

Feasibility of introducing stability bonds

2012/2028(INI) - 16/01/2013 - Text adopted by Parliament, single reading

The European Parliament adopted by 361 votes to 268 with 33 abstentions, a resolution on the feasibility of introducing Stability Bonds, in response to the Commission Green Paper on the same subject.

The resolution was tabled by the EPP, S&D, ALDE, and Greens/EFA groups and replaced the resolution proposed by the competent committee.

Parliament notes that the eurozone is in a unique situation, with participating Member States sharing a single currency but no common budgetary policy or common bond market. Accordingly, they welcome the draft proposals in the two reports entitled 'Towards a Genuine Economic and Monetary Union' presented by the President of the European Council, which represents a good starting point for working towards a sound and genuine EMU.

Whilst taking note of the considerable crisis mitigation and resolution efforts put forward by European institutions the new reinforced EMU governance framework, the agreements on the rescue funds and the decisions taken by the ECB – Members believe 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. 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: the resolution stresses that a **credible strategy for fiscal consolidation and structural reforms** throughout all Member States are necessary to restore fiscal credibility and achieve a sustainable balance of payments. In this context, Parliament urges Member States to continue to comply with commitments and agreements concluded in terms of fiscal consolidation, while taking due account of the macroeconomic context, and to improve their efforts to reduce excessive macroeconomic imbalances.

Deeply concerned that despite the efforts at reform and consolidation made by Member States, investors and players on the financial markets continue to put speculative pressure on policies, Members feel that 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**.

Recalling that the mutualisation of eurozone sovereign debt cannot in itself compensate for the loss of competitiveness of the euro area, Parliament 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: Parliament considers 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. It calls 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: in order to protect Member States from illiquidity runs, the Commission could make a proposal for the immediate setting up of a system for the issuance of common short-term debt (eurobills) along the following principles:

establish an agency or use an already existing entity to issue eurobills with the participation of all eurozone Member States without full adjustment programmes;

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 should 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 communitarised 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: the Commission could 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 could put 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.

Democratic legitimacy: Parliament stresses that following the implementation of short-term measures to exit the crisis, and among the first steps of the binding roadmap, any 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.

Recapitalise the banking sector: Parliament believes that there is an urgent need to **recapitalise the European banking sector** and to complete the single market for financial services in the EU. It welcomes 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.

It 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.