

## Euro Summit: The endless road to kick the can down

This week's summit of European leaders' summit was anything but productive. There was little progress on the game of 'musical chairs' to fill the top jobs and there seemed to be little appetite to talk about further eurozone integration



European Council President Donald Tusk, left, and European Commission President Jean-Claude Juncker at the end of the EU summit in Brussels

The June meeting, which had been marked in the calendars as the summit where significant steps towards eurozone reform were supposed to be taken, has been concluded with a 14 line statement welcoming the progress made so far by eurozone finance ministers. Sure enough, progress on some key issues such as a further strengthening of the ESM (European Stability Mechanism) and a principle agreement on a eurozone budget has been made in last week's Eurogroup, but the lack of real decisions or at least clear additional guidance from government leaders is a disappointment to anyone concerned by the slow pace of change.

### What progress has been made?

Let's start with the most notable progress: further steps towards a eurozone budget and a strengthening of the ESM.

As regards the eurozone budget, this was the most controversial topic. Last week, eurozone finance ministers had already a principle agreement on a budgetary instrument for convergence

and competitiveness (BICC). The BICC is becoming the carrot for structural reforms as access to the funds will depend on the implementation of reform. As a large part of the funds contributed by countries will have to flow back to them, it feels a lot more like the already existing EU structural funds than a stabilizing budget. Financing and governance of this eurozone budget remain unclear and leaders did not give any guidance on what they really want. The topic was sent back to the finance ministers, with the aim to have something ready when the entire five-year EU budget will be discussed and decided. The size of such a eurozone budget also remains unclear. As much of a break-through this Eurozone budget is in principle, it will definitely not be of any help during the next crisis and probably not even during the crisis after the next crisis.

---

### *The eurozone budget was the most controversial topic*

---

As regards a further strengthening of the ESM, the rules for eligibility for the precautionary conditional credit line (PCCL) are becoming more transparent due to today's decisions. Consequently, access to ESM support should be easier in the future and might no longer require a bailout programme. The eligibility rules agreed upon are strict though and would in practice mean that about half of the eurozone's members would not be able to apply at the moment. While theoretically sound it, therefore, seems to defeat its purpose in practice a little as the countries most vulnerable to a shock all seem to be unlikely to use the PCCL in the future. Also, eurozone finance ministers had already agreed on single-limb collective action clauses, making upfront debt restructurings more likely.

## **Will the eurozone house be in order when these reforms are finalised?**

Not really, but will it ever? Over time, piece by piece, reforms have been made that have made the eurozone more resilient for when a next shock hits. This week's progress is another step towards improved institutions, but will not have much of an impact for when a next crisis hits. This time around, not much was achieved regarding the much-anticipated completion of the banking union. To the contrary, a sentence that European leaders "look forward to the continuation of the technical work" is Eurocrat language for "we hardly agree on anything".

---

### *The road to kick down a can can't be long enough*

---

It sometimes looks as if the road to kick down a can cannot be long enough when it comes to eurozone reforms. Currently, the strategy of very small baby steps seems to be the only strategy, gathering sufficient support among eurozone leaders. Eurozone reforms have always looked big only through the rear view window. Fair enough, but as long as this strategy does not change, it is either waiting for a next severe crisis to accelerate reform efforts or hoping for an ECB to always do "whatever it takes" if need be.

## Authors

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.