● Brussels chief urges integration ● Call for single supervisor ● Plan 'achievable' by next year

Barroso pushes EU banking union

By Peter Spiegel in Brussels

All 27 EU countries should submit their big banks to a single cross-border supervisor as part of a banking union to be enacted as soon as next year, the president of the European Commission has urged.

In a Financial Times interview, José Manuel Barroso said the EU needed to go beyond incremental legislative measures proposed by his institution last week and take "a very big step" towards deeper integration if the bloc is to learn from the sovereign debt crisis.

The plan, which would also include an EU-wide deposit guarantee scheme and a rescue fund paid for by levies on financial institutions, could be achieved by next year and without changes in the bloc's existing treaties, Mr Barroso said.

"I think now we have conditions to go further that, frankly, we did not have before," he said.

"There is now a much clearer awareness among European member states about the need to go further in terms of integration, especially in the euro area. This is one of the lessons of the crisis."

However, George Osborne, the UK chancellor of the exchequer, insists Britain will not be part of any banking union that makes its taxpayers liable for recapitalising eurozone banks or puts major British banks under the watch of an EU supervisor.

Mr Barroso's proposal for such a supervisor would give one EU authority power to wind down a bank and impose losses on bondholders without the approval of national authorities.

He also wants to accelerate proposals for the deposit guarantee scheme and bank resolution, which are primarily handled at national level.

Mr Barroso's suggestion that such integration could be achieved without treaty changes is also likely to raise objections in Berlin.

Despite these hurdles, Mr Barroso believed there was now greater appreciation in both London and Berlin about the need for an EU-wide banking regime.

"The European project has always made progress step-by-step," he said, adopting the language frequently used by Angela Merkel, the German chancellor, to denote her objections to sweeping reforms. "We should continue step-by-step but now we need a very big step. Either Europe makes a step forward or there is a risk of fragmentation."

The UK Treasury views such banking union proposals as a "single financial backstop for a single currency", something that Mr Osborne believes is desirable provided that Britain is not expected to take part.

Mr Barroso said Britain should be allowed to opt out of such plans as long as it did not block their progress. While he acknowledged this could further isolate Britain within the EU and was not his preferred choice, Mr Barroso said it was imperative to ensure Britain stayed in the EU.

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Mr Barroso cautioned that a banking union should not be seen as a substitute to address current market turmoil.

He said the weekend decision to bail out Spanish banks showed that the EU could act decisively in the short term, adding that he had urged a reluctant Mariano Rajoy, the Spanish prime minister, to accept the aid during a phone call to Madrid last week.

Additional reporting by George Parker in London

Barroso optimistic as political winds change

Interview

Leaders recognise that only through common solutions can eurozone fight on. By **Peter Spiegel** and **Alex Barker**

Since the eurozone debt crisis began two years ago, José Manuel Barroso has sometimes been criticised for lacking courage in his response. But when the European Commission president has made bold proposals to speed up and improve co-ordination of the bloc's response, his efforts have often been frustrated.

The "recapitalisation tool" deployed to rescue Spanish banks was, for example, initially rejected by Berlin. But while that was later adopted, many others have fallen on deaf ears.

Mr Barroso's efforts to get Germany and other triple A economies to back common eurozone bonds, to help troubled states to borrow at lower rates, have stalled under Berlin's objections. Similarly, a 2010 proposal for the EU to develop a common deposit guarantee scheme – another plan that would force stronger countries to stand behind the weaker – has gone nowhere.

But in an interview with the Financial Times, Mr Barroso said he believed the political winds were beginning to change. In Berlin, Paris and London, he said, national leaders have begun to articulate a recognition that only through common European solutions – including closer integration – can the eurozone survive.

"We have a chancellor of Germany that is indeed proposing a political union for Europe, which is extremely ambitious," Mr Barroso said. "We have a French president that has been highlighting the need for a more European approach regarding crucial issues like growth and investment. And we have a British government – and this is indeed a very interesting development – that while stating its willingness to stay out of the euro, assumes as indispensable and desirable to further integration in the eurozone."

It was this optimism, he said, that led him to believe that a EU banking union might soon be in the offing, with one banking supervisor, a common deposit guarantee scheme, and a rescue fund that got cash from bank levies or even a financial transaction tax.

But, underneath the declarations by Germany's Angela Merkel, France's François Hollande and Britain's David Cameron lie national objections that will be hard to surmount.

The main obstacle is Ms Merkel. While supporting a supervisory regime for Europe's largest banks, she is under pressure to avoid pooling of deposit guarantees by Germany's domestic banks amid criticism that German taxpayers are being asked to back weaker banks in countries such as Spain. Berlin is unwilling to expose its taxpayers to the risks of foreign banks without putting political safeguards in place.

Ms Merkel is also wary of

stretching EU supervision to Germany's regional savings banks. Some German officials argue these are not systemically important. But, it was similar regional banks in Spain that helped force Madrid into a bailout.

The French president is more vocal in his support of a banking union. But Mr Hollande and Mario Monti, the Italian prime minister,

A EU banking union may soon be in the offing, with one banking supervisor and a rescue fund

have backed moves towards common deposit guarantees, implying they want such pooling of resources before any push towards greater supervision, which would hit France harder than Germany.

Mr Cameron is in potentially the most awkward position of all as prime minister of the country with Europe's largest financial sector. Rather than give up powers to enable a banking union, London is expected to push for safeguards to ensure it can stand apart – while at the same time protecting a single market for all 27 EU member states.

In the interview, Mr Barroso suggested an opt-out for Britain: "If Britain cannot, because they are not in the euro area, go for more integration, we should find a way where this is possible to accommodate these different concerns," he said.

However, in exchange for the opt-out London would probably demand to, in effect, change voting rights to ensure it was not dictated rules by members of the banking union, which would hold a permanent majority in EU institutional affairs.

A second option more favoured in London is a banking union only for the eurozone. This would maintain the architecture for EU financial rulemaking. But it would deepen banking integration, with potentially the European Central Bank taking over supervision.