

POLITICS IN GREECE: FROM FRAGMENTATION TO A NEW BIPOLARITY?

LATEST UPDATE

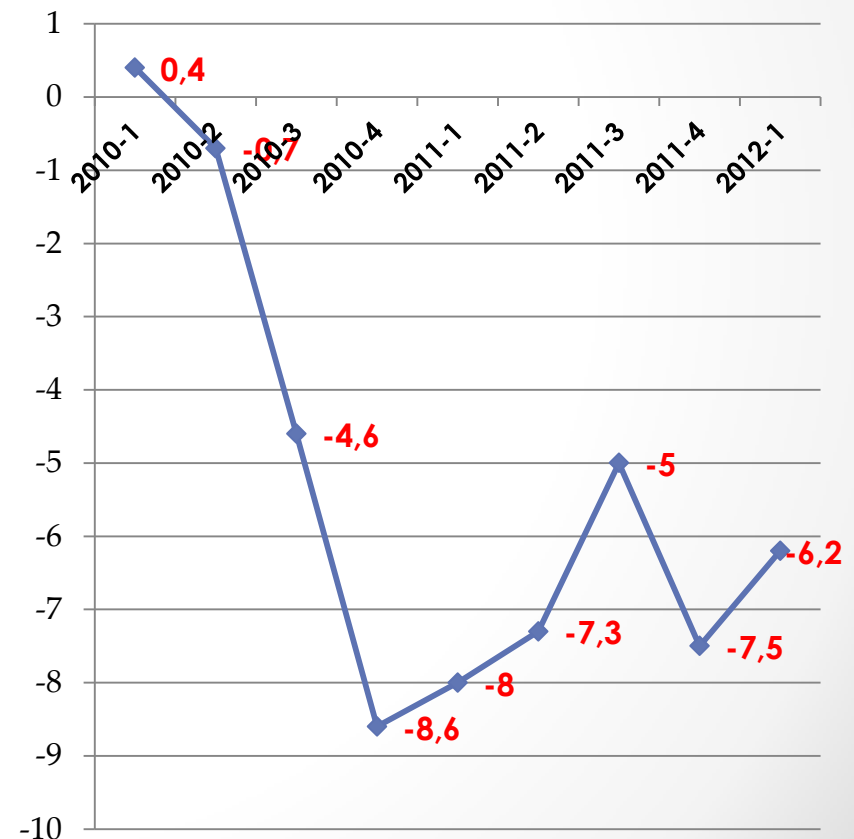
7TH JUNE 2012

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THE ECONOMIC ENVIRONMENT

- GDP is expected to decline by as much as 5,3% this year. Further political instability may lead to an even deeper depression.
- Manufacturing is down by 9,2% in the first quarter of 2012.
- Exports are still growing but not at a considerable pace to cover for the lost domestic demand.
- Unemployment has reached 21,7% in February 2012.
- Systemic risk is growing with a medium pace bank run developing.

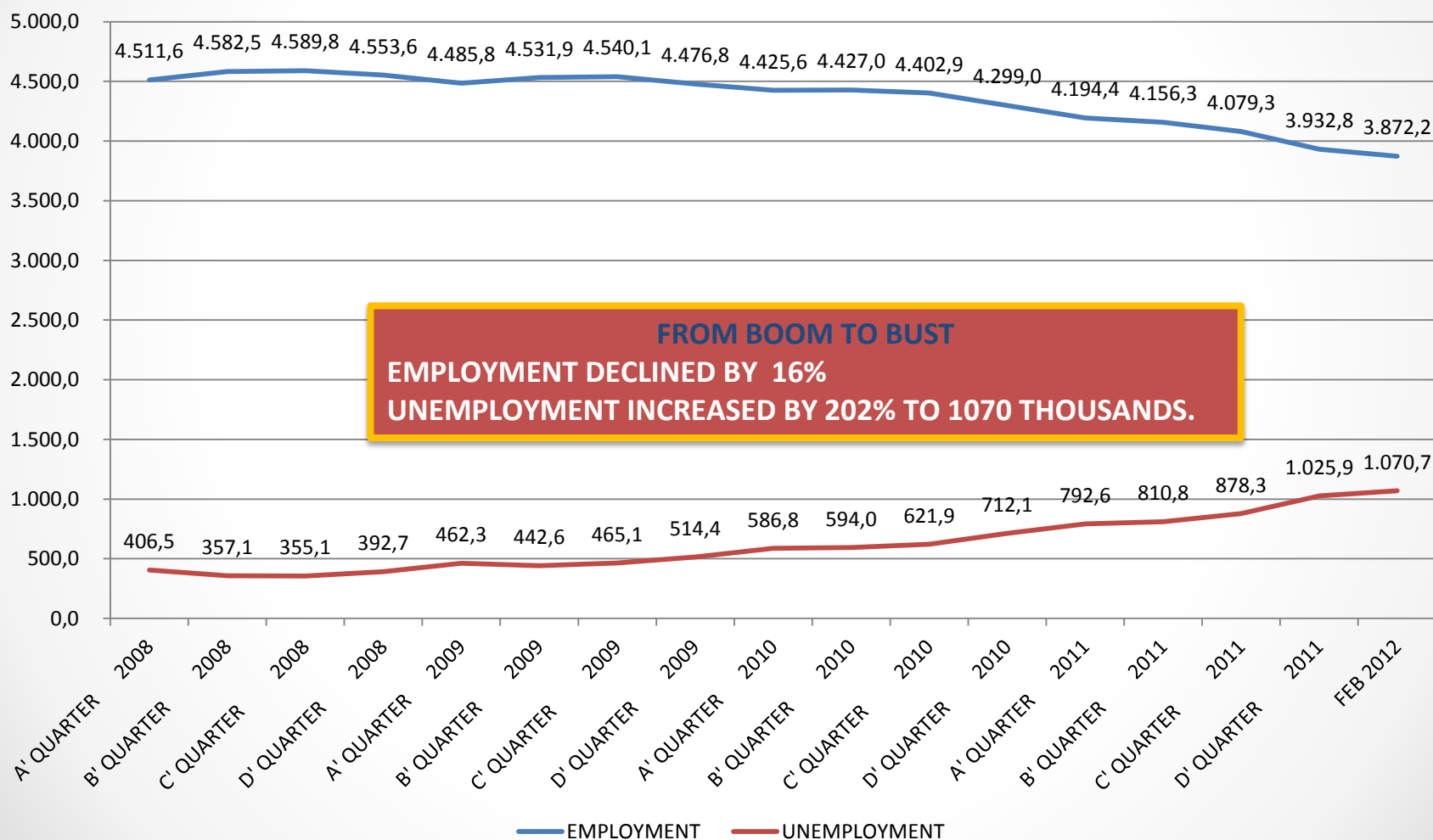
GDP DECLINES FURTHER IN FIRST QUARTER 2012



RISK OF ACCIDENT IS GROWING

- Key **systemic risk** is the draining of domestic depositor liquidity out of the Greek banking system
 - Deposit flight is a rational response in face of valuation risk inherent in banking system.
 - Banks have failed to price for risk and retain deposits, given access to cheap ECB funding.
- **Recapitalisation** of the 4 larger banks has proceeded but a bank run may occur any way as depositors accelerate withdrawals in anticipation of political developments and smaller banks are hit by transfer of deposits to the big four.
- Major **public corporations in the energy sector** are at the brink of financial collapse as they are unable to refinance debts and demand for services is falling:
 - The Public Power Corporation is surviving by withholding part of the special tax on real estate but a black out cannot be ruled out by early July.
 - The Operator of the Electricity Market was running a deficit of 200 million euro by end year 2011 and its viability depends on a loan from a state entity.
 - The Public Gas Corporation (DEPA) is also suffering by the inability of PPC to pay for the gas required for production (PPC is the largest client absorbing almost 70% of the DEPA gas).
 - The Transmission Manager is failing to pay the independent AES producers and importers, as a result by the end of March a total of 330 million euro was overdue.

UNEMPLOYMENT KEY DRIVER IN POLITICS



THE POLITICAL ENVIRONMENT

TRADITIONAL PRO MOU PARTIES TARNISHED

- PASOK failed to focus on reforms failing to target areas of waste and inefficiencies.
- Horizontal measures undermined support across the board and created generalised opposition to PASOK.
- ND paid the price of a belated turn in favour of the MOU and the support of a government that was largely ineffective.
- Both parties failed to project a reform program independent from the troika prescription and were easily labelled as collaborationists.

SYRIZA FEEDING ON THE DISPOSSESSED

- SYRIZA has a solid support from the underclass created by the implementation of the MOU.
- SYRIZA is not part of the old order and therefore it can reap the fruits of discontent.
- SYRIZA's support is mainly based on revulsion for the old parties and not on promises.
- SYRIZA is a party consisting of two main tendencies reformists on the one side and anti-capitalists on the other. Confusion about its program will persist.
- Adjustment to reality will be slow and confrontational.

GREECE - EU: A COLLAPSE OF COMMUNICATIONS?

- Greek debt is now primarily held by official creditors: IMF, ECB, European Governments. Non payment will hit taxpayers in European countries and other continents.
- European governments might be willing to renegotiate the MOU on the fiscal side by taking account of recession and accept some delay (1 year) in achieving targets. They will not accept stalling of structural reforms especially in labor markets and privatizations.
- European governments may initiate some growth initiative for the South but it may be too little and too late for Greece.
- The European line of defense is moving gradually west towards the Adriatic and Greece may be left out in the cold.
- Some politicians on the Greek side believe that the Europeans cannot afford to let Greece leave the Eurozone. Is the threat credible?

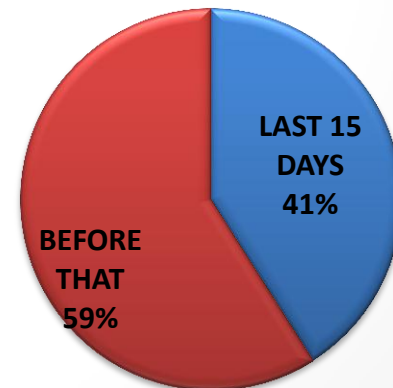
HOW GREEKS VOTE?

- Greeks have voted on the 6th of May expressing their disapproval of the austerity and the parties that have implemented it. At least 58,6% of the SYRIZA voters have voted for it in order to express dissatisfaction with the political system and not for ideological reasons (Source: GPO poll 29.5.2012).

HOW CLOSE YOU FEEL TO THE PARTY YOU HAVE VOTED FOR?			
	CLOSE	NEITHER	DISTANT
NEW DEMOCRACY	66	27	6
SYRIZA	48	42	10
PASOK	64	27	9
DIMAR	41	48	12
KKE	65	26	9
GOLDEN DAWN	44	37	19
IND. GREEKS	47	43	9

WHEN HAVE YOU DECIDED TO VOTE FOR YOUR PARTY?

New parties have to consolidate their electoral basis as voters moved to them late and are not strongly identified with them.



SOURCE: JOINT EXIT POLL

DETAILED FORECASTS FIRST WAVE

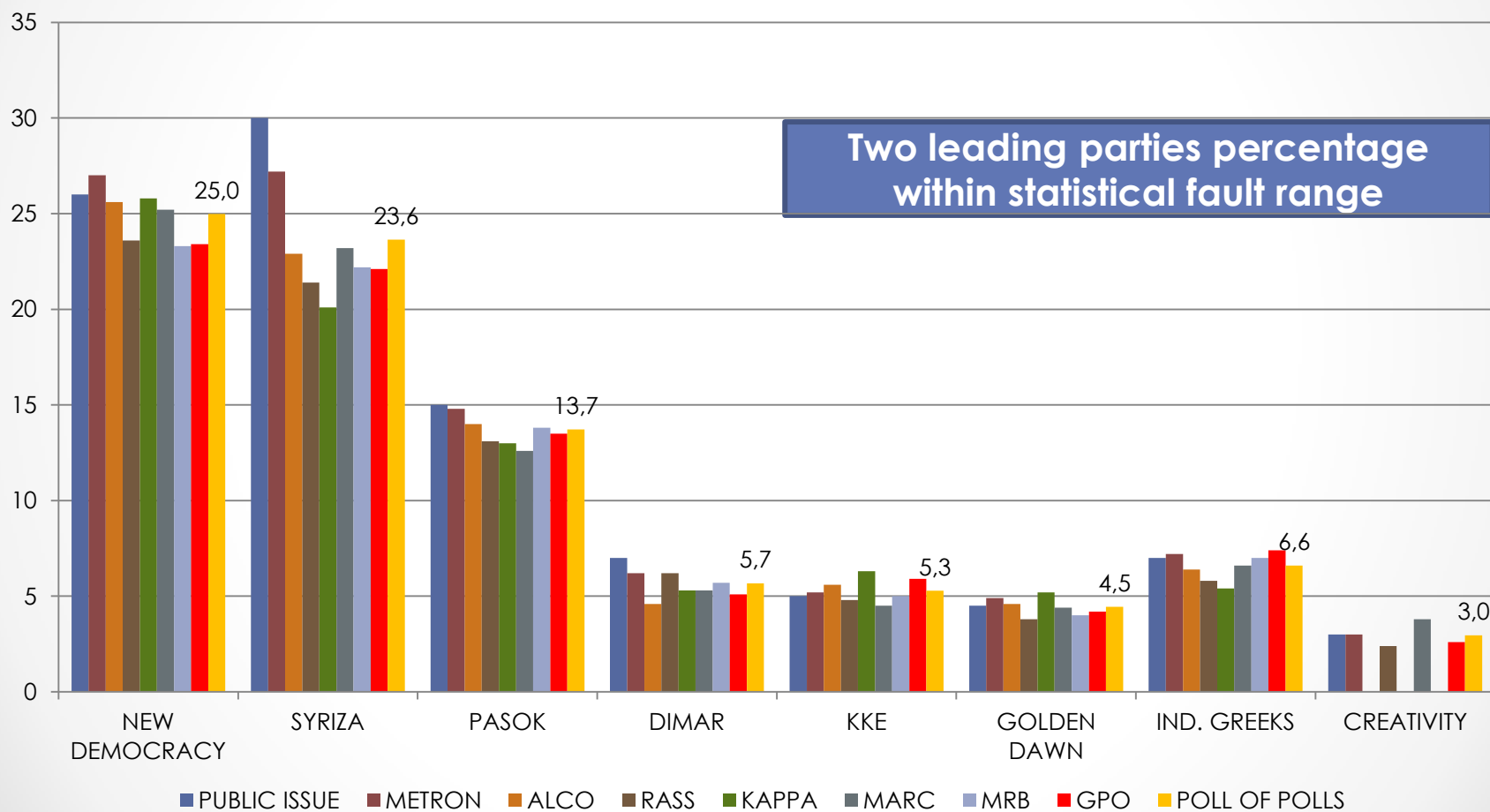
PUBLISHED POLLS WEEKEND 26/27 MAY 2012

	PUBLIC ISSUE	METRON	ALCO	RASS	KAPPA	MARC	MRB	GPO	POLL OF POLLS	PARLIAMENTARY SEATS
NEW DEMOCRACY	26	27	25,6	23,6	25,8	25,2	23,3	23,4	25,0	125
SYRIZA	30	27,2	22,9	21,4	20,1	23,2	22,2	22,1	23,6	70
PASOK	15	14,8	14	13,1	13	12,6	13,8	13,5	13,7	40
DIMAR	7	6,2	4,6	6,2	5,3	5,3	5,7	5,1	5,7	16
KKE	5	5,2	5,6	4,8	6,3	4,5	5	5,9	5,3	16
GOLDEN DAWN	4,5	4,9	4,6	3,8	5,2	4,4	4	4,2	4,5	13
IND. GREEKS	7	7,2	6,4	5,8	5,4	6,6	7	7,4	6,6	20
CREATIVITY	3	3		2,4		3,8		2,6	3,0	OVER 3% 9 SEATS

*** If CREATIVITY enters parliament ND will lose 9 seats.**

A partial reversal of May the 6th voting patterns is expected. Bipolarity returns as polarization increases with the two main parties of left and right fighting for first place and the bonus of the 50 seats. Smaller parties will suffer as voters will this time try to encourage the creation of a functioning government. PASOK is consolidating in third place.

POLL OF POLLS: TOO CLOSE TO CALL



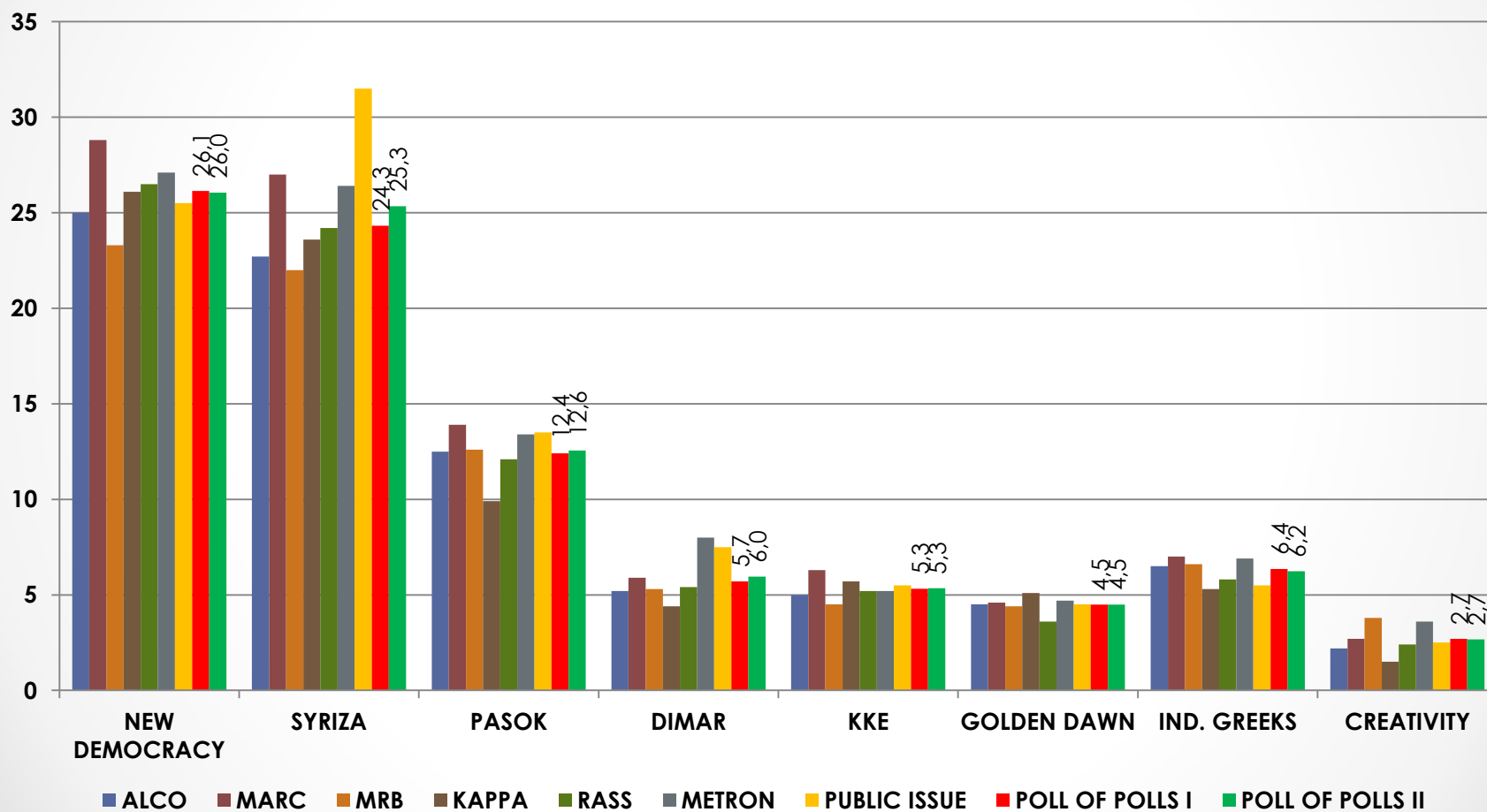
DETAILED FORECASTS SECOND WAVE

PUBLISHED POLLS 31ST MAY & 1ST JUNE 2012

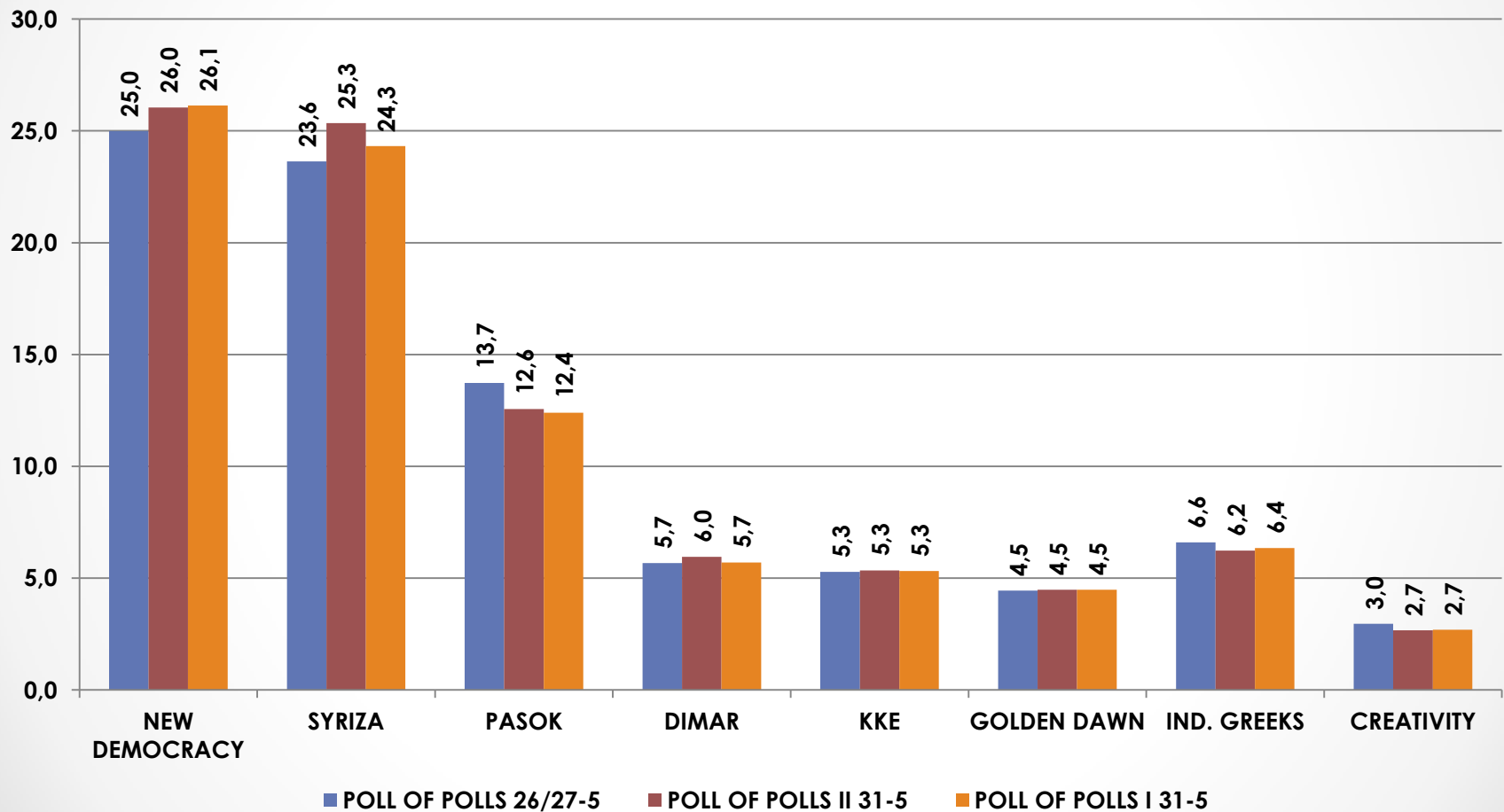
	ALCO	MARC	MRB	KAPPA	RASS	METRON	PUBLIC ISSUE	POLL OF POLLS I	POLL OF POLLS II
NEW DEMOCRACY	25	28,8	23,3	26,1	26,5	27,1	25,5	26,1	26,0
SYRIZA	22,7	27	22	23,6	24,2	26,4	31,5	24,3	25,3
PASOK	12,5	13,9	12,6	9,9	12,1	13,4	13,5	12,4	12,6
DIMAR	5,2	5,9	5,3	4,4	5,4	8	7,5	5,7	6,0
KKE	5	6,3	4,5	5,7	5,2	5,2	5,5	5,3	5,3
GOLDEN DAWN	4,5	4,6	4,4	5,1	3,6	4,7	4,5	4,5	4,5
IND. GREEKS	6,5	7	6,6	5,3	5,8	6,9	5,5	6,4	6,2
CREATIVITY	2,2	2,7	3,8	1,5	2,4	3,6	2,5	2,7	2,7

The Public Issue poll is the only one predicting a clear SYRIZA victory and thus is affecting the poll of polls (II). The consensus forecast of all other polls (POLL OF POLLS I) is in favor of ND.

SECOND WAVE 31/5-1/6



NO MAJOR CHANGES AND STILL TOO CLOSE TO CALL



MAIN VOTING DRIVERS

- Voting for staying in the Euro? 48% will vote with the main criterion being staying in the Euro, (Source: METRON)
- Voting against the austerity package associated with Troika? 43% will vote with the main criterion being the condemnation of the austerity package, (Source: METRON).
- To renegotiate the policy package or to declare it null and void? 64.8% renegotiate as against 21.1% renege, (Source: MARC).
- Which politician will safeguard Greece's place in Europe? 42% Samaras (ND) 24% Tsipras (SYRIZA), (Source: ALCO).
- Are you in favor of staying in the euro? 87.8% are in favor, (Source: MRB).

MAIN ISSUES OF THE CAMPAIGN

ON THE RIGHT

- The main issue on the **right** is the consolidation of the ND party as the main pro European force in domestic politics guaranteeing Greece's continued participation in the Eurozone. Is ND able to attract more voters from both the center (especially from the modernizing wing of PASOK) and the right on the basis of fear of GREXIT and default? Will they be able to squeeze Independent Greeks and Creativity in the run up to the elections?

ON THE LEFT

- The main issue on the **left** is the drastic containment in the announcement of conflicting policy measures. Is SYRIZA able to project an image that they can govern and implement a coherent and innovative program and stay within Eurozone or they will scare voters away on the basis of more taxes and higher possibility of GREXIT? Will they be able to support their positions contained in their economic program especially regarding the funding of their promises?

FEAR OF GREXIT versus RETURN TO THE GOOD OLD DAYS

SYRIZA's ECONOMIC PROGRAM: ON THE WAY OUT?

The main items on the SYRIZA program are:

- Renegotiation of the loan agreement and renegotiate the debt / or moratorium on interest payments.
- Freeze the privatization program nationalize banks and re-nationalize in the future the utilities.
- Repeal of ministerial decisions which provided for a 22% reduction in the minimum wage, 32% of wages for young people under 22 years
- Restoring the minimum wage to 751 euros
- Restore the unemployment benefit to 461.50 euros and extend eligibility to two years.
- Abolish all the special taxes imposed up to now.
- Taxation of wealth and high incomes to increase so that revenue from direct taxes increases by 4% of GDP over four years horizon.
- Immediate establishment of a wealth register.
- Change in tax rates to the levels existing in EU.
- Review of all special tax regimes.
- Gradual reduction in VAT, especially in tourist related consumption.
- Modernization of tax authorities and staffing with qualified personnel.
- Seek national programmatic agreement with the maritime industry and ship owners worldwide to increase revenue and the elimination of tax exemptions.

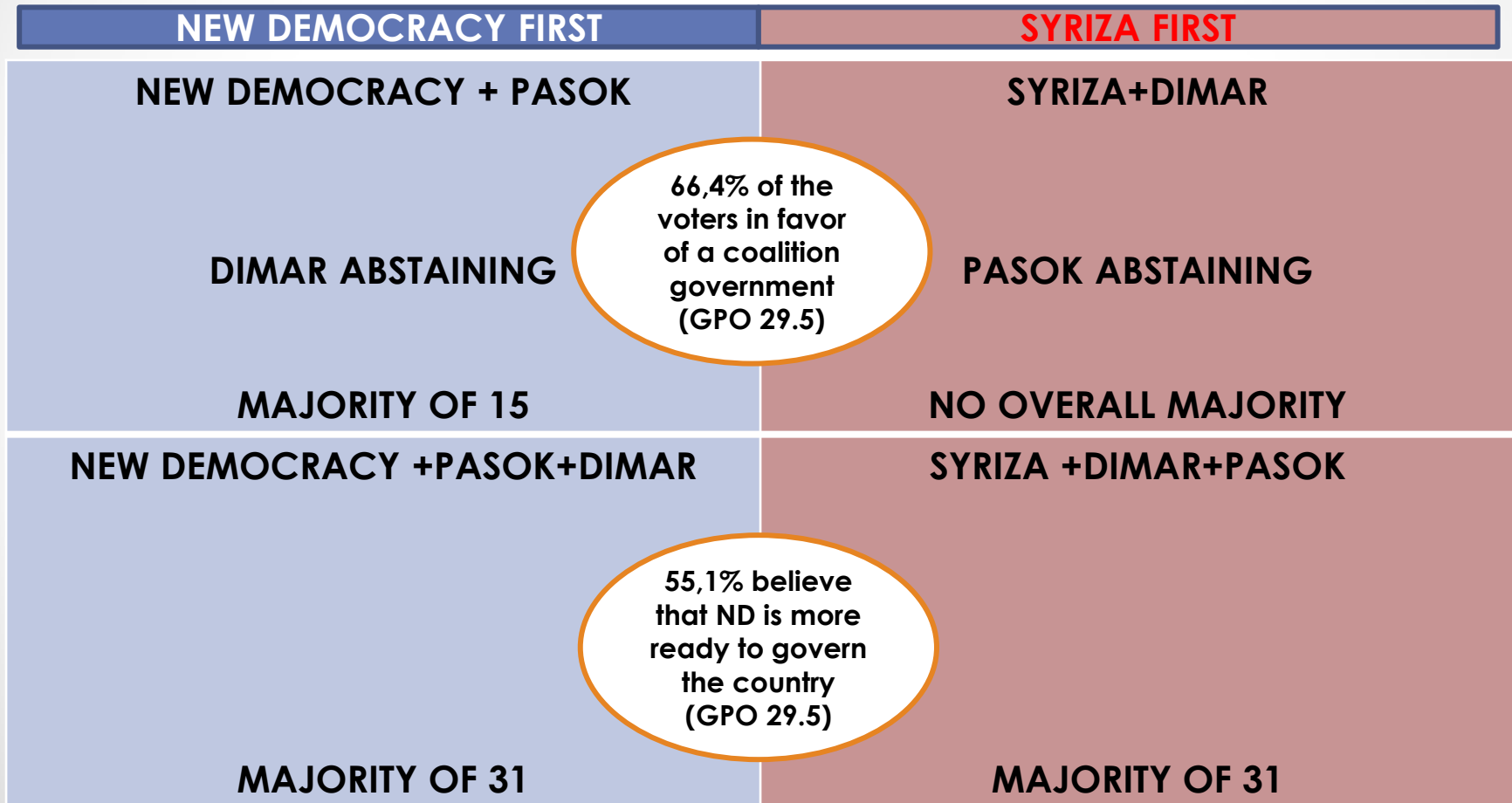
There is little scope for renegotiation on this basis with troika and the possibility of finding common ground is rather limited.

POLITICAL UNCERTAINTY UNDERMINES THE ECONOMY

- Political uncertainty is high as two leading parties are very close in polls and the end result may be a weak coalition government. Investors and business play a waiting game.
- A **SYRIZA** based government will be less inclined to privatize but more keen to enter into strategic investment agreements especially with state sponsored corporations.
- A **NEW DEMOCRACY** based government will continue the current privatization program with more determination and create a more friendly business environment.

A SYRIZA domination is likely to lead to more capital flight and an exodus of business especially shipping.

FOUR POSSIBLE GOVERNMENT OUTCOMES



THE RISK OF NO GOVERNMENT

CENTRE RIGHT

- ND has a slim majority but the resulting government is unable to implement the required structural reforms.
- Internal disputes lead to policy slippage and failure to achieve targets and kick start the economy.
- Coalition collapses and new elections are called with the left as the only beneficiary.

LEFTISH

- SYRIZA has a slim majority but fails to find allies on the basis of its radical program, or
- SYRIZA finds initially allies but as negotiations with troika stall and funding is discontinued the coalition collapses.
- New elections are called under a climate of outright default and GREXIT. The most likely result is a massive shift to the right.

THE OPTIMUM SOLUTION

Negotiate a grand coalition involving at least four parties (including ND and SYRIZA) and establish a government of national emergency, renegotiate the memorandum and implement a program of targeted reforms.

THE OBSTACLE

Polarization diverging prescriptions and rhetoric have taken political parties too far apart hindering a rapprochement after the elections.

A CHAIN REACTION MAY BE UNLEASHED

