Greece Will Miss Its Deficit Target

Government Agrees to Extra Austerity Measures, but Economists Warn Stringent Cuts Will Worsen Country’s Recession

By STELIOS BOURAS And ALKMAN GRANIT SAS

ATHENS—The Greek government acknowledged Sunday that it will miss its deficit target this year, as it moved ahead with a plan to slash thousands of public-sector jobs to meet the demands of international creditors.

Greece also has agreed to take some €6.6 billion ($8.8 billion) in new austerity measures in 2011 and 2012 to bring its budget back on track, but some economists warned that additional cuts will further weigh on the country’s growth.

The Greek government called an extraordinary cabinet meeting Sunday to approve the 2012 draft budget as well as the job-cut plan, following three days of talks with a delegation of international auditors in Athens.

"I want to repeat that we will be unswerving in our goal: to fulfill all that we have promised to ensure the credibility of our country," Prime Minister George Papandreou told the meeting.

Late Saturday, Greece wound up a third day of talks with inspectors from the European Union, the International Monetary Fund and the European Central Bank—known as the troika—who will decide whether the country is eligible to receive further financial assistance.

On Monday, European finance ministers are to meet in Luxembourg to discuss Greece’s progress on reforms.
A Sharp Knife

Among the measures planned to trim the deficit by the Socialist government of George Papandreou:

- Transfer 30,000 public workers into a labor reserve at reduced pay
- Cut public-sector salaries by as much as 40%
- Cut pensions and lump-sum payments to public-sector retirees
- Close or merge some 65 government-linked organizations
- Lower the taxable-income threshold
- Privatize state assets valued at €50 billion ($67 billion), including lender Hellenic Postbank
- Legalize slot machines and online gambling, and then collect money from license concessions and from taxes on the new gambling income

The finance ministry said after the cabinet meeting that Greece’s deficit this year will be about 8.5% of gross domestic product, or about €18.69 billion ($25 billion)—well above a target of €17.1 billion. For 2012, Greece is aiming for a deficit of 6.8% of GDP, or about €14.65 billion.

Under pressure from the troika, Greece has agreed to new austerity measures to bring its budget back in line. The draft budget is to be introduced in Parliament Monday and voted on by the end of October.

The deficit figures came as no surprise. A worse-than-expected slump this year has complicated Greece’s efforts to meet its budget goals amid lagging tax collections and higher outlays for social-welfare programs.

In early trading Monday, Asian stock markets fell sharply, with Japan’s Nikkei Stock Average down 2.3%, Australia’s S&P/ASX 200 falling 2.4% and Hong Kong’s Hang Seng dropping 4.2% as concerns continued over global economic conditions. The Greek economy, stumbling through its third year of recession, is expected to contract 5.5% in 2011, deeper than a previous forecast of 3.9%.

"The revision in the 2011 budget deficit appears to be in line with the bigger-than-expected contraction in the economy and the underperformance of budget revenues so far this year," said Platon Monokroussos, a senior economist at EFG Eurobank Ergasias SA in Athens. "The announced austerity measures are going to be painful."

Among the measures is a plan to transfer some 30,000 public workers into a special labor reserve at reduced pay. About two-thirds of them will be drawn from employees within a year or two of retirement and will qualify for early pensions, according to government officials. The reserve, to be implemented immediately, is expected to produce €300 million in annual cost savings, starting next year, and is the first step in a plan that aims to eliminate 100,000 public-sector jobs by 2015.

According to the officials, from next year the Greek government will seek help from the European Commission, external consultants, and experts from the Organization for Economic Cooperation and Development to identify surplus workers in the country’s public sector.

The reserve plan, described by union groups as the first step toward massive layoffs in the state sector, also comes amid internal dissent within the governing Socialist party and growing public opposition to the austerity measures needed to keep rescue funds flowing.

In the past few weeks, Greece has seen almost daily work stoppages by a variety of groups, from doctors to teachers to taxi owners to bus drivers. Public-sector employees are planning a nationwide strike Wednesday, and Greece’s two largest umbrella unions have said they plan a 24-hour general strike on Oct. 19. Many managers in Greece’s vast public sector have balked at implementing the plan. Of 151 public groups asked by the government to compile lists of employees for the labor reserve, only around 90 have responded.
At Greece’s dozens of state-owned enterprises, which employ a total of 35,000, managers have so far identified just 300 prospective jobs to be cut.

Dissent within the ruling Socialist party has also stoked fears that the austerity measures could trigger a revolt by its lawmakers, imperiling the government’s narrow four-seat majority.

In a nod to that internal dissent, Mr. Papandreou urged government lawmakers to show their commitment to the reform effort and saluted Socialist deputies for showing themselves "worthy of the occasion."

At stake is an €8 billion tranche of aid sought by Greece that is part of a €110 billion bailout the country received from its fellow euro-zone members and the IMF early last year. Without that next slice of aid, Greece’s government will run out of money by the middle of this month.

Finance ministers from the 17 countries that use the euro are due to meet in Luxembourg on Monday, but aren’t expected to make a decision on Greece’s next aid disbursement until the troika has completed its latest report on Greece. A separate meeting of Eurogroup finance ministers has been tentatively planned for Oct. 13 to approve the aid.

—Costas Paris in London contributed to this article.

Write to Alkman Granitsas at alkman.granitsas@dowjones.com