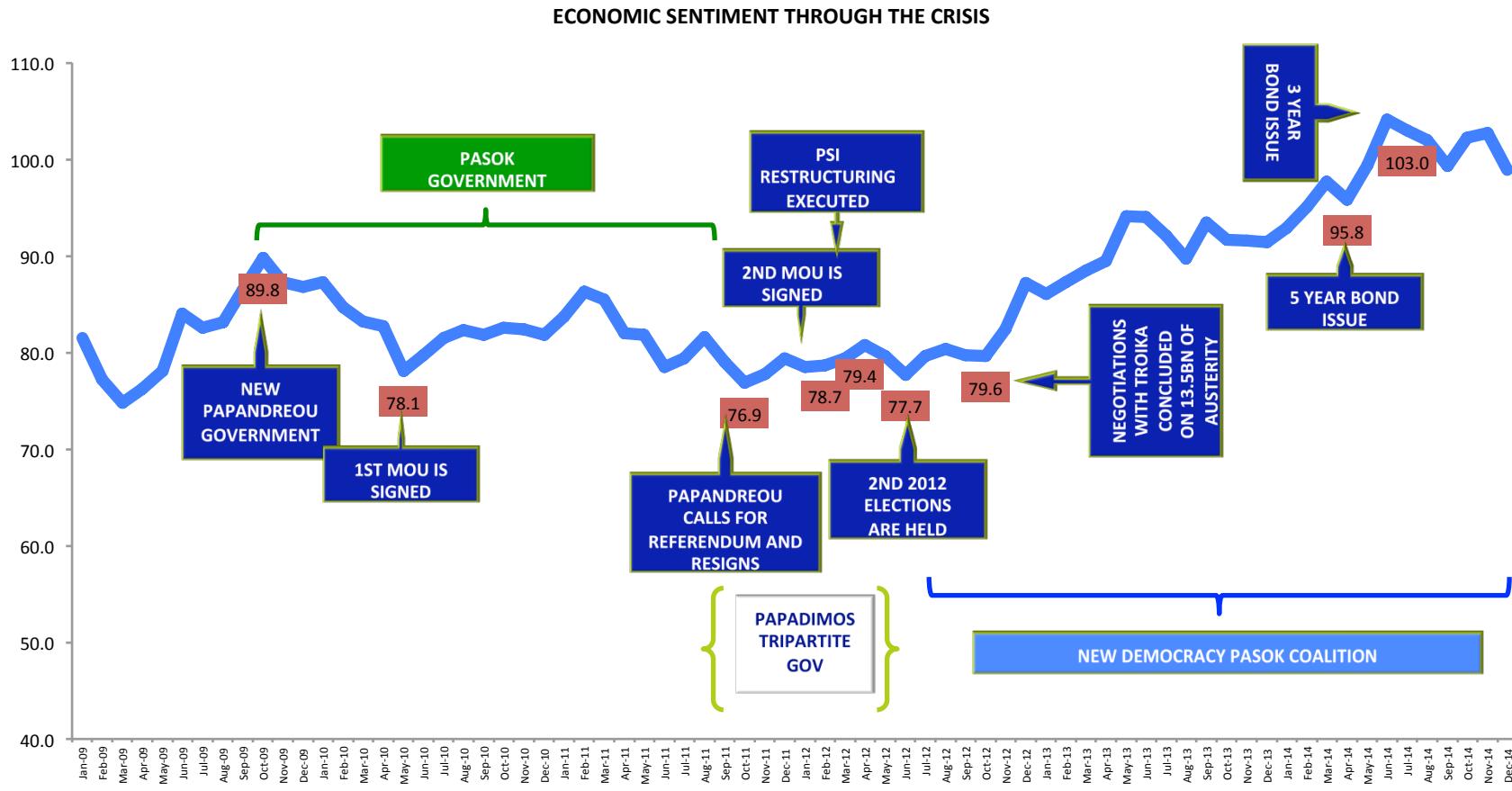


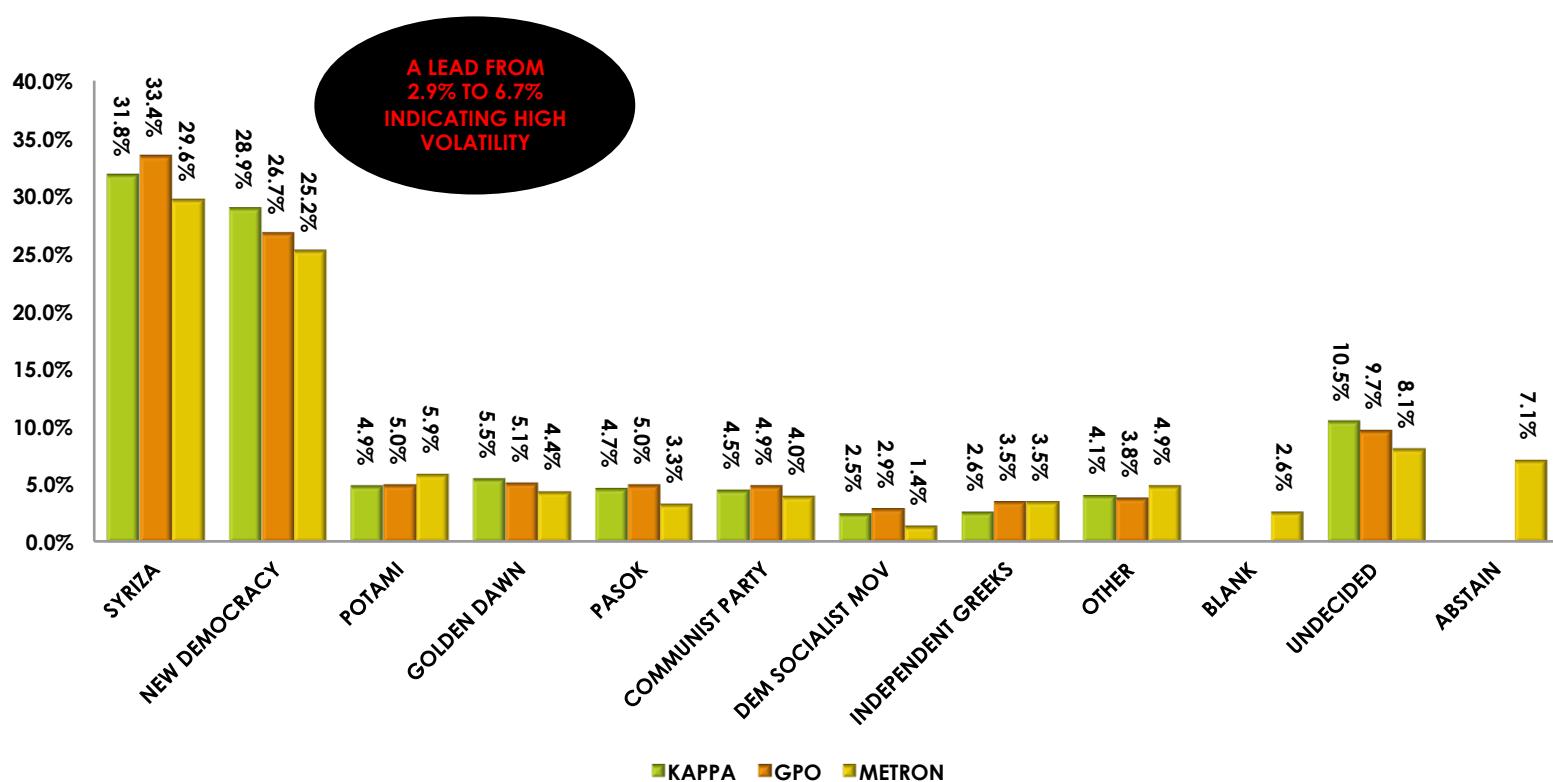
# GREEK ELECTIONS THE DAY AFTER

S.TRAVLOS-23<sup>RD</sup> of JANUARY 2015

# 2009-2014: A FRAGILE RECOVERY OF FORTUNES HAS BEEN ACHIEVED AT HIGH COST



# LATEST POLLS 23-1-2015

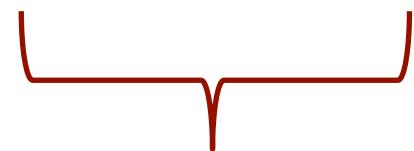


## LATEST ESTIMATES

- The lead by SYRIZA is extending and can reach 9-10 percentage points on the election day.
- But there is still a possibility that ND will close the gap as there are plenty of undecided voters.
- Smaller parties are suffering from the two party squeeze and the third party is most unlikely to exceed 8%. However, the destabilisation of the second party is feeding some of the smaller parties which may enter parliament pushing upwards the threshold of absolute majority.

# OUTRIGHT MAJORITY DIFFICULT AS THE THRESHOLD IS SHIFTING UPWARDS

OUTCOMES	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Total percentage of parties not gaining 3%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%
Required percentage of popular vote for the first party to have majority	39,2%	38,8%	38,4%	38,0%	37,6%	37,2%	36,8%	36,4%	36%	35,6%	35,2%	34,8%	34,4%	34%



Interval of most likely outcomes

## CALCULATIONS EXPLAINED

- ❑ Whether a party gains an outright majority depends on the votes going to small parties that do not manage to reach the 3% threshold required for representation. The larger the percentage going to these parties the lower the threshold for the first party to get a majority.
- ❑ The experience of previous elections indicates that this number changes depending on the mood of the electorate. In the first elections of 2012 in May the total percentage going to the small parties was 19%. However, in the second polarised elections of June 2012 that number nosedived to 6% requiring a 38% vote for the first party to gain 151 seats.
- ❑ In the previous table the outcomes 4 to 7 seem **now** to be the most probable in the forthcoming elections as more parties look set to pass the 3% threshold.

## LAST STATEMENTS BY SYRIZA DO NOT INDICATE A COMPROMISE BUT CONFRONTATION

- ▣ Mr. Tsipras said on Friday that on the day after there are no going to be any MOUs and there will not be a troika. He noted that the plan B for troika is to have a coalition government in Greece in order to undermine the program of SYRIZA. Troika is an extra-institutional body, no European treaty recognizes it" argued Mr. Tsipras and said he would not discuss with "second rate officials of Troika".
- ▣ Mr. Tsipras said that he has no reason to look for a meeting with Mrs. Merkel, but the contacts will take place at an institutional (EU) level excluding once again negotiating with the troika technocrats.
- ▣ He assured that he and his government is in a" collision course inside and outside the country" and added that "more serious will be the conflict in the country, as outside the country a different more positive climate has been formed. "We will collide with the establishment that led the country to this situation", said the president of SYRIZA and underlined its determination "to confront those who took decisions critical to the country, who bankrupted the banks and continue even now to run them".
- ▣ **Hence we are expecting a very difficult period ahead with an uncompromising stand taken by a SYRIZA led government. Whether at the end of this period the government will try to make an adjustment or leave the euro is an open question.**

## EUROPEAN REACTIONS REMAIN FIRM

- ECB statement 22/1/15 covering the Greek case: "Securities that do not achieve the CQS3 rating will be eligible, as long as the Eurosystem's minimum credit quality threshold is not applied for the purpose of their collateral eligibility. Moreover, during reviews in the context of financial assistance programmes for a euro area Member State, eligibility would be suspended and would resume only in the event of a positive outcome of the review".
- Asked about a possible Greek exit the German Finance Minister Mr. **Schäuble** said on Friday in Davos: "We do not simulate any GREXIT, I am in favor of a unified Europe and we do what we can with our partners and institutions. However, whether or not a member of the Eurozone, Greece needs to make far-reaching structural reforms to become competitive. Otherwise you will never fulfill the expectations for which politicians speak during the election period". Furthermore, he said that "Greece will not take advantage of the QE if it fails to follow the adjustment program". (SKAI.gr)
- Mr. Dijsselbloem pointed out in an interview with Spiegel online that all the leading politicians in Greece have said they want to keep the euro."If you say that, then that means you have to accept the rules and agreements," he said. "And that also means: any country that need support to finance its economy and public expenditures must stick to those conditions." Dijsselbloem added that it will not work if a country "simply asks for loans without meeting any sort of conditions." He also said every Greek government will depend on further support from euro zone countries. (REUTERS)

# LIKELY OUTCOMES

POSSIBLE OUTCOMES	PROBABILITY	IMPACT ON NEGOTIATIONS
SYRIZA MAJORITY	40%	Negotiations with creditors will be difficult as SYRIZA is taking a very negative position on troika. They believe that the Europeans will be forced to change their position following the result and reach a compromise by June 2015. They will not last that long as the banking system will collapse much earlier.
SYRIZA COALITION A (with POTAMI or PASOK)	10%	In case SYRIZA fails to reach agreement in discussions with IG, SYRIZA will be held back to a more moderate policy stand as possible partners are pro European but still negotiations will be difficult and lengthy with uncertain outcome. The internal left opposition will be still opposing any compromise.
SYRIZA COALITION B (with IND GREEKS)	40%	Negotiations with creditors will be difficult as SYRIZA will be supported by a very anti MOU party with an unpredictable leader. An increasing probability as the party is now entering parliament.
ND COALITION	0%	There is no such possibility at this stage.
NO GOVERNMENT	10%	The possibility of not forming a government is small but not negligible because junior partners will be difficult to accept terms by the senior parties. An early collapse of government is also a high possibility during discussions with creditors over diverging positions on crucial issues.

# NEW FACES COMING IN A SYRIZA GOVERNMENT

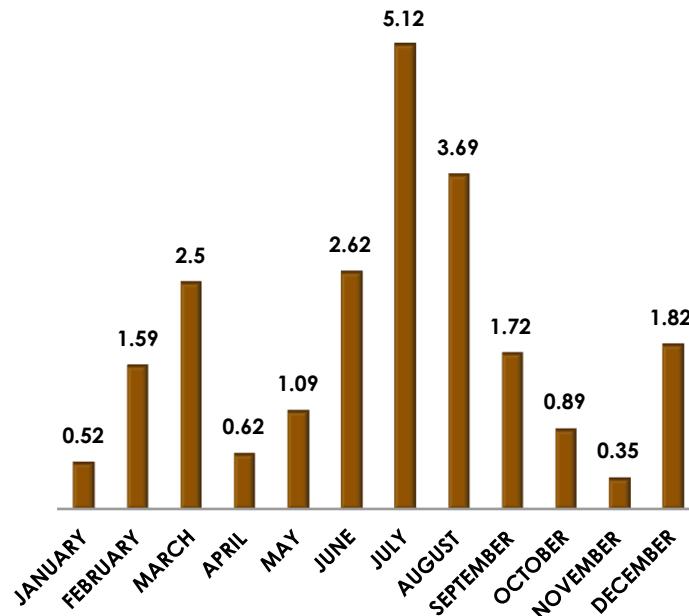
- ❑ The most likely key persons in the economic posts of the new government will be:
  - ❑ Mr. John Dragasakis Dept. Prime Minister coordinator of economic policy
  - ❑ Mr. John Varoufakis Minister of Finance, with 2/3 alternate ministers.
  - ❑ Mr. George Stathakis Minister of Development.
  - ❑ Mr. Euklidis Tsakalotos Minister of Energy.
- ❑ The leadership of the FSF is likely to change. Ms L. Katseli, a former PASOK minister, is reportedly close to get the top job.
- ❑ A key banker head of a leading systemic bank has been targeted by SYRIZA for immediate removal.
- ❑ Several well known bankers from the PASOK era have approached SYRIZA and are jostling for a position in the four systemic banks. Some of them are well known faces and most of them responsible for the demise of the Greek banking in the recent past!

## LEGISLATIVE PRIORITIES

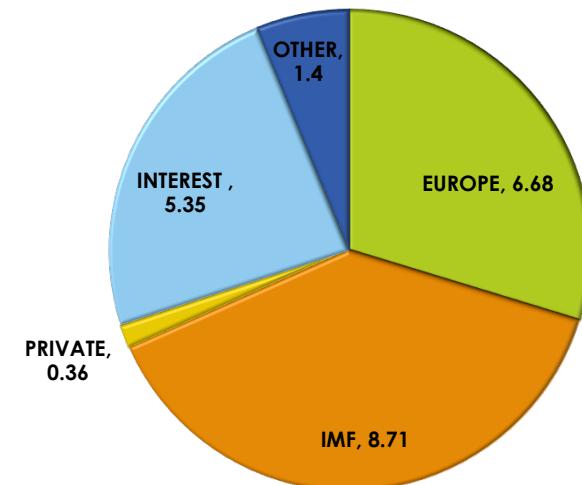
- ❑ A new SYRIZA led government is expected to legislate on the following areas:
  - ❑ Increase the minimum wage and reregulate the labour market.
  - ❑ Reverse the public sector evaluation process and the redundancies.
  - ❑ Introduce new framework for NPLs and social insurance contributions.
  - ❑ Change the law on FSF in order to be able to appoint banks' management.
  - ❑ Regulate the media market and radio and TV licenses.
- ❑ Some of these legislative initiatives are against creditor related commitments and any move in this direction will be a clear signal of confrontation.

# THE PRESSURE IS ON FROM THE FIRST DAY

LOAN REPAYMENTS (BN)



DISTRIBUTION OF OBLIGATIONS (BN)



# CONCLUSIONS

- The latest surge points towards an absolute majority (but it is by no means certain) by SYRIZA and the creation of a coherent one party government. Internal contradictions will persist around the dilemma of compromise or confrontation with creditors.
- An equally likely outcome at this point remains the formation of a coalition government led by SYRIZA. The coalition will be unstable for a number of reasons mainly related to the internal contradictions of the party and the divergence of opinions with possible junior partners.
- **Negotiations with creditors will be extremely difficult as SYRIZA is taking a more combative position against troika and the creditors and the situation is more polarised.** Despite the latest decision by the ECB on QE SYRIZA shows no sign for compromise.
- However, we still believe that the basis of a compromise can be found involving on the Greek side on the continuation of reforms and sound public finances and on the creditors side a generous rescheduling of debt maturities. It remains to be seen whether SYRIZA will be able to accommodate such a compromise. SYRIZA is already playing for time as they realise that they might need time to adjust. But there is **no time** left for the economy as liquidity evaporates and business are again shelving investment plans and look elsewhere for a market.