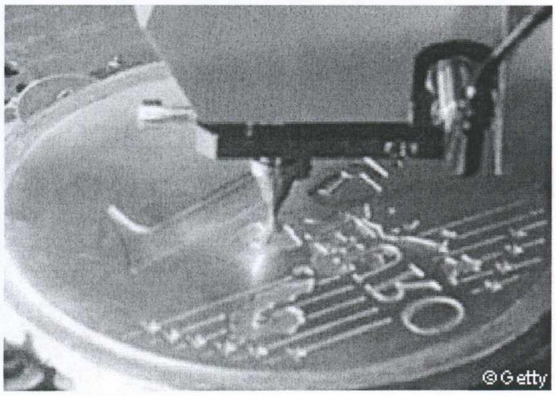
FINANCIAL TIMES

30

Last updated: November 20, 2011 11:24 pm

Commission proposes 'eurobonds'

By Peter Spiegel in Brussels


©Getty

The introduction of a joint "eurobond" that would replace national issuance by individual members of the eurozone could offer the best solution for policymakers seeking a more stable sovereign debt market, according to a study by the European Commission.

To be published on Wednesday, but seen by the Financial Times, the study argues that the creation of commonly backed "stability bonds" would ensure all eurozone members could meet their financing needs and create a vast market that could compete with US Treasuries as a global benchmark.

"This approach would be most effective in delivering the benefits of stability bond issuance," the report says. "[It] would assure full refinancing for all member states irrespective of the condition of their national public finances."

The complete substitution of national bonds for so-called "eurobonds" is one of three options outlined in the study. The report acknowledges that the move would require extensive changes in European Union treaties that could delay its implementation for years.

In addition, such extensive pooling of sovereign debt has been fiercely resisted in Germany, where officials believe it would relieve market pressure on profligate eurozone countries, allowing weak economies to become "free riders" on Germany's strong credit rating.

Still, senior EU officials believe Germany can be persuaded if the scheme includes strict rules over sovereign spending, and the Commission report includes proposals for vastly expanding Brussels' authority over national budgets. "That's what makes it workable and realistic, and that is what is a starter if we want to have a chance of being convincing," said one senior EU official.

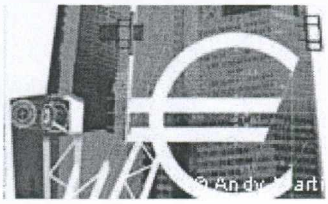
One idea is for EU approval of all 17 eurozone budgets and, in the case of a country in trouble, the possibility of putting it "under some form of 'administration'" by EU authorities.

"Without this framework it is unlikely that this ambitious approach to stability bond issuance would result in an outcome that would be acceptable to member states and investors," the report says.

In depth

José Manuel Barroso, Commission president, is also expected to propose increasing EU surveillance of eurozone budgets on

Eurozone in crisis



As storm clouds blow towards Italy, Germany has taken the helm in a definitive test of Europe's containment strategy

Wednesday that could be implemented immediately. According to a draft, the proposal includes requiring eurozone governments to submit budgets to Brussels for evaluation before they are turned over to national parliaments.

The eurobond report finds that the other two options could be adopted more quickly, particularly a plan that would only have countries provide limited guarantees for new bonds, but not eliminate national bonds or pool their risk – an approach similar to bail-out bonds currently issued by the eurozone's €440bn rescue fund. It would not require treaty changes, the report argues.

An intermediate approach, where a large portion of national debt would be funded through eurobonds but countries would be forced to issue national bonds if their debt levels got too high, would require treaty change, but would not eliminate the budgetary discipline required by market forces.