Europe Leaders Agree on Banking Supervisor

By MATTHEW DALTON, WILLIAM HOROBIN and VANESSA MOCK

BRUSSELS—European leaders early Friday agreed to have a new supervisor for euro-zone banks up and running next year, a step that will pave the way for the bloc's bailout fund to pump capital directly into banks throughout the single-currency area.

Direct recapitalization of banks by the bailout fund is seen as a crucial step in the euro zone's response to its debt crisis. Euro-zone officials say it would help solve the problem of governments with weak public finances such as Spain being unable to support their national banking systems. The bloc has pledged to allow its bailout fund, the European Stability Mechanism, to recapitalize banks directly, but only once the supervisor is operating effectively.

The governments said the legislation to create the supervisor, which will be placed under the authority of the European Central Bank, should be completed by the end of this year. Actually making the supervisor operational will take longer.

Setting up the supervisor "isn't a question of one or two months," German Chancellor Angela Merkel said after a European Union summit here. But she said she expects the supervisor to be able to fulfill its role effectively "over the course of 2013."

Friday's announcement is a disappointment for some officials at the European Commission, the EU's executive arm, who had hoped to have the supervisor operational at the start of 2013.

The leaders also discussed plans for a common budget for the 17 euro-zone nations that could be used to absorb economic shocks impacting one part of the euro zone but not others. But José Manuel Barroso, the commission president, said: "This is something for the medium and longer term."

The plans for a banking supervisor and a common budget for the euro zone worry some of the 10 EU countries that don't use the euro, whose leaders were also present at Thursday's summit. These leaders are concerned that the euro zone will have so much heft within the EU under these new arrangements that it will in effect set rules for those countries that don't use the euro.

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"There will be decisions and meetings just for the euro zone, but we shouldn't knowingly pry the two sides apart," said Austrian Chancellor Werner Faymann.

The ideas are also controversial within the currency area itself, with Germany, the Netherlands and Finland, as usual, voicing opposition to plans that risk placing the problems of the bloc's weaker nations on their public balance sheets.

A delay in bringing the supervisor into operation will put off the day when Spain can hope for euro-zone help to directly recapitalize its shaky banks, which were damaged by a collapse of the property market. The euro zone has already agreed to lend Spain as much as €100 billion ($131 billion) for bank recapitalization, but this money must flow through the government, piling more debt on Spain's strained public finances.
"We need to definitively break the link between bank debt and sovereign debt," Mr. Barroso said. "Speed matters."

Leaders also voiced concerns about the idea of a common budget for the euro zone, which could be used to ease the impact of economic shocks that hit one part of the currency area but not others. "We have a lot of question marks" regarding a euro-zone budget, said Dutch Prime Minister Mark Rutte. "We have an EU budget already and we want to know how the euro-zone budget would link into that."

Moreover, the price sought by Germany for a common euro-zone budget is likely to be more centralized control over national finances. French President François Hollande said the governments aren't ready to consider that issue.

"The subject of the summit is not budgetary union, it's banking union," Mr. Hollande said. "The only decision we have to take, or rather to confirm, is the implementation of the banking union by the end of the year, notably the first step for banking supervision."

Leaders didn't hold lengthy discussions on the financing problems of the Greek and Spanish governments. They offered a statement of support for the Greek government's efforts but didn't approve long-overdue rescue funds for the government.

The Greek bailout is badly off track. The International Monetary Fund has been pushing the euro zone to find ways to reduce Greece's debt, but euro-zone governments and the European Central Bank, which holds around €50 billion of Greek bonds, have resisted any suggestion that they should forgive any of the debt owed to them.

Spain is also seeking support to start a bailout plan that would include a credit line from the ESM and large purchases of bonds by the European Central Bank.

But politicians throughout the euro zone are wary of handing yet more cash now for countries in the debt-burdened periphery.

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