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Post-Summit Analysis

Foretastes of a 'new normal': the results of a low-profile summit

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Summary

The 27-28 June European Council was a low-profile affair which attracted little attention beyond the walls of the Justus Lipsius. EU leaders' main aim was to signal to the public that they are intensifying their efforts to counter the most severe economic impacts of the crisis. This post-summit analysis by Janis A. Emmanouilidis assesses the measures designed to counter youth unemployment and foster economic growth, and warns that despite all the good intentions, they are unlikely to produce tangible results quickly. This in turn could spark a public backlash if citizens feel the Union and its members cannot deliver on their promises. He therefore argues that the EU should either develop a more comprehensive strategy (a Marshall Plan or New Deal for Europe) or be more humble in its objectives. This analysis also concludes that the lack of concrete decisions at recent summits suggests the EU is moving from 'crisis' to 'normal mode' as the threat of a currency meltdown recedes – but this is a 'new normal' with potentially significant implications for the balance of power between the EU's key players and institutions.

Full report

The European Council meeting on 27-28 June 2013 was a somewhat low-profile affair which did not produce any ground-breaking results or attract all that much attention beyond the walls of the Justus Lipsius building. Its key aim, once again, was to send out a signal of confidence and convey the message that EU governments and institutions are intensifying their efforts to counter the most severe negative economic effects of the crisis. But despite all the good intentions and useful initiatives, it is doubtful that the measures adopted and supported by EU leaders in an attempt to counter youth unemployment (the Youth Guarantee, Youth Employment Initiative) and foster growth (the Investment Plan, support for SMEs) will produce tangible results any time soon. This in turn could risk a public backlash if citizens feel the EU and its members are not able to deliver on their promises.

With respect to the completion of Economic and Monetary Union (EMU), EU governments, especially those in the euro-area, are lagging behind and backtracking from earlier, more ambitious plans. As in December 2012 and March 2013, EU leaders again failed to meet the expectations they had previously raised, with no substantial progress in recent months or concrete decisions on some of the most contentious issues related to the four main building blocks of a Genuine Economic and Monetary Union (GEMU).

In more abstract terms, the June 2013 EU Summit – like other meetings of the heads of state or government since October 2012 – suggests that the EU and the European Council are moving from 'crisis mode' to 'normal mode' as the threat of a currency meltdown recedes.

The 'new normal' will, however, be different from the situation before the outbreak of the 'euro crisis' as EU institutions, governments and citizens will suffer from the severe economic, political and social fallout of the crisis for many years to come. For the European Council and its president, the 'new normal' characterised by less pressure from the so-called markets could have five key potential consequences: (i) it could make it more difficult to reach consensus among EU leaders; (ii) it might have a negative impact on Member States' readiness to take 'courageous' decisions; (iii) it could reduce the role of the European Council and its president in the EU's overall institutional setting, as the 'end' of the crisis will shift attention and influence away from the executive level; (iv) the European Council and its president will have to cope with the consequences of Germany's continuing predominance in the (European) Council, which could create tensions within the EU; and (v) despite widespread fears and predictions, it does not seem likely that the EU will witness a deep split between euro and non-euro countries (pre-ins!), as key countries will do their utmost to avoid the creation of a 'two-tier Europe'.

In more concrete terms, the June Summit focused on two main issues: youth unemployment and economic growth, and the completion of EMU (for details, see below). EU leaders also concluded the 2013 European Semester by endorsing the European Commission's country-specific recommendations, which Member States are now supposed to translate into their forthcoming decisions on budgets, structural reforms, and employment and social policies.

The headlines on the first day of the Summit were dominated by the last-minute political agreement on the **Multiannual Financial Framework** (MFF) for 2014-2020 struck by European Parliament President Martin Schulz, European Commission President José Manuel Barroso and Irish Prime Minister (Taoiseach) Enda Kenny, representing the rotating Council presidency. Following difficult negotiations in recent months, the deal reached just hours before the European Council meeting began still needs to be approved by an absolute majority in the Parliament, but this now looks likely after MEPs won key concessions on a range of issues (the flexibility clause; revision clause; potential revision of the budget cycle). The agreement, which had to be 'signed off' by the 27 EU leaders, was thrown into doubt for a few hours after UK Prime Minister David Cameron, under pressure from Eurosceptic members of his own party, provoked a debate on the precise terms of the British rebate. But the issue was quickly resolved after a technical solution was found guaranteeing that the rebate agreed in February this year will not be altered.

Besides youth unemployment, economic growth and the completion of EMU, the European Council also officially welcomed the accession of **Croatia** as the EU's 28th Member State on 1 July and decided to open accession negotiations with **Serbia** provided that the agreement between Belgrade and Prishtina is implemented properly (the first intergovernmental conference between the EU and Belgrade will be held in January 2014 at the very latest). The Summit also adopted decisions authorising the opening of negotiations on a Stabilisation and Association Agreement between the EU and **Kosovo,** and congratulated **Latvia** on fulfilling the convergence criteria, thus allowing Riga to adopt the euro on 1 January 2014.

This analysis of the June 2013 European Council examines the two main topics dealt with at the meeting: youth unemployment and growth, and the completion of EMU. It ends with a longer-term assessment of the potential consequences of the decreasing crisis pressures on the future role of the European Council and its president.

Youth unemployment and growth – the need to avoid false expectations

Day One of the Summit, which started with an exchange of views between EU leaders and representatives from trade unions and employers' associations (the social partners) followed by the usual meeting with the European Parliament President, was devoted to two main issues: the fight against youth unemployment and the adoption of a new "Investment Plan" aimed at supporting small- and medium-sized enterprises (with the help of the European Investment Bank).

Despite all the good intentions, there are doubts as to whether the measures announced and supported by the European Council will effectively and swiftly help to reduce youth unemployment and spark growth.

With respect to **youth unemployment,** the Summit Conclusions state that this is a "particular and immediate priority". Reiterating a rather ambitious objective already agreed at the March European Council, EU leaders underlined that "all efforts must be mobilised" to get young people back to work or into education or training within four months of leaving school or becoming unemployed (the Youth Guarantee). In this context, the European Council agreed on a number of measures: (i) when disbursing Structural Funds, particular attention will be paid to efforts to counter youth unemployment;

(ii) the Youth Employment Initiative (YEI), which aims to support young people in regions with a youth unemployment rate above 25%, will become fully operational by January 2014 and the €6 billion allocated to this in the multi-annual budget will be frontloaded in 2014-2015; in addition, MFF funds that are not spent between 2014-2017 will also be used for measures to fight youth unemployment; (iii) the EU will promote mobility among young job-seekers through the "Your First EURES Job" programme, which aims to help some 5,000 people to fill job vacancies throughout the EU; and (iv) the Union will support high-quality apprenticeships and work-based learning through the launch of the so-called "European Alliance for Apprenticeships", bringing together public authorities, business and social partners, youth representatives, and other key actors in an effort to increase the quality and supply of apprenticeships across Europe.

In an attempt to restore normal lending to the economy, EU leaders have announced an "**Investment Plan"** combining funds from the EU's 2013-2020 MFF and means available through the European Investment Bank (EIB). Special emphasis is given to the need to "restore normal lending" and "facilitate the financing of investment" especially for SMEs, which in many EU countries are cut off from bank lending due to the credit crunch caused by the problems in the financial sector.

With respect to the EIB, the Council Conclusions propose a set of measures: (i) stepping up efforts to support lending to the economy by making full use of the Bank's €10 billion capital increase and increasing its lending activity by at least 40% between 2013 and 2015; (ii) expanding joint Commission-EIB risk-sharing financial instruments to leverage private sector and capital markets investments in SMEs, which should begin operating in January 2014; (iii) extending the European Investment Fund's mandate to increase its credit enhancement capacity; (iv) gradually expanding the EIB's trade finance schemes to favour the business activities of SMEs across the EU; (v) expanding the EIB's contribution to the fight against youth employment through its "Jobs for Youth" initiative, which aims to provide SMEs with better access to finance, and its "Investment in Skills" programme, which supports projects investing in the young people's skills, including investments in education infrastructure, training, student loans and mobility; and (vi) strengthening cooperation between national developments banks and the EIB to increase opportunities for co-lending and exchanges of best practice.

The fact that EU leaders once again chose to focus on issues related to unemployment and growth demonstrates their concern about mounting socio-economic problems in many Member States. Citizens in countries most affected by the crisis have either already reached, or are close to reaching, the point where they are no longer willing or able to bear the brunt of the downturn. The unemployment rate among the under-25s has reached over 23% in the EU, and four countries (Greece, Italy, Portugal and Spain) have youth unemployment rates of 40-60%. The long-lasting recession, higher taxes and cuts in welfare, and a loss of hope have resulted in collective frustration, despair and anger, increasing the risk of political and social upheaval. European and national policy-makers have understood that more needs to be done to prevent further destabilisation in individual EU countries and increased fragmentation between EU Member States, which could have potentially incalculable negative effects at national and European level. This is the main reason why the June 2013 EU Summit was devoted to the fight against youth unemployment and restoring growth.

There are, however, a number of reasons to doubt whether the measures listed in the Summit Conclusions will deliver the expected results and speed up the recovery. First, the EU is taking a piece-meal approach and has so far not been able to present a convincing and comprehensive plan to stimulate growth and job creation, especially in the countries hit hardest by the crisis. Second, the €6 billion allocated to the fight against youth unemployment – 0.6% of the overall sum available in the EU's multi-year budget! – is a drop in the ocean compared to the magnitude of the challenge (more than one million young unemployed). Third, it is questionable whether focusing on policy measures aimed specifically at countering youth unemployment will deliver the expected results. Economically, it would make more sense to invest in general growth-enhancing measures, which in turn would also help create more jobs. Last but certainly not least, any attempts to boost growth and jobs will fail if the EU and its members are not able to fix the fundamental problems in the banking sector by speeding up the creation of a credible banking union (see below).

EU leaders are perfectly aware that there is no 'silver bullet'. The main assumption – or rather hope – has been, and still is, that the economic situation will improve towards the end of 2013 and in 2014 due to increasing demand from outside

EUROPEAN POLICY CENTRE

Europe and the expected positive impact of a return of confidence in the future of the euro. It is also assumed that national structural reforms in many EU countries (along the lines of the country-specific recommendations and the troika programmes) will eventually pay off and foster economic development and, albeit with a time lag, (youth) employment as well. In the meantime, ways must be found to ‘buy time’ and cushion the negative impact of unavoidable public expenditure cuts and painful structural reforms.

From a political perspective, the June 2013 EU Summit aimed to do just that: buy time by sending a signal to the public that governments and EU institutions are boosting and accelerating their efforts to deal with the most acute problems confronting citizens. The decision to concentrate specifically on the fight against youth unemployment reflects the fact that it is politically easier – in both economically stronger and weaker Member States – to convince the public that something needs to be done about this. In creditor countries like Germany, the Netherlands, Austria or Finland, it is easier to explain that action is needed to reduce the unacceptable levels of youth unemployment rates rather than to make the case to the electorate for providing additional financial support to the countries on Europe’s periphery. The German government has been particularly supportive, as Berlin wants to demonstrate that it cares about the socio-economic situation in the countries most affected by the crisis. This is also why Berlin is fostering bilateral initiatives with Spain, Portugal and Greece aimed at providing companies with cheap loans (through the state-owned Kreditanstalt für Wiederaufbau (KfW)) and why Chancellor Angela Merkel has invited EU labour ministers and the heads of employment agencies from all EU countries to a conference in Berlin on 3 July to exchange views on best practice and to discuss how to best use the €6 billion available under the Youth Employment Initiative.

Despite these good intentions, European attempts to combat unemployment and foster growth pose one fundamental risk: EU governments and institutions are creating expectations that they might, at the end of the day, not be able to meet. Initiatives at EU level can help to cushion some of the more immediate negative effects of the crisis and the Union is the right framework for implementing more fundamental reforms like the creation of a banking union or the completion of the Single Market, which are indispensable for gradual recovery from the crisis. But the EU and its institutions cannot compensate failures at national level and cannot impose long-overdue reforms against the will of Member State governments, which are ultimately responsible for policies in this area.

The EU will be blamed if initiatives like the Youth Guarantee, Investment Plan or Compact for Growth and Jobs fail to deliver. In a year’s time, the unemployed in Italy, Spain, Portugal or Greece will ask whether the EU has fulfilled its ambitious promise to get young people back to work or into education or training within four months. If this has not happened (which from today’s perspective seems likely), the Union will be blamed and populist forces may seize the opportunity provided by the 2014 European elections to argue that all these initiatives are nothing more than a public relations exercise. This is not to say that the EU should not engage in initiatives to fight unemployment and spark growth, but it needs to either present a more comprehensive plan (a Marshall Plan or New Deal for Europe;) or to be more humble in order to avoid the risk of a public backlash if hopes that the overall economic situation will improve in the medium term are dashed.

Completing EMU – loss of drive, unfinished business and many open questions

Day Two of the Summit focused on issues related to a further deepening of EMU, and especially the creation of a banking union, starting with an update on the state of play from President Herman Van Rompuy. As in December 2012 and March 2013, EU leaders did not meet the expectations they previously raised of a substantial push forward on some of the most contentious issues related to the four main building blocks of a Genuine Economic and Monetary Union (GEMU): an integrated financial framework (including a banking union); a fiscal framework; an economic policy framework; and democratic legitimacy and accountability.

At the December 2012 Summit, EU leaders set a June 2013 deadline for possible measures and a time-bound roadmap on four issues: (a) *ex ante* coordination of major national economic policy reforms; (b) the social dimension of EMU, including social dialogue; (c) the feasibility of mutually agreed contracts for competitiveness and growth; and (d) “solidarity mechanisms” to enhance the efforts made by Member States which enter into contractual agreements.

But there has been no significant progress since then and EU leaders once again postponed decisions, while being vague about when to expect concrete results. The Summit Conclusions state that the European Council will, after "close consultations" with the Member States, return to issues related to the completion of EMU. In somewhat more concrete terms, EU leaders signalled that they will look at "indicators and policy areas to be taken into account in the framework of a strengthened economic policy coordination" in October. These discussions will – according to the Conclusions – continue in December 2013, with the "objective of taking decisions", in particular on the "main features of contractual arrangements and of associated solidarity mechanisms" (see below).

Despite the lack of concrete decisions, the Summit Conclusions include some provisions related to the four building blocks of GEMU. With respect to a more **integrated financial framework**, they repeat what has already been said at previous EU Summits since June 2012; i.e. that the key priority is to "complete the banking union" and that it is "imperative to break the vicious circle between banks and sovereigns". EU leaders heralded: (i) the new rules on capital requirements for banks (CRR/CRD); (ii) the agreement in the Eurogroup on the main features of the operational framework for direct bank recapitalisation by the European Stability Mechanism (ESM) reached in the week before the Summit; and (iii) the deal struck by EU finance ministers on the bank resolution and recovery directive, tabled by the Commission in June 2012, just one day before the European Council.

The latest compromises and the fact that the European Central Bank (ECB) will assume its role as a central bank supervisor in 2014 signal that the EU is incrementally moving towards a banking union. But progress is slow and ambitions have been scaled back (for example, no single European deposit guarantee scheme). Many questions and doubts concerning the setting up of a banking union remain – especially in relation to the creation of a Single Resolution Mechanism (SRM) for the euro area, the banking union's second main pillar besides the Single Supervisory Mechanism (SSM). The Commission will, in the upcoming weeks, present its legislative proposal on the SRM and EU leaders have agreed that the Council should reach an agreement in the autumn so that the legislation can be adopted before the end of the current legislature; i.e. before May 2014.

But the latest difficulties in reaching compromises on the operational framework for direct recapitalisation of banks through the ESM and the arguments between Member States concerning the rules for involving private investors in bank rescues indicate how difficult it will be to find consensus on even more complex and politically sensitive questions related to the creation of a Single Resolution Mechanism. It is by no means certain that the EU institutions and governments will be able to stick to their ambitious timetable, especially now that market pressures have subsided.

As expected, the creation of the SRM with single European rules, means and institutions to wind down failing banks – which will ultimately have to move the power to force losses on bank owners and creditors to the European level – is proving much more difficult than establishing an ECB-based banking supervision system. It involves huge amounts of national taxpayers' money, which in practice might have to be spent on restructuring or resolving banks in other Member States. But a banking union cannot succeed without a strong European resolution mechanism with sufficient powers and funds available for winding down failing banks. In the absence of a (strong) SRM, the ECB in its role as a supervisor would have to rely on national bank resolution arrangements, which could tie its hands significantly and potentially undermine the credibility of the entire system.

The complex deal on bail-in rules, which took many years to agree as Member State sought to tailor them to the interests of their specific financial systems, was an indispensable step on the path to way to a banking union. The compromise, which still needs to be negotiated with the European Parliament, foresees that from 2018 onwards, shareholders, bondholders and some depositors will have to contribute to the costs of bank failures. Insured deposits under €100,000 will not be included, and uninsured deposits of individuals and small companies will be given preferential status in the bail-in pecking order. The complex compromise struck by EU finance ministers foresees some degree of flexibility, which creates some uncertainties for investors, but was unavoidable to get agreement among the EU-27. Before resolution funds can be used, there will be a minimum bail-in of 8% of total liabilities, but individual countries will have the right to shield certain creditors from losses. After the implementation of the minimum bail-in, Member States will also have the option to use resolution funds or state resources to recapitalise the bank or protect other creditors; this possibility is capped at 5% of the bank's total liabilities and needs to be approved at EU level.

The bail-in compromise in the negotiations on the directive establishing a framework for the recovery and resolution of banks was an important step, as it opens the door for deeper financial integration: agreement on bail-in rules shifting resolution costs from taxpayers to creditors is an essential precondition for a future compromise on the creation of single European resolution mechanism.

The compromise was also important for the ECB, which regards the agreement as essential to be able to fulfil its responsibilities as a single bank supervisor. Before Frankfurt takes over the supervision of around 130-140 'systemically relevant' European banks in 2014, there will be an assessment of the balance sheets of these banks, comprising an asset quality review and a fresh round of stress tests. The agreement on how to involve private investors in bank rescues was a precondition for opening the potential avenue to use funds from the ESM to directly recapitalise banks if the balance sheet assessments reveal a need to assist or even close down troubled financial institutions. The possibility of direct bank recapitalisations from the ESM, even if only as a last resort, increases the changes that the next round of stress tests will be far more realistic than previous ones.

There are, however, many more obstacles that will need to be overcome on the road towards a banking union, as many questions and issues still need to be addressed and clarified:

- Which powers will be transferred to the single resolution authority and who will have the final say when it comes to winding down banks? Will it be the Commission, the ESM or a new EU body?
- When will European legislators be able to strike a deal on the legal framework for a Single Resolution Mechanism and when will it actually be in place? Will it be set up in two steps, as German Finance Minister Wolfgang Schäuble has advocated, leaving bank rescues in the hands of a network of national authorities until treaty changes have been agreed and entered into force?
- What role will national supervisors and regulators (continue to) play? Will they, together with the Commission and the ECB, be part of a 'resolution board' (as mentioned in the latest Franco-German paper) tasked with preparing decisions on the winding up of ailing banks? And will national resolution authorities be tasked with implementing decisions to resolve banks under the oversight of a central body?
- Will the ESM funds available for direct bank recapitalisation (€60 billion out of the ESM's €500 billion total lending capacity) provide the SRM with a big enough fiscal backstop if the hidden losses of European banks turn out to be much higher than expected? To what extent will the €60 billion available for direct bank recapitalisation reduce the ESM's overall firepower?
- Which assets will be eligible for direct recapitalisation? Would it include or exclude 'legacy assets'; i.e. would the ESM be barred from directly supporting banks which got into trouble before the new European supervisory system was put in place?
- Will there be a network of national resolution funds or a single European resolution fund? How long would it take to create a single European fund financed pre-dominantly by contributions from the banking sector? And would this new fund be able to borrow money from the markets using bank assets as a guarantee?
- Will the next round of bank stress tests scheduled for 2014 be credible enough to help restore confidence in the European banking sector? And if yes, will Member States dare to shut down banks that fail the test?
- Will the Commission push forward proposals for a single European deposit guarantee despite fierce opposition from Germany and others, and will creditor countries agree to it? If not, will the introduction of an 'incomplete banking union' undermine the overall credibility of the EU's integrated financial framework?
- And, last but certainly not least, how will governments be able to explain to their electorates that more taxpayers' money might be required to stabilize Europe's fragile banking sector even if private investors will be obliged to share the pain?

All these and other issues will have to be settled once the Commission has tabled its legislative proposal. It seems more than likely that the Brussels executive will present an ambitious plan, but the governments of powerful Member States – including Germany and the Netherlands – have already voiced their concerns and are ready to defend their position in the Council.

Concerning the establishment of an **integrated economic policy framework**, the Summit Conclusions state that "further work is required" in the coming months on the introduction of so-called mutually agreed contracts and the associated solidarity mechanisms, although there is – according to the Conclusions – a "degree of convergence around the key principles".

This careful wording in the Council Conclusions reflects the fact that over the last couple of months, EU governments have not been able to make substantial progress and reach a common ground, let alone take concrete decisions, on the introduction of mutually agreed contracts between Member States and the EU. In principle, these contracts will aim to promote the implementation of structural reforms on the basis of the country-specific recommendations made in the framework of the European Semester, by enhancing national ownership and providing specific financial incentives. In more concrete terms, the parliament of the country concerned will be asked to ratify the mutually agreed contract to ensure that reforms will be implemented within an agreed timeline. The second key innovation is that the implementation of agreed measures would be financially supported through the so-called 'solidarity mechanism'. In other words, the contracts would not rely on peer pressure or on fines and sanctions, but rather on concrete financial incentives, which could foster the implementation of structural reforms.

In March this year, the Commission issued a Communication on the introduction of a "Convergence and Competitiveness Instrument" (CCI), which encompasses both the mutually agreed contracts and the solidarity mechanism. Since then, Member State governments have had a thorough exchange of views, but numerous questions remain unanswered: Would the new instrument include only euro-area countries, or would other Member States (pre-ins?) also be asked/allowed to participate? Would all countries which have concluded a contract with the EU have the right to ask for financial support, or would this be limited to those with severe economic (adjustment) difficulties? What criteria/parameters would be used to decide whether countries are eligible to receive support from the solidarity mechanism, and which reforms should be eligible? Who would negotiate and who would decide on the contracts and the use of the solidarity mechanism on behalf of the EU? What role would national parliaments play in the elaboration of contracts? Would the European Parliament be involved in the process, and if so, how? Who would be responsible for managing the solidarity mechanism and would it be part of the EU budget? How much money would be available through the mechanism and where would the funds come from: through direct contributions from Member States and/or money borrowed from markets? What happens if a country does not comply with a mutually agreed contract? Would there be sanctions tied to the new solidarity mechanism? And, finally, when would the new instrument be put in place and will decisions be taken swiftly enough to help countries already in trouble?

In addition to the mutually agreed contracts and solidarity mechanism, the European Council Conclusions state that it is necessary to put in place a "more effective framework for the coordination of economic policies".

In March, the Commission presented a Communication on the ***ex ante* coordination** of plans for major economic policy reforms, which as a concept was already included in the Treaty on Stability, Coordination and Governance (Article 11 TSGC). In a next step, the Brussels executive will present a concrete legislative proposal this autumn. The main idea here is that Member States will inform and consult other EU governments and the Commission before moving ahead with key domestic economic reforms. This idea is not new and Member States have already consulted their peers and EU institutions on this, but the Commission intends to present a detailed proposal including some more specific ways of organising the process. However, some key questions still need to be settled: Which countries will participate? Which reforms should be included? How would national parliaments be involved? What role, if any, should the European Parliament play? Even if all these and other issues are resolved, it is questionable whether this 'new' *ex ante* form of coordination will really make a difference going beyond the instruments and mechanisms already in place (the European Semester) or envisaged (CCI).

In more general terms and with respect to the overall degree of European economic cooperation in future, it seems that Member States are not ready to go beyond introducing mutually agreed contracts and coordinating *ex ante* national reforms. There does not appear to be any inclination to deepen the current level of economic integration through a further transfer of competencies in key areas such as taxation, budgets, social policies etc. On the contrary, an increasing number of national actors – led by the UK and increasingly also by the Netherlands, where the current government is convinced that the time of an "ever closer union" is behind us (with the proposed new slogan: "European where necessary, national where possible") – argue in favour of a revision of certain policy activities or even a partial re-nationalisation of certain competences.

Others argue in favour of more economic integration and some even call for an "economic government" *(gouvernement économique),* but without specifying in concrete terms what this would mean in practice and whether they would be ready to pool more sovereignty at the EU level. French President François Hollande's harsh reaction to the country-specific recommendations proposed by the Commission in May indicate the limits of European economic integration. Reacting to the Commission's proposals, he said that Brussels "cannot dictate to us what we have to do. […] On structural reforms, especially pension reforms, it is for us and only us to say what is the right way to attain the objective." These remarks were mainly aimed at French voters, who have become more sceptical about the EU, with some parts of the electorate increasingly attracted to the populist anti-EU/euro rhetoric of the far-right National Front led by Marine Le Pen. But President Hollande's public outburst and Chancellor Merkel's clear statement in a recent interview in *Der Spiegel* that she does not think it is necessary to transfer further competences to the EU/Commission, show that key EU members are not willing to go much beyond the current level of integration, demonstrating the limits of extending the economic policy framework towards a genuine EMU.

The European Council has not devoted any real attention to the other two building blocks of a Genuine Economic and Monetary Union, i.e. an **integrated fiscal framework** and the strengthening of democratic legitimacy and accountability. There is no concrete reference in the Summit Conclusions to a further deepening of fiscal cooperation, which can be interpreted as a strong indication that EU governments believe there is no need to go (much) beyond the innovations adopted since 2010 ('six pack'; 'two pack'; fiscal compact).

With respect to **democratic legitimacy and accountability,** the Conclusions are once again very weak and vague. They merely repeat previous imprecise statements that any "new steps" towards strengthening economic governance will need to be "accompanied by further steps towards stronger democratic legitimacy and accountability at the level at which decisions are taken and implemented." As in the past, it remains unclear what should and could be done to enhance democratic legitimacy and accountability in more concrete terms. It seems increasingly likely that EU governments will, in the context of current efforts to deepen Economic and Monetary Union, refrain from major institutional innovations that might require a Convention to substantially amend the current Treaties.

Foretastes and consequences of a 'new normality'

Like other meetings of EU leaders over the last nine months, the June 2013 European Council was a rather low-profile affair. As market pressures have subsided since the summer of 2012, the European Council and the EU in general appear to be working under different conditions and it is thus worthwhile to examine the broader potential consequences and prospects of this 'new normal'.

Since the outbreak of the euro crisis in early 2010, the EU – and especially the European Council – have been operating under exceptional circumstances. Over the last three and a half years, we have witnessed many (almost too many to count) ordinary, extraordinary and even emergency meetings of the EU or euro-area leaders. During many of these meetings between 2010 and 2012, all eyes in Europe and beyond were on Brussels, and some of them will certainly enter the history books. At times, it seemed as if the situation might spiral out of control; as if the 'crisis snowball' was constantly growing and could trigger an avalanche with the potential to bury the European project beneath it.

It will be the task of future historians to provide a thorough in-depth analysis of what has happened and how significant this period has been for European integration. Today, in systemic terms the situation looks better than it did a year ago. The ECB's decision to provide the 'big bazooka' through its conditionality-based Outright Monetary Transactions (OMT) and the substantially reduced risk of a country exiting the euro zone have increased confidence in the common currency and significantly reduced the danger of a euro meltdown. The EU is not out of the woods yet and there is no reason to lie back and relax neither at the European nor the national level, as the economic, fiscal, social, and political situation in many Member States remains severe and very fragile, but the overall situation has improved compared to June/July 2012.

The fact that the six EU Summits since October 2012 have been unspectacular affairs, lacking the drama of previous meetings, indicate that the EU and the European Council are moving from 'crisis mode' to 'normal mode'. But this 'normal' will be different from the one before 2010; i.e. before the crisis and before the entry into force of the Lisbon Treaty, which strengthened the institutional role of the European Council, especially through the introduction of a full-time permanent President.

In this new situation, it is worth stepping back to reflect on what this 'new normal' might mean for the EU and in particular for the European Council and, especially, its president. What are main characteristics and key potential developments and challenges in this new situation? Five points seem particularly significant.

First, for many years to come the European Council will be confronted with the multifaceted consequences of the crisis and the collateral damage it has caused will make it more difficult to find consensus among EU leaders. Europe's economic prospects are not very promising and many Member States will struggle hard to (partially) recover from the crisis, as growth rates will probably remain low and (youth) unemployment figures higher than before the crisis. In political terms, the EU will have to cope with the rise of anti-EU, anti-euro and anti-establishment forces at European and national level. At EU level, it seems more than likely that the next European Parliament will include more EU-sceptical and EU-phobe forces. At national level, the rise of anti-EU/anti-euro parties – even if they do not come to power – has already had, and will in many cases continue to have, a negative impact on domestic EU policy-making as traditional parties will feel compelled to respond to the more EU-critical sentiment in parts of the electorate. The chances are high that this will make it more difficult for the European Council to reach compromises at the highest political level.

Second, decreasing crisis pressures are likely to (continue to) have a negative effect on the readiness of Member States and their leaders to take 'courageous' decisions at European level. They will probably be more inclined to follow a reactive 'wait-and-see' approach and less ready to take bold decisions – as they were forced to do between 2010-2012, not on the grounds of a 'strategic vision' but rather out of fear of what would happen if they could not find a compromise well above the lowest common denominator. A higher degree of complacency has been evident in recent months and this trend towards 'reactive muddling through' is likely to continue if immediate threats from the crisis and pressure from the markets continue to recede.

Third, compared to 2010-2012, the role of the European Council and of its president in the EU's overall institutional setting is likely to be less prominent, as the 'end' of the crisis will shift attention and influence away from the executive level. Crises are always, and at all political levels, the 'prime time' for the executive branch. During the first years of the euro crisis, national governments had to 'take control' and, as a consequence, it was both natural and unsurprising that the European Council and its president played the predominant role at the European level.

It remains to be seen how the institutional 'quad' – the European Council, the Council, the European Commission and the European Parliament – will operate and interact in the 'new normal mode'. There is, for example, a good chance that the next European Commission and its president might play a stronger role, given that the institution's position has been enhanced in the new system of economic governance and that the (s)election of the next Commission president will take into account the outcome of the 2014 European Parliament elections. This could strengthen the Commission President's power base and his or her ties with the Parliament. A potential institutional weakening of the European Council president's position and/or the potential strengthening of the Commission president could have a significant effect on their relationship.

But it is difficult to make firm predictions about how this might affect the interplay between the two future holders of these offices and their respective institutions, as much will depend on the personalities of those involved.

Fourth, the European Council and its president will have to cope with the consequences of the predominant role that one Member State – i.e. Germany – has and will continue to play in the (European) Council, due to its strong economic performance, which could create tensions within the EU. This imbalance, which also has to do with France's current weakness, has a significant negative political impact: there is a widespread perception in some EU countries that the German government is imposing severe austerity measures and asking for difficult structural reforms from countries already suffering most from the financial and economic crisis. The reasons for the economic problems in many EU countries and the political realities of decision-making at EU level are obviously much more complex. But perceptions matter and Berlin has, over the last couple of years, become Europe´s 'new scapegoat', blamed for the exceptional difficulties in some Member States.

This development is difficult for Germany itself, which, for historic reasons, has always avoided being in a 'hegemonic' position, and for the EU as a whole, as the increasingly negative feelings between Member States and societies risk undermining the very foundations of the European construction and the legitimacy of decisions taken at EU level. As Europe moves out of crisis mode, there may well be more open political stand-offs between Berlin and other national capitals or coalitions of Member States. If this happens, the European Council President will have to play a significant role in bridging the political gaps and in functioning as an honest broker between EU governments.

Fifth, despite widespread fears and predictions that the EU would become a 'two-tier' club, a deep split between countries inside and countries outside the euro area seems unlikely. The Euro Summit, which brings together the heads of state or government of the euro area, is not likely to become the EU's *gouvernement économique* (economic government). The euro crisis has shown that the level of cooperation within the euro zone will have to increase, but key countries inside the euro-area (Germany) and key countries still outside (Poland) will, out of self-interest, do their utmost to avoid the creation of a two-tier Europe. The imminent adoption of the euro in Latvia demonstrates the continued attractiveness and openness of the euro zone, despite all the upheavals of recent years, and more pre-ins will most likely follow in the years to come. In the meantime, the European Council President should (continue to) function as an institutional link at the highest political level between EU and Euro Summits.

The above-mentioned points clearly illustrate that the 'new normal' is very different from the situation before 2010. Europe has made substantial progress, but it will continue to suffer from the severe economic, political and social fallout of the crisis for many years to come. EU institutions and governments have to remain on permanent alert, avoid the 'complacency trap' and go beyond the lowest common denominator when it comes to completing Economic and Monetary Union – if they don't, we might backslide and find ourselves in 'crisis mode' again.

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