

### Greek Politics Q&A

Mar 7

With this note we provide an awkward update on the political situation in Greece, considering the deadly train crash that took place in Central Greece (Tempe) on Feb 28, killing 57 people on board.

Much like the deadly fires in Attica back in 2018 weighed on 2019 elections, contributing to the overthrowing of Syriza (Tsipras), and bringing New Democracy (Mitsotakis) to power, we believe the forthcoming elections will also be defined by this tragedy.

**Conclusion:** a) the political risk has heightened significantly; b) the Mitsotakis administration has lost face; c) the coalition scenario has gained ground.

**Before the train crash tragedy** our base case scenario was that elections would take place in April (with the second round in May), with the Mitsotakis administration eventually renewing its mandate for another 4 years (most likely) with a one-party government (no coalition).

**After the train crash tragedy** chances are Mitsotakis will push the election date forward. Why? His administration lost face because of the crash. Which can only be (partially) saved if the aftermath of the crash is dealt with swiftly and efficiently. Either way, the govt needs more time.

**What does the aftermath of the crash involve?** a) the rail collision is being investigated by the Supreme Court and b) the government has appointed an independent experts' committee to conduct a separate investigation. Greek people need to hear the outcomes of these investigations soon enough with the government making sure Greece's infrastructure will prevent such a tragedy from happening again.

**Election date?** Most likely in May, with the second round in June. This is also becoming consensus view (in Greece) based on political sources cited by the local press. We have already explained why a second round will be necessary in our previous assessment (attached).

**When will we know if April is a no go?** Given that it takes 30 days from closing the parliament to hold the elections, the government has a few days left to go with April elections. Therefore, we should know by next week at the latest.

**What is history telling us?** That tragedies do matter. People affected by the deadly floods and fires in 2017-2018 voted very differently in 2019 compared to 2015. In all these areas New Democracy increased its percentage votes by 14-16ppt while Syriza saw its % going down by 5-8ppt.

**What were polls saying prior to the crash?** Up until the train crash on Feb 28, New Democracy enjoyed a 6.5ppt lead against Syriza as per YTD polls, down by 3ppt compared to the peak in February 2022. Grossing up non-allocated poll votes gave New Democracy 37%-38%, down from 39.9% won in the 2019 elections. Down, but remarkably high for a ruling party at the end of its 4-year tenure. And high enough to form a one-party (margin) majority government.

**What are the polls saying after the crash?** No polls have been conducted (publicly) since the crash. But the widespread view is that the administration has lost face and votes, not so to Syriza (Tsipras), but mainly to smaller (non-systemic) parties. If true, the chances of a one-party government formation weaken substantially. A coalition government would be the only way.

**The strategy of Mitsotakis.** Push the elections forward and use the time to prove his administration is different. How? By getting to the bottom of what caused the deadly crash, holding accountable those responsible and making sure it will not happen again.

**The strategy of the opposition.** To keep the recent tragedy high in the daily agenda all the way to elections; and leverage on the crisis to win votes over from New Democracy. Shifting public's attention to weaknesses and inefficiencies of Greece's infrastructure under Mitsotakis administration. And that it is not only the stationmaster to blame.

**What is the most likely scenario?** As things stand, the chances of Mitsotakis forming a one-party government have been weakened. The coalition scenario (with third ranking party, the socialists, KINAL) has gained ground. We still expect Greece will have a government after the second round, with Mitsotakis as the Prime Minister. Which is also what the market wants, in our view.

**Is investment grade at risk?** Not really. We believe Greece enjoys the same chances of earning back investment grade rating as before the crash, subject to the current administration renewing its mandate. According to the FT, the central bank governor, Mr Stournaras, just said 2023 is the year Greece will get the investment grade.

**What should investors do?** Buy on weakness. We are re-attaching our latest Greek equities update and universe spreadsheet (updated) which includes our OWN IT rated

stocks. We will be keeping track of local politics and update readers accordingly on any structural changes in polls to be conducted following the deadly train crash.

**Best regards,**

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