Election result increases likelihood of ‘Grexit’

Did you expect a Syriza win?
It’s a stronger result for Syriza than we were expecting, but we anticipated that a Syriza-led government would emerge from these elections.

What are the implications of the election for the eurozone? Are you expecting a Greek exit from the eurozone – if so, over what time period?
The Syriza-led Greek government and the Troika (the EC, ECB and IMF) go into negotiations somewhat boxed-in by their previous declarations. Syriza are committed to anti-austerity, and the Troika cannot be seen as offering a weaker hand to parties less favourable to their approach (since this increases the likelihood of other electorates voting against the ‘medicine’). Neither party to the negotiation wants Greece’s exit from the eurozone but these negotiating constraints increase the probability that this occurs by accident over the next couple of years. In addition, following the lack of eurozone contagion associated with the imposition of capital controls in Cyprus, the cost of having a member dis-integrated from the eurozone (at least temporarily) will appear lower. And because of this the likelihood of a ‘Grexit’ is now higher.

What policy changes do you expect from a Syriza-led government?
The bargaining style of Syriza is likely to be very different to that pursued by the New Democracy Party. But it is too early to outline specific policy changes that would have ramifications for Europe as a whole.

Have you changed your positioning since the result? Are you looking to change your allocation due to the above implications?
No.

Is it fair to regard the past two-and-a-half years as lost?
Over the past couple of years, the direct financial impact that a Greek exit would have on the financial ‘plumbing’ of the eurozone has diminished: Greek debt has been restructured and is now universally seen as a risky investment rather than a legacy safe-asset; and dealings with Greek banks on the part of other European financials are meaningfully diminished.

On the economic side, Greece is today running a primary surplus, unemployment has begun to fall, and economic growth has reappeared. That said, the economy is growing from a much-reduced base, and the recession has taken its toll on the population and the politics of the country. Thus, the question of whether the past few years can be seen as lost or not will depend upon your view as to the necessity of the Troika-led austerity.
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