



El Embajador de España

The Hague, 21 november 2012

Mrs. Mendeltje van Keulen
European Affairs Committee
Tweede Kamer der Staten-Generaal
Plein 2
2511 CR The Hague

C61/12

Dear Mrs Mendeltje van Keulen,

According to your communication dated 6 November, 2012, I enclose herewith a written short contribution on my views on the questions that you have presented to me on "Appendix 1, Part 1: Vision on the future development of the EMU: Banking Union, fiscal Union and economic coordination".

Banking union

The current economic crisis has revealed the structural and institutional failures that were built into the Economic and Monetary Union back in 1999.

The main structural failure boils down to an inconsistency between establishing one single monetary policy for all 17 Member States of the European Union that adopted the Euro and the maintenance of separate economic policies (fiscal and structural) of an almost exclusively national nature. This problem has led to two serious dysfunctions when implementing the economic policy of the European Union.

Firstly, the Economic and Monetary Union lacks any internal adjustment mechanisms to enable the effective resolution of any imbalances that arise at a national level or shocks that affect the various Member States of the Eurozone unequally. Beyond the boundaries of Monetary Union, one possible adjustment instrument would be to devalue a currency. In the absence of such mechanisms, adjustments take place through depressions that incur significant costs to economic activity and employment.

Secondly, there is no European mechanism capable of breaking the vicious circle trapping the financial and sovereign entities. Despite the fact that the banks are operating in a common financial services market of a European nature, each individual bank is only supported by its home Member State.

When Member States are required to support troubled entities, the risk associated with those entities then spreads to the public accounts, which are the ultimate guarantee for the performance of the financial system. The very financial stability of the Member State in question is thus brought into question and the current Economic and Monetary Union has no resources enabling it to break that relationship.

This situation is generating doubts over the irreversibility of the single currency. These doubts are manifesting themselves in the growing differentials between the interest rates being required of the Member States of the Eurozone, leading to certain difficulties for some States in their efforts to return to growth and overcome the current economic crisis.

It is therefore necessary to repair these faults in the institutional architecture of the Eurozone by progressing towards the construction of a true Economic and Monetary Union. This re-launch of the European integration process would enable confidence in the common project and in the stability of the single currency to be restored.

To that end, a detailed road map with established deadlines must be produced for the achievement of Banking Union (in the short term) and Fiscal Union (in the medium term).

Banking Union would consist of three main elements: a Common Supervisory Authority; a Deposit Guarantee Fund; and an Authority with the power to restructure and liquidate troubled banks. The Supervisory Authority would be formed by the ECB and the national central banks in a structure similar to that which is used today to implement monetary policy.

Fiscal union

Fiscal Union would be achieved gradually in stages, following a process similar to that which led to the single currency that began with the Maastricht Treaty in 1992. This process, which would restore credibility in European integration, could be undertaken in three stages.

During the first stage, Member States would be required to adopt measures to comply with certain fiscal and economic convergence criteria, including a sound process of fiscal consolidation and structural reforms. During this first stage, it would be possible to issue two-year Euro bills with guarantee limited to a percentage.

Those Member States that show progress during the first stage would pass on to a second stage, during which a European Budgetary Authority (which would have greater powers of supervision over budgetary performance) would be created to assume responsibility over the recommendation of targets and the provision of fiscal policy guidance. The same Authority would also coordinate the issue of debt. During this second stage, it would be possible to start issuing European medium-term and long-term debt so as to partially cover the needs of Member States in a joint fashion. The majority of this debt would continue to be issued by the national Treasuries.

The third stage would include those Member States that comply with their economic and fiscal policy obligations, and that demonstrate significant convergence by their sovereign debt differentials in relation to the countries posting the best results. This stage would involve the Eurozone reaching joint decisions on fiscal policy targets, the implementation of fiscal policy and the issue of debt being undertaken by the European Budgetary Authority, the establishment of a mechanism to tackle asymmetric risks and the debt issued by the European Budgetary Authority being jointly guaranteed (the Member States would combine resources to guarantee payment).

Full Fiscal Union would be achieved when concluding this third and final stage.

It is important to define, as soon as possible, an ambitious timeline for simultaneously activating all the afore-mentioned points to enable the achievement of both Banking Union (approval should be granted before the end of the year) and Fiscal Union (the latter, being a longer process, should be initiated as soon as possible).

In turn, these processes should proceed together towards greater economic and political integration in such a way as to enable the recovery of confidence in the European integration process, thus generating the right climate for embarking on a positive path to economic growth and job creation.

Coordination economic policy

Financing the Spanish economy at stable and acceptable interest rates within a framework of monetary union is inexorably linked to the stability of the Euro and the correct and proper performance of the Monetary Union. To that end, the Government of Spain is seeking the swift adoption of reforms within the European Union in order to progress towards true Economic and Monetary Union capable of overcoming the current limitations and imbalances that it is generating. In this respect coordination of economic policy seems necessary, in order to reach economic convergence.

Spain believes that the objectives and decisions reflected in the Conclusions from the European Council on 28 and 29 June constitute the benchmark and starting point for further progress to be made in that direction.

Spain wishes to play a leading role in promoting fiscal integration, in full banking integration and in the economic and political construction of the European Union.

The Government of Spain is combating the economic crisis with determination and will continue to adopt those internal decisions deemed necessary to tackle the situation. However, it calls for the same level of determination in the adoption of measures within the European Union so as to progress towards greater integration capable of restoring the principles of stability, growth, solidarity and cohesion that inspired its creation in the first place. In this process policy competition regarding wages, taxes and profits should be avoided.

Yours sincerely,



Javier Vallaure