Global Economy / Central Banks

Tiki-taka at the summit

Diario Expansión (Spain)

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09 Jul 2018

The recent European summit of Heads of State and Government focused on discussing the huge problem of illegal immigration to Europe, devoting very little time to discussing what just a few weeks ago was supposed to be the central theme of this meeting: the deepening of the monetary union.

In 2012 crucial progress was made towards eliminating the risk of the euro's breaking up, with a raft of measures including the ECB's support of the single currency, the creation of the ESM and a plan for institutional reforms centred on the first steps towards the banking union. These were bold steps to move ahead in the recovery, perhaps because the feeling was that we were in the final minutes of extra time. Since then, efforts to complete the banking union and advance towards a fiscal union have been a rather sterile interchange of sometimes very interesting proposals from various working groups (the Four and Five presidents' Reports, studies by the European Commission and ideas from academics and think-tanks) and a lack of significant decisions at key meetings.

Nine months ago, Macron's famous speech at the Sorbonne relaunched the debate, with new proposals for completing the banking union, appointing a minister of finance for the euro zone with his own substantial budget, reforming the ESM, etc. The time seemed right for promoting the necessary reforms after several years in the wilderness, with the difficult electoral cycle of 2017 behind us, the economy clearly improving and a window of opportunity opening before the renewal of the European Parliament in March 2019.

But once again progress has been limited, indeed even more timid than that proposed not long ago by fourteen French and German economists - an exercise in *Realpolitik* more German than French - or the recent document signed at Meseberg Castle by Merkel and Macron. The only substantive decision is that the ESM will function as a common backstop for the Single Resolution Fund, on which point there was already broad agreement, although the details will have to be worked out between now and December. Progress will also be made during the second half of the year on the technical debates on the reform of the ESM. It is not clear what its functions will finally be, but the Meseberg agreement and a recent letter from the president of the Eurogroup reflecting the sentiment of northern European countries (more northern than Germany) insist on strengthening debt sustainability analyses when support is provided, which may give rise to debt restructuring linked to possible financial aid packages (which was one of the most obvious paths of contagion during the worst part of the last crisis).

On the European deposit insurance scheme (EDIS), a key element for completing the banking union, little more was expected than a long-term calendar for its implementation, linked to the reduction of financial risks. Yet not even this was achieved: the statement that "the work on a roadmap for beginning political negotiations on EDIS could start..." seems much more like a verbal pirouette or a pointless "nutmeg" on home ground.

On the recent fiscal proposals (such as an investment fund to improve competitiveness, or funds for unemployment with anti-cyclical functions), the communiqué calls for more work, but without specifying time frames. These are not proposals that will solve a possible systemic crisis (for that we would need instruments such as eurobonds, currently far removed from the European lexicon), but they could help to prevent contagion among countries and provide support in moderate crises.

In short, the great window of opportunity for reforming the euro which Macron and Merkel seemed to discern is closing without any substantive advances having been made. We still have the December summit ahead, but pressures from populist parties from within and protectionist threats from without seem to be smothering reformist zeal. Combined with this is the emphasis placed by many politicians in Germany, the Netherlands and other northern European countries on the prior reduction of risks, plus the feeling that recession is not just around the corner and that there is no great hurry, as if plenty of time remained before the final whistle.

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