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## GREECE: NO PROGRESS UNTIL TSIPRAS CHOOSES

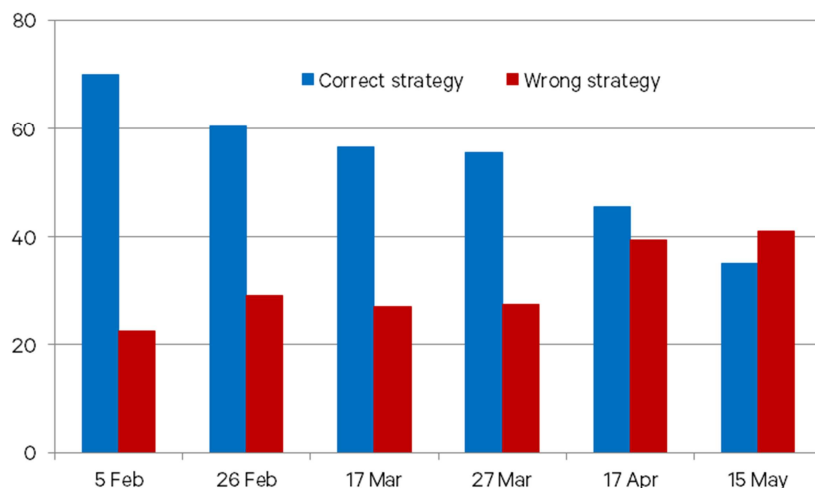
### Berenberg Macro Flash

**As long as Greece's Prime Minister Tsipras has not made up his mind** about the tough decision he has to make, it is almost futile to comment on the day-to-day developments in the negotiations between Greece and the Eurozone and IMF. Whatever progress there may be on minor issues such as VAT, where Greece seems to have submitted a proposal to the troika yesterday, or privatisations or primary surplus targets, there is no progress at all on issues vital for the longer-term growth and fiscal balance prospects of Greece. The Syriza government is refusing to strengthen competitiveness and create jobs by deepening or even just maintaining labour market reforms and deregulating the economy. There is also no deal on pension reform in sight. And on streamlining the public sector, the Syriza-led government has already gone backwards by legislating the re-hiring of up to 15,000 workers and largely abolishing performance-based management.

**As Greece is failing to come up with credible alternatives for the reforms demanded**, we expect the Eurozone and the IMF to table a "take-it-or-leave-it" proposal soon to end this exasperating back-and-forth and make the choice clear to Greece. That would include in detail what is required to unlock the final €7.2bn instalment of the second bail-out and under what conditions Greece could obtain the inevitable third bail-out. The offer might come with a firm deadline for acceptance, although that would make it potentially unnecessarily difficult for Athens to swallow and may raise concerns in other European capitals as well. More likely is that it will offer the last bail-out instalment once the first reforms have been legislated and the rest once Tsipras has finally made up his mind. Given that he seems unable to get his party behind himself on the issue, it is possible that Tsipras will hold a referendum on the Eurozone/IMF offer or call snap elections eventually, although he may also be able to rely on opposition support in parliament.

**The pressure on Mr Tsipras is rising from two sides.** First, Greece has several repayments to the IMF to make in June, starting with €310m on 5 June. Comments from Greece and the EU suggest that the government will need some help by then. Second, Greek opinion polls increasingly suggest that the economic turn for the worse, with Greece officially back in recession as of Q1 2015, is making Greek people anxious. Support for Syriza's negotiating strategy has fallen from 72% to 35% since February (see Chart). The lack of a credible alternative keeps Syriza in the lead in the voting intention polls, but that support is likely to crumble further whichever decision Tsipras eventually takes.

**Chart: waning support for Syriza's negotiating strategy**



Question: Do you see the government's strategy [vis-à-vis the creditors] as correct? Responses in %. Source: University of Macedonia



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## MACRO NEWS

**Ultimately, the priority of the vast majority of the Greek population seems to be staying in the euro.** That is the key for our call that, with a 70% probability, Greece will eventually do what it takes to stay in the single currency. Supporting Greece further will be very tricky for other European leaders politically, even after a major Athens U-turn, given how much trust has been destroyed. But as this week's EU summit in Riga will probably highlight not just with regards to Greece, showing immense patience with temporarily wayward members of the European family is the core of the European project, which has helped keep peace on the continent in the last 70 years.

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