

**Economic Research Note**

# Elections likely in 2014 as Greece looks for new normal

- We see a meaningful (70%+) chance of elections before the end of 1Q 2015; our base case is for a vote in late 3Q or early 4Q 2014
- Even if elections don't ultimately happen this year the possibility of their being held will shape politics
- Greece could enter an extended campaign period; shifting political focus away from the MoU
- As of today, SYRIZA—the opposition “Coalition of the Radical Left”—looks as though it could win
- This opens the possibility of uncertainties around Government formation and regional reactions

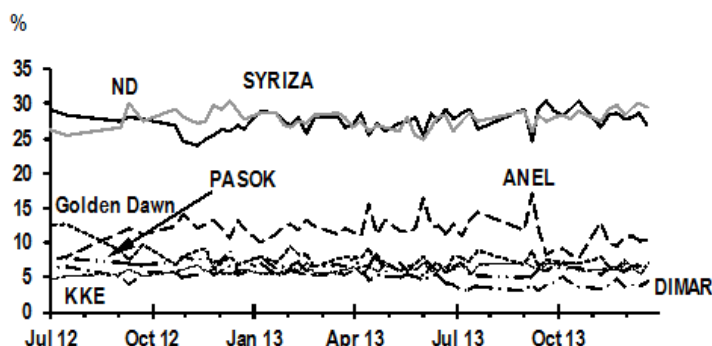
Since the twin elections in 2012, the Greek government has shown more longevity in office than was predicted by most observers. It has delivered a comparatively stable political environment, creating space to deal with Greece's economic and political emergency, and to build the foundations for a recovery (see Mackie: “Greece: Is there some light at the end of the tunnel?” *GDW*, Sep 27, 2013). There are signs, however, that this period of relative political stability could be coming to an end. We think that there is a 70%+ chance of new elections being held during the next year, and our base case is for a vote in September or October.

The outcome of such an election is tough to call at this distance. But our sense is that SYRIZA (the “Coalition of the Radical Left”) look the likeliest winners, although they are unlikely to be capable of forming a government alone. A SYRIZA-led government would be materially more troublesome for Europe to deal with than the current administration. However, SYRIZA's views in some policy areas are starting to edge toward the middle ground, opening the possibility of compromise with Greece's official creditors.

## Defined by the dual emergency

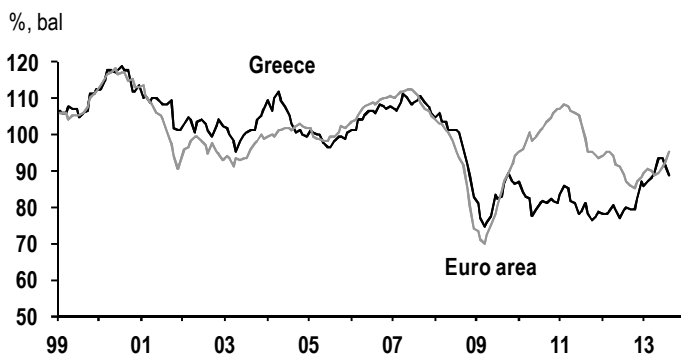
The political and economic emergency of mid-2012 triggered the most important shift in Greek politics since the fall of the junta. The 2012 elections decimated PASOK, the main center-left party, and brought SYRIZA (then a coalition of leftist fringe groups) to the verge of power. The elections left ND, the main center-right party, as the only part of the old establishment still standing. ND was forced into coalition with the remainder of PASOK<sup>1</sup>; and ND and SYRIZA have

**Latest polls: still close**



Source: VPRC, MFB, Kapa research, Alco, Metrisi, Pulse RC and J.P. Morgan

**EC survey: overall economic sentiment**



Source: European Commission and J.P. Morgan

been left as the only two serious contenders for office (first chart). The experience—which shattered most of the assumptions of the era of *Partitocrazia*<sup>2</sup>—has left Greece a long way from political equilibrium. The political system now lacks an established set of relationships between voters, and mainstream parties of the right and left.

The arrangements which were put in place in 2012—including the establishment of the ruling coalition—were, by their nature, interim, reflecting the political elite's attempt to respond to an emergency of historic scale. The government has since survived for two main reasons. First, the extent of political uncertainty that followed the collapse of the old party structure has incentivized a sufficient number of MPs to delay new elections since their own political future is (in most cases) unclear. Second, the extent of Greece's economic emergency has provided an essential political rationale for the coalition. Both of these pillars are waning assets, in our view, as party interests begin to diverge (see table). As we move out of the acute phase of the crisis, we expect Greek politics to be focused on determining what the “new normal” will look like. This process is likely to prove disruptive.

<sup>1</sup> Along with DIMAR (“Democratic Left”), another small party, which left the coalition last year.

<sup>2</sup> The period following the collapse of the dictatorship in 1974, which was characterized by political patronage linked to the two main parties (for more detail see “Europe's future will be shaped by politics in the South” *GDW*)

## Political focus will shift toward elections

New general elections are not due until 2Q 2016, and the government has repeatedly insisted that it intends to see out its term. However, we think it unlikely that it will be able to do so. There are several factors pushing toward elections before the end of 1Q 2015 at the latest:

- **Waning of the two pillars:** Greece's entry into primary surplus—likely to be confirmed in 1Q 2014—will underline the fact that the most serious period of economic pain has passed (as has been reflected in recent sentiment surveys, chart on page 1). The government's core political rationale is likely to be weakened as a result. This comes as the political meltdown of PASOK has gained pace, and MPs look for other options (PASOK is attempting to respond by forging a broader electoral alliance, see table). The coalition has a very slim majority: 153 of 300 (down from 179 at the start of this parliament). The attraction (for individual MPs or factions) of leaving to do a deal with another party that has better prospects - potentially SYRIZA - will remain strong. Potential triggers for more resignations may include the possibility of a broader political crisis driven by the Constitutional Court's rejection of earlier measures (including public sector pay-cuts) or other problems in reform implementation.
- **Impact of the European elections (May 2014):** Pressures on the government could well become unmanageable in the next 4-5 months. The European elections in May should see a strong performance by SYRIZA, as well as the extreme-right (Golden Dawn). We expect a very poor performance for PASOK in particular. If the governing parties do as poorly as we currently expect, the vote could precipitate a split and new elections.
- **The Presidential vote (Feb 2015):** The erosion of the government's majority could impose a hard deadline on its term in office, which may come into effect early next year. Parliament needs to vote on a new president before February 4, 2015, with 180 votes required to approve any candidate<sup>3</sup>. Unless the government can muster these 180 votes, parliament must be dissolved. SYRIZA has indicated that it will vote against any government candidate; and most of the other radical opposition parties are likely to do the same<sup>4</sup>. Given how politically

<sup>3</sup> There is essentially no prospect that President Papoulias will be able to remain in office, as President Napolitano did in Italy. His tenure is limited to the two terms he will have served under Article 30 of the Constitution.

<sup>4</sup> In theory, SYRIZA could have been prevailed upon to support a consensus presidential candidate as an act of national unity but this looks very unlikely following recent statements from the party, whose hard-line is partly a function of internal disagreement about the extent to which it should moderate its leftist political agenda.

### The Key Parties: Redefining politics in 2014

<b>PASOK (center-left)</b>	PASOK is struggling for survival. A recent poll in Attica had the party on 3%—close to the level at which it would fall out of parliament. PASOK was the main party of power for the last 40 years, and won an outright majority in 2009. Its leadership is seeking to rebrand the party, through a broader alliance on the center-left (the "58 group"; designed as an equivalent of Italy's Olive Tree). PASOK therefore may not even fight the next election in its current form. If the 58 initiative is successful, the new grouping could create problems for SYRIZA, and regain ground on the left - but this will be difficult to achieve.
<b>ND (center-right)</b>	ND hopes to defend as much of the established political order as it can, and safeguard its role within it. Winning the next election, or securing a stable enough result that it can fight on afterwards is key. However, it is comparatively secure on the center-right. SYRIZA hopes to achieve power and permanently displace PASOK on the left. In doing so, it wants to create a fundamental break with the politics of the post-1974 era; and shift Greece towards a more left-wing, anti-capitalist politics. It will only be able to achieve this if it manages to address the deep concerns about its intentions among centrist voters. This will be difficult; SYRIZA has limited experience of being a party - its history as a coalition of leftist groups can make coherent policymaking difficult.
<b>SYRIZA (left)</b>	Most other parties are threatened by SYRIZA in some way. Several other smaller parties—notably DIMAR and ANEL face a similar crisis as PASOK. On the far right, Golden Dawn remains a threat. On the far left, the Communist Party, KKE, is unwilling to cooperate.
<b>Others</b>	

Sources: Party websites, J.P. Morgan

exhausted the Government could appear by 1Q next year, we think the chances of it scrapping through with the support of small opposition parties and independents is low (but not impossible). There is very little prospect of SYRIZA backing down, unless the party has split by this point. The presidential vote was a trigger for elections in 2009.

Many MPs (not just those in government) are concerned about the potential impact of elections, and the prospect of losing their seats. However, the current rationale within ND is that elections are likely to happen sooner rather than later, and that the party has a vested interest in controlling the timing. We think the likeliest date for elections is in 3Q this year. ND would ideally like to see through a successful presidency of the EU<sup>5</sup>, and secure an agreement with its partners on further debt relief (almost certainly NPV rather than principal). The governing parties would then be better placed to launch a campaign on the back of whatever poll lift they receive as a result. Europe's approach to Greece in 2014 will have an impact on the timing (and potential result) of any elections; but there is little sign that regional policymakers are able to give broader concessions that could have a material impact.

<sup>5</sup> For practical, resource related reasons this may prove difficult, but Greece's partners are likely to provide sufficient support to avoid any major embarrassments during the term. Greece holds the Presidency of the Union until the end of July when it is succeeded by Italy.

## It will be close, but SYRIZA could win

Both the polling data, and our own analysis of the influence of economic variables on party performance, suggest that Greece's next elections will be very close. Polling data (chart on page 1) has shown ND and SYRIZA within 3%-pts of each other since the June 2012 election. We have also sought to model how the economic environment feeds into support for non-traditional political groups in the European South (see "Periphery politics: Good, bad and ugly scenarios," *GDW*, Dec 10, 2013). That analysis suggests a marked move up in non-traditional support through the crisis, and the actual data have overshot to some extent. However, even under a relatively optimistic economic scenario, the model does not project support for non-traditional groups beginning to ease until well into 2015<sup>6</sup>. Our analysis suggests, as do the polls, that the election may be too close to call, with an improvement in economic conditions unlikely to provide a significant boost to the government before 2016.

While the election looks likely to be close, our bias is to see SYRIZA as the probable winners (with around a 60%+ probability). The combination of economic pain, with growing popular distaste for the political elite is likely to push voters in the party's direction to a greater extent than is captured in the polls. Despite the aggregate improvement in overall economic sentiment (chart on page 1), surveys show ongoing pessimism amongst ordinary voters. Eurobarometer data shows an increasing number of respondents believing that the unemployment situation will worsen in the year ahead (up 3%-pts to 71%), while expectations for the coming year remain depressed (13% believe this year will be better than last, up 2%-pts)<sup>7</sup>. SYRIZA is the likely beneficiary of this discontent.

The trajectory of the polls at regional level also shows momentum moving to SYRIZA. The party is more than 7%-pts ahead of ND in the key Athens B constituency<sup>8</sup> (which provides more than 20% of all parliamentary seats)—a sharp move up from the parties level-pegging late last year. Athens A and B tend to offer leading indicators of poll movement in the country as a whole. These regional polls also show an ongoing disintegration of PASOK, suggesting SYRIZA will be able to pick up more votes on the left. SYRIZA could also secure support from unlikely places: economic nationalism

<sup>6</sup> We model the pace of fiscal consolidation, consumer confidence, and unemployment with different lagging indicators to create an assessment of the likely support for non-mainstream parties in aggregate. Note that, in the Greek case, much of this support will be going to radical parties other than SYRIZA (eg Golden Dawn, KKE). For more details on methodology see "Europe's political mainstream set to face ongoing pressure."

<sup>7</sup> Eurobarometer 80. Most data points continue to show Greece close to the bottom of the region in positive opinions on local issues. See the European Commission website for more details.

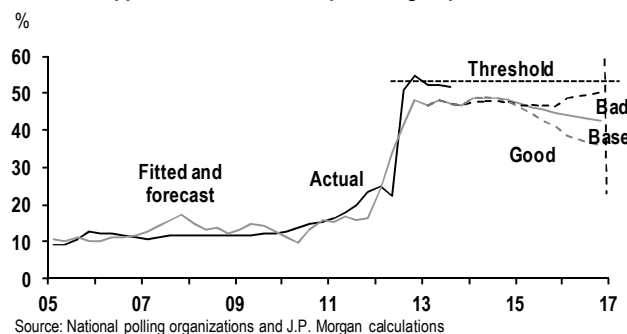
<sup>8</sup> GPO. It is dangerous to read too much into individual polls, but the data reflects recent trends.

### Possible composition of parliament

Party	2009	2012*	2012**	Current	Projected***
ND	91	108	129	126	88
SYRIZA	13	52	71	72	139
PASOK	160	41	33	27	13
Golden Dawn	0	21	18	18	24
DIMAR	0	19	17	14	10
ANEL	0	33	20	17	14
KKE	21	26	12	12	12
Others	15	0	0	15	0

Sources: Hellenic Parliament, J.P. Morgan \*May election \*\*June election \*\*J.P. Morgan rough projections. Note that the largest party receives 50 bonus seats.

### Greece: support for non-traditional political groups



Source: National polling organizations and J.P. Morgan calculations

could help attract ANEL<sup>9</sup> and other nationalist minded voters to support a "kick out the Troika" campaign. We expect SYRIZA to open a more serious poll lead over the coming months (see chart above for the possible numbers in parliament after a 2014/early 2015 election)<sup>10</sup>. If PASOK manages to develop a more coherent center-left offering this could limit SYRIZA's chances (see table on second page), but we think this is relatively unlikely to be successful.

## Coalition of the (slightly less) radical left

Part of the reason for SYRIZA's increasingly strong performance lies in the political journey it is attempting to take toward the center. The party leadership has been successful, so far, in jettisoning some of the ideology of "the SYRIZA of struggles" (based around radical opposition to the political establishment), and focusing on the development of an organization that can credibly contend for more mainstream support<sup>11</sup>. The key to achieving this has been to

<sup>9</sup> ANEL: "The Independent Greeks", a right-wing splinter group from ND which opposes engagement with the Troika on national sovereignty grounds.

<sup>10</sup> Our estimate for potential seat distribution reflects an extrapolation of the current polling data and past results, and makes allowance for the bonus 50 seats given to the largest party. Several parties, notably DIMAR, PASOK and ANEL, risk failing to make the 3% threshold for parliamentary representation, in which case their seats could be redistributed elsewhere (meaning an outright SYRIZA or ND majority is just about conceivable). If ND slightly edge SYRIZA for largest party status, the distribution above would look very different.

<sup>11</sup> This is in clear contrast to Beppe Grillo's M5S in Italy which has focused on ongoing radical opposition to the main parties. See our note "Europe's political mainstream set to face ongoing pressure" for more details.

convince further segments of the middle class that the party doesn't pose an existential threat to their interests (particularly former PASOK voters). SYRIZA needs to do this while retaining the enthusiasm of its more radical base; a delicate balancing act, which it may find increasingly difficult.

The party's breakthrough in 2012 was underpinned by its ability to simultaneously articulate a triad of three clear, but contradictory, policy messages. SYRIZA wanted to; i) stay in the euro; ii) repudiate Greece's debts; and iii) reject the Troika's prescribed path towards fiscal consolidation. We expect it to repeat its rhetoric in all three of these areas as we move closer to possible elections in 2014. However, the journey toward the center will require increasing emphasis on the first commitment, at the expense of the latter two. There is evidence that this shift is already taking place. The party has become much more explicit about its commitment to Europe. The sense of direction was laid out in a speech given by party leader Alexis Tsipras<sup>12</sup> in November, which reaffirmed his commitment to the euro and laid down a challenge to the extreme-left within the party, which he appears to be winning, at least so far (see table). His comparative success in doing so is reflected in the widespread leftist criticisms of Tsipras for shifting to the "right" and "engaging with fascists".

On the crucial issue of how the party would approach Greece's debt burden, SYRIZA has shifted significantly. In 2012, it indicated that it would unilaterally "write off the majority" of Greece's debt. It has now indicated that it would open negotiations around further debt relief, and seek to repudiate "odious" parts of the debt burden, which it has recently indicated comprises around 5% of Greece's total debt pile<sup>13</sup>. Clearly, any effort to repudiate would create significant problems for Greece's relationship with its European partners and the IMF; but the starting point looks slightly more realistic than it appeared until recently (SYRIZA has also committed to negotiation rather than unilateral moves).

We expect less flexibility on the third leg of the SYRIZA policy stool. The party is likely to present a hard line in its negotiations with the Troika on any further structural reform or fiscal consolidation in Greece. However, even here, we expect the distance between SYRIZA and the main parties to shrink; the shift to primary surplus is already changing the nature of the negotiating dynamic between the existing government and its official partners. SYRIZA's rhetoric could create concern for external observers as we move through

**Goodbye Lenin?: SYRIZA's policy platform continues to evolve**

Issue	Current focus (recent speeches and interviews)	Previous pledges (inc. 2012 election commitments)
Politics	Focus on restoring confidence in democracy, through better governance	Change electoral system, remove parliamentary immunity, deliver "restoration of popular sovereignty"
Europe	Calls for a region wide debt conference for Southern Europe. Committed to remaining in the euro & Europe	Demands changes to the role of the European Central Bank so that it can directly finance Member States. In favor of a referendum on euro membership but not in favor of exit
Debt	Will seek to "renegotiate Greece's loan agreements with our creditors". Only "odious" debts will be repudiated	Writing off "the majority" of Greek debt, with immediate suspension of all payments
Economy	Nationalize the banking system. Will focus on tax evasion and tax avoidance and deliver more progressive taxation on higher incomes. More government support for farmers, small businesses	Need to "go beyond capitalism." Reverse austerity measures. Increase taxes, nationalize banks, nationalize major companies, prohibit the use of derivatives, introduce capital controls
Labor	Freeze all recent measures relating to wages and pensions. Restore the minimum wage (unclear whether "freezing" recent measures also means reversing them)	Introduce collective labor contracts. Legally mandate equal salaries in certain sectors

Sources: SYRIZA, *Kathemenni*, *International Journal of Socialist Renewal*, *World Socialist Website*, *JP Morgan*

2014, and a SYRIZA-led government would clearly pose distinct challenges for the rest of the Euro area. However, we think it is unlikely to lead to a substantive paradigm shift of the type that might have taken place had the party achieved power in 2012.

**A coalition of consequence**

Whichever party "wins" the next election probably won't be able to govern alone. We don't expect either SYRIZA or ND to poll above 35% of the vote (current poll numbers have them well below this, see chart on the first page). A new coalition will therefore be required. The key question is who will be the largest party (the largest party secures a bonus of 50 seats in parliament, and is therefore highly likely to be the main candidate to arrange a coalition). We think that SYRIZA will face difficulties in pulling together a coalition deal. Given the difficulties, a prolonged period of uncertainty, or multiple votes, is possible.

The election will be an important marker for the Euro area as a whole. If SYRIZA become the largest party and are able to form a government this could provide a psychological boost to anti-establishment parties of both left and right across Europe. An ND victory would suggest that the region is capable of making the type of adjustments that are being required of it while managing the political consequences.

<sup>12</sup> Tsipras' speech at the University of Texas. A copy of the speech can be found (in Greek) on the SYRIZA website: [www.syriza.gr](http://www.syriza.gr).

<sup>13</sup> The party asked a commission to look into what forms of debt can be considered "odious" which reported in late January 2014.

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