

June 25, 2015

Greek saga: Season III Episode X

The outburst of optimism from the last Eurogroup and Heads of State meetings on Greece faded away very quickly. The IMF did not join the press conference and this should have been a warning. In very broad terms, the current situation is the following: IMF wants structural reforms, spending cuts and debt relief (except for its share of course), Germany wants the IMF on board and no debt relief and Greece is pretty much ready to accept any tax, stupid or not, but no pension cut (they have blinked on pretty much anything else). Our base case scenario is still that a deal will be reached and approved by the Greek parliament, maybe not as soon as June 30th because an IMF default is not a real deadline with hard consequences [\[1\]](#), but in the summer.

This being said, we also think it is important to examine in detail other possibilities, including the potential political ramifications in Greece if a “Deal Bill” is eventually presented to Parliament. We have asked *Peter Lazos*, a columnist for [Capital.gr](#), the leading news website on economic matters in Greece, and a recognized expert on the Greek crisis, to guide us through this complex subject. We believe some particularities of the Greek constitution have not been properly described in the press and his conclusions, both interesting and thought provoking, are worthwhile sharing. They might surprise you.

[\[1\]](#) The EFSF / ESM are unlikely to trigger a cross default, rating agencies have said this would not lead to a downgrade and the ECB remains able to offer ELA if talks continue.

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Developments of the Greek (never ending) crisis, were drastically accelerated in the extraordinary Eurozone Summit, last Monday night. If winds blow favorably – that is if the IMF agrees to it, which apparently not that close – we will have a deal by Thursday night.

Obviously, if no deal is reached by then, a doomsday scenario has to be envisaged (default, Grexit, etc.) and situation could get really complicated and messy. But for now, let us stick to the variants forming after (if) a deal is struck in Brussels and look at the Greek side of things, clearly the trickiest one in the days to come. The main obstacle is that Tsipras’ government has to get the deal approved by the Greek Parliament where he will be facing controversies from both within his party (SY.RIZ.A. hardliners) and outside (ND, PASOK, etc.)

There are three possible scenarios: the deal is approved by the current coalition, the deal is approved but only with support of opposition MPs or the deal is rejected. In this note we forget the bullish scenario and focus on the other two.



First it should be stressed that the third scenario is quite unlikely: many opposition parties (ND, PASOK and Potami) will be extremely reluctant to appear as the ones who “allowed the country to leave the Euro” and it is also quite unlikely that Mr. Tsipras would actually go through a vote knowing that it would fail. This being said the consequences of a failure to pass the deal would be roughly the same as under the second scenario, except that M. Tsipras’ resignation would be more straightforward. Let us now focus on the second scenario and on important technicalities of Greek politics and legislation that we believed have been overlooked in many analyses.

The Greek Constitution is a (quite) complicated piece of legislation that leads to two possible outcomes if the Greek ruling majority does not manage to gather all their representatives to vote in favor of the deal:

1. There could be snap elections or
2. There could be a new Government formed by various possible combinations. This Government would be called a “national salvation”, an “ecumenical” or a “Unity” government but, in all cases, it would have to be consisted by the pro Euro, current Government MPs and some (or all) pro Euro opposition parties. This would all depend on the exact situation at the time, on additional votes needed due to SY.RIZ.A. defections, etc.

Roots of the complexity start on the fact that the present parliamentary plenary session has stemmed from a disbanded one and not a normally expired one – simply put, the government was elected following snap elections. In such cases, articles 37 & 41 of the Constitution dictate that, if the standing Government loses Parliamentary confidence, the Prime Minister must resign. But within a year from the previous snap elections, the Body cannot be disbanded right away, for another round of snap elections, as it would normally.

Still, it must be noted that, although there is no such precedent following snap election, the Prime Minister holds the right to call for “a State’s emergency on a very important national issue” and ask the President for Parliament’s disbanding. The State’s Head has no choice. He must order the disbanding and snap election will take place within the next thirty days.

If Mr. Tsipras doesn’t aim for that option, he has to resign. He is then required to return his mandate to the President of the Republic. The President is then obliged to give probing mandates to second and third parties, according to last election results. Some experts say the President must start the process with a new mandate to the resigned Prime Minister, but this is quite doubtful, debatable and totally up to the President to decide (who himself used to be a prominent Constitutional Law expert and thus he will know best and do what he believes is legal). If all probing mandates fail to fruit a stable Government, the President is required to call a political leaders’ roundtable in his Mansion, in order to pressure and persuade leaders to form a coalition Government. If this last Presidential effort proves to be unfruitful, the President must order Parliamentary dispersal and call for snap elections.

But why the Prime Minister should have to resign? The answer to this question lies on Government’s composition and in Greek legislation and customs. The two ruling parties belong to the extreme opposite ends of the political spectrum. The ruling majority consists of 149 Members from SY.RIZ.A. and 13 from ANEL, totaling in 162 Members of Parliament within a 300 House.



The minor partners in the Government are Independent Greeks (ANEL). A populist far right (not fascist, but not very far away from it either) party with nationalistic tendencies. Their Parliamentary Group belongs to the populist Right mentality and ideology. They could accept a deal without too many concessions. Even a deal that imposes hard austerity but leaves some specific categories of their voters, untouched. As all indications point though, a VAT hike on Aegean islands looks quite probable. As many as four of their representatives in the House will have serious issues with this. Even their leader Panos Kammenos will.

SY.RIZ.A. is far radical Left party that has been rocketed to power by managing to (temporarily) unify a mix of revolutionary radicals Leftists, Europhile communists, ex PASOK (center-left) disappointed members and their followers, largely public servants who have been hit hard by Troika measures and want their benefits back. But at the same time they do not wish for Grexit as they fear what would happen to them.

For all of the above reasons (and others) the ruling majority looks more like a randomly and loosely assembled mosaic than a solid and robust board that would support decisions with a firm vote.

The biggest problems are found in the radical Leftist “department” of SY.RIZ.A. They call it the Left Current. It is estimated that 40-50 Members belong to it. Their ideology (in various patterns, shapes and tendencies) is extreme enough to guide each and every one of them towards choosing a full rapture with Europe course. No matter the consequences, no matter the price that would have to be paid. These people are very likely to protest and deny a hard austerity imposing agreement, at all costs.

We need to emphasize this once more: if that happens, i.e. if the MPs of the coalition do not vote for the bill and even if the bill is passed, it would mean that the Government loses confidence in the Parliament. Which, by custom requires that the Prime Minister resigns. Again, this is regardless of the Bill introducing the deal being accepted by the Body (which is the most probable final voting outcome, as there are 3 opposition parties supporting a deal at any cost, controlling a total of 106 votes) or not. Obviously the situation that Greece is facing is quite extraordinary and past “customs” might be discarded, but the risk is very high.

In this case Mr. Alexis Tsipras would have to resign and “initiate” the aforementioned procedures which the President of the Republic must follow.

Scenarios of what could happen either just before, during or after the Bill is voted, are completely under the Prime Minister’s control. He will face hard choices. He will have to decide what he really wants. To stay truthful to his ideology, reject the deal and lead the land to a (catastrophic at this point in time due to the dire fiscal and general economic conditions in the country) another election round, which he would probably lose (as he’ll have to run under the “rapture and Grexit” flag that 60-80% of Greek voters do not even want to hear about according to polls)? Or make a “sweet n’ bitter” center-left political turn, be a part of an unified Government (with a very powerful majority of circa 200 MPs) that would lead the tortured country’s boat to more tranquil waters, until next elections? And, by doing this, secure his position in central political scenery for the decades to come? Both choices are possible. But he’s a confirmed ideologist. Also, as a “professional” politician, he is a pragmatist. So he could make the first choice as much as he could make the second. Odds are very close to call.



It is also worth noting that there is a political trick, the Prime Minister could employ at this point. More specifically, he could reach an agreement with the opposition parties, call for a Cabinet reshuffle and change the whole Government in a sweeping move. He could abolish all the rebels that oppose the agreement, form a Government with members from all pro Euro parties and, even, remain Prime Minister. If such a government was to be achieved, it would have the backing from all pro Europe Members of Parliament; a very strong majority. To strengthen the possibility of this trick to happen, it must be emphasised that Nea Dimokratia's Chief Mr. Samaras has often outspoken about the need for "national unity", "national cohesion" etc. But it, also, must be stretched that the personal relationship of Mr. Tsipras with Mr Samaras is not even close to good. There is quite some personal dislike between them. So this is a possibility but we must keep in mind "oil and water, don't mix".

All in all, in that very uncertain situation, we believe the most likely scenario is that if (and that's a rather big if) an agreement with lenders is reached, it will get the necessary votes in Parliament. Either in the first attempt or after one or two more. Who is going to implement it and in what way remains to be seen. We will have to wait and see how many more episodes are left in Season 3 of the Greek Saga. That's how things go in all popular series after all, don't they?

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