Hodson, Dermot (2016) Eurozone governance: from the Greek drama of 2015 to the Five Presidents' Report. Journal of Common Market Studies 54 (S1), pp. 150-166. ISSN 0021-9886.

Pre-publication version of Hodson, D. (2016) 'Eurozone Governance: From the Greek Drama of 2015 to the Five Presidents' Report' Journal of Common Market Studies 54(S1): 150–166.

Eurozone Governance: From the Greek Drama of 2015 to the Five Presidents' Report

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Introduction

Greece's membership of the eurozone has long been problematic but these problems came to a head in 2015 with an astonishing standoff between a newly-elected Greek government led by Alexis Tsipras and a coalition of fiscal hawks headed by German Finance Minister Wolfgang Schäuble. This standoff escalated in July after Tsipras called a referendum on the terms of stalled negotiations with the European Union (EU) and International Monetary Fund (IMF) and Schäuble tabled the idea of Greek exit from the eurozone. Grexit appeared to be a matter of hours away before the heads of state or government brokered a short-run solution of sorts. This deal, which paved the way for €85 billion in additional loans, had brutal conditions attached. It ended the Greek drama of 2015 but neither resolved the contradictions surrounding Greece's membership of the eurozone nor secured the fate of economic and monetary union (EMU) more generally. Over the course of the year, the eurozone also grappled with other challenges, including slow economic growth, deflationary pressures driven by low oil prices, the implementation of recent reforms to eurozone governance and the prospects for economic, fiscal, financial and political union set out in the Five Presidents' Report. The overarching theme of 2015 was that eurozone governance faced profound problems of legitimacy that policy-makers appeared more adept at aggravating than alleviating.

This contribution takes stock of these and other developments in eurozone governance in 2015. Section I gives an update on the euro crisis, focusing on the eurozone's standoff with Syriza. Section II looks at the economic outlook in 2015 and the factors driving the eurozone's tentative economic recovery.[1] Section III explores key developments in eurozone monetary policy, including the European Central Bank's (ECB) new programme of quantitative easing. Section IV focuses on the first full year of the single supervisory mechanism (SSM) and the launch of the single resolution board (SRB). Section V turns to economic policy co-ordination and reviews the Commission's efforts to promote a more flexible interpretation of the stability and growth pact. Section VI takes stock of the Five Presidents' Report and Section VII addresses external representation and the IMF's complex and evolving relationship with the eurozone.

I The Euro Crisis in 2015: The Syriza Standoff

Last year's review ended with the fall of Antonis Samaras' New Democracy-led coalition and the rise of Alexis Tsipras' radical left-wing Syriza, which formed a government with the populist, right-wing Independent Greeks in January 2015 (Hodson, 2015a). From mid-2014, financial markets had started to price in the perceived risks from Syriza, which in its Thessaloniki Programme in late 2014 called for a radical revision to the terms of EU and IMF loans. The interest rate on long-term Greek debt continued to rise in early 2015 while remaining remarkably low in other peripheral eurozone economies (see Figure 1). This indicates that this act of Greece's fiscal tragedy was written in Athens, even if the overall play had many authors at home and abroad. It came as little surprise that Greek voters turned to an anti-austerity party after six years in which mainstream politicians presided over plummeting real incomes, exceptionally high unemployment and eye-watering levels of debt that have barely been stabilized.[2]

- Figure 1 here -

It would be wrong to see Syriza as a single-issue party born of the euro crisis; it traces its origins to the pro-European wing of the Greek Communist Party, which split in the late 1960s to form Synaspismos before forming a Coalition of the Radical Left in 2004 (Mac Fhearraigh, 2012). Syriza remains an essentially pro-European party, albeit one with strong anti-globalization credentials. This tension was apparent in Alexis Tsipras' promise on the day of his election victory to make 'the troika a thing of the past for our common European framework', the troika serving as code here for the IMF and the IMF serving in turn as a cypher for globalization.[3]

Tension between the new Greek government and its eurozone partners was evident from the beginning. Greece's new Finance Minister Yanis Varoufakis, a motorcycling Marxist with a black leather trench coat and an aversion to neckties, was by far the most unorthodox member of the Eurogroup in its 18 year history. Things got off to a bad start when Eurogroup President Jeroen Dijsselbloem cut short a joint press conference with Varoufakis in January at which the former was overheard telling the latter: 'You have just killed the troika' (Mason, 2015). Varoufakis was charismatic and, although he received a warm reception from French Finance Minister Michel Sapin in Paris in early February, the same could not be said of the Greek Finance Minister's subsequent visit to Berlin. At a joint press conference between Varoufakis and Schäuble, the latter declared that the two had 'agreed to disagree', strong language from a member of the usually consensus-seeking Eurogroup. In the opening stages of what would become some of the most turbulent few months in the history of the eurozone, the Greek government's principal achievement was to convince other eurozone members to drop references to the troika in favour of the more generic term 'the Institutions' (see, for example, Eurogroup, 2015).

Discussions over diplomatic rhetoric gave way to harsher political realities in late February, when Greece was offered, and agreed to, a four month extension to its existing loan agreement with the EU and IMF. In negotiations with the Eurogroup, Varoufakis had initially sought a six-month extension, talks on a new Contract for Recovery and Growth and 'possible further debt measures', in other words a diluted version of the Thessaloniki Programme.[4] In the end, Eurogroup partners insisted on four months of funding in exchange for much the same reform commitments as the Samaras administration had envisaged. Talks on what to do after these loans expired began immediately.

Varoufakis proved evasive about implanting the reforms he had reluctantly agreed to in February and EU and IMF officials were kept at arm's length from the Ministry of Finance in Athens. The result was that negotiations over future financial support from international creditors stalled and the Greek government started to run short of cash. In June Greece failed to make a scheduled loan repayment to the IMF, the first country to do so since Zimbabwe.

Since Syriza's election victory, Greek depositors had begun to withdraw their savings from Greek banks, which became increasingly dependent on short-term financing from the ECB. In February 2015, the ECB restricted Greece's access to such financing via its ordinary monetary policy operations, citing concerns over the country's commitment to international creditors. This left Greece reliant on emergency liquidity assistance (ELA) from the ECB, which increased from €50 billion in February to €90 billion in June. This move put pressure on Greece not only because ELA carries a higher interest rate compared to ordinary monetary policy operations but also because this emergency financing is reviewed by the ECB Governing Council on a biweekly basis.

By the end of June talks between the Greek government and the EU and IMF had broken down and Alexis Tsipras took the extraordinary decision to call a referendum on 5 July over the terms of these now defunct negotiations. The ECB's refusal at this time to increase emergency liquidity support to Greek banks left the Greek government with little choice but to shut down the country's banks and impose capital controls to prevent citizens from transferring large sums of money abroad. In the week running up to the referendum cash withdrawals from ATMs were limited to €60 per day. Pension payments continued but Greeks travelling abroad were unable to use credit cards and parents were allowed to make payments to children studying abroad only with special permission from Greek authorities.

Why Alexis Tsipras called this referendum when he did is a puzzle for political scientists. As Robert Putnam (1988) argued there can be advantages in a two-level game of tying hands through more stringent ratification rules, where such stringency encourages international partners to offer concessions that they would not otherwise have done. But, as Peter Evans (1993) notes, whatever the theoretical advantages of doing otherwise, heads of state or government typically prefer to negotiate on the international stage with as much room for manoeuvre back home as possible.

The reasons for calling this vote can be debated but the result of Greece's referendum was rarely in doubt. Framed as a vote against austerity, 61 per cent of Greek voters rejected the terms that had been offered by the EU and IMF, leading to mass demonstrations on the streets of Athens in which the people made clear their preference for policy-makers to choose a new path. Not for the first time eurozone leaders chose to carry on regardless. Tsipras' response to the referendum was conciliatory rather than defiant; he immediately replaced Yanis Varoufakis, who by now was isolated in the Eurogroup and unpopular at home, with the more emollient Euclid Tsakalotos as Finance Minister. Several rounds of inconclusive discussion between Tsakalotos and the Eurogroup concluded in July 2015 with Wolfgang Schäuble's insistence that the heads of state or government consider offering Greece a 'timeout' from the eurozone for at least five years in return for debt restructuring. From a two-level game perspective, the timeout proposal chimed with the tendency of negotiating partners to walk away from the table when a head of state or government ties their hands too tightly at home (Putnam, 1988). And yet, this explanation is difficult to square with the fact that Germany, as Greece's largest creditor and the largest economy in the eurozone, had a great deal to lose from Grexit. An alternative explanation is that Schäuble was, as Michel Sapin put it, seeking to 'entertain the gallery'. The German Finance Minister's tough approach to negotiations won plaudits with the German public, who were split on whether Greece should remain a member of the eurozone (see Cullen, 2015) and shaped by economic reforms taken in response to unification (Newman, 2015). From a European perspective, Schäuble's particular vision of European integration may have played a role here too, based, as it is, on the idea of closer co-operation among a hard core of European countries with similar economic and political philosophies (see Ghironi, 2015).

A meeting of the Euro Summit on 16 July succeeded in reaching an agreement where the Eurogroup had failed but only after 17 hours of fraught negotiations. As morning broke, with the chances of Grexit increasing by the hour, European Council President Donald Tusk reportedly told Merkel and Tsipras: 'I'm sorry, there is no way you are leaving this room' (Chassany et al., 2015). Thanks to Tusk, or perhaps more plausibly, the realization of just how costly Grexit would be to all countries concerned, a deal was struck a few hours later. This paved the way for a third round of loans from the EU and IMF and hence Greece's continued membership of the eurozone. In exchange, the Greek government signed up to a detailed and draconian set of reforms, which ranged from cutting pension entitlements to the liberalization of milk production and bakeries. Perhaps the most controversial element of this package – and the one which almost saw Tsipras walk out – involved the creation of a new privatization fund managed by Greek authorities and supervised by EU institutions with the authority to sell €50 billion in state assets to repay loans to European creditors.

It is hard to underestimate just how much damage this deal did in the short-term to the EU's fragile legitimacy. Rarely has the EU drawn such public ire, with the hashtag #thisisacoup trending on Twitter as negotiations at the July summit unfolded. As usual, the heads of state or government demonstrated their ability to reach a deal during moments of duress but rarely have they done so with such open disregard for the democratic wishes of a Member State. That said, the Greek crisis is a test of multiple democracies and eurozone members were understandably reluctant to commit taxpayers money abroad without economic assurances and appropriate forms of political accountability.

The deal struck between Greece and its eurozone partners was brutal but it provided breathing space for political leaders on both sides. For Tsipras, it brought an opportunity to stand up to EU partners but without severing external sources of financing. For Germany, Greece's creditor in chief, it ensured that EU conditionality and the unwritten rules of EU diplomacy were enforced, but without breaking up the euro. At the time of writing (April 2016) – and 2015 shows that European political realities can shift suddenly – the deal had stuck. In August, Tsipras secured parliamentary approval for some of the reforms sought by EU partners under the terms of a new €85 billion loan package before resigning. His re-election victory a month later came at the cost of a reduced parliamentary majority but his party was also shorn of those members most willing to countenance Greek exit from the eurozone.

Although the short-term political situation was stabilized, deep contradictions remain over Greece's long-term position in the eurozone. In 2016, Greece's debt-to-GDP ratio could breach 200 per cent of GDP – double what it was at the beginning of the global financial crisis. As such, a further round of debt restructuring now seems unavoidable. This will be politically difficult since most of this debt is now in the hands of governments, the EU institutions and the IMF, which will be reluctant to take a loss on outstanding loans while extending further credit. The July 2015 deal left room for 'additional measures … aim[ed] at ensuring that [Greece's] gross financing needs remain at a sustainable level' (Euro Summit, 2015). Such measures hinge on the successful completion of a review of Greece's reform efforts, now expected to take place in February 2016.

Even with further debt relief, Greece will struggle to solve its fiscal problems in the absence of growth and inflation; the outlook for both economic indicators is bleak. Having returned to growth in 2014, Greece's political standoff with EU partners pushed it back into recession in 2015. More worrying still for Greece is the outlook for inflation. Inflation would help to reduce the real value of Greek debt, but the country found itself facing a persistent fall in price levels in 2015 for the third consecutive year. In the absence of policy alternatives, the temptation remains for Greece to exit the euro, however costly such a move would be for the Greek economy and the rest of the eurozone.

II The Economic Outlook: Recovering but not Recovered

In One Market, One Money, a classic study on the expected costs and benefits of EMU, the European Commission saw economic growth, price stability, sound public finances and the ability to absorb economic shocks as major advantages of the single currency (Emerson, 1992). Ten years after the euro's launch in January 1999, the European Commission (2008) could plausibly claim that the single currency was advancing these aims. A very different assessment is warranted as the euro enters the second half of its second decade. Since the euro crisis began in 2009, the single currency has experienced an extraordinary degree of economic, financial and fiscal instability as Member States have struggled to adjust to the global financial shock of 2007–08. Having entered a recession twice between 2008 and 2013, the eurozone experienced a slow and unconvincing recovery in 2014 (Hodson, 2015a). Real gross domestic product (GDP) in the eurozone increased by 1.6 per cent in 2015, an improvement on the 0.8 per cent growth rate recorded in 2014 if not exactly a cause for celebration. The United States, in comparison, saw real GDP rise by around 2.5 per cent for the second successive year.

The eurozone economy was buoyed in 2015 by a recovery in domestic demand. The contribution of public consumption, investment and, above all, private consumption to real GDP growth was higher in 2015 than was the case in 2014. Historically low oil prices and interest rates and a looser fiscal policy helped here as did falling levels of unemployment (see below). The European migration crisis had a positive macroeconomic effect on the eurozone by putting upward pressure on public expenditure (Aiyar et al., 2016) and the effects are likely to be greater still as those who are granted asylum enter the labour market (European Commission, 2016, p. 36). Turning to external demand, eurozone exports to the rest of the world increased in 2015, aided, in part, by a marked depreciation of the euro relative to the currencies of key trading partners. Be that as it may, the contribution of exports to real GDP growth was entirely cancelled out by a rise in imports to the eurozone. A worrying trend for the eurozone is that export growth looks set to remain well below rates recorded before the global financial crisis hit in 2007. This situation is due, in part, to China's continued slowdown. In 2015, China's demand for imports grew by 0.5 per cent compared with 7.0 per cent in 2014.

As always, the economic performance of eurozone members varied (see Figure 2). Real GDP in France and Germany grew by 1.7 per cent and 1.1 per cent, respectively. France's recovery was long overdue, with real GDP expanding by more than 1 per cent for the first time since 2011. It is too soon to say whether the economic reforms pushed through by France's Economy Minister Emmanuel Macron were paying off, with low oil prices and a more favourable euro exchange rate the more obvious explanations for the country's improved short-term performance. Lithuania, which became the 19th EU Member State to join the eurozone in January 2015, saw real GDP growth slow from 3.0 per cent to 1.6 per cent, its exposure to Russia's troubled economy being a contributory factor.

- Figure 2 here -

Unemployment remains a chronic problem for the eurozone, although the unemployment rate fell from 11.6 per cent to 11.0 per cent in 2015 (see Figure 3). Within the eurozone, seven members recorded unemployment rates in excess of 10 per cent in 2015 and, of these, two, Greece and Spain, saw rates in excess of 20 per cent. In 2015, Ireland became the first country at the heart of the euro crisis to get its unemployment below 10 per cent. Of the 44,100 additional people who found themselves in employment in Ireland in 2015, 8.5 per cent gained employment in construction. This resurgence in construction mirrors an increase in Irish property prices after the house price crash of 2007, with the OECD warning against ‘risks of another damaging property cycle’ (OECD, 2015, p. 25).

- Figure 3 here -

The harmonized index of consumer prices remained static in 2015 (Figure 4). Falling energy prices added to deflationary pressures, with the cost of a barrel of Brent crude oil falling from over USD 100 in January 2014 to below USD 40 in December 2015. Among the factors that could continue to depress oil prices is the Iranian nuclear deal, announced in July 2015 and which the EU played a significant part in brokering.[5] In 2012, the EU imposed a ban on oil imports from Iran over concerns about its nuclear programme. The lifting of this ban in 2016 is expected to increase Iranian oil production by as much as 1 million barrels a day.

- Figure 4 here -

In the eurozone as a whole, the budget deficit as a percentage of GDP fell from 2.6 per cent to 2.2 per cent and government debt increased from 94.5 per cent to 93.5 per cent (see Table 1). Four out of 18 eurozone members found themselves with government borrowing above the excessive deficit procedure's 3 per cent of GDP threshold, and government debt as a percentage of GDP was in excess of 60 per cent in 14 countries. Posting a positive primary balance (a measure of government borrowing that excludes interest repayments) is a conventional indicator of a country's ability to reduce its government debt. In 2015, Ireland, Portugal and Cyprus all posted primary surpluses. Greece, in contrast, went from a primary surplus of −0.4 per cent to a primary deficit of −3.5 per cent in 12 months, underlining the devastating effects of the country's fiscal standoff with eurozone partners.

- Table 1 here -

III Monetary Policy: Quantitative Easing (At Last)

Facing persistent risks of deflation, the ECB Governing Council finally introduced a fully-fledged programme of quantitative easing in January 2015. This took the form of the expanded asset purchase programme (APP), which encompassed the existing asset backed securities purchase programme (ABSPP) and an expanded covered bond purchase programme (CBPP3) (see Hodson, 2015a) and a new public sector purchase programme (PSPP). The PSPP committed the Bank to buy bonds issued by national governments, EU institutions and EU agencies to a total of €60 billion per month until the end of September 2016. This step was significant because it entailed large-scale government bond purchases by the ECB for the first time. It also involved a much greater financial commitment on the part of the ECB, which had previously been spending €10 billion per month on covered bonds and asset-backed securities.

The European Central Bank enjoys a high degree of statutory independence under the Treaties but its independence does not remove it entirely from the sphere of national politics. National central bank governors outnumber members of the ECB Executive Board by a ratio of around 3:1 on the ECB Governing Council and while the national central bankers are independent, they are appointed by national governments to head a national institution. As a consequence, on major matters of eurozone monetary policy, national interests are never entirely absent. This point is clearly discernable in relation to the APP's provision on the purchase of bonds issued by national governments, EU institutions and EU agencies. Of these purchases, the eurosystem as a whole will guarantee only a small share of government bonds. This leaves the Banque de France exposed to any losses that might result from the purchase of French government bonds, the Bank of Greece exposed to losses from Greek government bonds and so on. As Armstrong et al. (2015) note, this arrangement discourages reckless fiscal policies by national authorities by leaving national central banks exposed to the risk from such recklessness. And yet, the authors note, this arrangement could undermine the effectiveness of crisis management in the eurozone. Under the APP, for example, the Bank of Greece could, in principle, find itself insolvent because of ECB purchases of Greek government bonds.

It is too soon to say whether the APP has been a success. Although inflation expectations – a forward-looking measure of inflation – increased in the first half of 2015, they fell back in the second half of the year. In December 2015, the Governing Council agreed to extend the APP to the end of March 2016 'or beyond if necessary' (ECB, 2015, p. 5). At the same time, the ECB Governing Council decided to extend its experiment in negative interest rates, cutting the interest rate on its deposit facility from −0.2 per cent to −0.3 per cent.

IV Financial Supervision: The Single Resolution Board as a De Novo Body

The year 2015 was a fairly quiet one for financial supervision after the ECB's high-profile stress tests in late 2014 (Hodson, 2015a). Yet, in its first full year of operation, the SSM held 38 meetings and took around 1,500 decisions on various aspects of financial supervision. The SSM's most important act was the completion of a eurozone wide supervisory review and evaluation process (SREP), a stress test of the eurozone's 120 largest banking groups. As part of this exercise, the SSM set capital ratios for the banks under review, requiring some to set aside additional capital for 2016. Two such banks were Popolare di Vicenza and Veneto Banca, which were required to raise a combined €2.5 billion in additional capital amid concerns over the management of some Italian financial institutions and their exposure to non-performing loans. The SSM's involvement in matters that have traditionally been the preserve of national authorities seemingly rankled with some, including the Deputy Governor of the Bank of Italy who warned the SSM against 'arbitrary' and 'unwarranted' decisions that, by reducing banks' capacity to lend, could be harmful to growth (Henry, 2015). Such protests did not deter the SSM, which announced in December 2015 that it would launch an investigation into Italy's cooperative banks.

The launch of the SRB was another key development in 2015. A major pillar of European Banking Union alongside the SSM, the SRB is responsible for dealing with failing financial institutions in eurozone members and other participating members.[6] As of 1 January 2016, when it became fully operational, the SRB assumed overall responsibility for brokering the sale or resolution of failing banks, 'resolution' referring in this context to changes to the legal, operational and financial structures of a bank with the aim of preventing outright bankruptcy. Previously it fell to national taxpayers to bail out failing banks. This situation gave rise to the so-called 'doom loop' between banking and fiscal crises (Obstfeld, 2013), as occurred in Ireland where government support to banks bankrupted an otherwise solvent state. To break this doom loop, the SRB will facilitate bank resolution via the Single Resolution Fund (SRF), an instrument funded not by public funds but via levies from financial institutions that will reach €55 billion by 2023.

The SRB is an instance of what Bickerton et al. (2015) call a de novo institution, that is, EU bodies created by Member States to carry out specific policy-making tasks at arm's length from the traditional Community institutions. Under proposals put forward by the Commission in July 2013, the Commission would have been formally responsible for deciding whether a failing bank should be resolved. This proposal went too far for the ECOFIN Council, which decided that the decision on whether to resolve a bank should rest with the ECB and national representatives but not the Commission (see Howarth and Quaglia, 2014). Under the final regulation, which was adopted by ECOFIN and the European Parliament in July 2014, the SRB is empowered to decide on whether a bank is failing or at risk of failing but it can only do so after the ECB has been given an opportunity to make such an assessment. Thereafter, it falls to the SRB to determine whether and how the bank in question should be resolved and whether and how the SRF should be used for this purpose. In cases where the use of this fund requires more than €5 billion, this decision falls to the plenary rather than the executive body of the SRB. Whereas the executive board includes the chair and four full-time members of the SRB, the plenary includes representatives of each national resolution authority.

De novo bodies operate at arm's length from the European Commission and the SRB is no exception in this regard. The Commission's most important role here concerns its right to put forward nominees to the SRB executive, albeit on the basis of an open competition and with the final decision being taken by the European Parliament. Thereafter, the Commission plays a second order role in relation to the SRB, the former being entitled to attend meetings of the executive and plenary as a permanent observer rather than a full participant. The Commission can object to the use of the SRF on grounds of competition or public interest, but the SRB is required to alter its use of the fund in such cases only if the Council supports the Commission's objections. In short, the SRB illustrates Member States' willingness to extend the scope of EU decision-making into a highly sensitive policy domain but without giving new powers to the Commission along traditional lines.

V Economic Policy Co-ordination: Reinterpreting the Growth Pact

At the beginning of 2015, seven eurozone members had excessive deficits. Of these, Malta saw its excessive deficit procedure closed in June 2015 after the EU finance ministers, acting on a recommendation from the Commission, agreed that the country's budget deficit was below 3 per cent of GDP and forecast to remain there. Five of the six remaining states – Cyprus, Spain, Greece, Ireland and Portugal – faced no additional steps under the excessive deficit procedure. France faced closer scrutiny, having been in a state of excessive deficit since 2009. After giving France an initial deadline of 2013 to correct this deficit, EU finance ministers decided to extend this deadline by two years in view of the 'unexpected adverse economic events' facing the French economy at this time (Council of the European Union, 2013). Two years later, with little prospect of this deadline being met, the ECOFIN Council agreed to give France until 2017 to correct its excessive deficit, this decision being based, in part, on a favourable assessment of the structural reforms underway in this country since 2012 (Council of the European Union, 2015).

The flexibility offered to France in 2015 provides further proof that the EU's reformed fiscal rules are more flexible than some of its fiercest critics allow. Further evidence in support of this interpretation can be seen in the Commission's January 2015 Communication Making the Best Use of the Flexibility Within the Existing Rules of the Stability and Growth Pact (European Commission, 2015). Through the ideas set out in this document, Commission President Jean-Claude Juncker (2014) sought to make good on his 'manifesto commitment' to a more flexible interpretation of the Pact. Specifically, the Communication set out clauses relating to investment and structural reform and clarifications related to cyclical conditions designed to show how the Commission will use its leeway for interpretation under the stability and growth pact to promote growth and jobs. In the end, Juncker's move did not quite work as intended. In April 2015, the Council's legal service issued an opinion, which suggested that such questions of interpretation should be codified in the Economic and Financial Committee's (EFC) Code of Conduct on the Stability and Growth Pact rather than left in the hands of the Commission. This power play between the Commission and the national finance ministries that comprise the EFC had yet to conclude at the year's end as negotiations over a revised code of conduct continued.

VI The Future of Eurozone Governance: The Five Presidents' Report

The claim that the EU is in dire need of reform is accepted by critics and champions of European integration alike. And yet the Union is almost always engaged in some institutional revision or another while simultaneously debating the need for new, more ambitious reforms. The publication of the Five Presidents' Report in June 2015 illustrates well the EU's infatuation with reform, this being the third high-level report on EMU since Member States began to reform the eurozone in 2010. The five presidents in question – heads of the Eurogroup, European Council, European Parliament, European Commission and European Central Bank, respectively – took their cue from the Euro Summit in October 2014, which called on four out of these five presidents 'to prepare next steps on better governance in the euro area' (Euro Summit, 2014). The unforeseen participant was European Parliament President Martin Schulz, whose eventual involvement reflected his close working relationship with Jean-Claude Juncker and the European Parliament's determination to play a greater role in eurozone affairs.

Mirroring the structure of the Delors Report on EMU, the Five Presidents' Report outlined three stages to complete EMU by 2025. The first stage (1 July 2015 – 30 June 2017) included tentative thoughts on a common deposit insurance scheme, designed to complete European banking union and proposals for the creation of a euro area system of competitiveness authorities and a European fiscal board. The system of competitiveness would involve the creation of national agencies to track macroeconomic imbalances. It can be understood as the latest in a series of initiatives designed to foster national ownership over EU economic surveillance rather than relying on the Commission to play the role of bad guy from Brussels (Deroose et al., 2008). The proposal for a European fiscal board envisaged a new independent agency empowered to issue opinions on Member States' stability programmes and draft budget plans. That the Commission saw this board as a potential threat is suggested by the speed with which it established a European fiscal board in October 2015 on its own terms and without involvement from EU finance ministers.

Stages 2 and 3 of the Five Presidents' Report were less detailed, the report suggesting only that the former should begin in June 2017 and that the latter should end by 2025. Among the ideas slated for stage 2 was the codification of 'commonly agreed benchmarks for convergence' (Juncker et al., 2015, p. 5), a variation on the Euro Plus Pact, an intergovernmental agreement that tried (but ultimately failed) to encourage Member States to enact specific structural reforms in national law. More ambitious still was the report's call for a 'macroeconomic stabilization function for the euro area' designed to adjust to large macroeconomic shocks and the creation of a eurozone treasury. Detail on stage 3 was sketchier still, the report suggesting simply that it would begin when all other stages had been completed.

The weakest elements of the Five President's Report were its ideas on legitimacy. Here the report called for closer interaction between European and national parliamentarians in a revamped European semester, a modest procedural proposal that sat uneasily with the five presidents' grand visions of economic, fiscal, financial and political union. The report was also equivocal about the need for treaty change. Reference was made to the integration 'into the framework of EU law the Treaty on Stability, Coordination and Governance; the relevant parts of the Euro Plus Pact; and the Inter-governmental Agreement on the Single Resolution Fund' during the proposed 'deepening by doing' stage (1 July 2015 – 30 June 2017). But the report also emphasized the need to ‘make the best possible use of the existing Treaties’ during stage 1 (Juncker et al., 2015, p. 5). Conveniently – and presumably deliberately – stage 2 was not set to begin until after the latest possible date for a British referendum on whether to remain in the EU, the question of whether the UK might be disadvantaged by deeper eurozone integration being a sensitive one in the Brexit debate.

It remains to be seen what impact the ideas contained in the Five Presidents’ Report will have on the future of eurozone governance. Understandably preoccupied with the European migration crisis, EU heads of state or government delayed discussion of the report until December 2015, at which point the Council was instructed to address (although not necessarily agree to) Commission proposals stemming from the report without delay. Questions concerning ‘the legal, economic and political aspects of the more long-term measures contained in the report’, the European Council (2015) agreed, would be returned to before the end of 2017. This lack of urgency invites the question of whether the EU needed yet another ambitious high-level report on the future of EMU at this time.

VII External Representation: The Eurozone and the IMF

The eurozone's fragmented system of external relations has been widely criticized in the scholarly literature. The Treaty on the Functioning of the European Union (TFEU) allows the Council to establish a unified representation in ‘international financial institutions and conferences’ (Article 138 TFEU), but the Commission's attempts to make use of this provision in 1998 were rebuffed. Since then Member States have adopted ad hoc and informal measures to coordinate the EU involvement in IMF, the World Bank, the Organization for Economic Cooperation and Development (OECD), the Group of 7 (G7) and the Group of 20 (G20). The result is that a variety of actors – including officials from the ECB, Eurogroup, European Council and Member States – speak for the euro in these international forums. The fragmented manner of these arrangements has been criticized by a number of scholars (for example, McNamara and Meunier, 2002; Cohen, 2009). And yet, eurozone members have shown themselves to be capable of speaking with one voice in the G20 and the IMF (Hodson, 2011, pp. 97–107).

Building on the Five Presidents’ Report, the European Commission put forward a proposal in October 2015 on establishing a more unified representation for the eurozone on the international stage.[7] The proposal envisaged coordinated EU positions within the IMF being prepared by the Council, the Eurogroup, the Economic and Financial Committee (EFC), and its subsidiary body, the Eurogroup Working Group. Coordination across a range of institutions risks being bureaucratic and slow moving, thus raising concerns about the ability of a single eurozone constituency to respond rapidly to fast-changing events in the international monetary system.

Debates about the eurozone's fragmented system of external representation often overlook the fact that European influence within the Fund is considered to be disproportionately high by many commentators outside of Europe. This influence was seen in 2015 when calls by First Deputy Managing IMF Director David Lipton, an American, for a non-European to head the Fund failed to gain traction.[8] In February 2016, former French Finance Minister, Christine Lagarde secured a second term as

IMF Managing Director, thus continuing Europe's informal grip over the leadership of the Fund for the time being.

The IMF's involvement in the euro crisis since 2010 has added a new dimension to debates about Europe's relationship with the Fund. What matters here is not only the €60 billion in loans that the IMF has contributed to eurozone members but also the Fund's new role within EU policy-making. This role goes beyond the pooling of resources by the EU and IMF to encompass a role for the Fund in monitoring the conditions attached to European loans and eurozone surveillance more generally. The IMF's emergence as a de facto institution of the EU (Hodson, 2015b) can be seen, for example, in the European Stability Mechanism Treaty, which states that the 'Commission – in liaison with the ECB and, wherever possible, together with the IMF – shall be entrusted with monitoring compliance with the conditionality attached to the financial assistance facility'.

This Europeanization of the IMF has caused tensions among EU Member States, as evidenced by Greece's aforementioned attempts to 'kill the troika', but also between the EU and the Fund. Striking in this respect was the fact that the IMF had not, at the time of writing, agreed to contribute to the €85 billion package of loans offered to Greece in August 2015, even though IMF officials were involved in negotiating the terms attached to these loans. Speaking in July 2015, Christine Lagarde suggested that the IMF would not lend to Greece unless eurozone members first agreed to restructure Greek debt.[9] On this point, the IMF emerged as an unlikely ally of Greece, even though Alexis Tsipras remained steadfast in his position about the need for a European solution to his country's fiscal crisis.

Conclusion

The word drama is overused in describing the EU's susceptibility to crises or, as Davis Cross and Xinru Ma (2015, p. 1053) put it, the overwhelming tendency of commentators to frame 'challenges and setbacks to EU integration as existential crises'. Theatrical metaphors lend themselves all too easily to Greece but this cannot mask the very real existential threats that surround the country's place in the eurozone. So dramatic was Greece's fiscal crisis in 2015, indeed, that the BBC staged A Greek Drama, a radio play that imagined tense behind-the-scenes discussions between Alexis Tspiras, Yanis Varoufakis, Angela Merkel and Jeroen Dijsselbloem. An unusual subject for a radio play, it offered further proof of the EU's public struggles to contain the effects of a sovereign debt crisis that has profound implications for the lives of ordinary Europeans and which, after six years, is still far from being resolved.

The deal struck by the euro summit in July 2015 kept Greece in the eurozone in the short term but it did so at the cost of imposing even tougher economic conditions on Greece and without addressing the root causes of its fiscal problems. The damage to the EU's legitimacy was also significant, the euro summit seeming to set aside the Greek people's opposition to austerity, as expressed in its referendum on negotiations with the EU and IMF and, more generally, in the rise of Syriza. The heads of state or government showed themselves to be capable, once again, of governing under pressure, but they did little to engender public trust in EU policy-making.

Concerns over the legitimation of eurozone governance were not confined to Greece in 2015. The eurozone's economic recovery picked up, but low growth remains a longstanding problem for EMU, alongside more recent challenges such as high unemployment and the risk of deflation. EMU's legitimacy is judged, in no small measure, on the euro's ability to deliver price stability (see Verdun and Christiansen, 2000; Hodson and Maher, 2002), which makes the threat of deflation politically as well as economically damaging. The ECB's new programme of quantitative easing offered a belated response to this problem, but it remains to be seen whether it will bring inflation back towards the Bank's target of 2 per cent. Concerns over legitimacy were seen too in the field of financial supervision, where the SSM, in its first full year of operation, delved deeper into the affairs of European banks and faced political pressure for so doing. The Commission treaded more carefully in the field of fiscal policy, offering a more flexible interpretation of the stability and growth pact, but encountering resistance from national officials as a result. Finally, the Five President's Report offered yet another vision of EMU's future, advocating economic, fiscal, financial and political union. These proposals varied in the detail provided but none grasped the question of how to legitimate a more complete EMU that would go well beyond the vision of its founding architects (Dyson and Maes, 2016).

Endnotes

1. On developments in the European economy as a whole, see Benczes and Szent-Ivanyi's contribution to this volume.

2. See also Featherstone's contribution to this volume.

3. Euronews, 26 January 2015.

4. See Reuters, 19 February 2015.

5. See Pomorska and Vanhoonacker's contribution to this volume.

6. In April 2015, the government of Denmark, a non-eurozone member, announced its intention of joining European Banking Union. This decision has not yet been ratified at the time of writing 12 months later.

7. COM(2015) 603 final.

8. Emerging Markets, 11 October 2015.

9. The Guardian, 17 July 2015.

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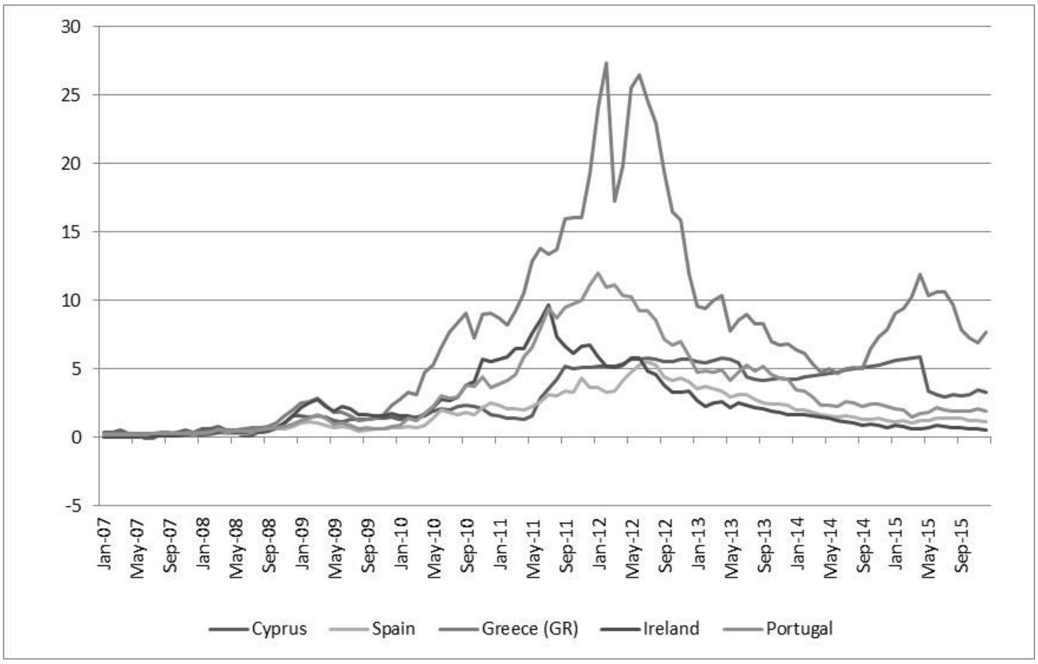
Figure 1: Bond Yields for Selected Eurozone Members, 2007-2015



Note: 10 Year Government Benchmark Bond Yields Relative to Germany

Source: ECB Statistical Warehouse

Figure 2: Real GDP Growth, Eurozone and its Members 2014 and 2015

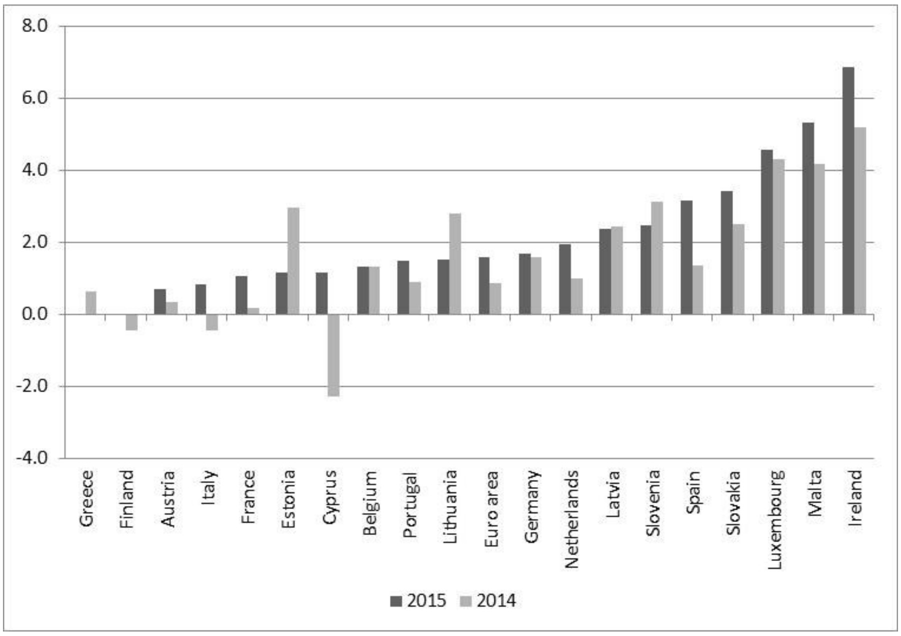
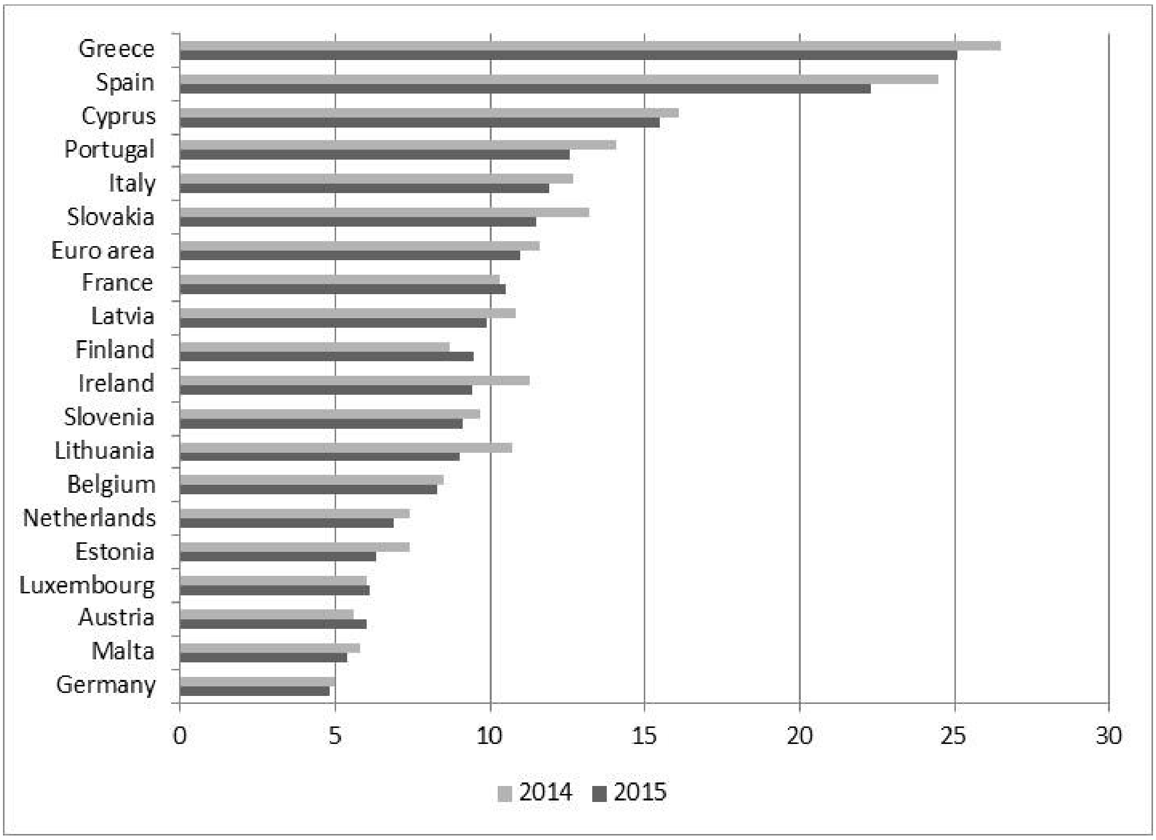


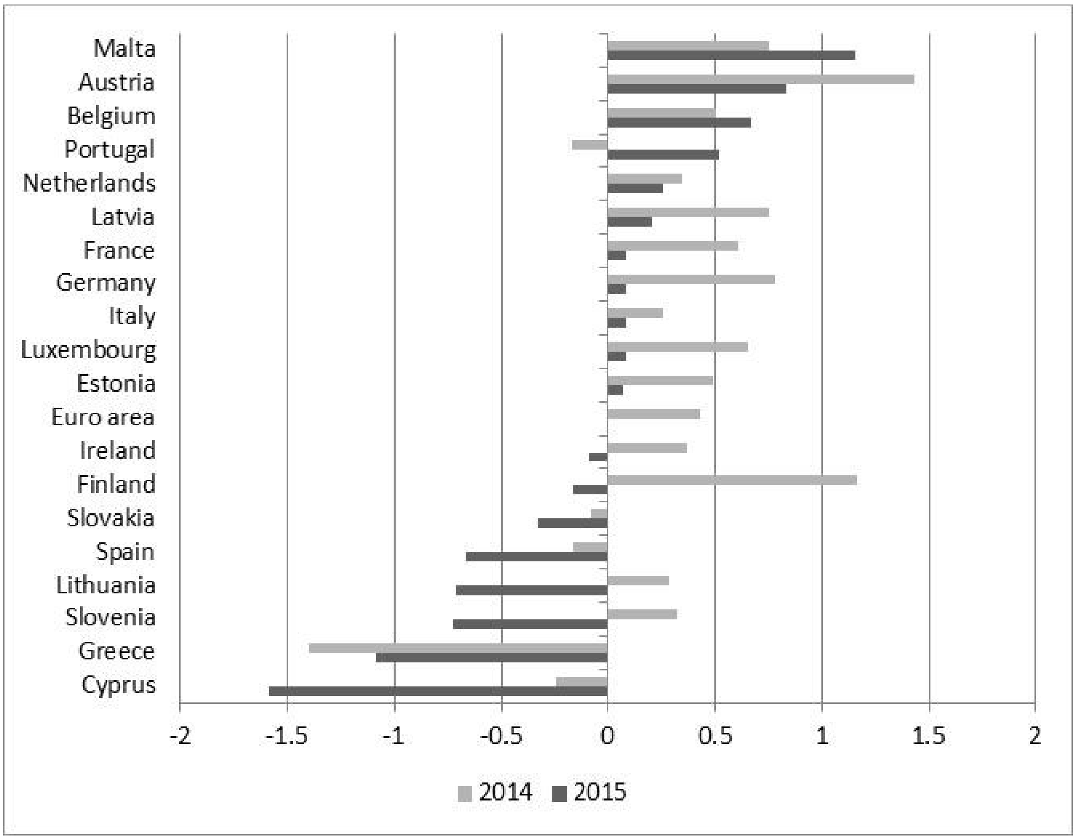
Figure 3: Unemployment Rate in the Eurozone and its Members 2014 and 2015



Note: Unemployment as a percentage of the civilian labour force.

Source: European Commission AMECO database

Figure 4: Inflation Rate for the Eurozone and its Members 2014 and 2015



Note: Annual change in Harmonized Index of Consumer Prices

Source: European Commission AMECO database

Table 1: Governing Borrowing in the Eurozone and its Members as % of GDP, 2015

	Net Lending	Government Debt	Primary balance
Euro area	-2.2	93.5	0.2
Austria	-1.6	85.9	0.7
Belgium	-2.9	106.1	0
Cyprus	-1.0	108.4	2.2
Estonia	0.3	10.1	0.4
Finland	-3.2	62.7	-2.1
France	-3.7	96.2	-1.6
Germany	0.5	71.6	2.1
Greece	-7.6	179	-3.5
Ireland	-1.8	98.4	1.5
Italy	-2.6	132.8	1.7
Latvia	-1.3	36.7	0.1
Lithuania	-0.9	42.7	0.7
Luxembourg	0.2	21.3	0.6
Malta	-1.6	64.0	1.0
Netherlands	-2.2	66.8	-0.9
Portugal	-4.2	129.1	0.5
Slovakia	-2.7	52.3	-1.2
Slovenia	-2.9	83.5	0.0
Spain	-4.8	100.7	-1.8

Source: European Commission AMECO database.