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Barroso upbeat as political winds change

By Peter Spiegel and Alex Barker in Brussels

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 co-ordinate the bloc's response better, his efforts have often been frustrated.

The "recapitalisation tool" deployed this weekend to rescue Spanish banks was, for instance, 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 eurozone economies to back common eurozone bonds, to help troubled countries 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 are 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 further 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 is this optimism, he said, that leads him to believe that an EU banking union may soon be in the offing, complete with a single banking supervisor, a common deposit guarantee scheme, and a rescue fund that gets cash from bank levies or even a financial transaction tax.

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

The biggest obstacle is Ms Merkel. While supporting a supervisory regime for Europe's largest banks, she is under pressure to avoid any pooling of deposit guarantees by Germany's domestic banks amid criticism that German taxpayers are being asked to back weaker banks in peripheral countries like Spain.

Berlin is unwilling to take steps that would expose its taxpayers to the risks of foreign banks without first putting in place political safeguards.

Ms Merkel is also wary of stretching EU supervision to Germany's politically powerful regional savings banks. Some German officials argue these are not systemically important. However, 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, have backed quick moves towards common deposit guarantees, implying they want such pooling of resources before any push towards greater supervision, which would hit France, with its bigger banks, harder than Germany.

Mr Cameron is in potentially the most awkward position of all as prime minister in 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 Britain would likely demand to effectively change voting rights to ensure it is not dictated rules by members of the banking union, who 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 option would broadly maintain the architecture for EU financial rule making and cross-border co-ordination. But it would significantly deepen banking integration in the eurozone, with potentially the European Central Bank taking over supervision responsibilities.