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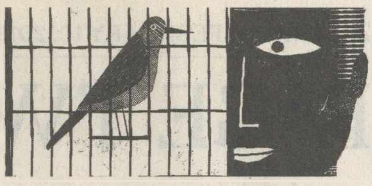

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Greek parties swallow new austerity pill

YVES HERMAN/REUTERS
Evangelos Venizelos, the Greek finance minister, in Brussels on Thursday seeking approval from euro zone colleagues for the next installment of assistance in time to avoid default.

A plan to appease leaders of euro zone

ATHENS

Cuts to minimum wage and military should clear way for bailout payment

BY RACHEL DONADIO AND NIKI KITSANTONIS

After days of maneuvering, Greek political leaders reached a tentative deal Thursday on a package of tough austerity measures demanded by Greece's financial backers in return for the country's latest bailout.

The deal was intended to unlock €130 billion, or $173 billion, in new loans and save Greece from a potentially disastrous default. But there was no immediate flurry of checkbooks opening, as the country's lenders sought to determine that all conditions had been met.

Heading into a meeting of euro zone leaders Thursday night in Brussels, the Greek finance minister, Evangelos Venizelos, described the deal as a "new, strong and credible program." He said it had been reached at "staff level" with the so-called troika of lenders — the European Commission, the International Monetary Fund and the European Central Bank.

"We also have an agreement with private creditors on the basic parameters" of a debt write-down, Mr. Venizelos said. "Now we need the political endorsement of the Eurogroup for the final step."

But ahead of the same meeting, the German finance minister, Wolfgang Schäuble, indicated that the endorsement would take some time. He said there were still "general requirements" outstanding, including approval by the Greek Parliament.

"The agreement, as far as I understand, is not at a stage where it can be signed off," he said.

Nevertheless, officials and diplomats were hoping to get enough of a conditional agreement so as to be able to start the process of the accompanying bond swap for Greece. That decision is urgent because the procedures are complex and there is a tight deadline if a Greek default is to be avoided.

Prime Minister Lucas D. Papademos and the leaders of the three political parties backing his coalition had agreed on a range of steep wage cuts and public-sector layoffs, but their talks stalled early Thursday over the thorny issue of pension cuts, leaving a €300 million shortfall in required savings. But later in the day, the government said the leaders had overcome that hurdle by trimming military spending and other expenditures.

The Greek Parliament has scheduled a vote on the final package for Sunday. Although the coalition government has a comfortable majority of seats, the debate is sure to be contentious: Hours

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Deeper sacrifices

Key austerity measures agreed to by the Greek government intended to lead to a €130 billion bailout from the European Union and International Monetary Fund:

- A cut of 22 percent in the monthly minimum wage to €586 from €751.
- A freeze on the minimum wage for three years.
- A freeze on all salary increases until the unemployment rate falls below 10 percent from the current 19.2 percent.
- Reducing the number of government jobs by 150,000 before 2016.
- Job cuts for as many as 15,000 government employees by the end of 2012.

EUROPEAN INTEREST RATES HELD STEADY
The European Central Bank left its main interest rate unchanged Thursday as it forecast mild growth for the euro zone, while the Bank of England moved to bolster the British economy. *PAGE 14*

ATHENS RISKS ITS LEVERAGE WITH E.U.
It now appears that Europe is prepared to pay what it needs to pay to save its banks. But not to rescue Greece, Floyd Norris writes. *PAGE 18*

Uncertainties and stagnation are still looming

PARIS

BY LIZ ALDERMAN AND LANDON THOMAS JR.

For all the struggles that Athens went through to satisfy its demanding lenders, Greece's troubles — and those of the rest of Europe — are far from over.

The fever of Europe's sovereign debt crisis has cooled considerably in recent months, easing fears that the euro zone itself might suddenly fall apart. But a grinding reality has descended on Europe in its place: the prospect of economic stagnation at best and the possibility of another downturn for much of the Continent less than three years after the last recession ended.

"We take one problem off the table for the moment," said Carl B. Weinberg, chief economist at High Frequency Economics in Valhalla, New York. "That still leaves us having to deal with the dramatic destruction of wealth that has taken place."

The deal opens the door to new uncertainties, which could once again revive the crisis atmosphere. While Enda Kenny, the Irish prime minister, said that, unlike the Greeks, he had no plans to press losses on banks holding Irish

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YIORGOS KARAHALIS/REUTERS

Demonstrators from the Communist-affiliated trade union PAME marching on Thursday in front of the Parliament in Athens during a rally against the new austerity measures.

Greek parties agree to more austerity

GREECE, FROM PAGE 1

after the deal was announced, a deputy labor minister resigned to protest plans to abolish two organizations that provide state-subsidized housing.

Once the deal is approved, the lenders are expected to start releasing to Greece the aid it needs to prevent a default when its next debt payment comes due on March 20. Before that, however, officials want to complete a bond swap under which private investors would take losses of as much as 70 percent.

Under persistent questioning from reporters in Frankfurt on Thursday, Mario Draghi, the president of the European Central Bank, declined to clarify whether the E.C.B. might contribute to debt relief in Greece, as had been widely speculated.

Mr. Draghi continued to rule out taking a loss on the E.C.B.'s holdings of Greek bonds, which have an estimated value of €50 billion. If the E.C.B. took a loss, it would be financing governments, which is prohibited, he said.

But he seemed to leave an opening for the central bank to forgo profits from its holdings, which the bank has purchased on the open market since 2010 at a discount estimated at about 20 percent.

Before leaving Athens, Mr. Venizelos had appealed to Greek political leaders once more, saying that their decisions "will determine whether the country remains in the euro zone or whether its place in Europe will be endangered."

Even then, the line between Greek political theater and international financial trauma was difficult to discern. And after weeks of delays and threats from both sides — many of which proved to be empty — it was clear that the credibility of both Greece and its lenders was on the line.

The leaders appear to have agreed to one of the most unpopular austerity measures, a 22 percent reduction in the minimum wage, to €586 a month, according to a statement by the prime minister's office.

That cut is expected to affect most salaried workers, because the base wage is used as a benchmark by many employers.

The country's two main labor unions called for a strike Friday and Saturday to protest the new package of austerity measures. Union leaders said rallies would be held outside Parliament on both days of the strike and on Sunday during the vote.

After breaking off talks with Mr. Papademos, which began Wednesday night, and issuing statements, the three political leaders had retired to their homes at about 2 a.m. Thursday.

A little while earlier, while Mr. Papademos was holding talks with Greece's foreign lenders, one of the three leaders participating in the government, George Karatzaferis, the leader of the Popular Orthodox Rally, issued a statement saying that he was unwilling to agree to the terms of the new bailout and indicating that he might withdraw from the government.

That would leave the burden of accepting the austerity measures on the other two parties in the coalition, the Socialists and the center-right New Democracy party.

A government official said that Mr. Papademos had communicated during the day Thursday with the leader of New Democracy, Antonis Samaras, and that they had agreed on how to make up the shortfall. Local media reports said Mr. Papademos had not spoken with Mr. Karatzaferis.

Although Greece's foreign lenders have indicated that they will ask for written agreements from the party leaders that they will support the loan agreement, the government is still expected to be able to approve the agreement without Mr. Karatzaferis's party, which has only 16 of the coalition's 252 seats.

With elections expected as soon as April, the parties are fighting for political survival. Mr. Karatzaferis's party, formerly in opposition, has been losing ground with voters since it joined the government. Analysts suggested that the coalition partners were seeking to avoid blame for the agreement in hopes of leaving Mr. Papademos as the principal target of public anger.

The finance ministers meeting in Brussels were expected to examine the new austerity plan in detail and seek reassurances that Greece's fractious politicians have endorsed it. They will also need to identify the size of any funding gap caused by the worse-than-expected recession in Greece.

The first installment of the bailout was supposed to be an €89 billion segment in March, but officials are now saying that payment might be limited to €30 billion to €40 billion to ensure that Greece continues to abide by the terms in coming months.

Stephen Castle contributed reporting from Brussels, Jack Ewing from Frankfurt and Landon Thomas Jr. from London.

ONLINE: DEBT TRACKER
Follow the latest country-by-country developments and coming events of the euro zone debt crisis through an interactive graphic at: global.nytimes.com/business

An obstacle gone, but others remain

OUTLOOK, FROM PAGE 1

sovereign debt, that stance has inflamed many people in Ireland, who have had to shoulder the banks' bad debts. And if Ireland asked for write-offs from lenders similar to those Greece is seeking, it could pave the way for demands from Portugal and perhaps larger countries like Spain and Italy.

"The Pandora's box has been opened for Ireland and Portugal," and possibly for other countries, Mr. Weinberg said. "We don't know where this goes."

Still, the fear that gripped Europe and rippled through the global economy after Greece turned in desperation to its fellow euro zone members for help two years ago has been palpably lacking lately. A few months after that event touched off Europe's sovereign debt crisis, Ireland received a bailout, followed in short order by Portugal.

Investors worried that Italy and Spain, with two of the euro zone's largest economies, might falter as well, needing more money to satisfy their creditors than the rest of Europe could possibly raise.

But even though Portugal is in a downward spiral economically, plagued by high debt, a deep recession and more austerity on the horizon, there is little chance it will turn into another Greece, many analysts say.

"The notion of immediate contagion to Portugal from Greece is hard to believe," said Nicolas Véron, a senior fellow at Bruegel, a research group in Brussels, and a visiting fellow at the Peterson Institute for International Economics in Washington.

Investors began scrutinizing the country when its debt dynamics, like Greece's, went off the charts. But Portugal has already implemented a wave of changes, including privatizations and structural shifts in the labor markets. Among other things, Portugal also does not have trouble collecting taxes the way Greece does — something that encouraged and appeased investors.

Markets are also taking a more optimistic view of Italy and Spain, where borrowing costs have come down to more sustainable levels as both countries, under new political leadership, proceed with restructuring plans that are intended not just to reduce high debts and deficits but to lay the foundation for restoring economic growth.

Investors have also been reassured by the European Central Bank's moves to lower interest rates and open the money taps to protect banks from being pushed to the wall.

"I don't see what's on the horizon that would derail this," said Stefan Schneider, the chief international economist at Deutsche Bank in Frankfurt. "We are no longer in an environment where markets want to pick off Greece and move onto the next country."

For Mr. Véron, that means Europe may be able to breathe easy, at least for a while. "It doesn't mean the problems are solved," he said. "But it removes some of the short-term pressure, and hopefully can create a virtuous circle."

But that depends on how economic growth fares in the euro zone in the months and years ahead. Investors who once attacked countries for not embracing enough austerity to mend tattered balance sheets have instead come to the stark realization that too much austerity is squeezing growth, making it harder, rather than easier, to pay debts.

The growth divide that already existed between wealthy northern countries and those along the southern rim has widened even more in the past year, while those toiling in what is likely to be a drawn-out recession — Greece and Portugal especially — seem to be creating a third, ultrapoor zone in the euro zone.

That will weigh on Europe for years to come. It is already helping to dampen growth in Germany and once-robust countries like France. And if Greece were to contemplate exiting the euro zone in the future — something analysts do not rule out despite its latest bailout — all bets are off.

"There would be contagion all over again if there is renewed talk of a Greek exit," Mr. Véron said. "This will be a big theme to watch out for in the coming months."

The accord in Athens "still leaves us having to deal with the dramatic destruction of wealth that has taken place."

For now, though, Greece has bought time. That gives lenders the opportunity to insulate themselves from any future debt default. Greece appears to have been pulled back, once again, from the precipice after political leaders agreed to a punishing new set of austerity measures aimed at sealing an agreement to unlock €130 billion, or $173 billion, in new loans from the European Union and the International Monetary Fund.

But serious doubts remain over its ability to revive its economy and generate enough growth in the coming years even to reach the goal of reducing its debt load to 120 percent of its annual economic output in 2020.

Greece's economy remains in dire straits. Unemployment hit 21 percent in November and industrial production plummeted 11 percent in December.

And while Greece will benefit from a reduced interest rate burden in the years ahead, it is unclear how a country that has always depended on a state sector to spur demand will be able to grow with its main economic engine effectively shackled.

Greece has a poor record keeping its promises so far, raising the risk that it will not be able to meet the most recent conditions either.

"At the bottom of all this Greece still has to deliver," Mr. Weinberg said. "As we saw with the first package, delivering the legislation doesn't necessarily deliver the performance. Greece could be out of compliance very quickly."

Landon Thomas Jr. reported from London. Jack Ewing contributed reporting from Frankfurt and Stephen Castle from Brussels.