Procedure file

Basic information

INI - Own-initiative procedure	2012/2028(INI)	Procedure completed
Feasibility of introducing stability bonds Subject 5.10.01 Convergence of economic policies, public deficit, interest rates 5.20.01 Coordination of monetary policies, European Monetary Institute (EMI), Economic and Monetary Union (EMU) 5.20.02 Single currency, euro, euro area		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs		25/10/2011
		ALDE GOULARD Sylvie	
		Shadow rapporteur	
		PPE FEIO Diogo	
		S&D SCICLUNA Edward	
		Verts/ALE LAMBERTS Philippe	
		ECR EPPINK Derk Jan	
	Committee for opinion	Rapporteur for opinion	Appointed
	BUDG Budgets	The committee decided not to give an opinion.	
	EMPL Employment and Social Affairs	The committee decided not to give an opinion.	
	ITRE Industry, Research and Energy	The committee decided not to give an opinion.	
	IMCO Internal Market and Consumer Protection		29/02/2012
		S&D CORREIA DE CAMPOS António Fernando	
	JURI Legal Affairs		01/03/2012
		PPE BALDASSARRE Raffaele	
European Commission	Commission DG	Commissioner	
	Economic and Financial Affairs	REHN Olli	

Key events

23/11/2011	Non-legislative basic document published	COM(2011)0818	Summary
15/03/2012	Committee referral announced in Parliament		

29/11/2012	Vote in committee		
07/12/2012	Committee report tabled for plenary	A7-0402/2012	Summary
15/01/2013	Debate in Parliament		
16/01/2013	Results of vote in Parliament		
16/01/2013	Decision by Parliament	T7-0018/2013	Summary
16/01/2013	End of procedure in Parliament		

Technical information

Procedure reference	2012/2028(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 54
Stage reached in procedure	Procedure completed
Committee dossier	ECON/7/08673

Documentation gateway

Non-legislative basic document		COM(2011)0818	23/11/2011	EC	Summary
Committee opinion	JURI	PE487.686	04/06/2012	EP	
Committee draft report		PE491.075	04/06/2012	EP	
Committee opinion	IMCO	PE489.500	11/07/2012	EP	
Amendments tabled in committee		PE492.874	12/07/2012	EP	
Committee report tabled for plenary, single reading		A7-0402/2012	07/12/2012	EP	Summary
Text adopted by Parliament, single reading		T7-0018/2013	16/01/2013	EP	Summary
Commission response to text adopted in plenary		SP(2013)251	19/06/2013	EC	

Feasibility of introducing stability bonds

PURPOSE: to launch a debate on the feasibility of introducing stability bonds (Commission Green Paper).

BACKGROUND: the debate on common issuance of sovereign bonds has evolved considerably since the launch of the euro. Initially, the rationale for common issuance focused mainly on the benefits of enhanced market efficiency through enhanced liquidity in euro-area sovereign bond market and the wider euro-area financial system.

More recently, in the context of the ongoing sovereign crisis, the focus of debate has shifted toward stability aspects. In this context, the European Parliament invited the Commission to examine the feasibility of joint issuance in the context of the adoption of the legislative package on the economic governance of the euro area, stressing that the common issuance of stability bonds would also require progress towards a common economic and budgetary policy.

Sovereign issuance in the euro area is currently conducted by Member States on a decentralised basis, using various issuance procedures. The introduction of commonly issued Stability Bonds would mean a pooling of sovereign issuance among the Member States and the sharing of associated revenue flows and debt-servicing costs. This would necessarily have implications for fiscal sovereignty, which calls for a substantive debate in euro area Member States.

CONTENT: the Green Paper assesses the feasibility of common issuance of sovereign bonds ("common issuance") among the Member States of the euro area and the required conditions.

1) Main advantages of joint issuance: according to the Green Paper, the common issuance of stability bonds by the euro are Member States

has significant potential benefits:

- the prospect of Stability Bonds could potentially quickly alleviate the current sovereign debt crisis, as the high-yield Member States could benefit from the stronger creditworthiness of the low-yield Member States;
- Stability Bonds would make the euro-area financial system more resilient to future adverse shocks and so reinforce financial stability;
- the euro area banking system would benefit from the availability of stability bonds;
- Stability Bonds would also permit: i) the effectiveness of euro-area monetary policy; ii) promote efficiency in the euro-area sovereign bond market and in the broader euro-area financial system; iii) facilitate portfolio investment in the euro and foster a more balanced global financial system.

2) Conditions for introducing Stability Bonds: the introduction of Stability Bonds would indeed pose significant challenges. These must be convincingly addressed if the benefits are to be fully realised and potential detrimental effects avoided.

In particular, a sufficiently robust framework for budgetary discipline and economic competitiveness at the national level and a more intrusive control of national budgetary policies by the EU would be required, in particular for options with joint and several guarantees with the purpose of:

- Limiting moral hazard among euro-area Member States: Stability Bonds must not lead to a reduction in budgetary discipline among euro-area Member States. As the issuance of Stability Bonds may weaken market discipline, substantial changes in the framework for economic governance in the euro area would be required. Additional safeguards to assure sustainable public finances would be warranted. These safeguards would need to focus not only on budgetary discipline but also on economic competitiveness.

- Underpinning the credit quality of the Stability Bond: Stability Bonds should be designed and issued such that investors consider them a very safe investment. Stability Bonds would need to have high credit quality to be accepted by investors and by those euro-area Member States that already enjoy the highest credit rating. The credit rating for Stability Bonds would primarily depend on the credit quality of the participating Member States and the -underlying guarantee structure (joint and several guarantee or several).

In some forms, Stability Bonds would mean that Member States with a currently below-average credit standing could obtain lower financing costs, while Member States that already enjoy a high credit rating may even incur net losses, if the effect of the pooling of risk dominated the positive liquidity effects.

Accordingly, support for Stability Bonds among those Member States already enjoying AAA ratings would require an assurance of a correspondingly high credit quality for the new instrument so that the financing costs of their debt would not increase.

- Assuring legal certainty and their compatibility with the EU Treaty: consistency with the EU Treaty would be essential to ensure the successful introduction of the Stability Bond.

Issuance of Stability Bonds under joint and several guarantees would a priori lead to a situation where the prohibition on bailing out would be breached. In this case, an amendment to the Treaty would be necessary.

Issuance of Stability Bonds under several but not joint guarantees would be possible within the existing Treaty provisions.

The Treaty would also need to be changed if a significantly more intrusive euro-area economic governance framework was to be envisaged.

3) Options for issuance of Stability Bonds: many possible options for issuance of Stability Bonds have been proposed, particularly since the onset of the euro-area sovereign crisis. However, these options can be generally categorised under three broad approaches, based on the degree of substitution of national issuance (full or partial) and the nature of the underlying guarantee (joint and several or several) implied. These three broad approaches are:

Approach No. 1: Full substitution of Stability Bond issuance for national issuance, with joint and several guarantees:under this approach, euro-area government financing would be fully covered by the issuance of Stability Bonds with national issuance discontinued.

This approach would be most effective in delivering the benefits of Stability Bond issuance. At the same time, this approach would involve the greatest risk of moral hazard. Member States could effectively free ride on the discipline of other Member States, without any implications for their financing costs. Furthermore, under this approach, the perimeter of government debt to be issued via Stability Bonds would need to be defined.

Approach No. 2: Partial substitution of national issuance with Stability Bond issuance with joint and several guarantees: under this approach, Stability Bond issuance would be underpinned by joint and several guarantees, but would replace only a limited portion of national issuance.

A key issue in this approach would be the specific criteria for determining the relative proportions of Stability Bond and national issuance. The main options in this regard are examined in the Green Paper. The credibility of the ceiling for the Stability Bond issuance would be a key consideration.

This approach to Stability Bond issuance is less ambitious than the full-issuance approach above and so delivers less in terms of economic and financial benefits. On the other hand, the preconditions for Stability Bond issuance would be somewhat less binding under this approach.

Approach No. 3: Partial substitution of national issuance with Stability Bond issuance with several but not joint guarantees: under this approach, Stability Bonds would again substitute only partially for national issuance and would be underpinned by pro-rata guarantees of euro-area Member States.

This approach to the Stability Bond would deliver fewer of the benefits of common issuance but would also require fewer preconditions to be met. The key issue with this approach would be the nature of the guarantee underpinning the Stability Bond. In the absence of any credit enhancement, the credit quality of a Stability Bond underpinned by several but not joint guarantees would at best be the (weighted) average of the credit qualities of the euro-area Member States. In order to increase acceptance of the Stability Bond under this approach, the quality of the underlying guarantees could be enhanced.

4) Implementation: as the scope, ambition and required implementation time vary across the three approaches, they could also be combined.

It should be noted that the various options would impose, among other things, differences in implementation timing because of the degree of changes required in the EU Treaty (TFEU).

- Approach No. 1 can be considered the most ambitious approach, which would deliver the highest results in market integration and

strengthening stability but it might require considerable time for implementation. It is also the option that would require the most far-reaching Treaty changes and administrative preparations both because of the introduction of the common bonds as such and the parallel strengthening of economic governance.
- Approach No 2 would also require considerable lead-time.
- In contrast, Approach No 3 would seem feasible without major Treaty changes and therefore less delay in implementation.

The suggestions and findings in this Green Paper are still of exploratory nature and the list of issues to be considered is not necessarily exhaustive. Furthermore, many of the potential benefits and challenges are presented only in qualitative terms. A detailed quantification of these various aspects would be intrinsically difficult and/or will require more analysis and input from various sides. In many instances, the problems to be resolved or decisions to be taken are identified but not resolved.

In order to advance on this issue, more analytical work and consultation are indispensable. The Commission will seek the views of all relevant stakeholders as mentioned above and seek the advice of the other institutions. On the basis of this feedback, the Commission will indicate its views on the appropriate way forward by [mid February 2012].

Feasibility of introducing stability bonds

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, 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.

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.

Feasibility of introducing stability bonds

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.