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Papandreou Wins Budget Vote as Risk of Default Recedes (2)
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(Updates with economist's quote in fourth paragraph. See EXT4 for more on Europe's sovereign-debt crisis.)

By Maria Petrakis and Natalie Weeks

June 29 (Bloomberg) -- Greek Prime Minister George Papandreou clinched enough votes to pass the first part of an austerity plan aimed at meeting European Union aid requirements and staving off default for his debt-laden nation.

Papandreou won by 155 votes to 138, a wider margin than last week's confidence ballot, as some opposition lawmakers abstained rather than oppose a package that is the condition for further rescue funds. The vote was overshadowed by a 48-hour strike and scuffles outside parliament that saw police fire tear gas at demonstrators protesting budget cuts and asset sales.

Greek bonds rose as approval of the 78 billion-euro ($112 billion) plan sparked optimism Papandreou will be able to keep the country's coffers intact for now. Attention now shifts to a second bill tomorrow that authorizes implementation of the measures. Approval would allow Finance Minister Evangelos Venizelos to meet European counterparts on July 3 for talks on releasing a fifth tranche of aid from last year's 110 billion- euro bailout.

"Markets will calm down a little bit and the situation will improve a little," said Christoph Weil, an economist at Commerzbank AG in Frankfurt. "It's of course only a matter of time until this starts all over again. Greece needs to continue to implement its reforms, and we can tell how difficult that is."

Tear Gas

The yield on Greece's two-year government bond dropped to 26.94 percent today from 28.54 percent yesterday. The euro traded at $1.4359 at 5:15 p.m. in Athens, compared with $1.4421 when the vote started.

Clouds of gas engulfed the square outside parliament as lawmakers voted on a package whose defeat could have led to the euro area's first sovereign default. Greece needs to cover 6.6 billion euros of maturing bonds in August and government officials have said they may lack the money to pay wages and pensions by mid-July.

Riot officers and hooded youths with clubs have clashed over the past two days as crowds swelled to more than 20,000 and some protesters fought police, broke windows at a McDonald's Corp. restaurant and burned two vans.

Papandreou has fought his legislative battle in tandem with a drive by European officials to convince lenders to participate in a Greek rescue. German Finance Ministry officials met with banks and insurers in Berlin today, using a French proposal as a blueprint for discussion, two people with knowledge of the matter said.

Patriotic Duty

The vote followed Papandreou's plea to lawmakers to "do their patriotic duty" after a struggle to keep his party in line and recruit opposition allies. He appointed a new finance minister to stem defections, survived a confidence vote and outlined 5.6 billion euros of additional budget measures, including a 5 percent levy on lawmakers' wages.

"The overriding feeling across Europe will be relief," Tobias Blattner, an economist at Daiwa Capital Markets Europe in London and a former European Central Bank official, said before the vote. "There will always be people who say it won't really change anything and we'll still get a haircut, but at least it will buy time and calm the markets."

Parliament will tomorrow hold a vote on implementing the austerity plan. European Union President Herman van Rompuy said in a statement that "the eyes of Europe" will be on Athens again and that a second approval will help work on a second bailout packaged "proceed rapidly."

Victory Margin

Lawmakers who backed Papandreou today "are likely to vote in favor also of the implementation bill," said Tullia Bucco, an economist at Unicredit Global Research in Milan. No time for the vote has yet been announced.

Papandreou's victory margin improved after five lawmakers in Dora Bakoyannis' opposition Democratic Alliance party abstained. While socialist lawmaker Panagiotis Kouroublis was expelled from the party after he voted against the bill, the impact was neutralized after New Democracy lawmaker Elsa Papadimitriou crossed the floor to vote with the government.

EU officials had called on Papandreou to draw the widest possible support for the austerity plan. EU Economic and Monetary Affairs Commissioner Olli Rehn said yesterday that there is "no plan B" if the laws aren't passed, while Christine Lagarde, named as the next head of the International Monetary Fund, called on Greece's opposition parties to offer support. The IMF provides about 30 percent of Greece's bailout funds.

German Chancellor Angela Merkel said today the vote was "good news."

State Assets

Apart from sales of state assets such as a stake in Public Power Corp. SA, the former power monopoly, and levies ranging from 1 percent to 5 percent on wages, Papandreou's plan includes higher taxes on restaurants and bars, higher heating-oil taxes and lowering the tax-free threshold to 8,000 euros from 12,000 euros presently. Greek newspaper To Vima calculated the additional burden for an average Greek family of four at 2,795 euros a year, about the same as one month's income.

Implementing more austerity measures threatens to deepen a three-year recession and complicate efforts to boost government revenue. Greek gross domestic product, which contracted 4.4 percent in 2010, will shrink a further 3.8 percent this year, according to a report from EU and IMF inspectors in June. The nation's debt load will peak at 166 percent of GDP next year, and is already the biggest in the euro region's history.

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