



EUROPEAN COMMISSION

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Dear President,

The Commission would like to thank you for the Opinion of the Senát on the Commission's Green Paper on the feasibility of introducing Stability Bonds {COM (2011) 818 final}, and apologises for the delay in replying.

The Commission notes that the Senát considers that Stability Bonds should primarily be perceived as an instrument for enhancing the effectiveness and proper functioning of the monetary union in the future, rather than as a crisis resolution tool. Further, the Commission notes that the Senát shares the view on potential economic and financial benefits suggested in the Green Paper, in particular creating a large bond market with lower liquidity spreads; facilitating the transmission of monetary decisions into the real economy, strengthening of the euro as a global reserve currency, and creating a more stable bond market. The Commission notes that the Senát considers that the issue deserves further analysis for a broad public debate, as regards the potential benefits and risks, including the feasibility of the proposal of the German Council of Economic Experts to set up the so-called European Debt Redemption Fund.

In this context, the Commission would further point to the extensive work that is currently carried out with a view to providing a decisive response to the crisis. In particular, at the European Council of 28/29 June, the Heads of State or Governments affirmed that it is imperative to break the vicious circle between banks and sovereigns. It was agreed that the Commission would present proposals on the basis of Article 127(6) TFEU for a single banking supervision mechanism. These proposals have been adopted on 12 September and address the key questions of the concrete functioning of the new supervisory role for the European Central Bank (ECB); the relationship between national supervisors and the ECB; bridging the interface between euro and non-euro area countries and clarifying the role of the European Banking Authority in this context. The Commission expects these proposals to be adopted by the co-legislators by the end of the year, in order for the new system to enter into force early in 2013, as a key component of a "banking union". Once common supervision is established, the way will be open for the European Stability Mechanism (ESM) to take a decision enabling it to directly recapitalize banks. This would rely on appropriate conditionality, including compliance with state aid rules, which should be institution-specific, sector-specific or economy-wide and would be formalised in a Memorandum of Understanding.

I hope that these clarifications address the issues raised in the Senát's Opinion and I look forward to continuing our political dialogue in the future.

Yours faithfully,

Maroš Šefčovič
Vice-President

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