

## Eurozone: BICC deal is not a big deal

Eurozone finance ministers reached a deal this week on the details of a budgetary instrument for the Eurozone. What started as an ambitious plan for a common budget to solidify the Monetary Union ended in a tiny fund aimed at structural reform



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What started as a plan for a groundbreaking common Eurozone budget has become an encouragement for countries to reform. The BICC – yes, the Eurozone needed more acronyms – or Budgetary Instrument for Competitiveness and Convergence was announced earlier this week as the first Eurozone fiscal capacity. Eurogroup Chairman Mario Centeno considers this a new pillar in the foundation supporting the euro, but this budgetary instrument is unlikely to carry significant weight of the euro foundation for now.

### No stabilization please!

This proposal is far from the initial idea French President Macron launched of a Eurozone budget worth several percentages of GDP, able to smoothen asymmetric economic shocks within the Monetary Union. Fierce opposition, led by the New Hanseatic League comprising northern Eurozone countries that didn't want the fund to have any stabilization function, caused the plans to drift away substantially from the French plans. BICC will be a fund that member states can tap

for reform and investment plans every Spring. It is important to note that this is not a stabilization mechanism in times of crisis as the size of the fund and the decision to activate the money will not be related to the economic cycle. This means that this will not provide support to countries in times of asymmetric recessions and therefore will not act as a shock absorber to reduce euro risk. It is intended to reduce euro risk over the longer term as it promotes reform and investment, which should improve the growth capacity of countries. This sounds good, but the structural reform story has not been a great success until now and the BICC is likely to provide not much more than a small nudge in the right direction for the moment. So there are reasons to doubt its effectiveness. On top of that, the size of the fund will have to be decided on in the context of the EU budget, which means that it can be well into next year before it is announced how big BICC is going to be. That budget will already be squeezed thanks to the UK exit and leaves the question of whether BICC will be meaningfully funded. The European Commission suggested that the fund would be worth around €17 billion for all the 19 euro area members for seven years, which is, let's be honest, peanuts.

## Get your money back

In terms of funding, it will barely cause transfers between countries – much less so than the regional and structural funds do. At least 70% of funding will flow back to projects in their own countries, meaning that only a limited amount will be used across borders. National governments are expected to co-finance 25% of the cost of eligible projects that are funded by the BICC. In cases of severe economic circumstances, this co-financing rate will be cut in half, which is the only small element of solidarity in the whole construction. BICC therefore has the air of a bank account on which students save up for a vacation. They get their own money's worth, but need to save a few euros per month to make sure they don't spend it all on beer. In BICCs case, it's an account on which to save for reform and investment projects, making sure that structural economic improvements remain in focus. Still, while over the last years there has been some progress in correcting the fault lines in the construction of the Monetary Union, the BICC proposal is not groundbreaking. For the optimists on Eurozone reform, the outcome will be a disappointment as we can hardly say that it is now built for eternity. The watering down of the common budget to a small structural fund means that this is not the safeguard for the next severe economic crisis some were initially looking for.

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