European Council: a lot of talk but little action

Over the past two years, a window of opportunity has emerged in Europe to advance the European project, to enable the bloc to face its present and future challenges. This window of opportunity has arisen due to a combination of factors. Internally, the EU has managed to agree on a common response to the existential challenge posed by Brexit. A more positive scenario also emerged following the defeat of populist Eurosceptic parties in the Dutch elections, the election of a deeply pro-European candidate in the French elections, and the formation of a coalition government in Germany no less pro-European than the previous one. Externally, new challenges underscore the importance of greater European coordination and integration on foreign policy, defence and security. These include the election of Trump as US president, Russia's defiant strategy, and the refugee crisis. In this context, we need to ask ourselves whether Europe is making the most of this opportunity.

Since the sovereign debt crisis, there have been continuous demonstrations by Europe's main political leaders in favour of advancing the European project and the need to strengthen the architecture of the Monetary Union. In fact, over the last year and a half, the level of support has intensified and a number of documents that discuss the European project and set out concrete initiatives have been published.[1] In this context, France and Germany agreed in June on a series of proposals to strengthen the single currency against future crises. This agreement, known as the Meseberg declaration, set out the vision shared by the two countries, put the reform momentum back on the table, and laid the foundations for a relatively ambitious agreement with the rest of the countries.[2] Thus, all the elements needed to advance towards the reform of the EU and euro area were in place ahead of the European Council meeting in June.

However, at the June Council meeting, the EU did not take a firm step forward, but a small step forward. Specifically, on euro area reforms, although decisions were expected in line with the agreement between Germany and France, expectations were not met, and further progress on this front was postponed. On the other hand, reforms to advance the Banking Union were put back on the table, something which only few countries were considering just a few months ago.

1. Of particular note is the «White Paper on the Future of Europe» (2017) of the European Commission, in which five scenarios on the possible evolution of the European Union are presented.
2. Among other aspects, the agreement included the creation of a budget for the euro area, separate from that of the EU, focused on convergence and investment; the possibility of introducing a Europe-wide unemployment insurance, and transforming the ESM into a European Monetary Fund.

Specifically, it was agreed that the European Stability Mechanism (ESM) – the euro area's rescue fund – would act as a lender of last resort (backstop) for the Single Resolution Fund, in the event it runs out of resources to manage the resolution of banking institutions. Although its functioning has not yet been detailed, and its initial endowment has generated some doubts regarding its real capacity to deal with future systemic crises,[3] this backstop constitutes an important stabilising element for the euro area banking system and, therefore, it represents another step towards a full European Banking Union. Also of note is the commitment, albeit somewhat weak, to engage in political dialogue with a view to establishing a common European Deposit Insurance Scheme (EDIS), the third pillar of the European Banking Union.

On the other hand, migration policy was the main protagonist, due to the political tensions in some member countries. Thus, the 27 agreed to move towards greater cooperation with countries of origin and transit, and to introduce measures to limit the internal mobility of immigrants, such as the voluntary installation of control centres (within European territory) – although for now no country appears to be willing to install such centres. In this context, and despite being somewhat imprecise, the Council's agreement served to ease tensions, recognise that immigration is a challenge «for the whole of the EU» and relaunch the debate on the need to effectively coordinate a migration policy. The agreed proposals can therefore be considered a first step (albeit a distant one) towards reaching a consensus on a common policy.

In short, it seems that the EU is moving forward, albeit at a much slower pace than it should. Over the coming months, it would be desirable to take advantage of the current opportunity and the reform momentum to continue moving towards a more integrated EU and a more robust Monetary Union. In the latter case, the focus should be on breaking the doom loop between banks and national governments,[4] implementing counter-cyclical policies, and improving the functioning of the fiscal framework. After all, this window of opportunity will not remain open forever and the European Parliamentary elections in May 2019 are already rearing their heads.

3. In the absence of more details, everything seems to indicate that its maximum balance could not exceed 55 billion euros.
4. For more details about this, see the Focus «The long road towards a secure European bond» of the MR05/2018.