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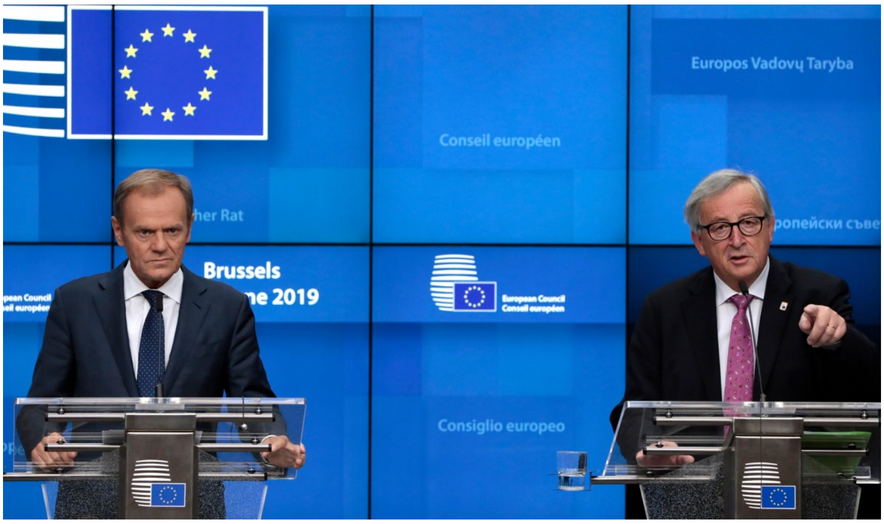
Euro Summit: The endless road to kick the can down

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.

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