

# ELECTION UPDATE

STILL A LONG WAY TO GO

## Five days to get to the Magic Number

### *A difficult exercise to solve*

In yesterdays second round 168 MPs have voted for Mr. Dimas as the new President. Several independent MPs have shifted from neutrality to a yes vote. However, the reserve pool is now very sallow and any additions should come from outright defections from either the Democratic Left or the Independent Greeks. With the political climate deteriorating by the day the third round has become the last chance stop before the abyss. Either a president is elected and the government with some additions continues the negotiations with the creditors or an election is called for the 25th of January with the economy destabilised and the political system submerged into a toxic quagmire.

One should never underestimate the current government when it comes to resolving 'survival' situations. The next five days will be critical and they might opt for more concessions towards the independents. Sources close to the PM insist that a new initiative from his part cannot be ruled out.

The latest estimates point towards 172 MPs voting for Mr. Dimas in the third and final round. To find at this stage another 8 is very difficult and close to impossible.

### *And then National Elections follow...*

In case of non electing a new president national elections will be called for the 25th of January. This is likely to be the final battle for Mr. A. Samaras and it will be a tough one. SYRIZA is leading in the polls by quite a margin and the experience is that a large number of undecided voters turn to the winner in the run up to elections. Therefore, **ND** will be facing an uphill task to reverse the tide. They have only themselves to blame. First, they have angered their traditional electoral base, the middle classes, with tax measures specifically targeting them. The middle classes were further angered when Mr. Samaras decided to make hands outs with their money to the armed and security forces. Secondly, they made a populist turn following the European elections earlier this summer. The turn unnerved those with a clear European perspective. Third, they fail to project a coherent vision for the future of the country. Fourth, the lack of any renewal in the political personnel which runs the country has also alienated voters. Mr. Samaras inner circle is especially disliked as it omits a redundant conservatism.

**SYRIZA** on the other hand has the advantage of not being tested. They promise a reversal of the austerity and an expansionary policy reducing the primary surplus to balance. The execution of their program relies heavily on one pillar: further drastic debt relief. Whether they will be able to negotiate on this radical agenda with the Europeans is a matter to be tested after the elections. So they have the

advantage of the unknown. The main criticism levelled against SYRIZA is not their left wing tendencies and the redundant light Keynesianism that they propose but the lack of clarity and substantiation of their program. To give one example concerning taxation, SYRIZA has not committed itself as to what is the level of high income. Certain private conversations of key spokesmen indicate that it is 50.000 euro. If it is true then a new storm will sweep away the already destabilised middle classes.

**PASOK** the junior partner in the coalition government is facing the day of reckoning in these elections. Voters have turned their back to the once dominant force of Greek politics since the adoption of the adjustment program in 2010. The lack of honesty exemplified by its then leader Mr. Papandreou telling the people before the 2009 elections “there is plenty of money” and the turnaround to severe austerity within the space of 6 months has fatally wounded PASOK. His later handling of negotiations with Europeans in 2011 has costed his job and further undermined PASOK. Now, Mr. Papandreou is trying to make a come back and he might opt to establish a new party. The split will be detrimental for the survival of PASOK.

**POTAMI** (RIVER) is fighting for the first time in these national elections. They have lost precious time since their strong showing in the European elections. Their main handicap is the lack of a frontline team that will take on opponents in TV debates and in direct contact with the voters. They might still get a good result as middle of the road voters have run out of options. POTAMI may become the new partner in a government coalition and in that respect may hold back the senior partner from extremist decisions.

One of the most important questions of the election is the future of the **Independent Greeks**. If they survive they are the most likely junior partner of a SYRIZA based coalition government. This is going to be a bad influence on SYRIZA. If this party is not able to pass the 3% threshold then SYRIZA will have to rely to the more centrist parties to form a government and a more benign scenario of adaptability is more likely.

### *The Economy is again Slowing*

Liquidity conditions have deteriorated since the announcement of the electoral process for a new president. Large corporations have started to keep funds abroad instead of repatriating them to Greece. Investment decisions and deals have been shelved. The economy is slowing to a standstill.

The Minister of Finance has admitted the threat in parliament and there is considerable unease in various quarters. The Bank of Greece has called a high level internal meeting on liquidity earlier this week. The Greek banks have already put 11 billion to cover Treasury Bills issues, depriving the real economy from valuable liquidity. However, under present circumstances issuing of Treasury Bills seems the most likely solution as it was not possible to secure the disbursement of 7.2 billion from the creditors. Relying on Greek banks is a one way street as foreign investors abstain from the auctions because of the political climate. In any case, the need to pay 4.5 billion during the first quarter of 2015 coupled with the shortfall in public revenues is a very dangerous combination for the economy that can undermine and reverse the effort for fiscal consolidation in the country.

**Merry Christmas !**