Feasibility of introducing stability bonds

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The Committee on Economic and Monetary Affairs adopted an own-initiative report by Sylvie GOULARD (ADLE, FR) on the feasibility of introducing Stability Bonds, in response to the Commission Green Paper on the same subject.

The report welcomes the presentation of the Green Paper and recalls that the Parliament requested that the Commission submit a report on the possibility of introducing eurobonds, which was an integral part of the agreement between Parliament and the Council on the economic governance package ("six pack").

Members welcome the various crisis mitigation and resolution efforts, and underline the new reinforced EMU governance framework, the latest agreements reached regarding the rescue funds and the decisions taken by the ECB. They believe, however, that an agreement on a lasting solution is still needed in order to build a balanced approach that combines solidarity and responsibility within the euro area. Therefore, alternative ways to maintain access to the markets, or to reduce the cost of borrowing for Member States, need to be found that do not rely solely on rescue mechanisms such as the European Stability Mechanism (ESM) and the European Financial Stability Facility (EFSF).

Long-term credible strategy: recalling that the mutualisation of eurozone sovereign debt cannot per se compensate for the loss of competitiveness of the euro area, the report stresses that a **credible strategy for fiscal consolidation and structural reforms** throughout all Member States are necessary to restore fiscal credibility. It adds that sound state finances are necessary for the introduction and functioning of a common debt issuance system.

The report states that despite the efforts at reform and consolidation made by Member States, investors and players on the financial markets fail to appreciate sufficiently the efforts made so far and continue to put speculative pressure on policies, there is an urgent need to take action with a view to endorsing a **longer-term strategy for the euro area** which ensures sound public finances, sustainable growth, social cohesion and high levels of employment, while preventing moral hazard and supporting convergence by **moving towards fiscal union**.

Members believe that the **prospect of common bonds may be a strong signal to financial markets**, help preserve the integrity of the EMU, underpin a return to economic stability and reduce uncertainty, provided that progress is made with EU financial and budgetary integration and supervision.

Roadmap: Members consider that it is essential to establish a roadmap for finding, in the short term, an exit from the current crisis, and for moving, in the long term, towards a fiscal union by completing, strengthening and deepening the economic and monetary union. They call on the Commission to present, as soon as possible, a report to Parliament and the Council examining the options for, and making proposals for a roadmap towards, common issuance of public debt instruments. The possible series of steps may be as follows:

Step 1 - Immediate measures to exit the crisis: two instruments can be used, in isolation, or by combining them, to limit the spreads between interest rates while still maintaining discipline.

(1) Setting up of a temporary European redemption fund: one-off transfer of debt amounts above the Maastricht reference value of 60 % of GDP to a common fund subject to joint and several liability through a roll-in phase of five years.

The participating Member States commit themselves to respecting strict budgetary discipline and to undertaking reforms (competitiveness/growth).

(2) Introducing eurobills to protect Member States from illiquidity runs: eurobills, which could be time- and quantity-limited, would provide the time and stability for other measures such as the Stability and Growth Pact and the 'Two- pack' to prove themselves, and to put in place further longer term measures for future integration of the eurozone. The Commission makes a proposal for the immediate setting up of a system for the issuance of common short-term debt along the following principles:

- establish an agency or use an already existing entity to issue eurobills;
- set a maximum maturity of eurobills (amounting to maximum 10% of GDP), which allows for continued monitoring and due to short term maturity frequent renewal of guarantees;
- eurobills replace all short-term debt to be issued by Member States which consequently remain solely responsible for issuing their own debt for longer maturities which should be monitored and limited according to each country needs, fiscal situation and debt ratio.

Step 2 - Partial common issuance - Introducing Blue bonds (without a Treaty change): the Commission shall study and report its conclusions to the European Parliament on the possibility of proposals for the setting up of a system for the allocation of debt below 60% of GDP to be issued in common, which is safeguarded by national debt brakes or other adequate mechanisms to avoid moral hazard according to principles such as:

- limit participation to Member States that comply with the Stability and Growth Pact and the communitarized fiscal compact and are not under a full adjustment programme;
- strictly limit the amount of debt to be issued under joint and several liabilities to a part of less than 60 % of GDP by prohibiting participating Member States from issuing senior debt outside the common issuance.

Step 3 - Full common issuance of national debt involving a Treaty change: once discipline and macro-economic convergence are underway, joint and several Eurobonds will be able to be more easily conceived. They would require Treaty revision, and, in certain Member States, constitutional evolutions, as is recalled in the Green Paper. After all eventual changes to the EU legal framework and, if necessary, a Treaty change, the Commission shall put forward proposals for the setting up of a system for the common issuance of bonds according to the following principles:

- limit participation to Member States which comply with the conditions as set out in phase 2;
- establish a European debt agency for the issuance of bonds,
- establish appropriate, democratically legitimate institutions which would among others be in charge of the surveillance and coordination of national fiscal policies and the competitiveness agenda, as well as the external representation of the euro area in international financial institutions.

Step 4 - Common issuance of a genuine European debt in conjunction with an enhanced European budget involving a Treaty change: the Commission, after having prepared all eventual changes to the EU legal framework and where appropriate euro area legal framework, puts forward proposals for possible issuance of bonds to finance EU investments for EU public goods (e.g. infrastructure, research and development, etc.), to: (i) facilitate adjustments to country-specific shocks by providing for some degree of absorption at the central level; (ii) facilitate structural reforms that improve competitiveness and potential growth in relation to an integrated economic policy framework.

The report stresses that following the implementation of short-term measures to exit the crisis, and among the first steps of the binding roadmap, an**y follow-up must be undertaken on the basis of the ordinary legislative procedure**, with full democratic accountability to be held on the level where the decision is taken. It points out to the Commission that it may, when preparing its proposals, establish a temporary body composed of Members of the European Parliament and representatives of the Member States and of the ECB.

Lastly, Members believe that there is an urgent need to **recapitalise the European banking sector** and to complete the single market for financial services in the EU. They welcome the proposals of the Commission to establish a single European supervisory mechanism for banking institutions as well as a single European recovery and resolution regime.

They further request that, in the future, the **ESM may fund banks in difficulties directly** after the single supervisory mechanism is made operational. Members stress that the single supervisory mechanism needs to be accountable to Parliament and the Council for the actions and decisions taken in the field of European supervision and should report to the competent committee of Parliament.