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EU summit – pragmatism to win over reform ambitions

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The European Council meeting on June 28-29 is fraught with expectation of a breakthrough on EA reforms. However, while the aim of strengthening the resilience of the euro area is shared, means, scope and sequencing of action remain subject to debate. Also, it is open how the change of the political leadership in parts of the EA will affect the process.

As leaders are aware of the need to move on we expect a statement acknowledging progress with regard to the transformation of the ESM into a EMF – possibly equipped with a new short-term credit line – as well as banking union – complementing the SRF with a fiscal backstop and indicating a medium-term roadmap for further steps. The question of conditionality linked to new instruments continues to be a crucial point.

Merkel recently endorsed an EA investment budget but her design falls short of Macron's idea of a fiscal capacity. It is more in line with proposals by the EU Commission such as a EUR 30bn subsidised loan plan (inside or outside the EU budget) for countries hit by external shocks as well as a budget line of EUR 25bn for conditional incentives for member states to undertake reforms. The proposal would increase Germany's (and other net payers) fiscal commitment.

On June 19, the German Chancellor and the French President will convene with their top ministers near Berlin to agree a joint Franco-German position to overhaul the E(M)U. This will be a necessary but by no means sufficient exercise to yield a deal at the EU summit. The two need to get the other 17 euro/other 25 EU member states on board for issues ranging from banking union, defence to asylum policy.

Apart from needed progress on Brexit the trade tensions with the US will require further discussions. The threefold response of the EU to the US trade policy – appropriate retaliation from July onwards; triggering a WTO case; considering measures against trade diversion – has been endorsed by the member states. However, given the imminent risk of further escalation, member states need to coordinate further action.



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Finally, progress was supposed to be achieved on a common asylum policy but is still not in sight. Chancellor Merkel continues to see a reasonable response in migration policy as decisive to counter increasing populism in the EU. Austria will give this topic a high priority in its upcoming EU Presidency though likely more with a focus on securing external borders than common rules.

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