

## Greeks head to the polls on Sunday, but another election could quickly follow

An indecisive outcome in the polls under the current proportional rule might bring about another election in July, which would be held under a system which resuscitates a majority premium. This would be more likely if New Democracy, the party leading in the opinion polls, performs well in Sunday's vote



Opinion polls suggest neither Mitsotakis' New Democracy party nor the opposing Syriza party are likely to secure the votes needed for an absolute parliamentary majority

### A proportional system is being temporarily used on May 21

On 21 May, nine million Greek citizens will be called to vote in a snap election, renewing the 300-seat Greek Parliament for a four-year term.

Elections will be held under a proportional system with a 3% entry barrier, which was introduced by the Syriza government when in office in 2016 (to replace the previous system which had a majority bonus) but was not used in 2019 due to a lack of the needed super-majority when approved by the parliament. The parties' votes that fail to reach the 3% barrier are divided on a proportional basis among those that manage to achieve it.

## The new proportional system is unlikely to yield a clear result

Under the new system, it is estimated that 45% of votes are needed for a party or a coalition of parties to have an outright majority. In the polls published over the last week, the incumbent centre-right New Democracy (ND) party is leading with some 36% of votes, followed by the left Syriza with 29% and, at a distance, the centrist PASOK with 10%. The communist party (KKE), the nationalist Greek Solution (EL) and the left-wing Mera25 are all expected to obtain parliamentary representation.

Even accommodating for some surprises, mainly related to a possible under-representation in opinion polls of young first-time voters (typically leaning towards Syriza), ND seems to have a very good chance of placing first in the polls, while remaining distant from the parliamentary majority threshold. In order to reach the 151-seat majority threshold, some form of coalition will inevitably be needed.

## Incentives to form a coalition will depend on the poll results

Based on opinion polls, only an ND-PASOK ticket could come close to reaching the threshold, while a Syriza-PASOK-Mera32 ticket (politically more difficult to set up) would miss it. How hard ND would push for an agreement will depend on the election result. The stronger ND comes out in the polls, the lower the incentive to rush for a quick deal.

Why so? Because in case of a deadlock, a new election would follow suit, this time under a system which combines a proportional part with a resuscitated majority premium (worth up to 50 seats), as introduced by a reform of the electoral system approved by the Mitsotakis government.

Knowing he needs to be in a strong position to benefit from the majority premium, Prime Minister Kyriakos Mitsotakis might decide to aim for a second election round, which would likely be held in early July. How risky would this bet be for Mitsotakis? Not very, in our view. The Greek economy is faring well, with the re-opening effect still very much in place and employment in tourism helped by the approaching summer season, and headline inflation (not core) continues to decelerate. ND might leverage all this in a hypothetical short June campaign, juxtaposing stability with the likely calls for a change coming from Syriza.

## A second election in July seems likely, if opinion polls prove right

All in all, if current opinion polls are accurate, we suspect that a second vote in July could well follow suit. Markets do not seem to be concerned by the risk of an indecisive outcome in the polls. Backed by a good economic environment and improvements on the public finance front (Greece is already posting primary surpluses) the 10y GGB-Bund spread has shrunk to the 160 basis points area for the first time since January 2022.

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