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GREECE: A SOLID BASIS FOR A WIN-WIN DEAL

Berenberg Macro Flash

The centre-right opposition has won the Greek elections. With 158 out of 300 seats in parliament, the New Democracy party will not need a coalition partner. Under the new pro-reform government, Greece could finally start to rebound more strongly from its deep crisis.

For three reasons, the election result bodes well for Greece.

1. In a remarkable display of **political maturity**, Greek voters have rejected populist and other radical recipes. Some four years after putting a coalition of left- and right-wingers into power in January 2015, Greeks overwhelmingly backed pro-European mainstream parties, the centre-right New Democracy (39.9%) the chastened and de-radicalised Syriza of outgoing Prime Minister Alexis Tsipras (31.5%) and the centre-left Movement for Change (8.1%). The two major hard-left parties scored less than 9% between them, with the radical outfit of ex-finance minister Yanis Varoufakis at 3.4% trailing behind the old-style Communists. Ultra-right Golden Dawn even failed to clear the 3% hurdle needed to make it into parliament, partly because it lost votes to a new pro-Russian right-wing group (3.7%). New Democracy owes its clear majority of seats to the 50-seat premium which Greek rules award to the top party.
2. The new prime minister **Kyriakos Mitsotakis** is a determined moderniser who has proven his mettle as minister for administrative reform in the previous conservative-led government of Antonis Samaras in 2013 and 2014. We expect him to deliver the reforms Greece needs most, namely a cut in taxes for businesses and households as well as a more forceful implementation of pro-growth structural reforms - see also Greece: life after populism.
3. The election result should allow Mitsotakis to **clear a key hurdle** early next year. In February 2020, he will need 180 votes in parliament (60% majority) to confirm Greece's figurehead president for a second five-year term or elect a successor. Failing to do so would trigger new elections. This had brought down Samaras in late 2014, paving the way for Syriza to rise to power in January 2015, followed by the disastrous Tsipras/Varoufakis confrontation with creditors in 1H 2015. Together with the 22 seats for the centre-left, Mitsotakis now looks likely to muster the required 180 seats in the third round of voting for the president to avoid repeat elections in early 2020.

A CHALLENGE FOR CREDITORS

The Mitsotakis reform programme makes sense. However, it presents a challenge for Greece's official creditors. After the pre-election giveaways of the Tsipras government, Greece would struggle anyway to reach the 3.5% primary fiscal surplus (excluding interest expenses) as required by its creditors. The tax cuts envisaged by Mitsotakis for January 2020 will initially reduce the primary surplus before stronger investment and employment growth and a gradual overhaul of the public sector can show up in stronger revenue growth and lower welfare expenses later on.

Markets are likely to respond positively to Mitsotakis. Opinion polls projecting that he would win have already underpinned a significant rally in Greek bonds and equities so far this year. The European Commission and Eurozone finance ministers should follow suit, granting Greece short-term fiscal leeway under the condition that Mitsotakis indeed delivers the promised reforms to strengthen the country's supply potential. For Greece and the Eurozone as a whole, this would be a win-win deal.

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