

## Eurozone: And it does move

In another nightlong meeting, European leaders agreed on an initial deal to shake up immigration rules. The meeting was clearly too energy-consuming to agree on any eurozone reforms



When European leaders negotiate for an entire night and present their results just before sunrise, you know that negotiations were tough but that something substantial was concluded. It was clear that these negotiations had to deliver some results. Going home empty-handed would not have been an option for Italian prime minister Giuseppe Conte and could have marked the last European Summit ever for German Chancellor Angela Merkel. Consequently, European leaders agreed on some interesting measures to tackle the flow of migrants into the European Union and to shake up existing rules.

### Saving Merkel

European leaders agreed to step up border security, set up holding centres to handle asylum seekers (on a voluntary basis) but also to set up centres in Africa to stop migrant smugglers, and to speed up the process of determining whether people have the right to asylum and expelling those who don't. Leaders also agreed to overhaul the rules for distributing migrants. The current Dublin

agreement should be changed and improved in the next six months under the Austrian EU presidency.

Even though this outcome still leaves room for interpretation, it's a major step towards change. It also allows Italy's Conte to return to Rome and present his first success on the European stage. Probably even more important, the agreement will make it extremely hard for the Bavarian CSU to continue its kamikaze strategy in Berlin. Merkel delivers what she promised: (first steps towards) a European solution for the migrant crisis combined with stricter border control and a general shift towards a stricter stance on refugees. It's hard to believe that the CSU will want to go down in the history books as the regicide. This is especially true in a situation where, according to the latest opinion polls, there is broad support in the German population for Merkel as chancellor. The CSU will meet on Sunday to discuss the latest developments and to decide whether the minister of interior affairs, Horst Seehofer, will proceed with his intention to stop asylum seekers, registered already in other EU countries, at the German border.

## Little progress on eurozone reforms

Initially, this week's summit of European leaders was supposed to deliver big breakthroughs for further eurozone reforms. With political developments in Germany, it had become obvious that eurozone reforms would be pushed onto the backburner, with migrants being the most prominent issue.

The outcome of the talks on eurozone reforms, however, suggests that the nightlong negotiations on migrants were clearly too energy-consuming for European leaders to engage in longer discussions on reforms within the bloc. Instead, leaders only delivered the bare minimum: an agreement on using the European Stability Mechanism as a financial backstop for bank resolutions. The firepower of the Single Resolution Fund will be doubled by this move. For the rest, leaders didn't break the deadlock, which was already present after the last meeting of eurozone finance ministers. There was no agreement on anything else. All other decisions were postponed to (at least) the December summit. Extend and pretend....

The Eurocratic language in the official statement highlights this "extend and pretend" strategy. Phrases like "work should start on a roadmap for beginning political negotiations on the European Deposit Insurance Scheme" or "agree on a term sheet for the further development of the ESM by December 2018" or "Eurogroup will further discuss all the items" simply show that there is hardly any agreement on anything.

There was no mention of a eurozone budget or budget line within the EU's budget. No mention of a stronger ESM. To be honest, given that European leaders clearly had other things on their minds, this is not necessarily bad news. Given that Eurogroup president Mario Centeno had laid out a broad range of topics, mainly reflected in the Franco-German Merseburg position, the next few months and subsequent Eurogroup meetings will show whether any breakthrough can be achieved. Nevertheless, today's disappointing outcome does not bode well for these future talks. It also shows that European leaders currently don't consider eurozone reform to be a topic which wins elections or votes. Simply too technical. Too long-term. Potentially too costly. Perhaps someone should warn them that by delaying, they risk another nightlong European summit, this time on how to rescue the eurozone. And that would definitely be costlier.

## Author

**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 [www.ing.com](http://www.ing.com).