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# Eurozone: Filibuster on Eurozone reforms continues

Another red-eye meeting of Eurozone finance ministers shows how difficult it is to agree on further Eurozone reforms. Only another existential crisis would speed up the reform efforts - something even the most Europhile experts should not really hope for

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For euro crisis veterans, it was almost a deja-vu: a red-eye meeting of Eurozone finance ministers with several breaks ending early in the morning with a hard-fought written conclusion.

However, contrary to the heydays of the euro crisis, there was no market opening or debt payment which had increased the urgency to act to a maximum. Instead, the urgency is more of a longer-term nature. Currently, apparently not enough for Eurozone finance ministers to decide on additional bold institutional reforms of the monetary union.

To put last night's Eurogroup meeting into perspective: the latest attempt to revive the discussion of further Eurozone reforms started more than a year ago, was than postponed last December due to a political deadlock in Germany and picked up by the Eurozone government leaders in June this year. Already back then, Eurozone government leaders had agreed to: i) start work on a "roadmap for beginning political negotiations on the European Deposit Insurance Scheme"; ii) the ESM providing "the common backstop to the Single Resolution Fund" and further strengthening of the ESM; and iii) to discuss "possible instruments for convergence and stabilization in EMU". Eurozone finance ministers were asked to present their results at next week's Euro Summit.

## What did they decide last night?

Last night's meeting yielded the following outcomes:

- **ESM as a financial backstop for bank resolutions, the Single Resolution Fund.**
  Here, finance ministers agreed on the main operational details and an earlier introduction than previously anticipated in case of sufficient progress in risk reductions in the banking sector.
- **The ESM toolkit was strengthened and made more explicit.**
  Here, finance ministers agreed on a more transparent eligibility process for precautionary credit lines (with a strong emphasis to comply with benchmarks of the fiscal rules). Also, ministers intend to introduce collective action clauses by 2022 and stressed the need for a debt sustainability assessment. The idea of possible ex-ante debt restructurings has not disappeared but was kept vague.
- **On banking union,** the Eurogroup announced to start a new high-level working group to work on next steps regarding a European Deposit Insurance Scheme, which in plain English simply means the idea has not been shelved, but it remains a long, complicated process ever to get there.
- **On a Eurozone budget,** the discussion seems to have been the most controversial. Here, the only thing that is clear is that nothing is clear or decided. Instead, finance ministers decided first to escalate it to the level of government leaders to make their minds if to continue or stop the discussions.

## Eurozone reform train keeps on moving

It's easy to label this morning's Eurogroup decision as 'too little, too late', 'lacking ambitions', 'baby steps' or the famous 'kicking the can down the road' as the result of more than another year of endless and cumbersome negotiations is a meagre shadow of original ambitions, voiced by numberless reports of many presidents, experts and also French President Emmanuel Macron.

> *In our view, to make the Eurozone fully-sustainable, there should be a fully-functioning and integrated Eurozone capital and financial market, which would require a European bank deposit insurance scheme and better instruments for macro stabilisation*

The list of "unfinished business" is clearly longer than the list of achievements. Nevertheless, let's not forget that compared with ten years ago, the Eurozone's institutional set-up is now much more crisis-resistant. Who, back then, could have imagined a Eurozone bailout fund, a single European Bank Supervisor, a Single Bank Resolution Fund with a financial backstop, the ECB as a lender of last resort and somewhat closer policy coordination and stricter control by the European Commission? Against this background, last night's decisions were indeed again a small step into the right direction.

Nevertheless, the current set-up remains suboptimal as it does not entirely eliminate a subliminal break-up risk and therefore does not exploit the full economic benefits of a monetary union.

In our view, to make the Eurozone fully-sustainable, there should be a fully-functioning and integrated Eurozone capital and financial market, which indeed would require a European bank deposit insurance scheme and better instruments for macro stabilisation. As regards the latter, one can think of a Eurozone budget or more flexible fiscal rules but also of common tax or social security systems. In short, more economic risk sharing without necessarily creating new permanent transfers.

> To sum up, the Eurozone reform train keeps on moving. Admittedly, rather at a snail's pace than at high speed, but it is moving. The reform project is highly technical and politically hard to sell as it will probably not win a single vote at elections, which explains widely-spread filibustering.
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> Probably only another existential crisis of the Eurozone would speed up the reform efforts. Something even the most Europhile experts should not really hope for.

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