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Euro blueprint maps way to banking union

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By Alex Barker in Brussels and Gerrit Wiesmann in Berlin

An EU blueprint for the future of the euro is to call for member states to surrender powers to run their banks, give up some control over national budgets and explore pooling the risk of underwriting deposits and raising debt, according to the latest draft of the proposal.

The report, setting out a long-term vision for the single currency, is in the final stages of being negotiated. Drawn up by four senior EU leaders, it will be circulated to member states tonight before being presented to a crunch summit of EU leaders on Thursday.

While the 10-page draft lays out a detailed path to banking union, options for "eurobonds", and the possibility of the EU's permanent bailout fund directly buying stakes in banks, disagreements remain over elements such as the single bank supervisor's remit and central controls over national budgets.

These issues were to be discussed for the first time at the weekend among the four principal authors of this euro master plan: EU council president Herman Van Rompuy, European Commission president José Manuel Barroso, European Central Bank president Mario Draghi, and Jean-Claude Juncker, chair of the eurogroup of eurozone finance ministers.

The biggest changes would take years to legislate and enact. But EU leaders could make detailed political pledges at the summit, particularly over establishing a European bank supervisor. The terms of the final report will also frame a critical meeting between François Hollande, French president, and Angela Merkel, German chancellor, in Paris on Wednesday night.

According to those involved in drafting the paper, one key factor in discussions has been a German demand that tough central controls on national spending and taxation are included as a condition to discussing options to pool debt, such as eurobonds, eurobills, or a eurozone redemption fund. The draft makes clear that this "qualitative move to fiscal union" is likely to require EU treaty changes.

More rapid progress is envisaged in the first section of draft, setting out an "integrated financial framework", or financial union open to all 27 member states. It includes a common EU rulebook for banks, the creation of a single supervisor and common deposit insurance and bank resolution fund. Britain and others outside the euro area could opt out of sharing more risk or sovereignty.

Disputes remain over which institution should become top supervisor. Speaking to German newspaper Welt Am Sonntag, Mr Van Rompuy said "much quicker progress" could be made by "giving supervision to the ECB" – a step foreseen in existing EU treaties. But the Commission is pressing for the creation of a separate agency.

There is also disagreement over its remit. The draft refers to the single supervisor holding ultimate authority over "all banks", but its day-to-day supervision role is unclear.

Germany is resisting the supervisor winning power over its regional savings banks, a demand that is making France think again about surrendering control of all its big banks.

In light of these proposed pan-European controls on banks, the draft paper calls for EU leaders to "actively explore" handing more intervention tools to the European Stability Mechanism, the EU's €500bn bailout fund due to come into force next month, and examine the role of eurozone central banks in providing emergency liquidity support to banks.

The reference to the ESM relates to the ongoing debate over giving the fund the means to inject capital directly into banks, rather than via loans to states. Ms Merkel has rejected the idea because no EU controls are in place.

The final two sections of the report are more long term and cover strengthening economic policy integration and democratic accountability. Proposals include working on co-ordinating the base for corporate taxation, a financial transaction tax and establishing a conference of elected representatives, from both the European parliament and member states.

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