

SNAPSHOT

Greek elections: Anger overcame Fear, but is there Hope?

29 January 2015

INTRODUCTION

SY.RIZ.A's triumphant victory in the Greek elections sent shockwaves through Europe's political establishment and made news across the globe. On the streets of Athens, the sounds of The Clash's «Rock the Casbah» and the Italian resistance anthem «Bella Ciao» rang through the air, with scenes of jubilation ensuing, as Greek voters sent a clear message to European leaders. The Greeks and supporters of leftist parties from all over Europe joined together to mark a historic day on Sunday 25 January: a day in which anger and the prospect of a new hope overcame fear.

The aftermath of the Greek elections and the forthcoming actions of the new government and the European Union (EU) are already under the intense scrutiny of the international community and financial markets. The result of the election brings Greece into uncharted territory and into a completely new and unprecedented political landscape; one in which both traditional parties, New Democracy (N.D) and PA.SO.K find themselves together in the opposition for the first time. The new Prime Minister, Alexis Tsipras, has lost no time forming a new Government with the Independent Greeks (AN.EL), a party on the right-wing of Greek politics, giving him 162 out of 300 seats. The new Greek government will take its oath on 6 February.

Greece's new and inexperienced government now faces the mountainous challenge of finding a compromise with its partners in the European Union and with its other lenders. The way this hot potato is handled by both sides is crucial and potentially pivotal, as Europe continues its efforts to restore growth, fortify its economy, and offer new incentives to a lost generation of youth – amidst a complex and challenging geopolitical environment, as well as the rise of Greece's neo-fascist Golden Dawn to being the third party in the Parliament.

In this second snapshot on the Greek elections we will explore the political reactions on the election outcome in some of the EU's major capitals as well as examining what we can expect from Greece's new fledgling government.

Brussels: No special treatment for Greece

SY.RIZ.A's coming to power has provoked a wide range of views across Europe, with mainstream media proclaiming an almost certain 'showdown' or 'collision course' between Athens and Brussels over macro-economic policies, repayment of Greece's bailout loans and the sustainability of Greece's economy. In a letter sent to Alexis Tsipras, the President of the European Commission, Jean-Claude Juncker, recalled that promoting sustainable solutions for jobs and growth and ensuring fiscal stability are common challenges for all EU member states. Juncker added that a write-down on Greece's debt does not appear on the Commission's radar and there is no majority in favour of this in the Eurogroup. Similarly, Martin Schulz, the President of the European Parliament echoed this

message, stating that *"we have to stick to the agreements made in order to stabilise Greece and the EU."* Meanwhile, Christine Lagarde, the Managing Director of the International Monetary Fund (IMF), emphasised that the IMF stands ready to continue supporting Greece and looks forward to discussions with the new government. The US Department of State spokesperson, Jen Psaki, also took the opportunity to congratulate SY.RIZ.A and expressed the U.S.'s support for the continuation of domestic reforms and international efforts to foster Greece's economic recovery.

The leader of the Socialist and Democrats (S&D) Group, Gianni Pittella, congratulated SY.RIZ.A's victory in the elections, stressing that the right path is to change Europe's economic policies together. A statement issued by the S&D Group had urged SY.RIZ.A to form a government loyal to European values and principles. Consequently, two of Tsipras' decisions have raised eye-brows. First is his decision to form a coalition with the right-wing AN.EL and not the newly formed centrist POTAMI movement. Members of the European Parliament (MEP) commented that Tsipras' choice of coalition partner shows naivety; an early mistake of an inexperienced 'rookie'. Secondly, Tsipras' decision to react critically to an EU statement blaming Russia for the escalation of the situation in Ukraine has fuelled concerns both in Europe and across the Atlantic regarding Greece's commitment to the Western alliance. In both situations, Tsipras has signaled that he will not merely conform to the status quo and expectations of the European establishment. In particular on the Russia question, Tsipras' call to Mogherini is indicative of his self-confidence and of SY.RIZ.A's preference to a softer and less-confrontational approach to Russia. That is not to say, however, that Greece is making a radical shift in its foreign policy. Good neighbourly relations with Turkey and the Cyprus issue remain the foreign policy priorities of Greece, regardless of what government is in power. As for the partnership with AN.EL, this has been orchestrated and strategically conceived ever since SY.RIZ.A sensed that the previous government would not have enough votes to elect a new Greek President. Quickly forming a government served to quash any reports that Greece would be heading for a second snap election and has therefore protected Greece from speculation, at least temporarily.

Germany: Debt write-off is out of the question

Voters in Germany have no inclination to allow Germany's exposure to Greece's debt crisis to increase. The government has acted accordingly, arguing that up until now, the German tax payer has not lost a single Euro. This front would break if Greece negotiated a debt write off. Mass circulation daily Bild Zeitung has already published a list of all the 'goodies' that Tsipras has allegedly promised to the Greek population; 'goodies' that the German tax payer would have to finance.

Greek elections: Anger overcame Fear

The German Government has a more nuanced view and highlights that Greece has already achieved much thanks to its own efforts and Germany's solidarity. However, Finance Minister Wolfgang Schäuble insists that Greece's obligations are still valid, that it does not make any sense to discuss a debt write-off, and that the Greek Government is bound to fulfil its obligations agreed in the bailout programme. Also, the Government spokesperson Steffen Seibert, speaking on behalf of Chancellor Merkel, stressed that Greece needs to respect its obligations and continue with the necessary structural reforms. The Minister for the Economy and leader of the Social Democrats Sigmar Gabriel followed suit.

It is clear that the Germans are taking a cautious 'wait and see' approach in light of the Greek election result: all open provocations of the new partners in Athens were carefully avoided, and any tough talk on the Greek side is met with stonewalling. Experts and politicians alike need time to assess the real intentions of the newly elected Prime Minister and the people behind him. Behind the scenes Germany might be ready to show more flexibility than the official statements suggest, but anything resembling a second debt write-off seems out of the question. Domestically, Germany has to deal with its own populists that are bound to gain more support as a result of SY.RIZ.A's victory. Bernd Lucke, founder of the populist and Eurosceptic Alternative für Deutschland (AfD), said he agrees that there must be a debt write-off, but Greece would have to leave the Eurozone.

There is hope that Tsipras will abstain from his most radical demands. But even in a worst case scenario, Berlin will make sure to act in unison with its European partners: Greece certainly is not a show case for Germany to go the "Sonderweg" again.

UK: All in view of the UK General Election in May

Across the channel and ahead of the May 2015 General Election, UK policymakers are viewing events in Athens with different and often conflicting lenses. The leading coalition party - the Conservative party - is betting heavily on its economic record to remain in power, and will be anxious not to see too much Eurozone uncertainty jeopardise the impressive but still fragile UK recovery. Ironically, Eurozone uncertainty may also be one of the leading factors that pushes/retains the support of swing voters for the Conservative Party. David Cameron and George Osborne will be looking for the thin line of Eurozone uncertainty, but want to prevent catastrophe.

Similarly, most business executive, city bankers and indeed policymakers of all parties will be hoping that the EU will avoid yet another political crisis which could throw the UK's biggest trading partner back into economic turmoil. For self-interested political reasons, some in the Labour Party will be looking for Eurozone ammo with which to boost their economic credentials in the face of perceived Conservative competency.

Many across the EU will have noted Alexis Tsipras' recent efforts to temper SY.RIZ.A's radical promises with some relief. On January 26th, 15 Labour MPs called on their party to draw inspiration from the Greek far left and amend the party's current deficit reduction plans, return rail franchise to public ownership and return to collective bargaining and employment rights. The statement only drew more attention to Ed Miliband's cautious reaction to SY.RIZ.A's victory.

Some of the UK's 'challenger' parties - especially the Greens and UKIP - might be encouraged by the remarkable feat of SY.RIZ.A, which has gone from insurgency party to government in just under three years, despite the obvious differences of economic, political and social conditions in the UK and Greece. Similarly, Eurosceptics will hope that a Greek debt-negotiation-spurred EU political crisis will provide further ammunition for their election campaign. Some even wonder if a collapse of talks and a Grexit could create an institutional blueprint for a future Brexit. However, most policymakers and commentators expect a typical EU resolution to an all-to-common EU crisis; namely, a negotiated compromise.

France: Hollande the broker between Greece and Germany?

In France, reactions to the Greek election results have focused on SY.RIZ.A's historic victory and its potential implications. Namely, the commentators focused on the repercussions of the victory of an anti-austerity party in one of the EU's most troubled countries. Libération, a left-wing daily newspaper, ran a front page labelling Greece "the new face of Europe" and argued that the vote reminds us that economic crises in such countries cannot be purely put down to national dysfunctions, but that Europe must also assume its responsibilities. Meanwhile, centre-right newspaper Le Figaro concentrated on the man that led his party to victory, Alexis Tsipras, claiming he is schooled in communist ideology and has managed to effectively take advantage of Greece's burdening debt crisis. There has also been some scrutiny put on SY.RIZ.A's decision to form an unusual alliance with AN.EL, after falling two seats short of an absolute majority, with Les Echos suggesting this "sends a negative message".

The French president, Francois Hollande, has remained somewhat ambivalent to the results, expressing "solidarity" with Greece, but warning of the country's "responsibility" towards the rest of Europe. Having himself campaigned in 2012 against excessive European austerity, it is expected that Hollande will act as an important conciliator in the economic disputes between Greece and Germany. Indeed, on Monday the French president invited the new Greek prime minister to "quickly come to Paris", with some commentators suggesting that now is the moment for Hollande to lead Europe's disillusioned "south", against the uncompromising "north", represented by Germany. Nicolas Sarkozy, head of the centre-right UMP party, insisted on the need to "respect the vote" and engage in dialogue, but claimed that a 'Grexit' from the euro zone would be "a drama".

Trouble across the Aegean?

Across the Aegean in Turkey, SY.RIZ.A's victory caught the attention of many Turks against the backdrop of a political environment dominated by a single party for more than a decade. Yet from the standpoint of the bilateral relationship, the failure of SY.RIZ.A to win an outright majority is seen as a handicap. With the more nationalist AN.EL party as the junior partner of the new coalition, there are fears that the new Greek government may adopt a more hawkish behavior on the bilateral disputes including on the Cyprus issue.

A new government

The formulation of a new government and the distribution of ministries was the first test of how Alexis Tsipras would deal with the polyphony and diversity of the new government. Unsurprisingly, priority number one is the economy. The main objectives: a new aid program for the poor, an abolition of the property tax, exemption from income tax for the poor, restoring the minimum wage, and a new deal with Greece's lenders that have been forcing austerity. From the outset, Tsipras' choice of ministers to deal with economic issues shows that he does not want to adopt an all-out collision course approach with lenders. Both Yannis Varoufakis, the new finance minister and Giannis Dragasakis, the Deputy Prime Minister, should be considered as moderates on the SY.RIZ.A scale. Dragasakis, a former Deputy Finance Minister in the Greek government in 1989 will have oversight over all ministries and is expected to offer invaluable political experience and support to back Varoufakis' academic credentials. Besides the conference on European debt that Alexis Tsipras wants to promote alongside SY.RIZ.A's economic policy, Varoufakis has stated frequently that Greece needs to tackle the humanitarian side of the economic crisis and restore dignity to the Greek people; and that the benchmarks for repaying Greece's loans need to be linked to growth indicators and not just to servicing the loan.

Handing the finance ministry to the more moderate SY.RIZ.A members inevitably means that Tsipras had to allocate some ministries to more extreme members of his party. He cannot afford to give the impression that SY.RIZ.A are already bickering and fighting internally. He has to be careful about how he manages the political 'colours' of his party. In particular, the naming of, Panagiotis Lafazanis, as the new energy minister was a surprise to most Greek commentators. Lafazanis is known for his extreme positions on economic issues and is viewed by many as Tsipras' biggest political opponent within SY.RIZ.A. Lafazanis is relatively inexperienced on energy issues and dealing with major corporations, many of whom have invested heavily in Greece in the past years and subsequently increased Greece's geopolitical standing on the global energy map. It is strongly in the interests of any Greek government to continue supporting the promotion of Greece's role as the gateway for Azeri gas to Europe, as well as Greece's role as an important transit country and potential energy hub in the making. As the new government begins to find its feet, investors and other stakeholders will need to be calm and patient with the new government. It will take at least a 6 month period for them to get to grips with the realities and complexities of governing.

Is there hope for compromise?

Fostering common positions in the Greek Parliament is a prerequisite for any compromise solution to materialize between SY.RIZ.A and Greece's lenders. Within this new reality and unprecedented Greek political landscape, the country's political forces must finally learn to co-exist, break the vicious cycle of blame games and find compromise solutions together. The opposition in the Parliament must be ready to offer constructive criticism and counterbalance SY.RIZ.A if and when necessary. If anything, the election result has proven that Greek people have had enough of destructive tactics such as fear-mongering and negative rhetoric.

Both PA.SO.K and N.D need to take this opportunity to redefine themselves; contests for new leadership have already begun within PA.SO.K. Now more than ever, Greece's pro-European political leaders have to show a united front. In the absence of broad agreement in the Greek Parliament, it is less likely that Greece's lenders will consider turning over a new leaf and softening their stance vis-à-vis Greece.

Thus far, the EU has responded to SY.RIZ.A's call for new terms to the bailout agreement by saying that a debt reduction would be against Eurozone rules and would send the wrong message to other members of the single currency. Traditional European leaders, entrenched allies of PA.SO.K and N.D, fear the consequences and implications of a potential softening of the EU's stance towards Greece. Leftist movements across Europe would be buoyed by a Greek success story; in particular in Spain, where Podemos already lead the polls ahead of national elections in November. While the leaders of Europe's member states consider whether they can politically afford to accept compromising with Greece, there is a much larger issue at stake: the rise of the far-right. In Greece, neo-fascist Golden Dawn has become the third biggest political force in the country while in France, Marine Le Pen's influence continues to grow, and in Great Britain, UKIP are set to land seats in the House of Commons for the first time since their conception.

Surely, the dilemma for policy makers is not just a simple matter of choosing left over right. The question is what can policy makers do to create a better Europe for its citizens. Talk of a Grexit is unhelpful and unnecessary. Failing to find a sustainable solution to the Greece question will only serve to exacerbate disparities between the north and the south of Europe, and give further fuel to populist and far right movements. Greece's debt is unsustainable and SY.RIZ.A's economic policies, though 'alternative', may offer a hint of creativity that has been distinctly lacking in the EU.

Tsipras' first moves show fast action and display signs of political cunning. The reported choice of Dimitris Avramopoulos (Greece's current EU Commissioner and Vice President of N.D) as Greece's new Presidential nominee would provide another win-win for Tsipras. On the one hand, N.D will be unlikely to oppose his nomination thus removing the first obstacle to the smooth running of the new Parliament. On the other hand, Tsipras will also be able to freely choose a new Commissioner. The new Greek government, albeit inexperienced and prone to initial and temporary instability, can make up its handicap with creativity. Whether the EU has the patience and political will to consider the long term and look beyond 4-5 year political mandates, remains to be seen.

Contacts



Constantine Levoyannis
Senior Consultant

FTI Consulting
Avenue Marnix 23
1000 Brussels
+32 2 289 0494
Constantine.Levoyannis@fticonsulting.com



Alexander Holroyd
Director

FTI Consulting
200 Aldersgate
London, EC1A 4HD
+44 203 727 1688
alexander.holroyd@fticonsulting.com



Martin Kothé
Managing Director

FTI Consulting
Luisenstrasse 45
Berlin, 10117
+49 30 288744 220
Martin.Kothe@fticonsulting.com



Sinan Ülgen
Managing Partner

Istanbul Ekonomi
Hare Sokak K8 No : 16
Akatlar / İstanbul 34335
+90 212 351 5465
sulgen@istanbul-ekonomi.com



Lionel Benatia
Senior Director

FTI Consulting
5, Rue Scribe
Paris, 75009
+33 1 47 03 68 15
Lionel.Benatia@fticonsulting.com



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