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Deal on Lifeline to Avert Greek Bankruptcy Is Postponed

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LUXEMBOURG — Europe’s finance ministers unexpectedly put off approval early Monday of the next installment of aid to debt-laden Greece, delaying the decision until July and demanding that the Greek Parliament first approve spending cuts and financial reforms that include a large-scale privatization program.

After nearly seven hours of talks in Luxembourg, ministers announced a holding action that reflected their struggle over how to avert a potentially disastrous default by Greece. Athens needs the next payout of 12 billion euros from its existing 110 billion euro bailout package by mid-July in order to remain solvent.

The decision adds to pressure on the Greek government and its prime minister, George Papandreou, who on Sunday began urging Parliament to support his reform plans in a confidence vote scheduled for Tuesday night. European markets opened more than 1 percent lower on Monday on word of the delay, and the euro fell against the dollar.

The ministers’ action fell short of expectations raised Thursday when Olli Rehn, the European commissioner for economic and monetary affairs, said in a statement that he was confident the leaders would reach agreement in Luxembourg to provide Greece the next installment of aid in early July.

Jean-Claude Juncker of Luxembourg, who leads the group of 17 euro zone finance ministers, said he expected the disbursal to be approved if deep spending cuts and new reform measures were enacted. “I cannot imagine for one second that we would commit to finance Greece without knowing that the Greek Parliament has given a vote of confidence to the Greek government,” he said.

Mr. Papandreou’s Socialist Party has been working to shore up its tenuous political position in the face of widespread anger in Greece over strict austerity measures that have produced job losses and cuts to wages and pensions. Late last week Mr. Papandreou shuffled his cabinet and appointed a Socialist stalwart, Evangelos Venizelos, as the new finance minister.

The ministers did fall into line with an agreement made on Friday between the German chancellor, Angela Merkel, and the French president, Nicolas Sarkozy, over the extent to which private investors would be involved in a second bailout package, which Greece needs on top of its existing rescue package in order to meet its debt obligations through next year.

The ministers did agree that a second bailout would involve the private sector “in the form of informal and voluntary rollovers of existing Greek debt” — a solution deemed acceptable by the European Central Bank. Before backing down on Friday, Mrs. Merkel had initially pressed for debt swaps instead.

Asked about the mood of the talks, the Belgian finance minister, Didier Reynders, said “the atmosphere was good.”

“The problem was that we have to make progress on the role of the private sector, and we have made progress,” he said.

The discussion proved more complex than expected because the International Monetary Fund was insisting that the European Union effectively underwrite the Greek government if its financing plan did not add up over the next year, said one European official not authorized to speak publicly. Many governments resisted that effort because of the uncertainty in knowing how much of a financing gap there could be next year. It is also unclear what proportion of it could be covered by the private sector.

Devising a new bailout that would include voluntary private sector involvement, so it would not be classified as a default, will be complex, said one official not authorized to speak publicly, because the amount that the private sector agrees to contribute will largely determine how big a gap reluctant European governments will have to fill. Another big source will be Greece’s privatization program, intended to raise as much as 50 billion euros.

After a week of intense turmoil that ended with an overhaul of the ruling Socialist Party’s cabinet on Friday, Mr. Papandreou signaled on Sunday that he was prepared to make radical changes to the indebted Greek state system, and proposed an overhaul of the Constitution.

Declaring that the bloated government sector was largely to blame for the state of the Greek economy, Mr. Papandreou called for a referendum in the fall on a proposal to “change the political system” and revise the Constitution, which protects some 800,000 government workers.

Mr. Papandreou confirmed that talks were progressing between Greece and its foreign creditors for a second bailout package “approximately equal” to last year’s emergency loan package of 110 billion euros.

The stakes still remain high, with politicians aware of the risk of contagion.

“Nobody’s lending to the Greeks at the moment and that’s why we need to find a solution,” said Maria Fekter, Austria’s finance minister. “A default would be an ever bigger damage.”

All this comes a little more than a year after the international community offered the government in Athens its first package of 110 billion euros in loans to prevent it from having to borrow at crippling rates on the financial markets.

But Greece has since then failed to meet its economic goals because of a worse-than-expected recession, which has depressed revenues, as well as its own failure to install reforms.

Greece's creditors have demanded that Mr. Papandreou secure a broad political consensus on a number of austerity measures — chiefly tax increases, cuts in public spending and privatization of state assets — that are to be voted on in Parliament by the end of this month.

Stephen Castle reported from Luxembourg, and Niki Kitsantonis reported from Athens.