

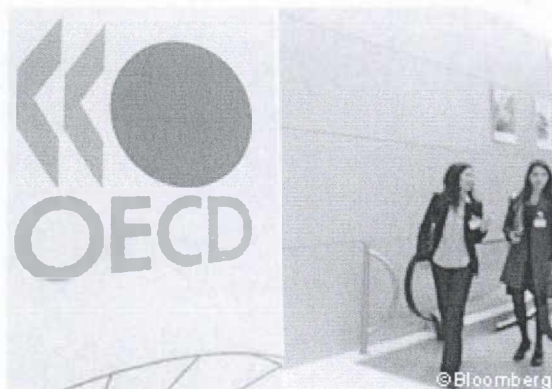
## FINANCIAL TIMES

May 22, 2012 9:00 am

## OECD joins call for eurozone bonds

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By Chris Giles in London



The Organisation for Economic Co-operation and Development has joined French and EU officials in calling for a move towards jointly-guaranteed eurobonds at a time it sees as perilous for the global economy.

In its twice-yearly economic outlook, the Paris-based international organisation which specialises in economic policy for advanced economies, warned of a vicious circle in the eurozone, “involving high and rising

sovereign indebtedness, weak banking systems, excessive fiscal consolidation and lower growth”.

It said that the “global economy is, once again, trying to return to growth” with the US, Japan and emerging economies showing steady recoveries, but the progress is threatened by the new crisis in the eurozone.

So long as the eurozone crisis does not escalate, the OECD is forecasting a modest contraction of 0.1 per cent in the eurozone economy this year, compared with growth of 2.4 per cent in the US and 2 per cent in Japan.

To get a grip on Europe’s problems, the OECD said it was imperative that crisis management went hand in hand with the construction of institutions to make monetary union “work properly”.

Speaking to the Financial Times, Pier Carlo Padoan, the OECD deputy secretary general and chief economist, said fiscal consolidation alone without other elements of a “growth compact” could ruin chances of a longer-term economic union.

“We need to get on the path towards the issuance of eurobonds sooner rather than later,” he said.

The OECD joined EU leaders in pressing for the “issuance of new jointly guaranteed government bonds to help recapitalise banks and enhance credit availability”, seeing the

- proposed European Stability Mechanism as the source of funds to recapitalise the banking system in fragile peripheral economies.

It also backed French proposals for increased resources for the European Investment Bank to fund infrastructure projects and better use of EU structural funds to promote growth.

Separately, the OECD called for acceleration of structural reforms, particularly in European economic integration to help the single market work better.

Mr Padoan's comments in favour of jointly guaranteed bonds to underpin banks chime with those of Pierre Moscovici, the new French finance minister, and other EU officials including José Manuel Barroso, president of the European Commission, and Mario Monti, Italian prime minister.

"Such a set of EU-wide measures would strengthen activity, both directly and indirectly, by boosting confidence and making it easier to achieve the intra eurozone rebalancing effort," Mr Padoan argued in the OECD economic outlook.

For the US, the OECD urged politicians to agree a solution to the "fiscal cliff" at the start of 2013, which risks "excessive fiscal tightening" unless Congress can agree measures to slow automatic large tax increases and spending cuts. But while it sought slower deficit reduction, it also urged the US to formulate a credible medium-term plan for the public finances, which it said "remains to be achieved".

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