



BULLETIN

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COMMENTARY

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European Council Brussels, 17 June 2010

by Paweł Tokarski

At the one-day summit of the European Council in Brussels on 17 June 2010, the EU agreed a common position on the taxation of financial transactions to be presented at the G20 summit in Toronto. Also, the Council decided to publish on a regular basis detailed information on the financial health of the largest European banks and it adopted the Europe 2020 economic strategy for the EU.

Major Decisions. Taking place as it did in the shadow of problems in the eurozone, the European Council meeting in Brussels was dominated by economic issues, notably the improvement of coordination of the EU states' economic policies with a view to reducing the risk of financial problems in the member countries and the restoration of confidence in the eurozone.

While the leaders of EU states were in agreement on the need to reinforce the Stability and Growth Pact, they failed to reach an understanding on the scope of sanctions to be applied to countries in breach of the Pact. To restore confidence in financial institutions in Europe, they decided that reports—in the form of a ranking—on the financial situation of 25 largest European banks would be published on a regular basis. They also declared their desire for closer coordination of the economic policies of the EU members. However, they resolved to have meetings of the heads of state and government of eurozone members called only in exceptional cases; this was because of the non-eurozone states' cold attitude to proposals aimed to deepen this cooperation.

The leaders also agreed the EU's common position for the next G20 summit to be held in Toronto on 25 June 2010. They announced they would support G20 efforts aimed at improving competitiveness, reforming public finance and the financial sector, and introducing a system of levies and taxes on financial transactions. Proceeds from this levy are to go to funds to prevent bank failures. However, the final document of the summit brings neither a precise identification of the objects of taxation nor detailed rules on the spending of these funds. Presumably, the costs of the system would be passed on to the customers.

The impact of these funds on the financial sector is difficult to predict at the moment. Paradoxically, if set up, they could encourage risky market behaviors, because financial institutions will be aware of a strong back-up mechanism. The adoption of this system by the EU was championed powerfully by Germany, whose budget is currently bearing huge costs of aid to financial institutions. Only the Czech Republic refused to be persuaded into accepting this proposal and in the Conclusions of the Council its right to refrain from introducing these measures is duly recorded. On the other hand, it is anybody's guess—as Van Rompuy admitted—whether countries like Brazil or China can be won over to these proposals at the G20 summit.

The adoption of the Europe 2020 economic strategy for the EU as a follow-up to the Lisbon Strategy was an important decision of the Brussels summit. The heads of state and government of the EU countries welcomed a proposal from the European Commission that Estonia join the eurozone in 2011. They also endorsed the Commission's proposal to commence accession negotiations with Iceland. Now the Council is to draw up an agenda for these negotiations.

Conclusions. The decision on publishing information on the financial health of banks is welcome since this will make banks' operations transparent. The adoption of the Europe 2020 strategy is an important step—even though its effects, which depend on the manner of implementation and control of this program, will be long in appearing. On the other hand, the general debate on a way to strengthen economic coordination among the EU states produced no meaningful conclusions. This was because of the lack of unanimity on the extent and mode of this coordination. The debate on this subject will be continued; after 30 June the European Commission will put forward new proposals on economic coordination and in the autumn conclusions of the work of the Task Force will be released.