Analyses OSW

CENTRE FOR EASTERN STUDIES 7.06.2017 www.osw.waw.pl

Brussels' proposal to reform the eurozone – a cool reaction from Berlin

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On 31 May, the European Commission put forward a proposal to reform the eurozone in response to the increasing economic disparities between the member states. The proposal envisages (amongst other measures): the creation of a common bank deposit guarantee fund, a eurozone budget, the issue of common debt, and vesting the new minister of finance of the eurozone with the competences of auditing the member states' financial policies. Berlin has questioned these proposals for years. According to media reports, the German Ministry of Finance has insisted that the government put forward a position paper criticising the European Commission's proposal, but it has been impossible to develop a compromise document due to resistance from the Social Democrats. Deputy chancellor Sigmar Gabriel (SPD) has accused the minister of finance, Wolfgang Schäuble, (CDU) of being inflexible in the search for new solutions to the eurozone's problems.

Commentary:

- The European Commission's concept is the second in the cycle of documents concerning the reform of the EU and the eurozone which are expected to contribute to the discussion on further integration. The document is vague and mainly contains a set of proposals which have been seen in public debate calling for a deeper reform of the eurozone. The presented concepts, one of whose main authors is the French Commissioner for Economic and Financial Affairs, Pierre Moscovici, have met with a cool reaction from Berlin. Germany opposes the establishment of fixed mechanisms of financial transfers between eurozone member states. It would prefer to create a European Monetary Fund where it would have a veto right and which could encourage countries to employ stricter budget discipline by offering loans.
- The fact that Emmanuel Macron has been elected president of France, and the declarations of a protectionist policy from the US president contribute to mounting pressure on Germany to allocate more funds supporting the eurozone member states coping with economic problems. This will only be possible in the timeframe of a few years, after France has implemented structural reforms. Decisions concerning the directions of integration will be an effect of a compromise between France and Germany. The minister of finance, Wolfgang Schäuble, has demonstrated his openness to such solution by establishing a joint German-French working group for eurozone reforms in May this year.

- Ahead of the election to the Bundestag scheduled for September this year, the Social Democrats have been hinting that they are more prepared to offer support to those eurozone member states which have financial problems, such as Greece, France or Italy. This seems to be merely a tactical move for the needs of the election campaign in order to present the SPD as a party which has more empathy than the Christian Democrats. The SPD's participation in the government coalition with the Christian Democrats since 2013 has not led to Germany modifying its stance on eurozone reform so far. It is still based on austerity policy in exchange for loans, as pushed through by Chancellor Angela Merkel and Wolfgang Schäuble. According to an internal analysis of the Ministry for the Economy (controlled by the Social Democrats) which was published by *Handelsblatt* in April this year, the ministry sees no possibility to offer greater support to the eurozone member states affected by economic problems.