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Key points

Some of the main issues discussed at the EU summit on 27-28 June were: the unemployment effects of the crisis; the continuing choice between austerity and growth; the extent of stimulus measures under consideration; advances in negotiations on banking union; and the steep drop in public support for the European project. After two days of consensus-building negotiations, a series of measures were agreed that included:

- A European agreement on the fight against **youth employment**, including increased funding and more urgent debate regarding further actions and initiatives.
- **Boosting growth** through a new plan to restore credit flows and provide support for small and medium businesses (SMEs).
- Final approval for the **European budget** from 2014 to 2020.
- Progress on **banking union** with political agreement to advance towards the directive on bank restructuring and liquidation.
- EU enlargement with the entry of **Croatia**. **Latvia** will join the eurozone in 2014.

Introduction

Lessons from 2012

It has been a year since the European Union (EU) experienced one of its most critical moments. Uncertainty about the outcome of the Greek elections of May and June 2012, the economic deterioration in Spain caused by the Bankia case, and fatigue and widespread discontent with political management of the crisis brought the EU closer than ever to deadlock. A rising chorus of voices predicted the end of the euro and the European project.

The June 2012 summit was difficult, but taught us several important lessons. Angela Merkel announced that Germany had run out of space for maneuvering and that the intensification of financial problems meant changes to the agenda of the summit – which would increase the risk of a North-South clash. Mario Monti, accompanied by Francois Hollande and Mariano Rajoy, raised the flag many were hoping to see, by announcing that those who openly claim they have no room for maneuver in fact usually do. The movements taught us that, in a Union as fragmented as it has been over the last few years, investing in partnerships is necessary in order to propose alternatives and changes. Moreover, even at the most stressful times, nobody is prepared to throw in the towel and walk away from the EU. While politicians may claim that the sky is about to fall down on our heads, it is still advisable to be cautious when speaking about the possible end of the euro and EU.

The June 2013 roadmap

The June EU summit was, as expected, rather more moderate in tone. The major concerns during the previous months were the unbearable level of unemployment, especially among the young, and the social consequences of the crisis. In parallel, there is a continuing search for consensus and institutional advances to strengthen the economic governance of the union, as well as encouragement for structural reforms and economic growth.

In his usual pragmatic style, president of the European Council Herman Van Rompuy presented the roadmap to members of the European Council by letter on 24 May: “at our next European Council, in June, we should make further progress towards the goals we have set ourselves to exit the crisis. Our common strategy comprises four elements. First: preserving financial stability, where we are on the right track. Second, improving the resilience of our economies, through sound public finances and improved competitiveness. Here, we begin to see the first results. Third: strengthening our economic and monetary union, especially the banking union, for which the months ahead of us will be crucial. And fourth, fighting unemployment and supporting growth in the near term.”

Some good news

On this occasion, European leaders did not travel to Brussels to engage in last-minute negotiations: a series of decisions that were mostly well advanced at the ministerial level lay on the table, ready for the rubber stamp. Although there was plenty of criticism about the lack of ambition and progress on specific measures, the fact remains that there were positive developments in virtually everything on the agenda. This shone through in the conclusions. The most important measures agreed were:

- Boosting youth employment, both through increased funding – including €8 billion (with three-quarters of that spending frontloaded in the first two years – 2014 and 2015) from the new European budget (2014-2020) and through various complementary measures to enable job creation. EU employment ministers will meet with unions and employers in Berlin on July 3rd at a conference organized at the request of the German chancellor to further develop measures for reducing youth unemployment.

- Stimulating growth through new funding and funding sources for small and medium firms (SMEs) to counteract the credit shortage in some countries. Member states hope to mobilize €120 billion in support of SMEs by combining funds from the EU budget and European Investment Bank (EIB).

- Approval of the European budget for 2014-2020. Despite tension due to last-minute disagreements between David Cameron and other members of the council, a political agreement was reached between the Council, Commission, and Parliament. This step is essential to ensure that the above proposals are financially viable.

- Advancing the banking union by agreeing on a directive for bank restructuring that establishes that future losses from banking crises must be borne by shareholders and creditors, not taxpayers. This step is considered essential to break the vicious circle between sovereign debt and bank debt.

- Continuing the European Union's expansion path, with new member state Croatia becoming part of the EU-28 on July 1, 2013. Latvia has complied with the convergence criteria and will become the 18th member of the eurozone on January 1, 2014. It was also decided to begin negotiations next year for Serbia's entry to the EU.

Securing the European Semester

Beyond the specific measures agreed and the newly available funding, there were other less noticeable, but equally important, elements that should be taken into account when assessing the health of the union. The June summit was particularly relevant because it was time to evaluate the effectiveness of the *European Semester* (the mechanism created to gradually strengthen coordination of member states' cyclical economic and budgetary policies) and, in particular, the acceptance of country-specific policy recommendations following the economic 'health-checks' for member states. Three points can be highlighted:

- Firstly, and despite the fears of some commentators, member countries have proven receptive to the recommendations made by the Commission. Detailed analyses were published this year on the macroeconomic imbalances in 13 member states: Belgium, Bulgaria, Denmark, Finland, France, Hungary, Italy, Malta, the Netherlands, Slovenia, Spain, Sweden and the UK. It is noteworthy that, with the exception of France (which predictably does not feel comfortable with the Commission's recommendations) and Hungary (whose relationship with the EU is becoming increasingly erratic), country-specific recommendations were adopted on June 21st at a surprisingly calm meeting of economy and finance ministers in Luxembourg, and this was reflected in the conclusions of the June Council.

- The second consideration (beyond the country-specific examinations and acceptation of recommendations) is whether the European Semester has become established as an effective and useful mechanism; or if further format changes are needed. The studies undertaken this year reveal that despite differences between the various nations, macroeconomic readjustments are being made. Other positive factors include decreasing current account deficits, converging labor costs, gradual falls in house prices, and a reduction in private sector borrowing.

- Finally, as a result of the measures taken in recent years, together with a gradual relief in internal divisions (and with the May 2014 Euro elections on the horizon), there is the question of whether the European project will be able to meet the concerns and demands of the European citizens, as it once did. As Enrico Letta explained before the summit, if citizens perceive that Europe does not provide answers to the real issues they face, "[w]e risk having a European Parliament that will be the most anti-European Parliament ever." This is one of the greatest challenges facing the EU in the coming months.

Conclusions

A series of unresolved financial, economic, social, and institutional crises mean that the EU is in a deep hole. Moreover, the EU we have seen emerge in recent years is not what many wanted to see: an increasingly intergovernmental institution with both Germany and the European Central Bank unfairly dominating the helm and making the key strategic decisions.

The social cost of the crisis is much greater than the Troika (the IMF, European Commission and ECB) expected, and therefore the usefulness of these organizations is now in question. The measures taken at a European level never seem to rise to the occasion, and the media paints all of them in deeply gloomy hues. Finally, the situation in the periphery remains delicate and improvements (especially in terms of job creation) will take much longer than expected.

However, there were some positive points. The first is that this summit avoided deep divisions, and much more importantly, real progress was made on many fronts. The constant criticism of the limited nature of the measures often does not take into account the difficulties involved in reaching realistic and effective agreements between 27 countries. Critics often forget, as well, the Merkelian principle of putting your own house in order before offering advice - a valid and well-founded standard, to be sure.

The ability and political muscle to act in Europe has become much more important; and this is forcing certain nations with a tendency to quietly follow in the steps of others to wake up and smell the coffee. Those who associate the lack of further progress at the summit with the proximity of German elections are also mistaken. Elections will generate the usual media circus for a month or two, but the German position will not change substantially. It is time for those who believe they have something new to say to come better prepared when they visit Brussels: a clear roadmap is needed rather than eleventh-hour backroom deals with dubious and limited scope.

Francois Hollande's reaction to the summit was striking: he appealed for revisions to various treaties in order to harmonize economic policies – and also wanted the euro area strengthened with its own budget and social dimension. Is this just another bluff, or is it a call for work to restart on the European project?

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