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## Can We Cease Fearing a Grexit?

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*The political forces in Greece that have committed to fulfill the terms of the bailout are likely to form a stable government, securing a safe parliamentary majority. This indicates that the risk of a Greek eurozone exit (a "Grexit"), threatening serious economic consequences for world economies, has at least for the time being been avoided. However, the constant pressure from financial markets shows the urgent need to accelerate work on a comprehensive plan for deeper integration, in particular in the euro area, in order to stop a further escalation of the crisis.*

**Internal Context in Greece**. The distribution of votes in the 17 June elections greatly minimised the risk of the political stalemate that occurred after the previous election of 6 May. The resulting coalition of centre-right New Democracy with leftist PASOK and the Democratic Left has a stable majority of 179 of 300 seats in parliament. The election results indicate that the risk of success by radical forces hostile to the bailout agreement imposed by the EU and the IMF has been, at least temporarily, dismissed. Although the winning coalition has a stable majority, the parties grouped in the populist coalition SYRIZA strengthened their place in parliament. This shows the growing disapproval of voters for the established political forces. There is a serious risk that SYRIZA will seek to destabilise the political situation and push for early elections, after which it could come to power. Attempts to incorporate some PASOK deputies to SYRIZA are also probable. The loss of a parliamentary majority would also result in the need for new elections.

As the reconstruction of the Greek political scene continues, public protests are also likely to intensify. Another threat to the eventual government would be the continued massive withdrawal of deposits from bank accounts, which have been estimated to at €500 million per day. An increase in this trend could pose serious difficulties for the Greek banking sector, which is dependent on assistance from the European Central Bank.

**Implications for the Euro Area.** Euro area countries should support the new government, through the partial relaxation of the conditions imposed on Greece, as this promise was an element of the New Democracy electoral campaign. This could be done, for example, by delaying public spending cuts, lowering the interest rate, extending the maturity dates of loans, or by creating a comprehensive plan to stimulate economic growth in Greece, including focused EU structural funds or new credit lines from the European Investment Bank. These steps could be read as a fulfilment of election promises by the main coalition party. Measures to enhance society's confidence in the new government are needed for further savings of more than €11 billion, which will raise social anger.

After forming the next cabinet, the so-called Troika, (experts of the European Commission, European Central Bank and International Monetary Fund), will arrive for an assessment mission in Athens. A positive evaluation of reform implementation is required for the next instalment of loans. One of the topics of conversation will probably concern the issue of easing the bailout conditions as during the double election campaign (before 6 May and 17 June), the implementation of the agreed IMF/EU program was virtually suspended and has to be modified.

It is not certain whether the new Greek government will be able to make the necessary reforms required by the EU and the IMF. The strong polarisation of society and the radicalisation of political preferences make the government's policy of manoeuvring between half-hearted implementation of the agreement with the EU and the IMF and an attempt to protect its public sector the most likely course to be continued. It seems the government's approach towards privatising has not changed because of the strongly critical stance of the public on this issue. Social awareness of the need for reform is low, and the credibility of the political elite and its ability to reform the country remains highly limited. The prevailing common belief about the external causes of the crisis gives a slight chance for recognising consolidation and reform as its own national project. It raises doubts as to the prospects for the implementation of the reform package in its current form. All of this mean that the Grexit may again become a reality.

**Other Eurozone Concerns.** The positive outcome of the election should give the EU heads of state or government relative relief concerning the development of the situation in Greece. This next period of time should be used to strengthen efforts to create an ambitious, comprehensive plan to deepen integration within the euro area, including the elements of a so-called bank union, or a common issue of bonds. Whether the plan proves to be convincing enough and adequately takes into account the difficult situation in what is now the eurozone will be seen after the European Council summit scheduled for June 28–29. All indications are that the EU, and the euro area in particular, has entered a difficult period of very intensive debates and political decisions, which will continue throughout the second half of the year. The next auctions of Italian and Spanish bonds, looming on the horizon, raise concerns about their spreads. These auctions will probably create strong pressure for more daring reform proposals that are even more effective than the one the G-20 members expressed before and during the summit in Mexico on 18–19 June. Despite the recent decision to grant financial aid up to €100 billion to the Spanish banking sector, in the coming weeks Spain is likely to ask for the full bailout package since its interest rates on 10-year Spanish bonds rose above 7%. This level is considered to be too difficult to bear. It seems also probable that aid for the banking sector in Cyprus will be granted. It would be symbolic, as the country will take over the six-month long EU Council presidency in July.

**The Polish Dilemma**. The outcome of the elections in Greece should also be assessed in a positive way from the Polish perspective. The escalation of the eurozone crisis, with a possible Grexit in particular, could have had a negative impact on the Polish economy, e.g. through depreciation of the Polish złoty or an increase in spreads on Polish bonds. However, the acceleration of discussions concerning deepening eurozone integration could create a dilemma. Poland should avoid actions that could be read as watering down those attempts, risking further development of the crisis in the euro area. All indications are that Germany will no longer support the involvement of non-euro countries in eurozone decision-making bodies, as its priority is to counteract the threat of disintegration and the costs resulting from it. Yet, Poland, should watch to ensure the solutions proposed neither infringe the integrity of the most important components of EU economic integration, such as the internal market, nor limit the role of EU institutions. The provisions of the so-called fiscal compact provide a good basis to claim participation in the euro area summits, in which Poland may articulate its claims. However, it seems that the benefits of membership in the fiscal compact could be largely increased with the establishment of a clear path of entry into the third stage of the Economic and Monetary Union (EMU), even if this creates a lot of reservations from an economic point of view and is now socially unpopular. Poland may face some problems with having a real impact on the discussion concerning the future of the euro area, if it does not decisively confirm its willingness to adopt the common currency in the future, even though it has committed itself to such a change in treaties.