Greece heading into renewed political turmoil

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Just as Greece looked set to be one of the strongest economic growers in Europe in the next two years, with just over 3% growth a year (admittedly from a very low base), political turmoil has made a spectacular comeback. This week the government called for an early vote on the next President. This set off the sharpest one-day correction of the Athens Stock Exchange of the last 25 years with the market falling about 13%. As such the vote in Parliament on the next Greek President, a largely ceremonial function, should not really be a big deal. However, if the government fails to secure enough votes, Parliament would be dissolved and new general elections would be called. On current polls these would be won by Syriza. At the very least this would lead to new difficult negotiations with the Troika, at worst this puts the idea of Grexit back on the agenda. The crucial parliamentary vote on the President is scheduled for December 29th. If this vote fails, general elections would have to be organised by early February. For now it is a very close call whether or not the vote on the President will pass. However, even if things go wrong for the current government, this does not imply a straight line to Grexit. Even a Syriza-led government would try to avoid such a scenario. At current government debt levels (175% of GDP) Greece is still far from capable of standing on its own. That said, the country is clearly looking at a period of increased political risk.

Obviously, increased political uncertainty does not help the fragile economic situation in the Eurozone. However, there is no need for exaggeration. Even if Greece is in for a tense ride, the impact on the rest of Europe should be limited. In the past few years, Greece has become an isolated case and most links in financial markets to the country have been significantly reduced. Moreover, the ECB is there to limit contagion to the rest of the periphery. In previous eurocrisis-spikes the reluctant/slow/insufficiant reactions of the ECB were an essential part of the problem. With its actions and statements since mid-2012, the ECB has proven that it is willing to be more active if necessary. As such, turmoil in Greece is likely to add to the probability of the ECB going for further monetary stimulus (including outright quantitative easing) early next year. Clearly, the impact of political turmoil on Greece itself could be quite damaging. However, for the rest of the Eurozone the improving economic outlook thanks to a weaker euro, lower oil prices and additional monetary stimulus should be more important than Greek politics.

Even if the impact of renewed Greek turmoil should not be exaggerated, this could be an early taste of the next phase of the eurocrisis, where national politics take center stage once again. Economic weakness and unsustainable unemployment levels will impact political dynamics. Parties at the extremes of the political spectrum are likely to benefit, and this could have dire consequences for relations between the euro-core and the periphery and hence, for the entire euro-project. That said, the key issues in this respect lie in Spain (Podemos) and France (Front National), not really in Greece.