

## EUROPEAN COMMISSION

Brussels, 21.2.2013  
C(2012) 8958 final

Dear Lord Boswell,

*The Commission would like to thank the House of Lords for sharing its report of the House of Lords on the euro area crisis and apologises for the delay in replying.*

*The report presents a rich analysis of the crisis in the euro area, its consequences and implications, and the key challenges for policy makers in the period ahead. The European Commission values the perspective of national Parliaments, particularly since the need for stronger economic and budgetary coordination at this time, especially in the euro area must be addressed in a way that fully respects their prerogatives. In reading the House of Lords' report, we found that there is a considerable convergence of views in the findings of the report on a wide range of issues with our own analysis. I will therefore take up only a few points raised in the report to provide you with additional information on the latest state of affairs or on the Commission's perspective.*

***Regarding the conclusions presented in Chapter 4 of the report ("other policy responses"),*** *The Commission noted with interest your deliberations on "Eurobonds" as a possible policy response to the euro area crisis. In the Commission's view the role of Stability Bonds should not be reduced to an immediate response to the crisis or as another item in an arsenal of potential short-term crisis tool. In their essence, Eurobonds or Stability Bonds have a much larger potential: to profoundly contribute to integrate European capital markets at their core, to thereby foster efficiency and the international attractiveness of Europe as an investment location. The feedback to the consultation, including a summary, has been published on 4 May 2012.*

*Given the complexity of issues related to the possible introduction of Stability Bonds, which was already signalled in the Commission's Green Paper of November 2011, the far from uniform feedback to the public consultation, the changing rules on economic and fiscal governance in the euro area, and the request by the European Parliament in its resolution of 14 February 2012 for further reflection on the issue, the Commission is still carefully weighing the options for the appropriate way forward. In doing so, it will carefully take into account the feedback to the public consultation, as well as further proposals made which are linked to the concept of Stability Bonds.*

Lord Boswell  
Chairman of the European Union  
Select Committee  
House of Lords  
Palace of Westminster  
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*As to the implementation of the 26 October 2011 agreement, the Commission shares the view that bank recapitalisation is a key element of the plan to resolve the euro crisis. It is part of the comprehensive approach to resolving the crisis outlined by President Barroso on 12 October 2011, which also includes decisive progress on Greece, adequate sovereign firewalls, growth-enhancing structural reforms, and stronger Euro Area economic governance. Banks' recapitalisation plans should rely on substantial capital generation and avoid unwarranted risk-weighted assets manipulations. In this respect preliminary aggregated evidence on the recapitalization results is rather reassuring. Also, in order to avoid detrimental deleveraging and any negative impact on the level playing field of the single market, it is necessary to improve home-host cooperation and involve effectively the colleges of supervisors and EBA arbitration within colleges.*

*In June, the Commission presented a proposal on bank resolution, in order to protect tax payers in the future. In addition, the Commission presented a Communication on its vision for a Banking Union on 12 September and adopted a proposal for the establishment of a single supervisor for the euro area, which will take over the supervision of euro area banks. This is a first essential step for the establishment of a genuine banking union. The Single Supervisory Mechanism will create a reinforced architecture, with a core role for the ECB, and appropriate articulation with the European Banking Authority, which will restore confidence in the supervision of the banks.*

*Once the proposals currently on the table will have been adopted, a next step towards establishing a fully-fledged Banking Union would be working towards establishing a single resolution mechanism which would govern the resolution of banks and coordinate in particular the application of resolution tools to banks within the banking union. It would be the natural complement to Single Supervisory Mechanism and would ensure that resolution and supervisory functions are allocated at the same level of governance. A new direct recapitalisation instrument for the ESM also needs to be developed, which will be conditional to the establishment of the Single Supervisory Mechanism. Such a step forward would allow us to break the sovereign-banking sector negative feedback loop and would be in line with the June Euro Area Summit where leaders agreed to an enhanced and flexible use of the EFSF/ESM instruments.*

*All countries in the euro area have ratified the Treaty for the European Stability Mechanism, which entered into force on 27th September. The ESM is now fully operational, and provides a credible and effective financial safety net for Member States in the euro area. Comprehensive and credible reform commitments attached to the EFSF/ESM stability mechanisms are the precondition for the ECB to engage in Outright Monetary Transactions as announced by ECB President Draghi on 6 September 2012. This will be an important step, alongside the capacity of the ESM, to address current market tensions.*

*As for the concerns expressed in the House of Lords' report about the potential damage of sustained restriction of credit that could come from banks seeking to reduce debt ratios by deleveraging, The Commission would like to refer to the EBA's final report on its EU-wide recapitalisation exercise and the data on all individual banks published on 3 October 2012. . The EBA underlines in its report that "European banks have made significant progress in boosting their capital positions and in strengthening the overall resilience of the European banking system. With this recapitalisation exercise and a number of other EU-driven remedial actions, more than €200bn has been injected into the European banking system. Banks are now in a better shape to finance the real economy but must continue on the path*

*designed by the new regulatory environment. For this reason, the EBA will ask banks to draw up capital plans to ensure a smooth convergence to the upcoming CRD IV/CRR requirements.<sup>1</sup>*

*As regards the **adjustment programme for Greece**, the agreement reached on the involvement of the private sector, a common understanding between the Greek authorities and its private creditors on the general terms of the debt exchange offer, provided for a nominal haircut amounting to 53.5%. The successful debt exchange was instrumental for going ahead with the second programme for Greece.*

***On the December 2011 European Council and the proposals for Treaty change**, the Commission agrees that the optimum outcome would have been an agreement at the level of all 27 EU Member States. But it is clear that whilst euro area Member States must take necessary steps to strengthen the euro area governance including on fiscal integration, matters relating to the internal market remain the preserve of all 27 EU Member States. The European Commission will always ensure the cohesion of the internal market.*

*Through the Treaty on stability, coordination and governance in the Economic and Monetary Union (TSCG), participating Member States undertook intensified commitments which have been made fully compatible with EU law. This latter point has been an important concern for the Commission throughout the negotiations. The objective remains to incorporate the substance of the TSCG into the Treaties of the Union as soon as this is possible. The Commission shares the report's conclusion in this regard that there is no reason in principle why this should not be possible in due course. The Commission is currently working with the co-legislators to reflect some elements of the TSCG in its proposal of 23 November 2011 for a Regulation on enhanced monitoring in the euro area.*

*The TSCG reflects ambitious decisions, such as the implementation of a rule implementing the medium-term objectives (MTOs) at the national level, combined with an automatic correction mechanism, which mirrors concepts already in place at the European level. Also agreed were voting commitments related to the Excessive Deficit Procedure, debt issuance reporting, the ex-ante coordination of major economic reforms, and the institution of regular Euro Summits.*

*While there is generally a considerable convergence of views in the findings of the report on a wide range of issues with the Commission's position, the Commission does not share the assessment that **the single market's potential to enhance growth** has faded from view during the crisis. The contrary would be true. In its Annual Growth Survey (AGS) 2012, the European Commission underlines that the EU-wide market is still too fragmented and does not allow firms to grow and enjoy the same economies of scale than other major competitors. The EU level can support and complement national actions, through the Single Market Act I and II. This is also reflected in the Compact for Growth and Jobs agreed at the June European Council. The Commission is convinced that a number of growth levers could deliver rapid results during 2013, if pursued both individually by each Member State and as part of EU-wide action.*

*Growth potential can indeed be boosted by a further development of the single market: we have highlighted, for example, how the EU digital single market can be built or how to move toward a real internal market for services. In the latter case, we stressed the importance to*

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<sup>1</sup> See EBA website: <http://www.eba.europa.eu/News--Communications/Year/2012/EBA-publishes-final-report-recapitalisation-banks.aspx>

*increase the awareness of economic actors, enhance competition and competitiveness in the retail sectors, and remove technical, administrative and societal barriers to innovative technologies and production processes. The Commission is pushing for the full implementation of the Services directive, the completion of the integrated market for energy, and the implementation of the late payments directive.*

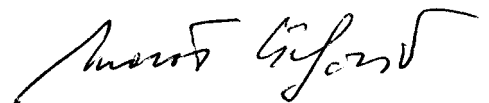
*The Commission would also like to add that it has been very vigilant in averting any potential damage to the single market from a potential rise in protectionist tendencies during the crisis. The experience of deep crises of the past provides a stark reminder of the risks of such tendencies. Fighting them has been a very conscious and determined effort by the Commission ever since the time when action was taken to stabilise the banking sector and to cushion the impact of the crisis on economic activity through the European Economic Recovery Programme proposed by the Commission in 2008.*

*The Commission fully agrees with the conclusion of the House of Lords' report: the real challenge for policy makers will be supporting economic growth without threatening the drive to improve budgetary discipline. For 2013, the European Commission considers that efforts at both the national and the EU level should concentrate on the following priorities: pursuing differentiated growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness for today and tomorrow, tackling unemployment and the social consequences of the crisis, and modernising public administration.*

*In this context, the Commission has published a Blueprint for a Deep and Genuine EMU with the aim of launching a European debate on this important topic and the December European Council agreed on a Roadmap towards a genuine EMU. The Commission will carefully analyse the contributions to this debate from national Parliaments in the context of the political dialogue.*

*The Commission would like to thank you again for the House of Lords' report on the euro area crisis which constitutes a high-quality contribution and provides an important perspective to a crucial debate on the necessary responses to the euro area crisis, and looks forward to continuing our political dialogue on these issues in the future.*

*Yours faithfully,*



*Maroš Šefčovič  
Vice-President*