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GREEK UPDATE: ALEXIS'S CHOICE

Berenberg Macro Flash

If it can't go on like this, it won't. At some point in the next 3-5 weeks, Greek prime minister Alexis Tsipras will have to make the tough choice: does he want to go down in history as the prime minister who completed the modernisation of his country, turning it into a Spanish-style success? Or as the one who led his country into the abyss of Grexit, potentially turning it into a populist paradise like Venezuela, just without the oil? Whatever he does, he will get into trouble with major parts of his own power base, either with the pro-euro realists who are in line with Greek public opinion or with the anti-European hardline communists who make up some 30% of Syriza.

HOW MUCH TIME DOES TSIPRAS HAVE?
Having already survived for eight months without fresh money from its external creditors, Greece will probably run out of money in late May or early June on currently available information. Tax receipts suffice to pay public salaries, pensions and welfare expenses. By using reserves and by running up arrears with many suppliers and contractors, Greece has so far managed to also service its debt. Monday's raid on cash reserves of local governments could net some €1.5bn. But the political backlash against that move suggests that Athens is running out of ways to get hold of emergency cash.

Athens probably has the money to pay salaries, pensions and welfare benefits in late April (€1.9 bn). With luck, incoming tax receipts could still suffice to cover the next payments to the IMF of €0.2bn on 1 May and €0.7bn on 12 May as well as interest of €0.4bn due on 5 May. But paying salaries, pensions and benefits in late May (€1.9bn) could be very difficult, sending another €1.6bn to the IMF over the course of June could be a real stretch. If no mystery money turns up (is Putin picking up the phone, does Greece sell Piraeus harbour or its railway to China in a rush, will Tsipras raid pension funds reserves?), some sort of default probably beckons in late May or in June.

For this calculation, we assume that Greece can roll over its short-term T-bills. But according to media reports, the ECB is tightening the screws on Greek banks, asking them to pledge more collateral. That raises the risk that the T-bill auctions (€1.4bn each on 8 and 15 May) may not go smoothly.

WHAT HAPPENS IF GREECE MISSES A PAYMENT?
Deadlines in Europe are a little flexible. If Greece fails to pay the IMF on time but seems to be close to a deal with its official creditors, not much may happen that very moment. De facto, the IMF and ECB might give Greece a 1-2 week deadline for completing the talks before pulling the trigger of stopping ECB emergency liquity assistance for the banks. But before any money could actually flow to Greece to enable the country to pay its dues, the Greek parliament would have to approve key parts of the agreed reform agenda. After the experience of 20 February when the new Greek government signed up to virtually the full troika agenda but did almost nothing afterwards, Europe and the IMF will want to see real Greek action first. Tsipras will have to face his parliament and confront the hardliners in his own party as well as his coalition partner before he will get cash.

WHICH WAY IS TSIPRAS LEANING?
So far, Greece's prime minister from the "alliance of the radical left" (Syriza) seems to have simply played for time, shying away from hard choices. Tsipras comes across as less overconfident than his flashy finance minister and less doctrinaire than his hardline energy minister. He keeps lines of communications open with official creditors ("Frankfurt dinner group") even in rocky moments and will likely meet German chancellor Merkel again on Thursday at the fringes of an EU summit on immigration. He may be ready to compromise in the end after keeping his options open for as long as possible. Talks with the institutions are finally making some progress after weeks in which the Greek side just dragged its feet. Maybe Tsipras is realising that the endgame is getting closer?

The 24 April meeting of Eurogroup finance ministers will probably be just an occasion to take stock, hopefully with some hints of genuine progress. If Tsipras is ready to ditch his wilder promises and do a deal, an agreement at the next Eurogroup meeting on 11 May would still allow Greece to legislate key reforms in time to receive money for the late May salaries and pensions and the payments to the IMF in June. But as it may already be a close call whether Greece can cover the €0.7bn payment due to the IMF on 12 May, it would be better for all sides concerned to resolve the big questions a little earlier, possibly at an emergency Eurogroup meeting at the end of next week if – very big if - Greece is ready to sign on the dotted line by then, allowing some money to flow by 12 May.

However, Tsipras does not seem to have prepared the Greek public, the hardliners in his own party and his coalition partner in any way for the U-turn he will have to make to keep Greece afloat and in the euro. The recent fall in Syriza's once stellar popularity suggests that Greeks are realising that Syriza has overpromised them anyway, and that Tsipras better make the tough choice before his popularity falls further.

We see a 30% risk that Tsipras makes the wrong choice, or ends up making the wrong choice by not deciding anything at all, crashing Greece into full-scale default and out of the euro. That Greece gets its act together, at least sort of, in the last moment and stays in the euro remains more likely (70%). That may well include some political upheaval in Athens, possibly with a change in coalition partner and/or a split in Syriza.

PAYING THE PRICE

Having to make the choice between a major U-turn largely back to the policies of the previous government and the Grexit abyss is the price Tsipras will have to pay for promising his voters three impossible things in one election campaign. Nobody will make that choice for him.

Europe will offer some face-saving compromises if he returns to the path of pro-growth reforms but will not fund the lunacies he once promised his voters. Europe is ready to provide the cash Greece needs, including a follow-up €25-30bn support programme from this summer onwards after the last €7.2bn from the current programme has been disbursed. But Europe will insist on the required reforms to raise Greece's trend growth and hence its future ability to service its debt on the generous conditions Europe is ready to grant. On top of the usual haggling about fiscal numbers, measures to make the labour market more rather than less flexible and to raise the pension age seem to be major sticking points in the talks with Greece.

Calling new elections or a referendum would not help Tsipras much either. With or without a fresh mandate, he – or any successor – would still have to make the choice. A referendum might ratify a deal and possibly help him to deal with Syriza's hardline leftwingers. But Tsipras would still have to strike a deal first on which a referendum could be held.

Of course, even if Greece and its creditors reach a deal in the next few weeks, myriad problems would remain. Right after agreeing on how to complete the current programme that formally runs until the end of June, Greece and its creditors will have to negotiate the follow-up deal. With its antics, Syriza has shattered the trust of the Greek business community, global investors and its external creditors. As a result, Greece will need a sizeable support programme with full conditionality instead of the conditionality-lite credit line which would have sufficed if the Samaras reforms had just been continued. There would still be many pitfalls and difficult progress reviews on the way. But with a deal supported by real reforms legislated by the Greek parliament, the country could finally get back on track again. Alexis, please make the right choice – and better do it fast.

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