

SNAPSHOT

Greek elections: Fear. Anger. Hope?

22 January 2015

INTRODUCTION

A plane is flying. In the cabin, the passengers are reading newspapers or playing with their smartphones. Suddenly they hear a voice. "Good morning ladies and gentlemen, this is your pilot. I am glad to announce that this is my first flight! You are my first passengers!" They start looking at each other in apprehension and anxiety. "We are flying at 3.000 metres. No, no, at 3.000 feet" the pilot mutters. "Or is it... hands?" A girl tightly grasps the arms of her seat as panic begins to take hold of her.

This is the latest television spot of PA.SO.K, Greece's oldest socialist party and junior partner of the reigning government coalition. "On 26 January the country should be governed", concludes the spot, challenging the experience and capability of SY.RIZ.A, a leftist party currently leading in polls, to take up this responsibility.

As the election battleground heats up, PASOK (whose voters' base has shrunk from 43% in 2009 to 5% according to current polls) has chosen to provoke a deeply rooted sentiment of Greek's: their fear of the future.

Can fear win this election?

PA.SO.K is not the only political party betting on fear to reap gains in the Greek elections of 25 January. New Democracy, the senior coalition government partner, claims that SY.RIZ.A will gamble with Greece's future and points directly to the revival of a possible "Grexit" (a Greek exit from the eurozone) if SY.RIZ.A's leader, Alexis Tsipras becomes Prime Minister.

The Greek political system currently epitomizes the term 'polarization'; a war of words and squabbling among politicians across the political spectrum and an enduring vicious circle of blame games that has plagued the country long before its first bailout in 2010. In view of SY.RIZ.A's 3-4% lead over New Democracy, Prime Minister Antonis Samaras, is attacking Tsipras on a daily basis, suggesting that he has a secret and dangerous agenda which includes leaving the Eurozone and breaking ties with its lenders. Samaras has no other choice. Centre-right voters, his main target group, are angry that he failed on his promise to 'negotiate' a more balanced implementation of the reform programme agreed with Greece's lenders. Furthermore, less privileged and middle class Greeks feel strangled by what they deem to be unequal and excessive taxation; which only serves to enable the Prime Minister to present primary surpluses to the Troika. In addition, a stubbornly high unemployment rate (one in four Greeks – and one in two young people – is unemployed) has gradually turned traditional New Democracy voters to other options: the extreme right parties (Independent Greeks and neo-nazi Golden Dawn) or directly to SY.RIZ.A.

However, efforts to portray the SY.RIZ.A leader as an irresponsible gambler seem to be containing some of the damage. New Democracy's poll ratings suggest it might retain the 29% of the vote it achieved in 2012.

Can anger turn into hope?

If fear has led New Democracy to stabilise its voter base, anger is one of the factors that could lead SY.RIZ.A to claiming victory in the forthcoming Greek elections. By accusing Brussels and Berlin of imposing tough austerity measures on Greeks and causing unemployment and poverty rates to break all-time records, SY.RIZ.A's performance has rocketed from a 4,6% in the 2009 general elections to around 34-35% in polls today. Despite this staggering surge in popularity, Tsipras has failed so far to attract the critical mass of centrist voters who would secure him a comfortable win and enable him to form a government without seeking for coalition partners.

This failure reflects SY.RIZ.A's use of a divisive rhetoric which reminds voters of the 1945 civil war between the right and the communists, as well as its members' relative inexperience and controversial positions when it comes to Greece's debt problem and its relations with its lenders. Moreover SY.RIZ.A only became an official political party in 2012. Despite its transformation from a marginal coalition of the radical left to a political force to be reckoned with, one of SY.RIZ.A's main downfalls is the party's inability to formulate consistent and reliable positions.

Tsipras has understood that failing to attract and convince centrist and undecided voters (around 10% of those asked in polls) might cost him the opportunity of a lifetime: to form the first Greek government of the left. He thus tries to present his party not only as a way to express anger and exercise punishment but also as a catalyst of much needed change and a provider of hope. SY.RIZ.A's new slogan "Hope is coming", demonstrates the intent to add an optimistic tone to a gloomy and desperate Greek reality.

26 January: Challenge of forming a government

Greece's complex electoral law holds the key for a new government, which will need at least 151 seats in the 300-seat Parliament. Two elements are crucial in view of Sunday's elections: the party which comes first; and the score of parties which will fail to enter the Parliament (the threshold for entry is 3% of popular vote).

According to Greek law, the winning party gains an electoral bonus of 50 seats making it almost certainly part of the government formation. SY.RIZ.A is estimated to gain 80-100 seats according to polls and the electoral bonus would land them 130-150 seats.

However, the 'parties failing' to enter the new Parliament might accidentally help Tsipras. If they represent more than 10% of voter choice, the threshold necessary for a parliamentary majority will decrease. There are currently two sizeable parties struggling to enter the Parliament (totalling just over 5% in polls): far right Independent Greeks and the Movement of Socialist Democrats, a new party led by ex-PA.SO.K leader and ex-PM, George Papandreou.

Scenarios

Currently, it is most likely that SY.RIZ.A will need at least one partner to form a coalition government. Theoretically, Tsipras has a lot of parties he could build an alliance with, but in practice none of these choices seem feasible. To his left, the Greek Communist Party has excluded any coalition talks, fearing that it will be assimilated by SY.RIZ.A. To the right, SY.RIZ.A could team up with the River (a new centrist party likely to come third), while Tsipras has publicly and unequivocally rejected any cooperation with either PA.SO.K or Mr. Papandreou's newly formed party.

In another scenario, the Independent Greeks could join SY.RIZ.A as the two parties agree on the need to end austerity and renegotiate terms with Greece's lenders. However, their nationalist agenda could possibly make a coalition government with SY.RIZ.A a rollercoaster, creating further instability. The inability to form a coalition government might tempt Tsipras to trigger new elections (probably in the end of February), asking voters to provide him with an undisputed majority.

The least likely scenario is that Mr. Samaras wins the elections and forms a coalition government with one of the centre-left parties, but it is difficult to imagine that New Democracy will bridge the gap with SY.RIZ.A in the polls with only a few remaining days until the elections.

Finally, there is a possibility that SY.RIZ.A could achieve a majority in the Parliament but Tsipras has announced that even in this case he will look for coalition partners to increase legitimacy and support for his programme.

What to expect from SY.RIZ.A

In case SY.RIZ.A wins the election and forms a government, some specific actions can be expected from Tsipras after a probably chaotic initial 6 month transition period. His first focus will be on the economy and of course to renegotiate the conditions for Greece's bailout programme with its lenders. This is followed by a reform of the tax system to achieve a more equal share of wealth. Tsipras also promised to discuss how state owned land will be defined which is important for investment projects such as the Hellinikon development project. Finally he made the decentralisation of Government a central part of his agenda: municipalities would gain more competences from the central Government.

Tsipras's personal ambition is his legacy. He does not want to be seen as the young leftist rebel who changed Greece, but he wants to challenge and change Europe. As ambitious it may sound, he himself set this goal for his country and for himself. This election will be decisive as to whether he comes one step closer to this goal.

Implications for the energy sector

SY.RIZ.A's strategic priorities in the energy field aim towards the eradication of energy poverty and equal access to energy for all. The main pillars of SY.RIZ.A's energy policy include the increase in the share of renewables in the energy mix, increased energy efficiency and a gradual decarbonisation and move away from fossil fuels.

Undoubtedly, the departure of Minister Giannis Maniatis will be a blow to investors in the hydrocarbons field. His exit will mean that the exploration and extraction of indigenous resources in Greece will be delayed and it will create uncertainty for investors interested in undertaking exploration activities in the Ionian and South of Crete. Maniatis is the only Minister in the

past decade that had a vision for Greece's hydrocarbons sector; a vision that he began implementing in 2013 with concrete actions. However his senior staff has proven to be highly competent and may safeguard continuity and thus Greece's national interests in the energy field.

The Southern Gas Corridor, that is meant to transport gas from the Caspian Sea to the EU, is the energy project with the highest strategic significance for Greece. Supply contracts have been signed and it is difficult to imagine that any Greek government will oppose the will of EU member states and the United States of America. Outbursts from certain SY.RIZ.A members that they will renegotiate the Trans Adriatic Pipeline (TAP) Host Government Agreement (HGA) seem implausible and are purely rhetorical; the HGA has been signed and ratified. A new government is, however, likely to delay the finalisation of the Environmental and Social Impact Assessment and prolong complications with local communities; especially if SY.RIZ.A achieves a total majority in the elections and has no one to curb the party's more dogmatic voices.

Regarding SY.RIZ.A's plans to abolish privatizations and the issue of DESFA (Greece's Natural Gas System Operator), SY.RIZ.A's position has caused confusion amongst stakeholders and analysts alike. Following a visit to Azerbaijan, a member of SY.RIZ.A's energy committee stated that both the State Oil Company of Azerbaijan Republic (SOCAR) and SY.RIZ.A agree that energy assets should be state owned, but failed to clarify whether they should be owned by the state or by state-owned companies. SY.RIZ.A's coming to power; coupled with the pending decision of the European Commission's Competition Directorate General on the privatization of DESFA could further complicate an already delicate economic and diplomatic issue.

Is a "Grexit" possible with a SY.RIZ.A-led government?

Alexis Tsipras dismisses this as pure speculation, Greece's future is firmly fixed in the euro area but staying within the Eurozone is only possible if EU governments realize that its debt is no longer viable and that prolonged austerity (through the reform programme) is not sustainable. While Greece's economy grew by 1,9% in the third quarter of 2014, its public debt is still a striking 175% of GDP. Without debt relief, Greece's economy looks set to remain depressed. This situation is worsened by the emergence of deflation.

Tsipras believes that his election can trigger a wave of change in Europe, including a conference on European debt, in which the issue of the sustainability of the debt of EU member states in austerity programmes would be discussed. Irish and Italian authorities have not excluded their support to such an option. In Spain, SY.RIZ.A's sister party, Podemos is leading in polls, suggesting that Tsipras might be right in his hope of creating a broader anti-austerity coalition. Nonetheless, these countries might be unwilling to tie their fate to that of Greece, considering the current more favourable status of their country. Upon the renewed Greek discussions, bond yields of other Eurozone countries have not dramatically moved, suggesting that investors see Greece as an isolated case. Other Member States might not want to change that perception.

On the other hand, representatives of the EU institutions and northern European member states objected to writing off the portion of Greek debt they are holding or financing without a

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binding austerity and a reform programme in place. The European Central Bank (ECB), which is the largest holder of Greek debt, has categorically stated that it will not agree with a debt write down. Christine Lagarde, Director General of the IMF, stated on Monday that European Countries should consider providing relief that would entail a faster reduction in debt than currently programmed; this might influence the firm stance of the lenders. Much will be defined in the next few days. Today, the ECB's Governing Board meets to discuss possible quantitative easing to increase inflation to its target level and help EU economies recover. Even if quantitative easing is introduced, this would not include direct purchases of Greek debt on the primary market nor is it expected to include Greek bonds as long as a reform programme is not agreed with its government.

The clock is ticking for Tsipras: on 26 January he is expected to receive a mandate by the President of the Greek republic to form a government. Let's not forget that the newly elected Greek Parliament will still have to vote on the appointment of a new President of the Republic. It is widely rumoured that should the country go to a second round of elections, Tsipras is ready to propose the name of Dimitris Avramopoulos (EU Commissioner for Migration, Home Affairs & Citizenship; New Democracy) to throw the ball into New Democracy's court. Despite the scenario of a potential New Democracy-SY.RIZ.A led grand coalition seeming impossible, it should not be written off entirely, especially as the noose tightens around Greece's economy and its financial obligations.

Is Tsipras the bogey-man?

Throughout SY.RIZ.A's ascension to the height of Greek politics, Tsipras has progressively softened his rhetoric and policy stance. He is not the bogey-man he was perceived to be in 2012. Tsipras now has to manage the expectations of his voters and the more radical factions within his party. Simultaneously, he might have to consider an agreement with a more moderate and experienced coalition partner in his government and achieve "quick wins" in negotiations with his EU partners over Greece's short-term financing and long-term debt sustainability. These quick wins are indispensable as the Greek economy is running out of money: a week ago the press reported that all four Greek systemic banks have asked for help by Europe's emergency liquidity mechanism (ELA) as

depositors are withdrawing money from the country because of political uncertainty over its future.

Alexis Tsipras has shown that he is craving for power. But will he be able to cope with the pressure power will bring? No one knows for sure but Greek voters have only given one chance to their most recent leaders to deliver what they promised. Mr Papandreou and Mr Samaras know this better than anyone.



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