Greeks Struggle to Resolve Their Differences

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ATHENS—Greece's political party leaders will resume talks Monday after major differences on draconian reforms as part of an international aid package remained unresolved following a marathon meeting Sunday.

Leaders from the Socialist party, the conservative New Democracy party and the small nationalist party Laos met with Prime Minister Lucas Papademos to seek common ground on the terms of a second bailout that Greece needs to avoid default.

After a meeting lasting more than five hours, Mr. Papademos said the leaders agreed on some of the basic points of the international lenders' demands, including spending cuts of 1.5% of gross domestic product in 2012. They also agreed to overhauls that would cut supplemental pension benefits for Greek workers, and to boost competitiveness by adopting measures in a range of fields, he said.

But in separate remarks, the Socialist and conservative parties indicated they were still far from agreement on proposed wage cuts in the private sector, while the Socialists also insisted on giving the state voting rights as part of a bank-recapitalization plan.

Main opposition New Democracy leader Antonis Samaras said creditors "are asking for more recession" from Greece. "I am fighting in every way to avoid this," he said Sunday.

The head of Laos, Georgios Karatzaferis, said he "will not contribute to a revolutionary explosion arising from impoverishment."

Moments after the meeting finished, Panos Beglitis, spokesman for the Socialists, also known as Pasok, said the party's political council planned to convene later Sunday to discuss the reforms. However, key issues still remained unresolved, specifically relating to the wage cuts and to a plan to recapitalize Greece's banks facing billions of euros of losses from the planned debt write-down.

"The two big issues are the labor reforms and the banks," Mr. Beglitis said, adding that Socialist party leader George Papandreou "insists on the use of common shares with voting rights."

The second loan agreement includes €40 billion to prop up Greek banks, though how the capital boost will be completed hasn't been decided. At issue is whether lenders will provide common or preferred shares to the Greek state in exchange for that aid, and whether the government will be able to influence management decisions by invoking its voting interests.

Mr. Papademos also held talks late Sunday with representatives from the European Commission, the International Monetary Fund and the European Central Bank—known as the troika.
—while the party leaders held separate meetings with their associates.

Greece has been locked for the past two weeks in difficult negotiations with the international creditors on the loan terms as the two sides work to overcome differences on a range of unpopular reforms.

As talks drag on, the risks increase that the Greek government and its private creditors will be unable to complete the debt-reduction agreement they are seeking by late March. Then, some €14.5 billion ($19 billion) of bonds come due for repayment. Without a deal with the troika or an about-face by its members, Greece won’t have the money to repay these bonds—triggering a potentially disruptive default.

The debt agreement hangs on the troika signing off on a second bailout for Greece—but it can’t be executed instantly. It will take several weeks for the debt-reduction proposal to be sent to bondholders and for them to respond.

As a condition for further aid, Greece’s official lenders have demanded cross-party support for the overhaul and austerity program to ensure there is no backsliding after a new government takes office later this spring. But faced with growing discontent over Greece’s handling of the crisis, the country’s political leaders have been reluctant to sign off on the overhaul, which is seen as capable of sparking social upheaval.

"The PM’s statement shows the willingness to reach a successful conclusion. But the issue of [cuts to private-sector] salaries is still out there, and how it will be practically addressed is unknown,” said a senior government official.

Greece is holding twin sets of talks with its European partners and the IMF on a new bailout after they agreed to provide the country in late October with a second bailout of €130 billion. At the same time, Athens is also negotiating a €100 billion debt write-down plan with its private-sector creditors.

The two heads of a private-sector creditors’ committee negotiating a debt write-down plan with Greece also joined talks at Mr. Papademos’s office late Sunday. The talks with the private-sector creditors are said to be very close to being finalized, after they agreed on lower interest rates on the new bonds Greece will offer as part of a 50% haircut. But there are concerns that the debt restructuring doesn’t go far enough in cutting Greece’s debt burden.

Charles Dallara, managing director of the Institute for International Finance, along with Jean Lemierre, a senior adviser to BNP Paribas SA, left the prime minister’s office soon after the meeting with the party leaders ended without making any statements.

"The troika wants layoffs in the police, armed forces, and there are even proposals to lay off teachers that work on temporary contracts as part of the [targeted] 150,000 [civil servants] that will go by 2015,” said the government official.

Demands for cuts to the country’s public-sector work force are also being discussed.

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Luxembourg’s Prime Minister Jean-Claude Juncker, who also heads the group of the euro-zone’s 17 finance ministers, told Germany’s Spiegel magazine in an interview pre-released Saturday that help for Greece won’t be made at any cost.
In tough remarks, Mr. Juncker warned that should Greece fail to implement necessary reforms, then it should not expect acts of solidarity “to be rendered by others.”

"If we should determine that everything is going wrong in Greece, then there would not be a new program, then that would mean that in March a declaration of bankruptcy would occur,” Mr. Juncker said in the interview.

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