

THE DAY AFTER THE ELECTIONS IN GREECE: EMERGING CHALLENGES AND OPPORTUNITIES

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The national parliamentary elections in Greece highlighted the victory for the first time ever of left-wing Syriza party which gained 36.3 percent of the voter turnout securing 149 seats out of 300, short of an absolute majority. The election outcome prompted the formation of a coalition government with The Independent Greeks far-right party that supports an end to austerity. On the other side of the political spectrum, until recently ruling conservative New Democracy lost 2.1 percent of its vote share as compared to the 2012 national elections, a percentage that when converted into numbers represents a loss of 53 seats. Social democratic party Pasok continued to shrink and became the last political force that surpassed the 3 percent threshold with seats being reduced to merely 13 from 33 in 2012.

The ruling party managed to attract moderate voters with the adoption of a dual strategy of citizen-central and anti-austerity dimensions. In a country where citizens are perpetually squeezed in the middle of depression and the economy is in freefall with a loss of a quarter of Greek GDP from 2008 to 2014 and a phenomenal high public debt of approximately 175 percent of GDP, Syriza pledged to ditch austerity, deal with the evolving humanitarian crisis, proceed with structural reforms, disengage from the IMF-EU memoranda, and proceed with debt renegotiation either in the form of direct haircut or restructuring.

Concrete declared coalition government policies include the increase of the minimum wage to €751; the reintroduction of a bonus pension for those who receive less than €700 per month; the provision of free medical care for unemployed; the abolition of the annual levy on private property introduced initially in 2011 as an emergency measure; the promotion of household debt restructuring; the connection of the public debt's repayment not to the Greek budget but to economic growth; and, the inclusion of the country in the Outright Monetary Transactions (OMT) program of the European Central Bank that will purchase Greek sovereign bonds valued €60bn on secondary markets as means to defeat deflation and strengthen investment without new government debt.

Red lines between Greece and its creditors as evidenced in the first days of Syriza's governance have centered on the rejection of pursuing extra talks with the Troika of lenders' inspectors, notably unpopular in Greece, and disallowance of the bailout's protraction that has become politically and economically toxic, by alternatively proposing the forging of a new

agreement with all major creditors. As estimated, the first Greek red line is expected to be respected given that the European Commission has already been involved in a process of searching substitutes to Troika in accordance with the 14th January 2015 verdict by Advocate General Cruz Villalón of the European Union Court of Justice on "the European Central Bank's OMT program", which explicitly declares that the European Central Bank has to refrain from any direct involvement in the monitoring of financial assistance programmes that apply to States concerned. That is to say, the European Central Bank is evidently prohibited by the European Court of Justice's Advocate General to remain member of the Troika.

When it comes to the second Greek red line, a chicken game, a situation where there is competition for a shared resource and the contestants can choose either conciliation or conflict, seems to currently evolve between Greece and Northern European creditor governments headed by Germany. The ruling party of Syriza has opted for a strategy which scopes to transform it into a political force initiating a European debate for the inception of a coalition that struggles against austerity and longs for growth plans. The recent tours of the Greek Prime Minister and the Finance Minister in certain European capitals fall in the context of forming a new European wide likeminded block that opposes the prevailing austerity orthodoxy. Emerging questions related to a series of challenges are recorded as follows: Given the Greek repudiation of the logic of austerity, what are the Greek intentions and how much room is there for stratagem? Does Greece opt for a direct debt haircut or restructuring? Is a Greek exit from the eurozone possible and what is the most likely scenario?

The Greek economy has ameliorated since 2012 given that a persisting recession ended in 2014, public finances improved, and in the third quarter of 2014 a growth of 0.7 percent has placed the country among the best performers in the Eurozone. Despite progress, the Greek economy remains delicate due to large-scale bank withdrawals amounting to €15 billion since December 2014 according to data released by the Bank of Greece with institutional investors and individuals being the first to have deposits. Additionally, the pressing liquidity conditions, as consequence of the growing outflow of deposits and the issue of treasury bills (T-bills) imposed by the State, have driven the country's systemic banks to request cash from the Bank of Greece through the emergency liquidity system (ELA). It is no secret that the country's payment obligations in 2015 amount to €22.5 billion including the repayment of €6.7 billion to the European Central Bank in July and August for sovereign bonds purchased after Greece's first bail-out in 2010. This reality pressurizes Greece to reach a new agreement with its creditors containing components of growth and goals that focus on a combination of primary budget surplus and a reform agenda to tackle chronic fundamental problems, such as tax evasion, bureaucracy and corruption.

Growth plans however are directly linked to debt relief that can happen in the form of either a direct write-off widely known as direct haircut, or restructuring. It is appreciated that outright debt forgiveness, a direct haircut, is not an option for creditors for multiple reasons with most prevailing the domestic pressures that Eurozone countries such as Germany undergoes on the matter. In particular, Germany holds approximately €50 billion in Greek debt and decisively rejects a direct haircut because of domestic politics and public positions. According to an opinion poll conducted recently for public service broadcaster ZDF, 76 percent of the German public opposes any direct Greek debt reduction. Concurrently, across the German political spectrum the challenges for the ruling Christian Democratic Union are multifold in the sense that on the one side, the Left party with provenance from East Germany perceives Greek Syriza as an ideological ally and thus any concession would be viewed as a defeat of German hegemony over economic policies in the 19-country currency block. On the other side, populist far right the "Alternative for Germany" party, which supports the dissolution of the euro, yearns for the failure of any Greek debt negotiations hoping for a Grexit.

The option of debt restructuring is considered appealing in the context of Greek debt negotiations given that it provides reallocation of resources or change in the terms of loan extension that enable the debtor repay the loan to creditors. Debt restructuring is essentially an adjustment of both the debtor and the creditor to normalize troubles in the manner of loan repayment. That said, in conformity with the eurozone procedures, a Greek debt restructuring can occur by means of extending maturities and reducing interest rates, a process equaling to a cut that would permit Greece rebound to a rational debt to GDP ratio, thus favoring the execution of a public spending program to boost gross domestic product. Greek debt restructuring can also transpire with the swap technique, as means of easing the Greek debt burden, which foresees the issue of a complex mix of two types of new bonds. The first type, indexed to nominal economic growth, would replace European rescue loans, while the second type presents perpetual bonds that would replace sovereign Greek bonds owned by the European Central Bank. Debt swap, as part of smart debt engineering, conduces to debt reduction thus paving the way for the implementation of a growth strategy that perforce needs to advance hand in hand with fiscal prudence and structural reforms.

When it comes to the possibility of a Greek exit from the eurozone, the challenges that may accrue can prove multifold. Although a Greek exit will not be a systemic event causing a simultaneous breakdown in global confidence and trade as evidenced in the wake of the Lehman Brothers collapse, the travails of Europe will unquestionably impact the global stock markets and will send waves of shock to countries and investors owing to the breach of the principle that euro membership is irrevocable. Equal important, the risk of contagion will increase, despite the various rescue

mechanisms, and European policy makers will have to “circle the wagons” around the other periphery countries to cease occurrence. Concurrently, the consequences for Greece would be acutely distressing for the reason that domestic assets and liabilities will be converted into a national currency which will forthwith depreciate. Currency depreciation will automatically preserve at unsustainable levels the country’s foreign debts which will continue unchanged in euro, a fact that would make Greece default and lock it out of global capital markets for long time. In other words, the likelihood of a Greek euro exit could create a massive shock for financial markets, force Greece default and result in contagion because financial investors would unquestionably try to test other Eurozone countries.

No doubt that a propulsive synthesis of negotiating tools can bring Greece and its European partners close with an eye on a fast-track growth agenda as envisaged by the EU Commission’s pan-European investment plan which can burst the bubbles around economies and whole societies. The ruling party of Greece is offered a golden opportunity to constructively contribute to a new contract in the context of an enigmatic, composite and rapidly changing European landscape. Because in essence, the lure of the distant and the difficult can prove deceptive, but the grasp of small opportunities can signal the beginning of a great enterprise, that is the European enterprise.