ECO

Focus

Credit Agricole Group economic and sector analysis

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Greece: political uncertainties and public debt renegotiation ahead

- **Legislative elections to be held on January 25th after current coalition parties failed to secure enough votes to elect a new President in December.**
- **Opinion polls point to a Syriza led-coalition though the elections outcome remains uncertain given the country complex and fluid political landscape.**
- **Financial and political willingness of Syriza and EMU partners for Greece to stay in the Euro Zone.**
- **Expected confrontational negotiations on public debt in the aftermath of elections, with most likely scenario of longer maturities.**

	New Democracy	SYRIZA	PASOK
Date of creation and Political orientation	Founded in 1974, centre-right	Alliance of left wing and radical left parties since 2004, Party since 2012 Elections	Founded in 1974, Socialist Party, centre-left
Current Party Leader	Samaras Antonios	Tsipras Alexis	Venizelos Evangelos
October 2009 National Elections (13th Parliamentary Term:Oct.2009-Apr.2012)	33.5%/91 seats	4.6%/13 seats	43.9%/160 seats
17 June 2012 National elections (15th Parliamentary Term)	29.7%/129 seats	26.9%/71 seats	12.3%/33 seats
25 May 2014 European Elections	22.7%	26.6%	8%

Source: Hellenic Parliament

Greece elections outcome is highly uncertain given both a complex electoral process and fluid political landscape. If elections are to mirror public opinion polls released for the past 6 months, then Greece far-left opposition party, Syriza, will be ahead of current coalition parties (center-right New Democracy and the socialists, PASOK).

Latest surveys give Syriza 33 to 35% of votes versus 29 to 31% for its main rival ND. Such results are still short of an absolute majority needed to govern (40.4% of the total vote or 151 seats over 300) even with the 50 seats bonus[1]; meaning Syriza would have to form a coalition (potentially with some members of PASOK or with members of the newest pro-European, centrist party To Potami/The River).

Syriza willingness to renegotiate a large part of public debt

In September 2014, its political leader Alexis Tsipras introduced the party economic program: stay in the Euro Zone but renegotiate a significant part of public debt (Tsipras mentioned a one-third public debt write-off), with the rest of the payments indexed to the country GDP growth rates. Indeed, Greece's public debt burden remains very high, reaching 175% of GDP in 2013, with interest charges representing 4% of GDP (see charts below for comparisons with other EMU countries).

Besides, Syriza would call into question several austerity measures, increasing the statutory minimum wage (to 751€ per month from 684€, for employees without any work experience), as well as the tax-free threshold on income (back to 12,000€ after being reduced to 5,000€ in 2012) along with a gradual improvement of public sector salaries and pensions.

[1] Legislative elections in Greece are based on a reinforced proportional system: 250 seats are allocated proportionally (with a 3% minimum threshold) and there is a 50 seats bonus given to the first winning party.

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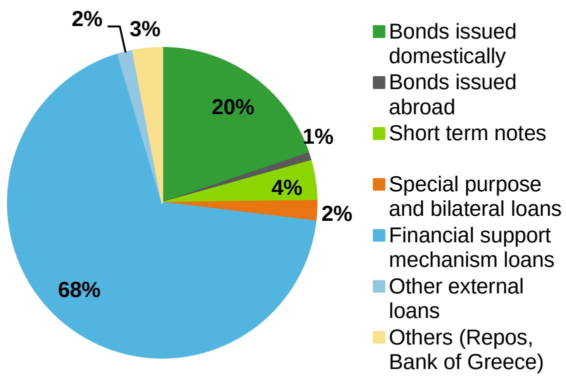
These policy changes would not be consistent with the reforms already agreed with the TROIKA and conditional on the country bailout program.

Scope for negotiations

Both the country and its major creditors, EMU countries along with the ECB and the IMF, have political and financial interests in finding an agreement. Greece depends on the financial support of the EU/IMF to meet its financing needs estimated at about 20bn€ in 2015 of which 8.6bn€ are due to the IMF (and plus 14.8 bn€ of T-Bills to be refinanced). Syriza will therefore likely tone down on its demands and Tsipras did refute publicly any unilateral move.

Public debt by Instrument as of 30/09/2014 (total 321,7bn €)

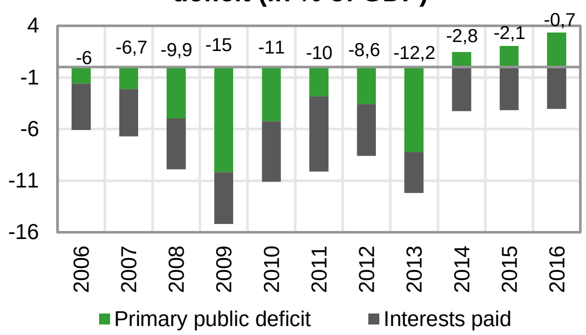


Source: Hellenic Republic Public Debt Bulletin

On the other side, Euro Area Member States own a large share of the country's public debt as they financed its Economic Adjustment Program through both the Greek Loan Facility (52.9bn€ disbursed) and then through the EFSF (133.6bn€).

Besides, all amounts disbursed through the EFSF are guaranteed by EMU countries with the following guarantee commitment per country: Germany 29.1%, France 21.8%, Italy 19.2%, and Spain 12.8%. EMU countries also bear in mind the *preferred creditor status* of the IMF and the ECB.

Greece: breakdown of the public deficit (in % of GDP)

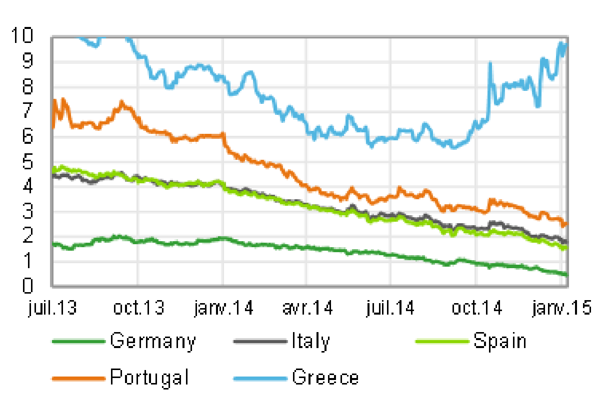


Source : AMECO, CASA forecasts for 2014-2016 as of December 2014
* 2013 primary deficit includes large one-off spendings (mainly due to bank recapitalisation)

The ECB holds, in fact, 27bn€ of Greek bonds in its Securities Market Program portfolio meanwhile the IMF disbursed a total of 28.4bn€ (20.1bn€ disbursed within the first program and 8.3bn€ within the second one).

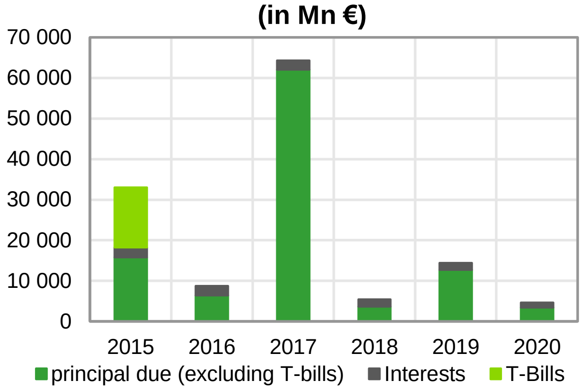
All in all, both parties have interests in reaching a compromise. The most likely scenario is a **lengthening of the maturities and some moderation on austerity.**

10 Year Government Bond rates



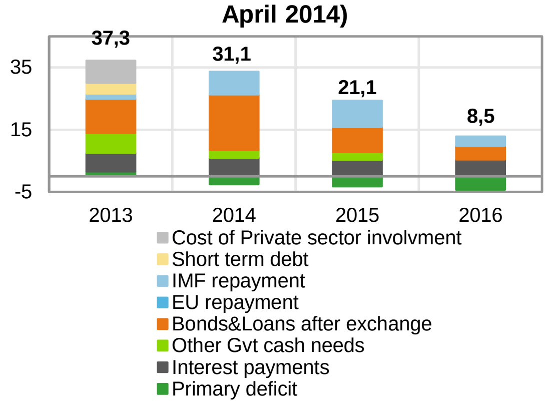
Source : Bloomberg, Crédit Agricole S.A.

Public debt redemption profile (in Mn €)



Source: Bloomberg, Ministry of Finance, Public debt Bulletin

Financing needs in bn euros (as of April 2014)



Source: Second Adjustment Programme, 4th Review, EC,

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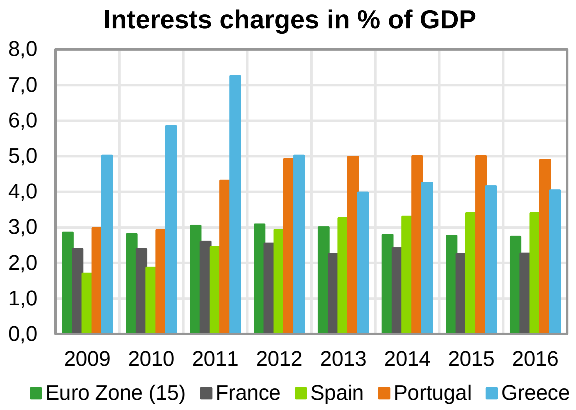
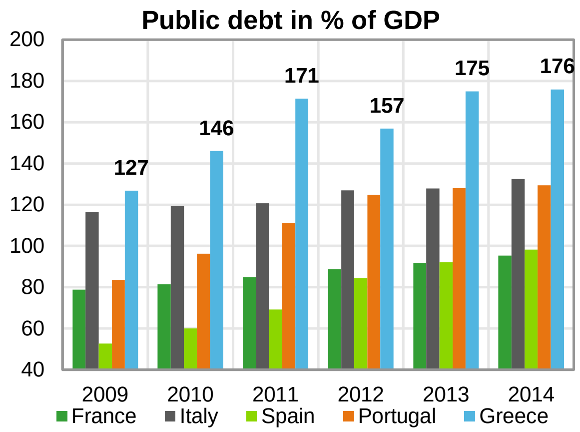


Source: AMECO, CASA, CASA forecasts for 2014-2016 as of December 2014



Source : AMECO, Crédit Agricole S.A,

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