Greece in December 2014: The song remains the same

NICK MALKOUTZIS
16 December 2014

Introduction

The Greek government has surprisingly announced that presidential elections will be held in December 2014, instead of February 2015. These elections are likely to mark a critical phase in the country's political and economic development. The chances of the government electing a president are low, making the likelihood of early elections high.

If Greece does go to snap polls it will do so with the future of its relationship with the Eurozone unresolved. The bailout programme has been extended until the end of February but the final troika review has yet to be completed and there is no agreement yet on a precautionary credit line that would help Greece exit the programme and borrow from the markets.

At the same time, early elections are unlikely to result in an outright majority for any party. The left party SYRIZA is leading in opinion polls but will probably need to cooperate with at least one more party. The lack of obvious governing partners means this will be a complicated process. Also, SYRIZA's determination to seek a different kind of settlement with the Eurozone than the current government suggests there may be further turbulence ahead.

Electing a president

Prime Minister Antonis Samaras has named former European Union environment commissioner Stavros Dimas as the government's candidate for president. Dimas, one of New Democracy's vice presidents, is respected within Greek politics and not seen as a staunch party man. He is not regarded as the kind of charismatic figure that could change the dynamic in this election and win votes across the aisle.

There will be a maximum of three rounds of voting: December 17, 23 and 29. Dimas needs to win at least 200 votes in the first two ballots and 180 or more in the final one. The government, which has 155 MPs, has discounted the possibility of victories in the first two and is aiming for the last vote instead.

The 25 votes the government needs could come from the group of independent MPs (24), right-wing Independent Greeks (12) and Democratic Left (10). The coalition's best hope is to win over the majority of non-aligned MPs and a handful from Democratic Left and Independent Greeks. Both parties have decided they will not support Dimas but it is possible that some lawmakers will break away. Nevertheless, the reluctance among independent MPs to vote with the government will make it difficult to elect a successor to Karolos Papoulias, the current president. If all three votes fail, Parliament has to be dissolved within 10 days and general elections have to be called within the next 30 days. The most likely dates for snap polls are January 25 or February 1, 2015.

Political context

The government formed after the June 2012 elections consisted of 3 parties (New Democracy, PASOK and Democratic Left) that had all promised voters an improvement of bailout terms. This plan was quickly abandoned and the coalition's new strategy was to adhere to the EU-IMF memorandum in order to qualify for debt relief. Even though Greece produced a primary fiscal surplus in 2013 - a year ahead of schedule - the promised debt reduction did not materialise.

In the meantime, Democratic Left quit the government in June 2013 due to the closing down of the state-owned TV and Radio ERT. Defeat in the European Parliament elections in May 2014, when SYRIZA gained 26.5 percent and ND 22.7 percent, as well as the absence of debt relief forced Prime Minister Samaras to conjure up a new strategy that would give him a chance of winning the presidential elections, due in February 2015. He decided this goal would be to leave the bailout early, at the end of 2014, and not accept another 12 billion euros in loans from the IMF.

The plan, however, foundered on the scepticism of Greece's partners and international markets, which were also concerned about the possibility of a change in government. The hope of a clean exit was abandoned in favour of a credit line, the bailout had to be extended beyond the end of the year and it was agreed the IMF's role in Greece would not end, as Samaras had wanted. This has left the prime minister in a weak position going into the presidential vote. He moved the date of the ballot forward by two months to cut the pre-election period short and has focussed on the plummeting Greek stock market and the rising bond yields as a sign of the risks Greece would run if it is governed by SYRIZA.

Economic and social context

The protracted negotiations with the troika and the uncertainty over Greece's future have to a large extent overshadowed the fact that Greece's economy came out of its long recession. In November, revised data showed that the Greek economy had been growing since the second quarter of 2014.

Although the end of the six-year downward turn is a significant moment in the Greek crisis, many underlying problems remain. Apart from an easing in austerity, the recovery has mainly been driven by another record year for tourism, an uptick in consumption and strong demand for container shipping. Beyond these sectors, though, the Greek economy is mostly struggling. Its industrial production index has fallen for 18 of the 21 months since 2013, exports fell by 4.4 percent in the first nine months of the year and although unemployment has been edging down, it remains close to 26 percent, with almost 75 percent of those without jobs falling into the category of long-term unemployed.

Structural reforms have stalled since the EU elections in May and Greek businesses continue to suffer serious liquidity problems - credit in Greece has been contracting since the beginning of 2011 and this year has been dropping at about 3.5 percent. As a result, unpaid taxes have reached more than 70 billion euros and are increasing by an average of 1 billion a month, debts to social security funds total 15 billion and non-performing loans have reached 77 billion, accounting for more than 35 percent of total loans.

These negative underlying conditions have taken a toll on Greek society. The percentage of Greeks at risk of poverty or social exclusion in 2013 rose to 35.7 percent from 27.7 in 2010. Only a minority of Greeks see a recovery on the horizon. A Pew Research Survey in September indicated just 19 percent of Greeks thought the economic situation would improve in the next 12 months, while 53 percent saw it getting worse.

Moment of truth

Samaras and his partner in government, PASOK-leader Evangelos Venizelos, moved forward the presidential elections from February after they were unable to reach a conclusion with the troika to the latest review of the Greek bailout programme. Greece's lenders demanded a range of measures to close a fiscal gap for 2015 that they estimated at around 2 billion euros, which the government felt it could not easily pass through Parliament, or at least was unwilling to approve before the presidential vote in which it needs to win the support of independent and opposition MPs. The ND-PASOK government opted to agree a two-month extension (until the end of February) to the bailout with the troika and to try to clear up Greece's political future.

By holding the vote for president before adopting the measures demanded by the troika, the government theoretically increases its chances of winning the election but also hopes that the uncertainty about Greece's future will work in its favour. Any MP failing to back the government's candidate, Dimas, will have to consider the possibility that early national elections could lead to an inexperienced, potentially weak government being formed and having very little time in which to reach an agreement with the troika.

Without the safety net of a bailout programme or a precautionary credit line, the new government would not be able to borrow from markets and Greek banks would not qualify for the ECB's cheap liquidity. Another looming challenge for any new government that would not have access to troika funding (Greece was due to receive 7.1 billion euros in loans on the completion of the final review of 2014) would be the payment of two bonds worth combined 6.7 billion euros due in summer 2015 held by the European Central Bank and the Eurozone central banks that could not be rolled over.

In this context, it is worth examining the various scenarios that could play out in Greece over the next few months.

Scenario 1 – President elected, the Government survives

There is a possibility that Samaras's move to put extra pressure on wavering MPs pays off. It may exacerbate splits within two opposition parties – Democratic Left (DIMAR) and Independent Greeks – leading to some of their deputies supporting Dimas's candidacy. Along with the support of the majority of independent MPs this would lead to a new president being elected and snap national polls being avoided.

This should give the government the extra room to manoeuvre it needs to pass the measures demanded by the troika, thereby concluding the pending review and paving the way for an agreement on the precautionary credit line. This would give Samaras the political bonus points he has sought by being able to be the prime minister who oversaw the end of the bailout programme.

However, it would not all be plain sailing for the government. The European Stability Mechanism's enhanced conditions credit line (ECCL) also comes with conditionality. Samaras's government will be tested when it has to pass new measures after having earlier announced the end of the bailout and the troika's presence in Greece. Another factor of instability would also be the smaller partner in government – PASOK. With internal quarrels on the rise in December 2014, securing another year of participation in government could lead to clashes over the path and leadership of the party.

A failure to trigger early elections will not dampen SYRIZA's efforts to push for them. As long as there is no progress in discussing debt relief for Greece and new measures are required, SYRIZA will feel it has legitimate grounds to call for voters to have their say. The party could also use this time to refine its message and possibly build alliances in expectation of an election victory whenever polls are held.

Scenario 2 – Early elections lead to a SYRIZA government

Snap elections would likely be won by SYRIZA but either with a slim majority or leaving it in need of a coalition partner, both of which would pose serious challenges for the leftist party.

The percentage needed to gain a majority would depend on the sum total of support gained by the parties which do not pass the 3 percent threshold needed to enter Parliament. In a benign scenario for SYRIZA, the percentage that goes to parties that do not pass the hurdle, rises to as much as 12 percent, meaning the winning party would only need 35.6 percent to elect 151 of the 300 MPs. But so far only one polling company (Public Issue) has published projected results suggesting that SYRIZA would achieve this kind of percentage.

Forming a coalition with other parties will not be easy for SYRIZA as the options are limited and the leftists themselves are far from solidly united. Fellow anti-austerity party Independent Greeks is one option. The two parties have been in contact over the past few months but both have been open enough to admit that beyond their opposition to austerity policies there is not a lot binding them. It is questionable whether this could form a strong enough basis for sustainable cooperation. As the Independent Greeks belong to the populist Right, there would also be ideological differences over other key issues, such as foreign policy and immigration. It is also not certain that the Independent Greeks will be in the next Parliament if there are snap elections.

Another option is a coalition with centrist To Potami, which looks set to be between the third and fifth largest party. As in the case of the Independent

Greeks, though, there is barely any ideological basis for cooperation. To Potami's liberal stance on economic issues is in conflict with SYRIZA's views and this could cause friction, particularly with the left wing of Tsipras's party. The other disadvantage of a SYRIZA-Potami alliance is the all-round inexperience in governing. Potami, which was founded just ten months ago, is made up of members who have little political experience and will not be able to make up for SYRIZA's shortcomings in this area.

In this respect, a coalition with PASOK might offer SYRIZA more. This cooperation is difficult to imagine at the moment and may require a renewal of personnel or change in leadership at the social democratic party for a coalition to be viable. There is, though, a possibility that SYRIZA would need the cooperation of only some MPs from PASOK rather than the whole party.

The final, and unlikely, option is a grand alliance between SYRIZA and New Democracy. As with PASOK, this would require a major shake up at the top of the conservative party, with its more moderate and reform-minded personnel taking control.

Having formed a government, SYRIZA would then have to very quickly settle any pending issues with the troika. Given that the extension to the current programme runs out at the end of February, the SYRIZA or SYRIZA-led coalition would have to decide whether to suffer the political cost of extending the programme briefly or take on the economic risk of not doing so. The first option would be met with anathema by the eurosceptic left wing of SYRIZA, which accounts for almost a third of the party's central committee members, while the second would immediately place enormous pressure on the new government.

The first things that SYRIZA would like to pursue if it comes to power are: A haircut of public debt, quantitative easing by the European Central Bank, a rollover of Greek debt by the ECB and a revision of the loan agreement with the troika that would scrap primary surplus targets in favour of a balanced budget. Clearly, securing any of these concessions (if it is at all possible) would require some time. However, without a bailout programme and credit line and shut out of the bond markets due to high yields, the new government's time would be very limited. In fact, the timetable suggests, that they would have to negotiate with the Troika before even knowing, where their offices would be. Handling this precarious initial phase of its time in power will decide whether the new administration has a chance of remaining in office for anything more than the short-term.

Scenario 3 – Successive elections

There is strong possibility that snap elections will leave Greece without a government and in need of a second ballot, as happened in the summer of 2012. A probably victorious SYRIZA without a clear majority will not find it easy to form a government. It is possible Tsipras would fail to strike a deal that would keep both his party and a potential ally happy. As the first party receives a 50-seat bonus it will likely be impossible for the other parties to form a coalition that would have more than 150 seats.

This would lead to new general elections the following month. If this is the case, Greek politics will become even more polarised as each side tries to gain extra votes. It is likely that an anti-SYRIZA block will come together, as was the case in June 2012. To Potami and PASOK may seek some kind of cooperation with the aim of being part of a future coalition with New Democracy.

It is not clear, though, if such an alliance will be as successful as it was in creating doubts about SYRIZA's plans. In 2012, the fear about Greece having to leave the euro played a significant part in preventing SYRIZA from winning the elections. There have already been indications in opinion polls that the open discussion by some politicians and media about bank runs and euro exit is having an impact on voters' preferences. However, many Greeks have become immune to these arguments.

About the author

Nick Malkoutzis is the editor of MacroPolis, a political and economic analysis website, and deputy editor of Kathimerini English Edition newspaper.

Friedrich-Ebert-Stiftung | Department of Western Europe / North America
Hiroshimastraße 28 | 10785 Berlin | Germany | Phone: +49-30-269-35-7736 | Fax: +49-30-269-35-9249
Email: FES-WENA@fes.de | www.fes.de/international/wil