Greek elections pose a new challenge for the third bailout deal.

Greek Prime Minister Alexis Tsipras's government has resigned just after the third bailout deal for Euro 86 billion was approved by the German Parliament. As no party would be able to form a government, fresh elections are likely to be held. Uncertainty over the future of the bailout deal has added to the instability in global financial markets, already affected by events in China. The situation could also impact on forthcoming elections in Spain and Portugal, also facing debt problems.

Tsipras's party Syriza had won the last elections in January on the basis of opposing the austerity measures imposed on Greece by the EU/EC/IMF troika. Tsipras had been forced to accept the austerity package in the recent bailout deal, resulting in a revolt within his own party, with 42 members out of 149 not supporting the deal. He managed to get the deal approved by 222 of the 300 member Greek parliament with the support of the main opposition New Democratic Party which has 76 seats.

The latest bailout deal enabled Greece's government to access Euro 86 billion of new financing for its debts, in exchange for a series of austerity measures. The measures include cuts in government spending including cuts in pension benefits and increase in VAT, privatization of assets, reforms to government, banking and legal systems, etc. Following approvals on both sides, funds have been released to help the Greek economy. The flow of funds from the third bailout deal has enabled banks to function and relieved the severe hardships faced by the population. But the prospect of fresh elections has once again raised questions about Greece's future.

The IMF, a key member of the troika, has stressed that the deal is unsustainable unless substantial debt relief if given, a suggestion strongly opposed by Germany, the main creditor. The Greek government debt would peak to 200% of GDP in2016 and by 2022 it is projected to come down only to 160%. The IMF considers a ratio of over 120 % to be unsustainable. On the privatization front, the target of Euro 50 billion seems beyond reach, given the uncertain situation in Greece. However, a German company has recently signed agreement to operate 14 airports in Greece's tourist destinations for 50 years, prompting some to view the third bailout deal as a means for Germany and other creditors to grab control over key elements of Greece's economy.

The political scene remains turbulent. 29 MPs from Syriza have broken away and formed the Popular Unity Party, led by former Energy minister Lafazanis, who is strongly opposed to the bailout deal and has said that exit from the Euro could be an option for Greece. Ironically, Germany's Finance Minister Schauble, who has sustained the Troika's hard line approach to Greece, has also mentioned a Grexit as an option, if Greece does not want the deal. For the moment, however, all sides are looking for a solution within the Euro.

Fresh elections are likely as no party or combination of them seems able to get a majority in the parliament. The conservative New Democracy party which favours the bailout deal is the second largest party in parliament. In the referendum on the deal, 61 % had voted no but 38% had voted in favour of the deal. That was before the Greek banking system failed to function. Greek public, having seen the consequences of opposing the deal, may be less likely to revolt, despite the strong opposition from left parties and trade unions.

The Greek electoral system provides a bonus of 50 seats to the party with the largest number of MPs. So the required share of the popular vote for gaining a majority of 150 seats is only 40 percent.

In January 2015, Syriza got 36% of the vote and had 149 MPs, while the main opposition New Democracy got 28% of the vote and won 76 seats. The new Popular Unity party which split off from Syriza is still very young, but might inject a fresh choice of the voters. The outlook for the election is fluid with no party as a clear front runner.

On its side the Troika is hoping that the elections may strengthen support for the bailout deal, especially since some Euro 26 billion of funds have started flowing to Greece, propping up its weak banking system. Meanwhile the sharp divisions between the IMF and the EU/ECB over debt relief remain unresolved. If the bailout deal is to work, debt relief is essential. The sooner Germany accepts the IMF's view on this, the better.

Dr. Bhaskar Balakrishnan
21-8-2015