effect—rescinding public-sector hiring that took place in 2010 and 2011, said Greek officials familiar with the talks.

That could affect some 25,000 public-sector workers—and possibly more, said one official. In addition, the government is being pressed to put tens of thousands of public-sector workers in a reserve labor pool where they would be retained on 60% salary for up to a year, but would face dismissal after that if no new jobs were found for them.

"The reserve pool will be adopted ... everyone wants a smaller state and we will do it," Mr. Venizelos said.

As part of discussions with its creditors, Greece agreed in March this year to lay off 80,000 public-sector workers by 2015. But the government has also hired around 25,000 new workers in the past two years to fill shortages in select areas of the public sector.

Now, with Greece unlikely to meet its deficit targets this year, the troika has upped the target for public-sector layoffs to 100,000—demanding that the government proceed with its promised public-sector cutbacks while rescinding all new hiring done in the past 20 months.

The troika also has asked Greece to consider raising taxes on tobacco, alcohol and luxury goods, while there is also pressure for Athens to step up plans to close or merge dozens of public-sector bodies.

No decisions on new measures have been made, government officials say. adding that Greece is trying to negotiate with its euro-zone lenders over specifics.

The growing pressure on Greek households and businesses from increasing austerity measures has lifted political tensions in Athens, with another round of cutbacks likely to shift support away from the government. Leading opposition parties are pushing for elections. "The only solution to today's deadlock is elections," Antonis Samaras, head of the conservative opposition New Democracy party said in a widely reported speech in Thessaloniki.

—Stelios Bouras in Athens contributed to this article.

Write to Costas Paris at costas.paris@dowjones.com and Alkman Granitsas at alkman.granitsas@dowjones.com