Greece's new anti-austerity coalition

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The recent parliamentary election in Greece was a triumph for the radical left-wing Syriza party, which became the largest party and fell two seats short of an overall majority. It has formed a coalition administration with the small Independent Greeks party, with Syriza leader Alexis Tsipras as Prime Minister. The outgoing government had imposed strict austerity measures in return for bailout loans from the "troika" (European Union, International Monetary Fund and European Central Bank). Syriza, by contrast, is often portrayed as anti-austerity and anti-bailout. Some have speculated that the policies of the new Syriza-led administration might ultimately lead to a Greek exit from the Eurozone.

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1 Introduction

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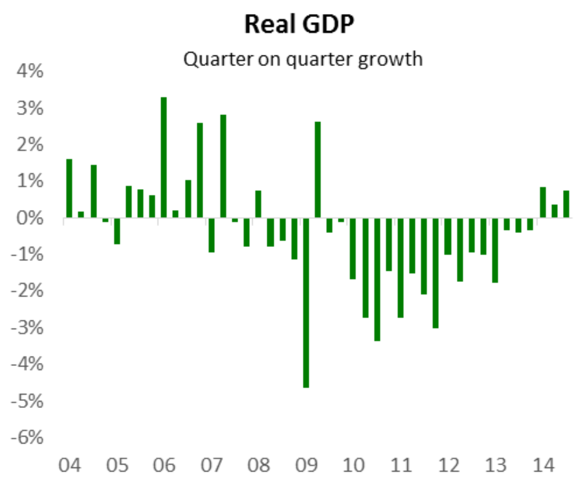
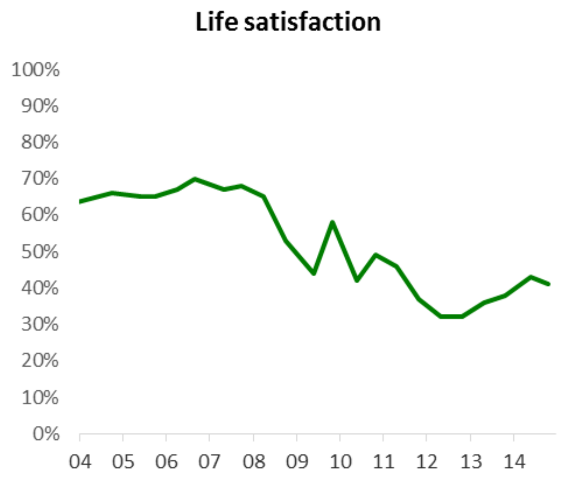
2 Historical context: bailout arrangements

The past few years have been hard for the Greek people. The economy is just three-quarters of the size it was at its 2007 peak, living standards have fallen and the country is currently suffering from deflation.[1] While 2014 has seen a return to growth and unemployment has fallen slightly from its peak, many people remain unhappy – three fifths of people say they are not satisfied with the life they lead and three quarters say that the financial situation of their household is bad.[2]





Greece's long-standing public debt problem became a crisis at the start of 2010. In the face of rising government borrowing costs, the country first requested international assistance in April 2010. The €110bn loans agreement it received from the IMF and from Eurozone countries came with strict conditions on economic policy and reform.[3] A worsening recession and rising public opposition to further austerity meant the Greek government struggled to meet the conditions of the agreement. Meanwhile, the prospects of it returning to borrow on the open market by 2012, as originally envisaged, became increasingly hopeless.[4]

[1] Hellenic Statistical Agency (Elstat)

[2] European Commission, *Eurobarometer 81*, carried out November 2014. Figures on satisfaction based on the question "On the whole are you very satisfied, fairly satisfied, not very satisfied or not at all satisfied with the life you lead?" – 41% of people in Greece were very satisfied or fairly satisfied, compared with 79% across the whole European Union. Figures on financial situation are based on the question "How would you judge the current situation in each of the following? The financial situation of your household" – 25% of people in Greece said it was good or very good, compared with 65% across the European Union.

[3] Part of the original €110bn was rolled over to the second bailout package.

[4] Library Standard Note SN/EP/6232: *The eurozone crisis – rescuing Greece* (25 May 2012) has information on the first package.

A second package of assistance for Greece was agreed in February/March 2012. This involved more loans from the IMF and the Eurozone countries – this time through the European Financial Stabilisation Facility (EFSF) – as well as Greece's private sector creditors taking losses on their holdings of Greek sovereign debt. The EFSF has so far provided €142 billion of financial assistance to Greece and the IMF have provided €12 billion.[5] Again assistance came with substantial conditions, for example in public sector administration, privatisations, pensions and health reforms, labour market policies and market liberalisation.[6]

3 Historical context: the changing face of Greek politics

3.1 2012: Collapse of two-party system

The recent election was Greece's first since 2012, when two were held. These two elections – held in May and June 2012 respectively – sent shockwaves through Europe and effectively marked the end of stable two-party politics in Greece.

Prior to the May election, a Government of national unity comprising the centre-left Panhellenic Socialist Movement (PASOK) and the centre-right New Democracy had been in office. PASOK had won an overall majority in a general election in 2009, but the PASOK Government – led by Prime Minister George Papandreou – had little alternative but to introduce unpopular austerity measures. A political crisis ensued, coming to a head in November 2011. Papandreou announced that there would be a referendum on his austerity measures (thus endangering their passage), before changing his mind and cancelling the referendum following international criticism. With his position looking increasingly untenable, Papandreou resigned to make way for a PASOK/New Democracy unity government (under the technocratic Prime Minister Lucas Papademos). Both PASOK and New Democracy supported (and continue to support) the austerity measures imposed by the EU/IMF/ECB troika in return for bailout loans.

The general election of May 2012 was notable chiefly for the near-collapse of PASOK. Having enjoyed an overall majority since the 2009 election, PASOK now found itself pushed into third place. New Democracy became the largest party with 108 seats, followed by Syriza with 52; PASOK won just 41 seats. Since no party had an overall majority, a coalition was needed – but the parties were unable to reach agreement and a new general election was called for June. In this election, New Democracy and Syriza made further gains, winning 129 and 71 seats respectively; whilst PASOK endured further losses, winning just 33 seats. Ultimately a pro-austerity coalition was formed comprising New Democracy and PASOK together with the small Democratic Left party which had won 17 seats. (Democratic Left was to leave the coalition during 2013.) Antonis Samaras, the New Democracy leader, became Prime Minister.[7]

3.2 2012-2015: the Samaras government in office

The Samaras administration was characterised by political turbulence. In September 2012, just three months after the election, unions called a 24-hour general strike to protest against austerity measures. In June 2013, further protests occurred following the Government's

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5 European Commission, *Financial assistance to Greece* [online, accessed 5 January 2015]

6 European Commission, *The Second Economic Adjustment Programme for Greece – Fourth Review* (April 2014, presentation)

7 IPU PARLINE database [accessed 31 December 2014]; Verney, Susannah . History (Greece), in Europa World online. London, Routledge. House of Commons. Retrieved 31 December 2014 from http://www.europaworld.com/entry/gr.hi

decision (nominally as a cost-cutting measure) to suspend the state broadcaster, ERT, with immediate effect. A new state broadcaster, EDT, was launched in August, but the suspension of ERT exposed rifts between the governing parties: Democratic Left quit the coalition, reducing the Government's majority to just three. In May 2014, the governing parties suffered a heavy defeat in the European Parliament election, with Syriza obtaining 26.6% of the vote and becoming the largest Greek party.[8]

The forthcoming election, scheduled for 25 January 2015, was called following the failure of the *Vouli* (Greece's unicameral Parliament) to elect a candidate for the largely ceremonial presidency. Under the Greek system, the Government nominates a candidate and seeks the *Vouli*'s approval for its choice.[9] The nominated candidate is required to secure the support of at least 200 MPs (out of a total of 300) – though if he/she does not secure the required level of support on the first vote, up to two further votes may be held, with the required threshold reduced to 180 MPs on the third vote. If – after the third vote – the nominated candidate still does not have the required level of support, a general election is called immediately.[10]

On 8 December 2014, Samaras announced that the Presidential vote would take place in Parliament two months earlier than constitutionally required. He nominated Stavros Dimas, a former EU Commissioner, for the post.[11] In the first vote, held on 17 December, Dimas gained the support of just 160 MPs – forty short of the 200 required. In both the second and third votes, held on 23 and 29 December respectively, Dimas gained the support of 168 MPs – still short of the required level.[12] As a consequence, the Government was left with no choice but to call a general election.

4 Election result

In the election on 25 January 2015, Syriza won 149 seats, falling just two seats short of an overall majority. New Democracy was pushed into a distant second place with 76 seats. The remaining 75 seats were shared between five other parties: Golden Dawn (17 seats), To Potami (17 seats), the Communist Party of Greece (15 seats), the Independent Greeks (13 seats) and PASOK (13 seats).

Following the election, it was announced that Syriza and the Independent Greeks would form a coalition administration. The parties have some significant differences: the Independent Greeks, for example, are socially conservative and hostile to immigration. However, the two parties share common ground on economic matters: both are firmly anti-austerity.[13]

5 Likely consequences

Under the current package of assistance, the release of each disbursement to Greece must be approved by both the Eurogroup (of Eurozone finance ministers) and the IMF's Executive Board. Prior to this decision, the European Commission, the European Central Bank (ECB)

8 "Greece profile", BBC website [accessed 31 December 2014]

9 Constitution and Government (Greece), in Europa World online. London, Routledge. House of Commons. Retrieved 31 December 2014 from http://www.europaworld.com/entry/gr.is.48

10 "Greece presidential election: four things you need to know", *Guardian*, 17 December 2014.

11 "Global stock markets tumble as Antonis Samaras calls snap election", *Guardian*, 9 December 2014.

12 "Greek MPs' second failure to elect head of state brings snap election closer", *Guardian*, 23 December 2014; "Greece plunged into crisis as failure to elect president sets up snap election", *Guardian*, 29 December 2014.

13 "Who are the Independent Greeks?", *Guardian*, 26 January 2015.

and the IMF staff conduct joint review missions to Greece in order to monitor compliance with the terms and conditions of the programme.[14] A review is currently underway.

The EFSF part of the assistance programme was originally due to end on 31 December 2014, but was extended in early December to 28 February 2015.[15] Whether or not the remaining €1.8 billion from the EFSF is provided to Greece will depend on the successful conclusion of the latest review.[16]

The extension of the current review potentially allows time for discussions with a new government after the elections. If the current review is concluded successfully with the new government, the bailout programme is likely to move into a new phase in which Greece would have finance available to it if it needed it, but on a precautionary basis only, acting as a backstop in case of future problems. The finance ministers of Eurozone countries have indicated that they would be favourably disposed to a Greek request for an Enhanced Conditions Credit Line (ECCL) – a precautionary credit line, under certain conditions – from the European Stability Mechanism (ESM), the successor to the temporary EFSF.[17] While the IMF part of the bailout programme is due to continue until 2016, this could also become purely precautionary after the current review. Conditions would also still be attached to the programme.[18]

If the current review if not concluded successfully, the situation becomes more uncertain. Presumably there would need to be discussions between the new government, the Commission, the IMF and the ECB, who together hold most of Greece's sovereign debt. If such discussions are unsuccessful and other arrangements are not made, possible eventual outcomes include Greece's exit from the Eurozone,[19] although many question this as an option, given that the EU Treaties do not provide for a Eurozone exit and the move to join the euro is "irrevocable" under Article 140 of the *Treaty on the Functioning of the European Union* (TFEU).[20]

Some commentators have argued that Syriza's policies are irresponsible and run the risk of provoking a Greek exit from the Eurozone. Writing for the Financial Times, George Magnus has argued that:

> If Greece pushed its demands too far, approval could be withdrawn, triggering a new banking and economic crisis. The ECB could hardly approve loans, where the Greek government guarantor was attempting to dilute or cancel conditions. This could bring the Greek government down, lead to the imposition of capital controls, and in extremis provoke a political row that ended up finally in most people's nightmare of Greece questioning continued eurozone membership.[21]

[14] European Commission, *Financial assistance to Greece* [online, accessed 5 January 2015]

[15] EFSF bonds will also continue to be available until the end of February to the Hellenic Financial Stability Fund which can use them to recapitalise and resolve banks. Greece has no urgent financing needs.

[16] EFSF, *Extension of the EFSF programme and EFSF bonds for Greece* (19 December 2014)

[17] EFSF, *Extension of the EFSF programme and EFSF bonds for Greece* (19 December 2014)

[18] IMF, Transcript of a Press Briefing by William Murray, Deputy Spokesman, Communications Department, International Monetary Fund (11 December 2014)

[19] See the Economist, *Greece's snap elections* (30 December 2014)

[20] Can Greece legally withdraw from the Euro?, Commons Library Standard Note SN06342, amended 29 May 2012

[21] "Who will blink now Syriza has won?", *Financial Times*, 26 January 2014

Yet others have argued that – now he is in office as Prime Minister – Syriza leader Alexis Tsipras might follow a more pragmatic path. Tony Barber, also for the Financial Times, writes:

> In seeking to renegotiate Greece's €245bn EU-IMF bailout, and win debt relief by hook or by crook, Mr Tsipras resembles [previous Greek Prime Minister and PASOK leader] Papandreou, who threatened to withdraw from Nato and the then European Economic Community, which Greece had joined at the start of 1981.
>
> In the end, Papandreou took neither step. His political tactics were confrontational, and his rhetoric glowed with fire, but in the essentials of his foreign policy he was pragmatic. Generous European agricultural subsidies, and in later years regional aid funds, tempered Pasok's radicalism.[22]

6 International reaction

International reaction to the result has been mixed. In the UK, the Chancellor of the Exchequer warned that Syriza's policies would be "very difficult to deliver, and incompatible with what the eurozone currently demands."[23] Labour leader Ed Miliband took a different line:

> Just like our elections are a matter for the people of this country, so who the Greek people elect is a decision for them.
>
> It is the responsibility of the British government to work with the elected government of Greece for the good of Britain and Europe and not to play politics.
>
> And it is up to each country to choose its own path on how to deal with the economic and social challenges they face.[24]

In Germany Jens Weidmann, the President of the central bank (*Bundesbank*) warned that Syriza must not "make promises it cannot keep and the country cannot afford". But in Spain the far-left Podemos party welcomed the result, stating on its Twitter account that: "Greeks finally have a government, not a Merkel envoy."[25] Support for Podemos is widely expected to increase in the light of Syriza's victory.

22 "Will Syriza's Tsipras turn out to be a Lula or a Chávez?", *Financial Times*, 25 January 2014
23 "Greece election: Syriza leader Tsipras vows to end austerity 'pain'", *BBC News website*, 26 January 2015
24 "David Cameron: Greek election result highlights danger of re-electing Labour", *Guardian*, 26 January 2015
25 "How Europe reacted to Syriza's win", *Telegraph*, 26 January 2015